## 2024 H1 EOY Exams – Macro Case Study Suggested Answers

(a)	(i)	Using Figure 2, describe the trend in Indonesia's budget position as a percentage of GDP from 2019 to 2023	[2]
		Indonesia is facing a budget deficit [1]	
		• The deficit as a percentage of GDP is decreasing / improving [1]	
		Ur Definementi in 2020, Indenesie's deficit es a nersentere ef the	
		• [Refinement] in 2020, indonesia's deficit as a percentage of the	
		GDP is the <b>highest</b>	
		1 mark for identifying that Indonesia is facing a budget deficit throughout	
		the period	
		1 mark to describing the trend / one refinement	
	(ii)	State the components of government budget.	[1]
		The components are government spending and tax revenue.	
(h)	Witl	n reference to Table 1, comment on the reliability of the use of real GDP	[6]
	grov time	wth to measure the changes in Indonesia 's standard of living over e.	[0]
	An	economy's standard of living (SOL) can be defined as the well-being of	
	resid	dents in the economy and is typically categorised into material standard of	
	livin	and non-material SOI	
		Material SOL is associated with the amount of goods and services	
		available for consumption by the residents of an economy. This is	
		usually measured by real GDP per capita	
		Non-material SOL is associated with the intangible aspects of well-being	
		such as literacy rates and life expectancy of residents.	
	<u>R1:</u>	Real GDP growth is reliable to measure changes in Indonesia's SOL	
	Fror sugg in re good mate	n Table 1, real GDP growth rates are all positive throughout the period gesting Indonesia 's real GDP has increased over the period. The increase al GDP means higher production of goods and services, which means more ds and services are available for consumption in the country. As such, the erial SOL has risen over time.	
	<u>R2:</u> SOL	Real GDP growth is not reliable to measure changes in Indonesia's	
	How pope the inco mor incre	vever, real GDP growth is not reliable as it does not take into account the ulation changes. Hence, there is a need to look at population growth. The ulation growth rates are lower than the real GDP growth rates throughout period, this means that real GDP per capita has increased. With higher real me per person, purchasing power increases. Each person can purchase e goods and services. Hence, material living standards in Indonesia has eased.	
	Ine	re is also a need to look at Gini Coefficient. If the rise in income is	
		entrated only among the higher-income group and not enjoyed by the	
	livin	g standards as shown by real GDP per capita. This is so as real GDP per	
	capi	ta is just an average figure. From table XX, there is a slight increase in the	

	Gini In ac inde	Coefficient to determine the change in Indonesia's material SOL over time. Idition, there is a need to look at the non-material aspects such as pollution x, literary rate to determine the non-material aspects.	
(c)	Exp exp	lain why Indonesia's economy expanded in 2023 despite its falling orts.	[3]
		Increase in domestic consumption ("household consumption grew 4.82 per cent") and investment (investments up 5.02 per cent in the fourth quarter) [1], which has outweighed the fall in net exports [1] $\rightarrow$ overall rise in AD, leading to overall increase in real NY [1]	
		• AD-AS diagram to illustrate increase in real NY (optional)	
	1 m 1 m incre	ark – explain the increase in consumption and investment using the Extract ark – explain that this has outweighed the fall in net exports, causing AD to ease overall	
	1 m expa	ark – link an increase in AD to an increase in real NY and hence an ansion of the Indonesia economy	
(പ)	With	reference to Extract 8, explain how the Federal Reserve's tightening	[4]
(u)	of it Stat	es.	[-]
(u)	of it Stat	<ul> <li>s monetary policy can reduce high rates of inflation in the United es.</li> <li>Tightening of monetary policy → Fed has raised interest rates [1]</li> <li>Increase cost of borrowing → fall in C and I → fall in AD [1]</li> <li>Fall in AD reduces GPL, reducing the rate of inflation (demand-pull inflation) [1]</li> </ul>	
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(u)	of it Stat	<ul> <li>as monetary policy can reduce high rates of inflation in the United es.</li> <li>Tightening of monetary policy → Fed has raised interest rates [1]</li> <li>Increase cost of borrowing → fall in C and I → fall in AD [1]</li> <li>Fall in AD reduces GPL, reducing the rate of inflation (demand-pull inflation) [1]</li> <li>ark – identify "tightening of monetary policy" as an increase in interest rates e US</li> <li>ark – explain why C and I falls given an increase in interest rate ark – explain that a fall in AD causes a fall in demand-pull inflation ark – diagram</li> </ul>	E
(u) (e)	of it Stat	<ul> <li>smonetary policy can reduce high rates of inflation in the United es.</li> <li>Tightening of monetary policy → Fed has raised interest rates [1]</li> <li>Increase cost of borrowing → fall in C and I → fall in AD [1]</li> <li>Fall in AD reduces GPL, reducing the rate of inflation (demand-pull inflation) [1]</li> <li>ark – identify "tightening of monetary policy" as an increase in interest rates e US</li> <li>ark – explain why C and I falls given an increase in interest rate fark – explain that a fall in AD causes a fall in demand-pull inflation ark – diagram</li> </ul>	[5]

