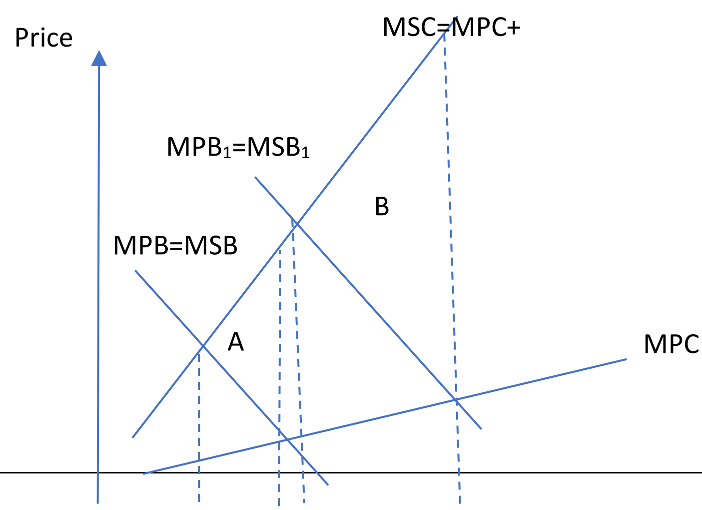
Question 1: Fast fashion and Food

(a)		Explain the relationship between world GDP and clothing sales volume from 2000 to 2015.	[2]
		Explain the **positive/direct** [1] relationship between world GDP and clothing sales (Q): Demand for clothes is positive YED (normal good). As GDP increases implies increase in income and hence demand for clothes, quantity (Q) increase. [1]	
(b)		With reference to Extract 1 and using a diagram, explain how the trend in figure 1 demonstrates that allocative inefficiency will worsen in the fast fashion market.	[5]
		Figure 1 shows rising clothing sales i.e. increase demand. Production of fast fashion generates negative externalities. In extract 1, carbon emission and water pollution from textile dyeing cause external costs on third parties eg. Lower crop yield for farmers (reduced profits) due to climate change, health problems for residents (increased healthcare costs) around waterways. [1] These external costs are not factored in by producers and consumers of fast fashion. They will consume and produce up to MPB=MPC at Qm where they only consider their own cost and benefit. [1] The external cost however causes a divergence between MSC and MPC. The society is better off at MSC=MSB at Qse where allocation of resources is efficient. [1] There is over allocation of resources to fast fashion as at Qm, the cost to the society outweighs the benefit causing the deadweight loss, area A. [1] As the demand MPB to MPB_1 for fast fashion increases, the deadweight loss grows even larger, area A to area B. [1] 	

		Qse Qm Qse_1 Qm_1 Output Fail to draw diagram, max 4m.	
(c)		Using a diagram, explain one revenue or one cost reason for “fast fashion companies and retailers (to) have no incentives to change its current business model when it’s proven to be so profitable so far” (Extract 1).	[3]
		Cost/revenue diagram expected. 1 diagram to show AR/MR increase resulting in increased profit due to ‘rapid design and marketing’ to appeal to taste and preference of consumers + explain [3] **Or** 1 diagram to show AC/MC fall resulting in increased profit due to ‘cutting production costs by using synthetic and chemically treated materials’ to reduce variable cost + explain [3]. If students failed to link to increase profit, max 2m Can accept answers which show profit of firms will fall if the firm changes its business model.	
(d)		With reference to Extract 3, explain the type of market structure ultra-processed food (UPF) operates in.	[2]
		Oligopoly [1]. A few large firms dominate the industry with high MCR evidence in Extract 3 eg. MCR for Soda is 93% for 3 firms [1]. (can accept other egs. in the case)	
(e)		“It is up to consumers to actively choose to avoid fast fashion brands, and to support more sustainable and socially conscious labels in order to alleviate the devastating environmental impacts of the industry” (Extract 1). Discuss whether consumers could ever make rational decisions regarding their consumption of sustainable fashion.	[8]
		R1: How consumers can make rational decision regarding consumption of sustainable fashion. Consumers find info on sustainable fashion regarding constraints, benefits and costs. Eg. of constraints – budget constraints, availability of sustainable fashion Eg. of benefits – clothes can last longer, better for the skin	

<table>
<tr><td></td><td></td><td>Eg. of cost – price of the good

If constraints can be overcome then consumers will weigh costs vs benefits. Will buy sustainable fashion up to MPB=MPC.

