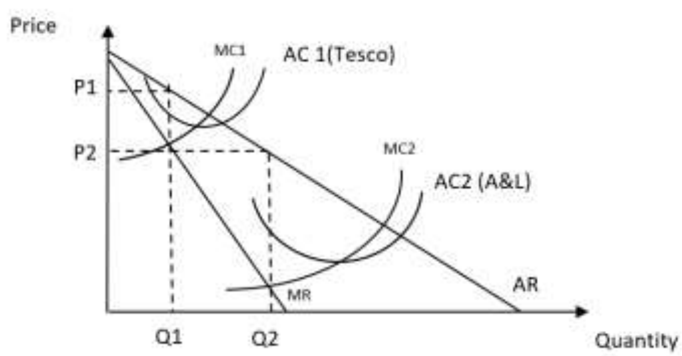
Anderson Serangoon Junior College
2022 JC2 H2 Economics
Preliminary Examination Paper 1
Suggested answers

Question 1: Retail troubles

(a)(i)	**With reference to Figure 1:** **Compare restaurant prices relative to grocery retail prices in the United States from 1960 to 2014.**	**[1]**
	Restaurant prices increased by 350**% relative** to grocery retail prices.	
(ii)	**Using the concept of income elasticity of demand, account for the above observation.**	**[2]**
	• Restaurant food has YED > 1 whereas YED for grocery retail is 0 < YED <1 • Increase in income leads to increase in demand for restaurant food by more than proportionately as compared to retail food where demand increase by less than proportionately. Hence there is greater increase in price for restaurant food relative to grocery retail prices.	
(b)	**With reference to Extract 1:**	
(i)	**Identify and explain the evidence that indicates the likely price elasticity of demand for food for households.**	**[3]**
	• Evidence: "increase in food and drink spending of nearly 7%" • Inference: Demand for food is price inelastic → PED <1 • This is because when price of food increase, expenditure would increase if quantity demanded falls less than proportionately. The increase in expenditure due to price increase is greater than the fall in expenditure due to the fall in quantity demanded, causing overall total expenditure to increase.	
(ii)	**Explain one unintended consequence of the proposed 'UK government policies around public health and sustainability'.**	**[2]**
	• Rise in inequity → The poor spend a bigger proportion of their income on food than the rich. With rising prices and with nominal income unchanged, their real income falls. The poor are worse off compared to the rich. This then increases inequity. • Rise in debt → With rising costs due to having to comply with the new government regulations on public health and sustainability, firms will have lower profits and some may suffer losses, assuming no change in total revenue. Firms may resort to borrowing to finance their current operating costs. Thus, debt increased. • Loss of competitiveness → Rising costs due to the new government regulations will increase price of domestically produced food and drinks. This will reduce their price competitiveness as compared to imported food and drinks, resulting in fall in demand for domestically produced food and drinks as consumers switched to imported goods. Domestic firms will suffer from losses and some may exit the industry resulting in increase in unemployment in the food and drinks industry.	
(c)	**Extract 2 states that low-cost supermarket chain Aldi 'will never be beaten on price'.**	**[4]**

	With the aid of a diagram, explain how the strategy of opening many more stores than Tesco enabled Aldi and Lidl to increase their price competitiveness.	
	'Opening of many more stores' represents expansion of the firm, which enables Aldi and Lidl to reap internal economies of scale (EOS) and enjoy cost advantages. Internal EOS refers to the fall in long run average cost that accrues to a firm as it increases its own output level. Some examples include marketing and technical EOS. For example, with larger scale of operation, Aldi and Lidl will be buying larger quantities of inputs compared to its competitors and so are in a stronger position to negotiate discounts from its suppliers and enjoy lower cost for their inputs. It could also enjoy technical EOS gained through specialisation of labour. "Aldi said it will hire 20,000 new members of staff to fuel its expansion". As its scale of operation increases, it becomes more efficient to allow workers to specialise in their tasks as it saves time to repeat the same task rather than move from one task to another. Thus more output can be produced in a given time because of the increase in workers' productivity. Division of labour thus increases the productivity of labour, resulting in lower unit cost of production. Thus because of the ability to reap larger internal EOS, the marginal and average cost of Aldi and Lidl, represented as MC_2 and AC_2, are significantly lower than the marginal and average cost of its competitors such as Tesco, represented as MC_1 and AC_1 shown in the diagram below.  Assuming profit-maximisation objective, both firms would be producing at the output level where their respective marginal cost equal their respective marginal revenue. Assuming the same demand (AR), Tesco would be producing at Q_1 and charging price P_1. On the other hand, Aldi and Lidl would be producing a larger quantity at Q_2 and charging lower price at P_2, thereby increasing its price competitiveness.	
(d)	**Discuss whether going digital will help firms make supernormal profits.**	**[8]**
	P1: Going digital can help firms make supernormal profits if it increases demand and lower costs.	

