



HWA CHONG INSTITUTION
Year Two H1 Economics 2013

Section A: Case Study Question 2 The Uncertain Future of Globalisation

Suggested Mark Scheme

(a)	(i)	Describe the trend in volume of world merchandise trade between 2008 and 2013 as shown in Table 1.	[2]
		Volume of world merchandise trade increased over the period but fell sharply during 2009.	
	(ii)	With reference to the Table 1, explain an economic factor that contributed to the above trend.	[2]
		<ul style="list-style-type: none"> Identify factor: Income Explain factor: The growth in volume of merchandise trade is positively related to real GDP growth as shown in Table 1. As GDP increases, the demand for imports, which are usually normal goods, will increase. Hence, trade increases in the world. 	
(b)		Consider whether the data in Table 1 and Extract 7 are sufficient to assess changes in living standards in the developing economies from 2008 to 2011.	[4]
		<p>Table 1 – positive real GDP – material SOL (amount of goods & services available for consumption); positive growth in imports for most of the year except 2009 – importing more goods & services (for consumption?) [1m]</p> <p>Ext. 7: “global population more than doubled in size” → real GDP per capita may not have risen [1m]</p> <p>OR</p> <p>Ext. 7: “wages of the low-skilled workers fallen, while wages of the high-skilled risen extraordinarily...”, “inequality in developed countries and in other developing countries remains shameful ...” → rising income inequality [1m]</p> <p>(Note: Youth unemployment is for US)</p> <p>Missing data: need <u>concrete</u> data such as gini coefficient and population growth [1m]</p> <p>Non-material SOL not accounted for → need relevant stats [1m]</p>	
(c)		Using Figures 2 and 3, explain why for the US, “when fiscal and monetary policies have been stretched to their limits, exports are the best way out.”	[4]
		<ul style="list-style-type: none"> <u>Explain why fiscal policy is stretched to its limits</u>: Figure 1 shows that the USA debt to GDP ratio has been increasing from 2009-2013. Any continuation of 	



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	<p>expansionary fiscal policy will require more borrowing which will lead to crowding out effect and limit effectiveness of FP.</p> <ul style="list-style-type: none"> • <u>Explain why monetary policy is stretched to its limits:</u> The US interest rates are very low since 2009, as shown in Figure 2. Hence, it is no longer possible to increase investment or interest-sensitive consumption by lowering interest rates. • <u>Explain why exports are best way out:</u> Given the limitations of FP and MP, then policies that will boost net exports will be most effective in solving the macroeconomic problems in the US 	
(d)	Explain how the West may gain from a rising middle class in China.	[2]
	The higher affluence in China will allow them to buy imports from the West, assuming normal goods ($YED > 0$). This will reduce US widening trade deficit	
(e)	Using the evidence from the case and your own relevant knowledge, discuss the view that globalisation may not bring about the benefits it promises.	8
	<p>Clarify benefits</p> <p>Thesis: Benefits of globalisation based on theory and own relevant knowledge (link to 4 macro goals & SOL)</p> <p>The promise of globalisation in the form of free trade, free movement of labour and capital is the increase in output as countries specialise on the basis of their comparative advantage. This can increase consumption and world output. Free movement of labour allows countries to complement their local labour with foreign labour. The foreign labour may fill the jobs that the local labour avoid or are does not have the required skills. This arrangement is beneficial to the economic growth of the nations. The openness of capital markets also allows investors and savers from all over the world to transfer funds from one country to another, ideally allocating funds to the most profitable investment projects. This will increase the productive capacity of the countries. All these will result in higher growth with lower inflation and more employment opportunities. Draw AD-AS diagram to illustrate the benefits.</p> <p>Anti-thesis 1: Benefits of globalisation will not be realized due to barriers to trade</p> <p>According to Extract 4, the US has been embracing free trade but it has not reciprocated by other economies. Emerging countries which trade with US are exploiting World Trade Organisation rules that allow long phase-in periods for fully opening up their domestic markets to developed-countries' imports. In addition, lacklustre enforcement of intellectual property rights exacerbates the problem considerably, hampering US exports of software and entertainment. This affects the US trade balance, leading to high unemployment rate and possibly slow economic growth rate.</p> <p>Evidence: Extract 4 suggests that trade barriers have contributed to the USA's high unemployment rate and possibly lower economic growth rate.</p>	



Anti-thesis 2: Globalisation may not bring about the benefits of higher consumption FOR ALL

However, as the case highlights the problems of the openness, the US also does not enjoy larger output and consumption. Instead, the US experiences higher levels of youth unemployment and income inequality.