R2: Consumers are not able to make rational decision regarding consumption of sustainable fashion.

Consumers’ demand is often clouded by the marketing tactics of the fashion brands and green washing. MPBperceived > MPBactual hence they may end up consuming from brands which are not sustainable but make unsupported claims on the sustainability of their brands.

SC:
Given that fast fashion companies are able to mislead the consumers into believing that the company is doing more to protect the environment. Unless governments can act to eliminate these false advertising, consumers may not be able to discern between the sustainable vs unsustainable brands.

<table>
<tr><td>L2: 4-6m</td><td>● Explains how rational decision is made.
● Explains how MPBactual deviates from MPBperceived leading to overconsumption of fast fashion or underconsumption of sustainable fashion.
● Answers in this level will make good use of case data</td></tr>
<tr><td>L1: 1-3m</td><td>Lacking in any of the L2 criteria</td></tr>
<tr><td>E: 1-2m</td><td>● No stand or stand is made but <u>no attempt to justify</u>
● Stand is made <u>with an attempt to justify</u>
● Stand is made and <u>well-justified</u></td></tr>
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<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>(f)</td><td></td><td>Discuss whether restriction of mergers and acquisitions in the UPF industry or regulation to improve saliency about the nutritional content of UPF is the better policy to improve the welfare of consumers.</td><td>[10]</td></tr>
<tr><td></td><td></td><td>R1: Restrict M&A to reduce monopoly power of UPF
i) Reducing monopoly power of the firms/increasing competition will force firms to improve the quality of product. In this context, it is the nutritional value of the products.
ii) Consumer surplus may increase with less monopoly power, firms cannot charge high prices.

EV1: However, the large firms are able to charge low prices due to scale (iEOS) and control over supply chain. Helps low income to be able to have access to food.</td><td></td></tr>
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R2: Regulate to improve information about nutritional content

To address the information gap so that consumers can make more informed choice on what they are consuming and how healthy/unhealthy it is. In Extract 3, many regularly consume UPF without the knowledge that they are consuming UPF, eg. breakfast cereal and yogurts. It pushes the MPC perceived closer to the MPC actual of UPF. Or unaware of the nutritional value in UPF MPBperceived is higher than MPBactual. Information will allow MPBperceived to decrease going closer to MPBactual.

EV2: Even with nutritional information, some consumers may still be unaware of what it means and the corresponding impact on their health. Hence more importantly there needs to be more education on helping the consumers understand the meaning of the information on their health.
Low income consumers rely on UPF due to the low prices hence even with information, they will still consume as they have no choice given that healthier options are unaffordable.

SC:
Restricting M&A is not the best policy. The industry is already dominated by large companies, to reduce the monopoly, government needs to break up these companies. In addition, these big companies are able to produce food at a low cost and price them cheaply which actually helps the low income. Thus, regulating the information on nutrition may be a better policy as it forces the firms to improve on the nutritional content if they are forced to reveal it. This can help every consumer (be it high or low income households) to make more informed choices so as to have better health.

L2: 4-7m	• Explains how restricting M&A helps consumers' welfare. • Explains how information helps consumers' welfare. • Answers in this level will make good use of case data
L1: 1-3m	Lacking in any of the L2 criteria
E: 1- 3m	• No stand or stand is made but <u>no attempt to justify</u> • Stand is made <u>with an attempt to justify</u> • Stand is made and <u>well-justified</u>

Question 2 Answers			
(a)	(i)	**With reference to Figure 1**, **describe how** the **general price level** has **changed in Britain since 2021**.	[2]

Figure 1: Change in consumer price index in United Kingdom (UK)

<u>General trend</u> [1m]

Since 2021, the general price level has been **increasing**.