Profits is the difference between total revenue and total costs. Extract 3 said that 'online shopping will continue to accelerate'. Consumers increasingly are making their purchases online rather than buying from brick and mortar stores. Firms can increase demand for their goods due to this change in taste and preference, by also selling online to complement their brick and mortar stores. Online shopping also expands demand for the firms' goods as the firms can sell beyond their own locality and can even go international.

Figure 1 shows a rightward shift of the AR and MR curve from AR_0 to AR_1. At the profit-maximizing output of Q_0, where MC=MR, the firm is making normal profits as TR is equal to TC, OP_0GQ_0. Assuming no change in costs, the rise in demand increases the equilibrium output to Q_1 where MC cuts MR_1 and the price is higher at P_1 instead of P_0. TR (OP_1AQ_1) is now higher than TC ($OPBQ_1$) and the supernormal profits is area P_1APB.

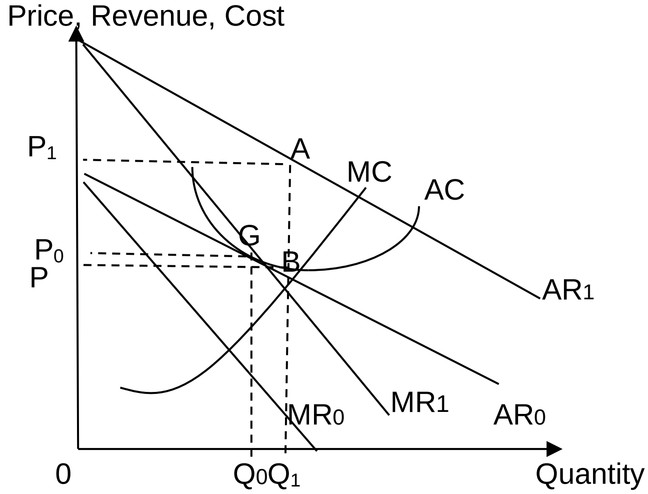


Figure 1

In addition, going digital can also help a firm to cut costs. For brick and mortar stores, they can cut down the number of physical stores and reduce the number of employees as well as the amount of inventories. As both rent and wages take up a big proportion of a retailing firm's total costs, their cost savings can be significant. This will reduce both their fixed and variable costs which then shifts their AC and MC curves downwards. As seen from Figure 2, the profit-maximizing output increases from Q_0 to Q_1 and the firm's TR revenue is unchanged but TC is reduced from OP_0GQ_0 to OPBQ. The firm is now making supernormal profits of PP_1AB.

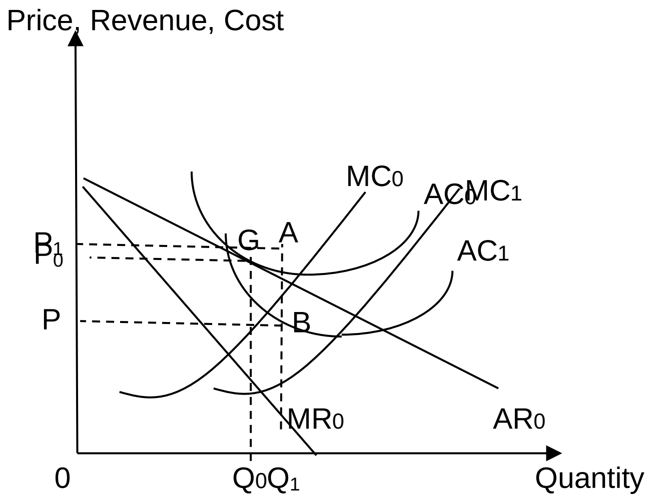


Figure 2

P2: However, going digital may not necessarily increase a firm's profits. Demand may not increase, nor cost be lower.