	<ul> <li>The war in t developing which furthe</li> <li>Use DD-SS</li> <li>1 mark – link increas</li> <li>1 mark – link war ir</li> <li>1 mark – link capita</li> <li>1 mark – link to a data</li> </ul>	the Middle East has also triggered "capital outflow from countries" [1], further increasing the supply of Rupiah, er contributes to a depreciation of the rupiah [1]. diagram to illustrate fall in value of Rupiah ase in interest rates to capital outflow out of Indonesia in Middle East to capital outflow out of Indonesia al outflow to an increase in SS of rupiah in Forex lepreciation of the rupiah	
(1)	1 mark – diagram		
(11)	Discuss whether t benefits or costs	to the Indonesia economy.	[8]
	Command	Discuss whether – 2 Sided + Evaluative conclusion	
	Content	Effect on macro goals, AD/AS analysis	
	Context	Indonesia	
	Approach		
	R1	A depreciation of the rupiah would bring more benefit to Indonesia	
	R2	A depreciation of the rupiah would bring more cost to Indonesia	
	Evaluative conclusion	Overall stand on whether the depreciation of the rupiah is more likely to bring more benefits or costs to Indonesia economy.	
	<ul> <li>R1: A depreciation of the rupiah would bring more benefits to Indonesia</li> <li>With a depreciation of the rupiah, the price of Indonesia's exports become cheaper in foreign currency, which makes its exports more price competitive, Quantity demanded will rise as foreigners will buy more exports from Indonesia. Price of imports in Rupiah will rise and Quantity demanded will fall as locals switch to domestically produced substitutes. Assuming  PED<sub>x</sub>  and  PED<sub>M</sub>  are greater than 1, (X-M) will rise</li> <li>(X-M) rises → AD rises → Multiplied rise in RNY → economic growth → fall in unemployment</li> <li>There will also be more FDI as firms will find it more attractive to invest with a deprecation of Rupiah → AD and AS effects</li> </ul>		
	R2: A depreciation • However, p such as a increase in producing e cost-push in	n of the rupiah would bring more cost to Indonesia rice of imported inputs (e.g. raw materials for industries utomotive, electronics, textile and pharmaceuticals) terms of the rupiah. This would increase the cost of exports for sectors that use imported raw materials $\rightarrow$ nflation	

		• V s tl	Veak rupiah means the government needs more rubsidise fuel since Indonesia is a net importer of oil $\rightarrow$ W ne budget balance	money to /ill worsen	
	<ul> <li>EV:</li> <li>Depends on which effect outweighs the other. Given that substantial number of export sectors in Indonesia make use imported inputs, it is likely that the depreciation of the rupiah wo bring more costs to Indonesia.</li> <li>It depends on the extent to which the sector makes use of import inputs in production of goods and services</li> <li>Besides price, there are other non-price which affects Indonesia export competitiveness (quality of exports)</li> <li>Long term investments might fall if Rupiah continues to depreciation as investors may perceive it to be currency volatility a uncertainty, which could affect their willingness to invest.</li> </ul>			en that a ke use of iah would f imported idonesia's depreciate itility and	
		Level	Descriptors	Marks	
		L2	<ul> <li>Answer provides a detailed and balanced response on how a depreciation of the rupiah could have benefits and costs on Indonesia's economy</li> <li>Makes use of data and contextual evidence.</li> </ul>	4-6	
	-	L1	<ul> <li>One-sided answer on how a depreciation of the rupiah could either have benefits or costs on Indonesia's economy</li> <li>Answer shows some understanding and knowledge of how a depreciation of the rupiah affects Indonesia's economy, but is lacking in economic analysis</li> <li>No use of data or contextual evidence.</li> </ul>	1-3	
		E2	For an evaluative comment that builds on prior analysis.	2	
		E1	For an unexplained / unsupported judgement.	1	
(f)	Discu Nusar	ss the ntara ca	extent to which the relocation of Indonesia's on bring about sustainable and inclusive growth.	apital to	[10]
	Com Cont Cont	mand ent	Discuss – 2 Sided + Evaluative conclusion AD-AS analysis, sustainable growth, inclu growth Indonesia	sive	-
	Appr	oach			
	R1		Relocation of Indonesia's capital to Nusantara of about sustainable growth	can bring	
	R2		about inclusive growth	an bring	