*1m (have correct timeframe): Since 2021, the general price level has been **increasing**.*
*1m (no explicit timeframe, give BOD): the general price level has been **increasing**.*
*0m (have explicit BUT wrong timeframe): the general price level has been **increasing from 2013 to 2023.***

<u>Refinement point about rate of increase</u> [1m]

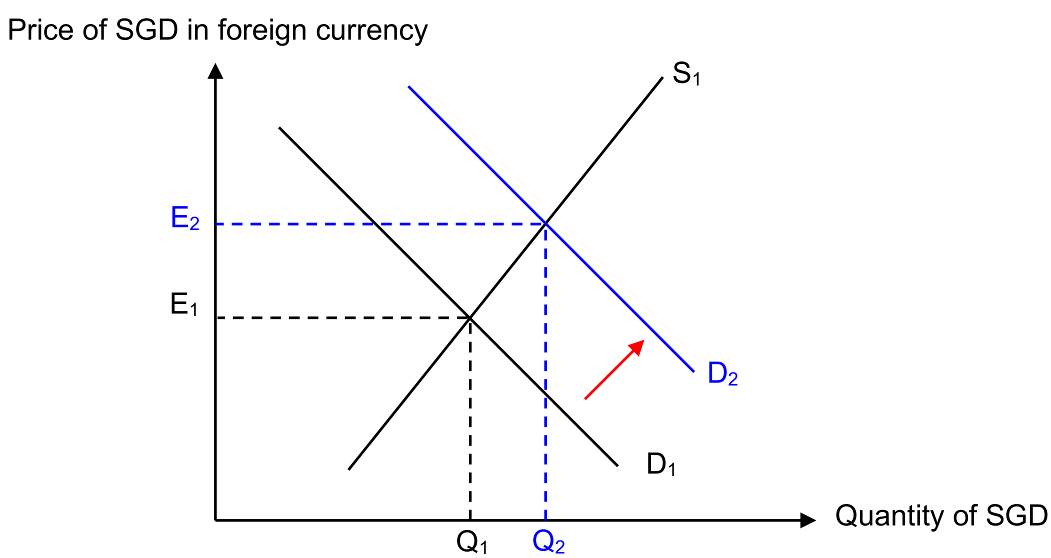
It **increased at an increasing rate till** around the **towards** the **end of 2022** where it increased at a decreasing rate thereafter.

OR

But it **increased** at a **slower/decreasing rate from** the **end** of **2022 onwards**.

OR

		GPL increased at a **faster rate from 2021 to 2022 compared to 2022 to 2023**. *Note: since the timeline in Figure 1 is not very detailed, any other reasonable description of timeline is acceptable. E.g. rate of increase fell in 2023 / from start of 2023.*	
	(ii)	**Explain one reason why** the **consumer price index** is a **good measure of cost of living**.	[2]
		The **consumer price index** is a **weighted index of** the **prices of** a **basket of goods and services purchased by** a **typical household** in an economy. **Reason 1 [2m]** The consumer price index **tracks** the **prices of a basket of goods and services purchased by** a **typical household** in an economy, hence it is a **good measure of** the **cost of living of the average/typical household/person**. OR **Reason 2 [2m]** As the **CPI** is a **weighted index**, where **goods or services** that take a **bigger proportion** of **household expenditure** are **given** a **larger weight**, it is able to **more accurately reflect how changes in price** of goods or services with a **bigger weight** would **have** a **bigger impact on** the **cost of living** (of the average household).	
(b)	“**Wages** are **not rising fast enough to offset surging inflation**, **but** they are **rising too fast for** the **central bank’s liking**”. **Explain** this statement from **Extract 1**.		[4]
	Explain “*Wages are not rising fast enough to offset surging inflation*”: [2m] *“Wages are not rising fast enough to offset surging inflation”* means that while **nominal wages** are **rising**, the **general price level** is **rising even faster**, such that **real wages** are **falling [1m]**, causing households to have **lower purchasing power** and are able to **buy less goods and services (and have lower material SOL) despite higher nominal wages**. **[1m]**		