Extract 3 mentioned that only 'retailers with strong platforms and sophisticated data analysis have succeeded in connecting with consumers'. Firstly, the retail sector is very much a monopolistically competitive market. There are many other sellers - some small like hair dressing but there are large sellers like Tesco. It may not be too costly for a firm to set up an online platform especially when there is a lot of information from the internet as well as many web developers offering their services online. However, only the best online platforms which have both convenience, security, and other attractive features based on their data analysis of consumer preferences that are best able to get consumers to make purchases from their online stores. It may be very costly to be able to set up an online platform that is way better than others.

Likewise, demand may not increase if the platform is not user friendly, where payment security is an issue or where delivery is not prompt or charges too high. It is similar to the idea of advertising. Not every firm that advertises is bound to be able to increase demand significantly, not to mention the high costs of advertising. Thus, if the increase in demand is lesser than the increase in cost or vice-versa, a firm that goes digital may not make supernormal profits.

Even for those firms that earned supernormal profits in the short run, their ability to continue to earn supernormal profits in the long run would depend on whether they are able to strengthen their online presence such that it becomes a high barrier to entry.

In conclusion, given that there is the shift of consumers shopping habits to online shopping, it is a huge disadvantage for firms not to recognise this and act accordingly. But it is no guarantee that a firm will necessarily make supernormal profits by just going online. As seen from above, it depends on whether their online platform is able to increase demand as well as their ability to manage the cost of setting up and maintaining this platform. Besides the quality of the online

	platform, the nature and quality of the firm's products as well as the firm's customer base would also influence its ability to make supernormal profits.	
(e)	**Discuss whether government policies such as subsidies to support the retail sector are justified on grounds of efficiency and employment.**	**[10]**
	P1: Government policy such as subsidies for the retail sector during the COVID-19 pandemic will reduce the problem of rising unemployment in the retail sector as well as reducing productive inefficiency. With reference to Figure 1 below, firms are making subnormal profits as demand has fallen drastically due to the pandemic and now AR_0 is less than AC at the profit-maximizing output of Q_0 where $MC_0=MR_0$ and price OP_0 is less than AVC, OC_0. Most of the variable costs incurred by retailing firms would be cost of labour because retailing is basically a labour intensive industry where 1 in 12 workers is in this sector. Thus, most retailers would have to shut down as their losses will be smaller as they only need to incur fixed costs like rental. When these firms shut down, all workers will be retrenched, and the level of unemployment would increase significantly. Because of the severity on unemployment, governments in most countries, offer support in the form of wage subsides. The effect of this is to reduce the cost of labour to the firms and so the AVC curve shifts downwards as now the government pays part of the wages of the firms which is equivalent to a fall in total wage costs. Since the variable cost is reduced, the MC curve shifts to the right as well. Now the new equilibrium output is at OQ_0 and the price is at OP_1 which is higher than the AVC of OC_1. In this case, the loss from shutting down which is the total fixed costs plus total variable costs is greater than the loss from continuing production which is just the loss from part of total variable costs as TR can cover all of TFC and part of TVC. As such, the firm can continue production and there is no need to retrench workers, thus achieving the government's objective of 'preserving employment'. It is also justified in terms of productive efficiency. As mentioned earlier, large scale unemployment in the retail sector when firms close down would mean that the economy will be operating inside the production possibility curve. There will be substantial under-utilisation of resources and not just labour alone because as firms close down, labour and capital goods are not utilised. Thus, with government support, the economy would not be moving further away from the PPC. At the firm level, although there is no productive efficiency, i.e firms do not produce at minimum LRAC in a monopolistic and oligopolistic market, the preservation of the number of firms in the industry would help to maintain competition in the market and therefore not increase productive inefficiency. Existing firms can use the interim period to consolidate and find ways to lower cost of production once the government support is withdrawn when the Covid situation improves.	