Extract 5 mentions youth unemployment is due to the need to compete with workers in the rest of the world given the migration of jobs to other parts of the world as well as the changing production processes. Instead of workers finding jobs in their countries due to economic growth and free movement of labour, which globalisation promises, lacklustre economic growth and labour immobility have led to massive unemployment and lower consumption for all.

Extract 5 also highlights the issue of rising inequality which is due to “technology becoming less labour intensive” and hence increasing the difference between wages of the high skilled workers in capital intensive industries and the low skilled workers.

Evaluation and Judgement: Will globalisation bring about the benefits it promises?

Whether a country achieves a net cost or benefit from globalisation depends on whether the country can manage the costs of globalisation using supply side policies to deal with the unemployment as well as in the re-distribution policies to deal with growing income inequality.

Or

The issue of reduced benefits to USA cannot be attributed entirely to the dynamics globalisation. There are other factors like the outcomes of post financial crisis which could have compounded the reduction of benefits of globalisation.

Level	Descriptors
L3	<ul style="list-style-type: none">• Able to provide evaluative judgment on the extent of benefits of globalization.• Candidates must also question the assumptions in the case study and not merely explain how globalization has reduced benefits it promises.
L2	<ul style="list-style-type: none">• Able to analyse the arguments for and against the benefits of globalization with appropriate substantiation from the case study and their own knowledge.
L1	<ul style="list-style-type: none">• Able to identify / state factors for and against benefits of globalization from the case study• Little use of economic framework• Many conceptual errors



<p>(d) Discuss whether US membership in the Trans Pacific Partnership will solve the economic problems the US currently faces. [10]</p> <p>Introduction:</p> <p>The US currently faces massive unemployment (25% of 30 million people) and a growing income inequality amidst a slow economic growth rate. These economic problems are attributed to adverse impacts of globalisation in the case study. This answer will attempt to demonstrate to what extent such a partnership with USA could solve its economic problems.</p>	
<p>Thesis 1: TPP will solve some economic problems</p> <p><u>Reduce unemployment/Balance of trade deficit</u></p> <p>The proposed Free Trade Agreement will lower tariff and non-tariff barriers. This will be beneficial to USA as the Asia-Pacific region is a huge and growing market which is already a key destination for US manufactured goods, agricultural products, and services suppliers</p> <p>This will make the US exports more competitive and hence increase US export revenue. An increase in net export revenue will increase AD, NY and reduce unemployment rate.</p> <p>AD-AS diagram</p> <p><u>Reduce income inequality/Government debt</u></p> <p>Moreover, if the US economy grows because of the trade stimulus, there will be an increase in income tax revenue which could enable the government to redistribute income to low skilled workers as well as to unemployed workers.</p>	<p>Anti-thesis 1: TPP will not solve some of the economic problems</p> <p>Can't solve unemployment if they do not have the relevant skills in industries in which US has comparative advantage or if US exports are not internationally competitive.</p> <p>Can't solve the income inequality problem too if the industries that benefit from export growth are capital intensive, as low skilled workers will be left out.</p> <p>Evidence:</p> <p><i>Extract 5: "Simultaneously, countries that were never part of the global market have joined it – not least India and China from the mid-1990s – while technology has become less labour-intensive. As a result, the wages of the low-skilled workers have fallen, while the wages of the high-skilled have risen extraordinarily."</i></p> <p><i>"At the same time, average workers in most of the major affluent economies, including the US, have seen the real value of their wages whittled away, as they have found themselves in competition not just with their neighbours, but with workers many thousands of miles away. So as the plight of workers in faraway places reveals the true cost of cut-price consumer gadgets, it is also clear that workers everywhere have been losing out."</i></p>
	<p>Anti-thesis 2: US will need to use other policies to solve the unemployment and income inequality problem.</p>



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		<ul style="list-style-type: none">Retraining of workers using supply side policies, rather than using trade policies													
<p><u>Evaluation and judgement:</u></p> <p>The problem of trade deficit and, to a certain extent, cyclical unemployment could be solved using a trade policy like FTA. However, structural unemployment and growing income gap between skilled workers and low skilled workers have to be resolved using supply side policies in tandem with trade policy.</p>															
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