conclusion	capital can achieve both sustainable and inclusive growth
Introduction	
Sustainable growth is significant problems degradation). For gr be achieved. The r sustainable growth i inclusivity.	s growth that can be maintained/sustained without creating for future generations (e.g. in terms of environmental rowth to be sustained, actual and potential growth needs to relocation of Indonesia's capital is likely to bring about n Indonesia, although it may cause trade-offs in terms of
<ul> <li>R1: Relocation of sustainable growth</li> <li>Increase in water sanitation</li> <li>Establishmer companies"</li> </ul>	Indonesia's capital to Nusantara can bring about government expenditure (G) on "building main roads, ion infrastructure (Extract 9)" nt of Nusantara Sustainability Hub attracts "global into Indonesia → increase in foreign direct investments
<ul> <li>Put together, proportional</li> <li>The hub will (<i>R&amp;D</i>)" → s processes (e productive ca</li> <li>Hence, with achieved. Th from AD<sub>0</sub> to A from X<sub>2</sub> to X<sub>4</sub></li> </ul>	the increase in G and I lead to a multiplied/ more than the increase in AD and RNY, leading to actual growth also serve as a "centre for research and development spurs development of new and improved production e.g. new sources of food like blue food) $\rightarrow$ increase in apacity $\rightarrow$ increase in LRAS $\rightarrow$ potential growth both actual and potential growth, sustained growth is is is illustrated in the diagram below, where AD increases AD <sub>1</sub> , and AS shifts outwards to AS <sub>1</sub> . Hence, RNY increases
	$GPL_0$ $GPL_1$ $GPL_1$ $Y_0$ $Y_1$ Y
<ul> <li>R&amp;D facilitate through more "energy tran contributing t</li> </ul>	ed by the hub is also expected to lower carbon emissions e environmentally friendly sources of energy (Extract 9: <i>nsition</i> "). This minimizes environmental degradation, o <b>sustainable growth</b>
EV of R1	
However, th environment	ere could be trade-offs in terms of damage to the in the short run ( <i>Extract 10: "construction process alone</i>

environment envisaged by the sustainability hub. Hence, the relocation might not achieve sustainable growth, especially in the short run.

## R2: Relocation of Indonesia' capital to Nusantara can bring about inclusive growth

- Inclusive growth is growth that is sustained over a period of time, is broad-based across economic sectors, and creates employment opportunities for the majority of the country's population. It also does not worsen income inequality.
- As explained earlier, the relocation can lead to sustained growth
- "Adequate infrastructure in the new capital is expected to encourage new industrialization..." (Extract 10) → could create employment opportunities for the rural population → land themselves higher paying jobs and lead to a reduction in income inequality → inclusive growth

## EV of R2:

 However, the migration of upper-middle class civil servants to Nusantara leads to competition with the low-middle class for employment opportunities. If the lower-income are not sufficiently skilled to take up the new jobs and their previous jobs get displaced due to industrialization, they may find themselves structurally unemployed → may worsen the income disparity and stymie inclusive growth.

## **Evaluative conclusion**

- Relocation of Indonesia's capital contributes to sustainable and inclusive growth to the extent that it promotes sustained growth in Indonesia
- However, whether it achieves sustainable growth depends on whether the benefits to environment brought about by sustainability hub in the long run exceeds the damage caused to the environment and if the government can mitigate the emissions caused by the construction process.
- For the relocation of capital to bring about inclusive growth, it needs to be complemented with other measures such as education and training to uplift the skillsets of the lower income, so that they can benefit from the new employment opportunities created.

Level	Descriptors	Marks		
L2	Answer provides a <b>detailed response</b> on how the relocation of Indonesia's capital can brings about <b>both sustainable and inclusive growth with rigorous AD-AS analysis</b> Makes use of data and contextual evidence.			
L1	Answer provides <b>some understanding and knowledge</b> on how the relocation of Indonesia's capital brings about sustainable and/or inclusive growth	1-3		
	No or limited use of data or contextual evidence.			
E2	For an evaluative comment that builds on prior analysis and linked to the context of the question.	2-3		
E1	For an unexplained / unsupported judgement.	1		