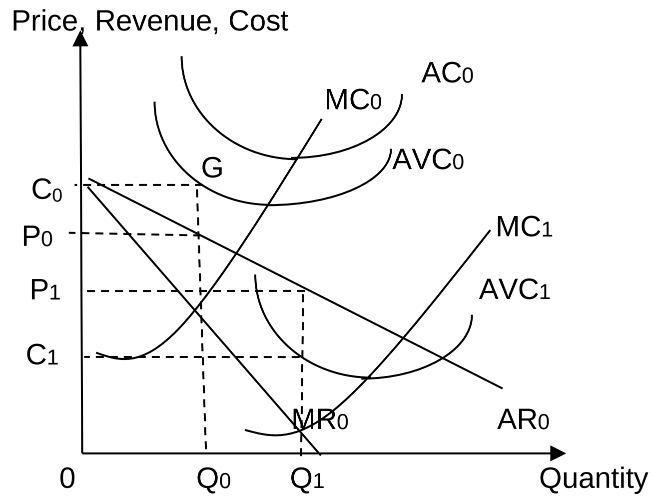


Figure 1: Changes in AVC due to wage subsidy

P2: Government support will enable firms to **sustain** their innovation which will lead to dynamic efficiency in the long run.

R&D is costly and when firms make losses, they would have to cut R&D expenditure and channel whatever funds available to pay wages to workers so that the firm can continue production. But with government wage support, firms need not cut spending on R&D. With uninterrupted R&D, firms can improve production processes to cut costs as well as to develop new products or services which can improve their competitiveness in the future. Thus, government support is justified in terms of dynamic efficiency.

P3: However, government support of the retail sector can create problems of productive and allocative inefficiency.

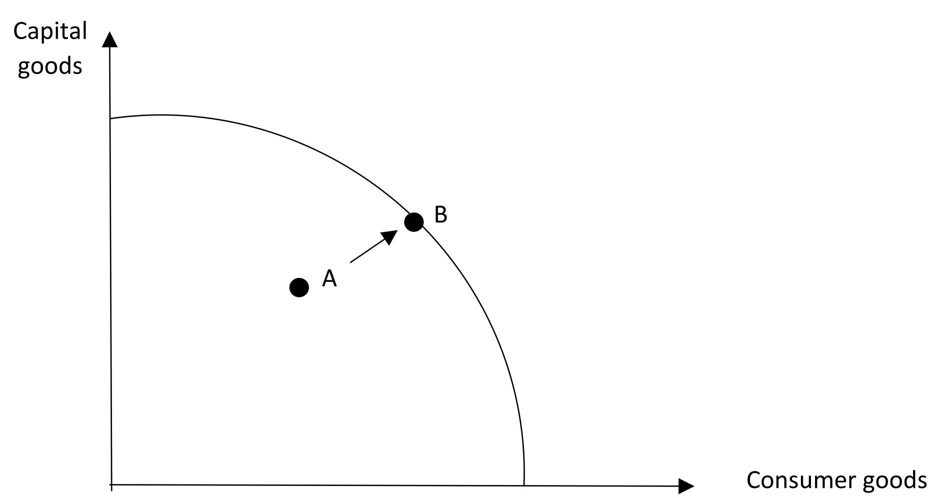
As mentioned in Extract 4, subsidies are given to struggling retailers but not all of them are due to the pandemic. It is mentioned that the pandemic accelerated their decline. Under normal circumstances, market forces would result in inefficient firms closing down and the unemployed resources are reallocated to firms that are experiencing rising demand which are able to pay higher wages and rentals to obtain the workers and shop space. This ensures that the right type and right quantity of goods are produced. Thus, when government supports these inefficient struggling firms from closing down, resources are not utilised efficiently as they are not reallocated to other uses. *However, given that almost the entire retail sector experienced fall in demand due to the pandemic, unlike a recession caused by the normal business cycle, there are not many firms that experienced rising demand and therefore in need of more resources. As such the allocative inefficiency may be reduced because of this.*

There can be greater productive inefficiency as well. As inefficient firms are supported by wage subsidies, there is less incentive for them to cut cost for example firms may be overstaffed. There is also less urgency to find the least cost method of production and so X-inefficiency may worsen i.e producing a given output at an even higher LRAC. *However, government support is only temporary as the government made it known that it was due to the entire retail sector that suffered from the pandemic that necessitated government support. No intervention will lead to even greater productive inefficiency as there will be greater unemployment*. *Firms also cannot afford to be complacent even with subsidies because of the severity of the fall in demand*. *Firms also may choose to be overstaff in anticipation that in the future there can be a rise in demand and therefore they will not face a staff shortage.*

With regard to employment, the success of government support would depend on the amount of the subsidy given, the duration of the support as well as whether the policies to address the pandemic are removed or whether they are prolonged. Too little subsidies for too short a time period would not help struggling firms to survive and there will still be substantial rise in unemployment.