	Explain "*but they are rising too fast" for the central bank's liking*": [2m] *"but they are rising too fast for the central bank's liking"*, means that the **central bank does not like** the **rate at which wages are rising and** it **adds to existing cost-push inflation pressures** from rising food and energy cost **[1m]** *(**as wage is the cost of labour inputs)**, and hence makes it **harder** for the **central bank** to **achieve** its **inflation target / worsening the inflation problem that the central bank is concerned about** (lenient marking) **[1m]** *OR* may **require** the **central bank** to **increase interest rates further** (increasing cost of borrowing and reducing consumer spending and investments) and **risk recessionary consequences** on the economy (as aggregate demand falls and causes real GDP to contract) **[1m]**.	
(c)	**Using an exchange rate diagram, explain how** the **Monetary Authority of Singapore (MAS) can intervene in** the **foreign exchange market to tighten** its **monetary policy**.	[4]
	 *Correct exchange rate diagram showing rightward shift in demand for SGD, with the appropriate labels and axis **[1m]*** MAS can **tighten** its **monetary policy by buying** the Singapore dollar (**SGD**) **in** the **forex** market (using foreign currencies), **causing** the **demand** for **SGD** to **rise** from **D_1 to D_2 [1m]**, causing the **SGD** to **appreciate [1m]** from E_1 to E_2 **as more units** of a **foreign currency** are **needed to exchange for** a **unit of SGD** *OR* **as price of SGD in foreign currency is now higher [1m]**.	

(d)	**Discuss whether** the **tightening of Singapore's monetary policy is the main reason behind its projection of slower GDP growth in Extract 5.**	[8]

R1: How it is due to appreciation of SGD	R2: How it is due to other causes
Graph: AD falling to reduce Y. Explain how appreciation of SGD would reduce NX of AD. (Must use PEDm) *Note: Reverse k explanation not encouraged here due to time constraint & mark allocation.*	**Graph:** AS falling to reduce Y. Explain how cost-push inflation has contractionary effects or Explain how monetary tightening in other countries reduces Singapore's X too & hence Y. Or Explain how fall in other components of SG's AD reduces Singapore's Y too. **Use of case evidence is expected.*
Justified Stand: *take a stand about whether the appreciation of the SGD is the main factor causing Singapore's projection of below trend GDP growth. Can make use of Extract 5 & Figure 2 to substantiate.*	

(e)	**Discuss whether** it is **appropriate** for **US and UK's central banks** to **continue with interest rate hikes**.	[10]

R1: Appropriate to continue hike	R2: Not appropriate to continue hike
Graph: AD falling to cool inflation	Interest rate policy does not get to the root of the problem of cost-push inflation e.g. energy/food/wage costs that most of the

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<td rowspan="2">Explain how higher cost of borrowing would reduce household spending on durables and firms’ spending on capital goods → reduce C and I to dampen demand-pull pressures as the economies recover from the pandemic.

Extract 3 also mentions that US has had some success lowering inflation rate with previous hikes

UK shows signs of disinflation in Figure 1 after employing policy → some degree of effectiveness as well

Evaluate: Inflation rate is still not at their targets so technically there is room to hike.

Inflation remains especially high in UK relative to other economies despite previous hikes → appropriate to continue hikes since consequences of the rising inflation would be more significant.

If uncertain, central banks can always pause and observe before next move → strength of interest rate policy i.e. flexible tool as since by their multiple hikes in incremental manner to observe before acting more strongly</td>
<td>economies are facing → other policies like SSP more appropriate for those causes</td>
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<td>Conflict of goals – weaken economic growth and in turn reduce derived demand for labour (with reference to graph)

Extract 4 and 6 mentions risks of recession

Evaluate: US seems to have resilient data with growth and employment so conflict is not as significant yet relative to UK.

Time lags in effects of MP</td>
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<tr>
<td colspan="2">Justified Stand: Severity projected of the continued inflationary pressures / resilience of the economy such the risk and consequences of worsened growth or employment those do not outweigh the problem of rising inflation that determines whether to continue with hikes.</td>
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