Conclusion:
Whether government support of the retail sector is justified or not would depend on the time period, the severity of the unemployment problem at that point in time and whether the benefits outweigh the costs of intervention. Government support is only temporary to help all retailers to tide over a very difficult period brought about by the COVID-19 pandemic and so the risk of complacency is not as great. The adverse impact on the retail sector is very great and if no assistance is rendered, large-scale exit of firms from the retail sector would cause more harm than the opportunity cost of subsidies to support them. Consider the harm from the extensive shortages of goods when the economy recovers from the pandemic due to the disappearance of retail firms as well as the difficulties of reestablishing a thriving retail sector, the conclusion is clear that government intervention is justified as benefits outweigh the costs. As mentioned in Extract 4, the retail sector is of ‘paramount importance’ as it is the ‘gateway to consumers from upstream sectors’. The collapse of the retail sector would have adverse repercussions on the rest of the economy as there are many other industries that have close linkages to the retail sector such as tourism, the transport sector etc. The complacency mentioned above is not likely to be prolonged as the market will eventually drive out inefficient firms once the subsidies are removed, and it is likely the government will do so because it is a strain on the government budget to prolong the support. Thus, the retail sector must be supported for both employment and efficiency reasons in the context of the pandemic.

Question 2: Emerging from the COVID-19 Pandemic

(a)	**Compare the real GDP growth rate between the advanced economies and the emerging and developing economies from 2005 to 2020.**	**[2]**
	Any 2 of these 3: • Real GDP growth rate for both advanced economies and emerging and developing economies generally fell between 2005 to 2020. • Real GDP growth rate for advanced economies fell to negative in 2008-2009 and again in 2020 while real GDP growth rate for emerging and developing economies were positive in 2008-2009 and only negative in 2020. • Real GDP growth rate for emerging and developing economies was always higher than the growth rate for advanced economies.	
(b)	**With reference to Extract 5, explain how the impact caused by the pandemic will leave ‘lasting scars’ on an economy in the long run.**	**[3]**
	Extract 1 states that the pandemic led to ‘lower investment and innovation’. The fall in investment will lead to a fall in the level of capital stock in the economy, lowering both the quantity and quality of factors of production in the economy while less innovation would lead to less efficient production of goods and services. Extract 1 also states that the pandemic will lead to ‘erosion of the human capital of the unemployed’. Prolonged unemployment will lead to erosion of skills where workers become less familiar and efficient in their jobs, leading to a loss of productivity. The above will lead to a fall in the productive capacity of the economy, fall in LRAS and fall in the maximum level of potential output, impeding potential growth.	
(c)	**Using a production possibility curve diagram, explain how the ‘easing of lockdown restrictions’ might help a country achieve better resource utilisation.**	**[3]**
	During the lockdown, many workers were unemployed or unable to work. The economy will be operating at point A, which is within the PPC, indicating inefficient utilisation of resources. 	

	The easing of lockdown restrictions would increase economic activity and increase the hiring of workers. When idle resources are being utilised, there is increase in the production of both consumer and capital goods, shown by the movement from point A to point B on the PPC, where resources are fully utilised.	
(d)	**Explain how rising government debt levels might make it difficult for a country to achieve inclusive and sustainable growth.**	**[4]**
	Inclusive growth refers to a sustained rate of economic growth that is broad-based across economic sectors, and creates productive employment opportunities for the majority of the country's population. It takes income distribution into consideration and does not contribute to worsening income inequality. One way to achieve inclusive growth is for governments to subsidise reskilling and skills upgrading to help workers find productive employment opportunities or higher-paying jobs. Governments could also provide transfer payments to the lower income group to raise their disposable income and purchasing power in the form of vouchers for necessity and subsidies for education of the children. However, rising government debt means that the government would have less funds to implement such policies which would make it more difficult to achieve inclusive growth. [Alternative point] Rising government debt means less funds for development of transport infrastructure that can connect rural to urban areas to increase physical access to work, potentially helping to increase job opportunities for workers living in the rural areas to alleviate poverty and achieve inclusive growth. **Sustainable growth** refers to a rate of economic growth that can be maintained without creating other significant economic problems (such as depletion of resources and environmental problems), particularly for future generations. It requires deliberate government policy to support research and development efforts to develop renewable resources and to build sustainable infrastructure for water, energy, transportation and waste management. The Singapore government for example, provides funding for businesses to improve the energy efficiency of industrial facilities and adoption of energy efficient technologies. Rising government debts means less funds and capacity to support these initiatives, making it more difficult to achieve sustainable growth. [Alternative point] Extract 6 states that "rising debt levels could trigger debt distress". This could lead to a fall in the credit rating of the country, leading to fall in investors' confidence and a fall in FDI into the country. This would impede the transfer of technology and knowledge and collaboration with established multi-national corporations in the area of clean energy development, making it difficult to achieve sustainable growth.	

(e)	**Discuss whether advanced or emerging and developing economies would emerge stronger from the COVID-19 pandemic.**	[8]
	As stated in Extract 7, emerging stronger refers to recovering back to pre-COVID-19 growth and employment level faster and greater ability in building productive capacity **P1: Advanced economies are likely to emerge stronger** <u>Size of stimulus programmes</u> Extract 7 states that advanced economies generally had the resources and infrastructure to weather the pandemic and provide a solid foundation for recovery. Countries such as the US and the EU mounted huge stimulus programmes to protect jobs and to boost household income. Households and workers who lost their jobs received transfer payments and unemployment benefits respectively which allowed them to sustain some level of consumption and reduced the extent of the fall in consumption expenditure. This in turn reduced the extent of fall in aggregate demand (AD) and economic growth, which would make recovery easier. In contrast, emerging economies such as those in ASEAN were unable to "mount the same magnitude of stimulus programmes". Thus there was greater loss of jobs and income, which led to fall in induced consumption and large multiplied fall in real national income and further contraction of the economy. <u>Access to vaccines</u> Furthermore, advanced economies had the resources to gain 'quicker access to vaccines' and many of these countries eased lockdown restrictions earlier than the emerging and developing countries where the rate of vaccination was slower as they lacked the resources to vaccinate their population quickly. Hence, the advanced economies could resume economic activity more quickly, leading to a faster rebound in consumption and production. Increase in consumption expenditure will increase AD, leading to unplanned stock depletion and firms will increase production. Output and income increase, activating the multiplier process, leading to multiplied increase in real GDP and economic growth. As firms increase production, the derived demand for labour will also increase, reducing demand deficient unemployment. As these advanced economies start to experience economic growth and increase in employment, they will make quicker recovery back to pre-COVID levels and are poised to emerge stronger. Whereas the developing economies took a longer time to reopen the economy, and the job losses that were sustained over a longer period of time would lead to erosion of skills, fall in productivity and fall in productivity capacity of the economy, impedes long-term growth. <u>Ability to capitalise on the trends that were accelerated by the pandemic.</u> Extract 7 states that the pandemic had accelerated the trend towards green infrastructure and digital technology. These are new growth sectors and advanced economies have the resources 'to ride on these trends for sustained economic growth'. For example, the Singapore government provides financial	

incentives to SMEs and businesses to boost digital adoption; stimulus package includes support for reskilling and redeployment. These policies protect jobs and prepare the economy ready for new growth areas such as advanced digital-solutions. Such government expenditure not only increase AD and actual growth, it also improves the quality of resources in the economy and increase its productive capacity, increasing LRAS and potential growth. Emerging and developing economies on the other hand, lack the resources to capitalise on such trends to reap faster rates of economic growth.

P2: Emerging and developing economies could emerge stronger

On the other hand, it is possible for emerging and developing economies to emerge stronger. Extract 7 states that countries in the Asian region, including the emerging ASEAN economies, experienced lower death rates from the pandemic compared to the advanced economies in Europe and US. Thus this means that the extent of fall in quantity of human capital is lower and their productive capacity was less severely affected as the developed economies. Thus they may have greater potential for growth and could achieve higher growth rates in future.

As explained, there is huge potential for growth in green infrastructure and digital technology. While governments in emerging and developing economies are unable to provide huge amount of support grants to their domestic firms, there is much greater scope to improve their basic infrastructure and build green infrastructure. They lack even basic infrastructure so there are definitely more opportunities for infrastructure spending and development, and more scope for increase in AD and economic growth. Whereas infrastructure development is already mostly matured and fulfilled in advanced economies so these is less scope for these economies to grow through this source.

Furthermore, emerging and developing economies are generally operating way below their full employment. Increases in FDI and government spending would increase AD and bring about the full multiplier effect and larger multiplied increase in real national income.

In the long run, the improvement in infrastructure will increase productive capacity and increase LRAS and help these developing economies achieve potential growth too. In contrast, advanced economies mostly do not have such gaps in infrastructure and thus less scope to tap on this opportunity. In this regard, emerging and developing economies have greater potential to emerge stronger in terms of potential growth.

EV

Overall, advanced economies are in a better position to grow stronger as they have more resources and better technology. In the context of the pandemic, the pivot towards digitalisation and automation is significant due to the lockdowns and supply chain disruptions. Such technology is still better developed in the advanced economies and therefore advanced economies are better able to capitalise on these trends and enjoy faster rates of economic growth.

	And although some of the emerging and developing economies were able to contain the spread of the pandemic in the early days, the advanced economies had quicker access to vaccines for their population and were eventually able to lessen the impact of the pandemic and protect the productive capacity of their economies. **OR** Figure 1 shows that emerging economies have been registering higher rates of economic growth. Also, despite not being able to mount huge stimulus programmes, Fig 1 shows that their fall in real GDP growth was less severe than that experienced by the advanced economies. Forecast growth was also higher. Thus if these economies could capitalise on the growth opportunities accelerated by the pandemic, they could recover more quickly and enjoy higher rates of economic growth. To do this, the governments need to put in place policies to support growth in these areas.	

Mark Scheme

Level	Knowledge, Application, Understanding and Analysis	Marks
L2	Balanced and well-developed analysis of why advanced and emerging and developing economies could possibly emerge stronger. Good reference to context.	4 – 6
L1	One-sided answer that only explains either advanced economies would emerge stronger, or emerging and developing economies would emerge stronger. Reasons given are cursory. Or a balanced answer that only lifts from extracts without any explanation.	1 – 3
EV	For an evaluative judgment on which economies might emerge stronger from the pandemic.	1 – 2

(f)	**With reference to Extract 8, discuss whether the use of protectionist measures can ever be justified due to the economic damage caused by the COVID-19 pandemic.**	**[10]**
	The COVID-19 pandemic had led to significant fall in all economic activities, including consumption, investment and trade. These had led to significant fall in economic growth and employment. Hence one reason for the use of protectionist measures is to protect domestic industries and employment. As stated in Extract 8, tariffs is a common protectionist measure. In the short run, protectionist policies can be justified as the pandemic had affected almost all the sectors across the economy. These major sectors are likely to account for a large percentage of employment in the country. In particular, retrenchment and unemployment is likely to be significant in export-led industries due to the fall in global demand and consequent fall in production.	

Hence countries might turn to protectionist measures such as tariffs to shift consumption away from imports to domestically produced goods, so that there is increase in domestic production and employment of workers.

Figure 1 below illustrates the case of a good that is partly home produced and partly imported. Domestic demand and supply curves are DD_{dom} and SS_{dom} respectively. Pw is the world price where the country can buy all it wants and SS_{world}, the world supply curve, is perfectly price elastic. At price Pw the quantity demanded is M. Of this, OJ is produced locally and JM is imported.

Assume the government imposes a tariff T. This shifts the world supply curve to the country by the amount of the tariff. The effective horizontal world supply curve thus shifts up to $SS_{world + tariff}$ and price rises to Pw+T. At this price, domestic consumption falls to L and domestic production rises to K. As firms increase production, they would hire more workers and thus increase the level of employment in the country, helping to reduce the unemployment caused by the pandemic.

From Figure 1, government revenue has increased due to the tax collected as shown in area C. Producers also gain as their producer surplus increased by area A. Thus, the use of tariffs help to provide more government revenue in terms of tax collected, which could help fund their expansionary fiscal policies; and also increase revenue for producers.

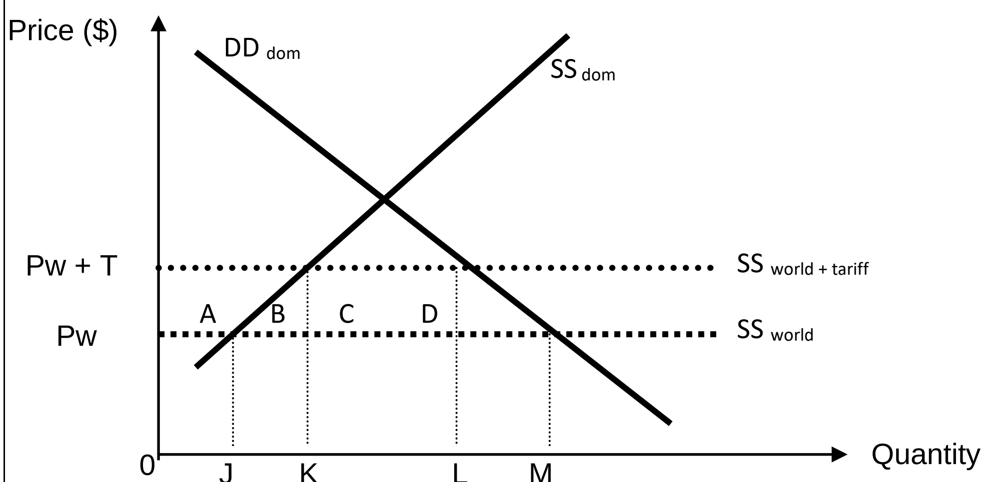


Figure 1: Effects of a Tariff on Domestic Production

Protectionism can also be justified to protect infant industries amidst the pandemic. Given the poor economic outlook, investors' confidence in infant industries are likely to be lowered globally. Furthermore because of the fall in global demand, these infant industries, which may have potential comparative advantage that has not been fully developed, do not even have the chance to realise their potential. Thus, through protectionism, it prevents these infant industries from collapsing and provide them some time to develop their CA and bring about new source of growth for the country, which is even more critical as economies strive to recover from the pandemic.

Costs of protectionism
The use of protectionist policies cannot be justified in the long run as it will cause a loss in consumer surplus and deadweight loss for the society. From figure 1, the loss in consumer surplus is shown from area A,B,C and D. Loss to society is shown in area B and D as deadweight loss, leading to inefficient allocation of resources.

Therefore, use of protectionist measures are not justifiable as consumers and society lose out with the use of tariffs. Also it could lead to losses suffered by other producers in the country if the tariff is imposed on factor of production, it might worsen the bad situation as now domestic producers would have to produce at a higher cost, making their goods less price competitive. In this case, both domestic producers and consumers are worse off.

Protectionist measures may also result in the other country retaliating. With retaliation, global trade will suffer as exports are reduced and countries lose an important source of growth, which would slow down their recovery from the pandemic. Protectionist measures also goes against the idea of free trade on the basis of comparative advantage.

Overall, protectionism at best can only be justified in the short run if it is introduced to help reduce the negative impact of the pandemic. In the long run, countries should embrace free trade so as to realise the gains from specialisation and free trade which would boost employment in industries that a country has a comparative advantage in. Free trade would also enable consumers to enjoy lower prices and greater variety of goods and services. The pandemic has exerted economic damage on every country. It is even more critical for countries to use free trade to bring the global economic damage to an end as shown by the use of comparative advantage.

Mark Scheme

Level	Knowledge, Application, Understanding and Analysis	Marks
L2	Balanced discussion of reasons and costs of protectionist measures, with use of tariff diagram to support the reason. Reasons are clearly linked the context of the economic damage caused by the pandemic.	5 – 7
L1	High L1 – 1 reason relevant to the context and 1 cost. Cursory explanation of how protectionist measure could reduce the negative impact of the pandemic.	1 – 4
EV	A well explained judgement on whether protectionist measures can ever be justified. (2-3) Under-developed judgment - 1 mark	1 – 3

<u>Markers comments</u>

QA	Students were able to present various costs and benefits for protectionism. However, many did not link their answers to the context (Covid-19 pandemic).
AR	• Some answers did not provide examples of protectionism such as a tariff to support the reason(s) and demonstrate analytical rigour of the benefits and costs of a tariff. • For example, rather than just provide a statement to say that protectionism is justified to protect infant industries, students should go on to elaborate why it is so crucial to protect the infant industries in light of the pandemic.
CK	No major content issues as students seem to be familiar with the possible costs and benefits.