

Suggested Answers to Case Study Question 1

(a)	(i)	<p>With reference to Figure 1, state the relationship between per capita income and food consumption as percentage of GDP.</p> <p>Inverse relationship (1)</p>	[1]
	(ii)	<p>Explain a possible reason for the above relationship.</p> <p>Countries with low per capita income will spend a very large percentage of their income on basic necessities; hence, food consumption as % of GDP will be high.</p> <p>or</p> <p>Countries with high per capita income spend a smaller % of income on basic necessities because once the basic needs of the people are satisfied they will spend a larger % of income on luxuries or they will save. So as income per capita increases the food consumption as % of GDP decreases.</p>	[2]
(b)		<p>With reference to Extract 1 and using a diagram, explain the main causes of the <u>sharp</u> rise in food prices.</p> <p>Food prices are determined by market forces of dd & ss. The rise in price of food is due to an increase in demand by China & India which are experiencing economic growth. Rising income has led to higher purchasing power which has increased the demand for food.[Ext 1] (2) The sharp increase is due to the inelastic ss of food. (1) Diagram (1)</p>	[4]
(c)		<p>With reference to the data and using your own relevant knowledge, assess the economic impact of sharp rises in food prices on the Asia 10 economies.</p> <p>The sharp rises in food prices will affect the Asia 10 economies differently depending on whether they are net food exporting or importing economies.</p> <p><u>Positive Impact</u></p> <p>Table 2: Countries with positive food trade balance, China, Thailand & India, will benefit from the sharp rise in food prices as they are the net food exporting economies. As demand for food is price inelastic, increase in the price of food will lead to a less than proportionate fall in Qd for food leading to an increase in food export revenue. This in turn may lead an improvement in balance of trade. The improvement in net exports will cause the AD to rise and bring about an increase in NY through the multiplier.</p> <p>- Countries with a big agricultural sector will benefit from this sharp increase</p>	[8]

in food prices as this will increase the incomes of the farmers and will help to narrow the income gap between the rural and urban sectors.

Negative Impact

- Table 2: Countries with negative food trade balance, esp Korea, Hong Kong, Taiwan and Malaysia, will be adversely hit by the sharp rise in food prices as they are food importing economies. As dd for food is price inelastic, increase in the price of imported food will lead to an increase in food import expenditure. This in turn may lead to a worsening of the balance of trade.
- The increase in import expenditure, c.p, may cause the AD to fall and slow down or reduce the growth rate of the economy, especially for countries with a large population size.
- The rising import prices will increase the cost of living of the people and will increase the domestic inflation rate in the economy. via imported inflation.
- Extract 1: The poor in Asia spend about 2/3 of their income on food; this sharp increase in food prices will make food less affordable and push them into extreme poverty, reducing their SOL. People may also go on strikes and hence cause instability in the economy which may threaten economic growth.
- Extract 1: The sharp increase in food prices may impose financial costs on the government if it has to subsidize food consumption.

Conclusion: The sharp increase in prices of food only benefit a small number of countries with large agricultural sectors but the overall effects tends to be negative. The inflationary pressures might be so great that it slows down the growth rate of the economy and it might offset the gains in revenue by the food producers.

L1	Micro analysis or limited explanation of the impacts. Answers with no reference to case study.	1-3
L2	A well-balanced discussion on the positive and negative impact on the Asia 10 economies (net export/net importing countries). (Max 4 marks if fails to distinguish between net exporting & net importing country.) (Max 4 marks if discussion is one-sided but well-explained.)	4-6
E	Judgment based on evaluation	1-2

(d)	(i)	<p>Summarise the trend in income inequality in Singapore between 2002 and 2009.</p> <p>Income inequality has worsened as the gini coefficient has generally increased from 2002 to 2009. (1)</p> <p>Any one of the points below (1) :</p> <p>i) Income inequality was the worst in 2007. ii) Income gap was the narrowest in 2002. iii) During 2004 to 2005 and 2007 to 08, there was a reduction in income inequality.</p>	[2]
	(ii)	<p>Account for the trend identified above.</p> <p>Flexible policies on the employment of foreign labour have resulted in a freer movement of labour. This has resulted in widening income gap because the increase in demand for foreign talent/skilled workers has caused the wages of the high skilled workers to increase whereas the influx of low skilled workers has depressed the wages of the low skilled workers.</p> <p>(Max 2 marks if the explanation is only one-sided i.e. low-skilled or high-skilled workers)</p>	[3]
(e)		<p>Discuss and compare the measures undertaken by China and Singapore in closing the income gap.</p> <p><u>Measures taken by China to close the income gap</u></p> <p>1. Raising minimum price of farm produce From Extract 2, the govt. has raised the minimum price of the farm produce, guaranteeing that the farmers will receive the minimum price. By doing so, this will raise their income, narrowing the income gap between the rural and urban Chinese.</p> <p>Limitations: Government will incur an increase in its expenditure. Hence, it will be a costly measure.</p> <p>Also, by establishing a minimum price, quantity supplied is greater than quantity demanded. A surplus will result. If the farm produce is perishable, the surplus of farm produce will be wasted, resulting in an inefficient resource allocation.</p> <p>By raising the price of farm produce such as rice, this will make these necessities more costly to all the Chinese. This will raise the overall cost of living, resulting in lower standard of living.</p>	[10]

	<p>2. Raising minimum wage From Extract 2, minimum wages for the lower-skilled workers will be raised. This raises the income of the lower-skilled workforce. As such, this reduces the income gap in China.</p> <p>Limitations: By setting a minimum wage, companies will be incurring a higher labour cost. As such, to keep costs low, workers will be retrenched, increasing the unemployment rate.</p> <p>If the demand and supply of labour is price elastic, this will result in a very large unemployment.</p> <p>If wages are raised, without a corresponding increase in productivity, this will result in higher average costs of production, leading to cost-push inflation.</p> <p>3. Subsidies for farmers to buy equipment & more loans By granting subsidies, farming equipment will be cheaper now. By granting more loans, this will increase the farmers' ability to purchase equipment for farming. This will help farmers to increase production so as to increase their earnings from farm produce.</p> <p>Limitations: Increases government expenditure; Govt will have to incur an opportunity cost as govt will allocate lesser funding for other areas like healthcare and education.</p> <p>Also, not all the rural Chinese belong to the agricultural industry. While the farmers benefit, the remaining rural Chinese will not benefit at all.</p> <p><u>Measures taken by Singapore to close the income gap</u></p> <p>1. Workfare Programme to help the low wage workers a. Workfare Income Supplement Under this scheme, the employers will provide income support by supplementing their wages. With an increase in their take-home pay, this reduces the income gap.</p> <p>Limitations: To qualify for this scheme, the low-income Singaporeans have to be employed. Hence, this will leave out the remaining low-income Singaporeans who need the income support but are unable to attain employment.</p> <p>b. Workfare Training Schemes With subsidies for training, the older and low skilled workers are encouraged to upgrade their skills and increase their employability. As they take on higher-skilled occupations, their wages will increase, narrowing the income gap between the low-skilled and high-skilled workers.</p>	
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<p>However, Singapore's policy will lead to better skills and at a lower wage paid by the company. This makes older and lower-skilled workers more attractive to employ, increasing their employability.</p> <p>Conclusion: Which country's policies are more effective to close the income gap? China's policies tend to be short-term and one-off measure while Singapore's policies tend to adopt a long-term intent by increasing the low-wage workers' skills. Given that income inequality will take time to narrow, Singapore's policies are more effective than China's as her policies will reap sustained benefits in the long run.</p>		
L1	Limited grasp of question requirements. Weak explanation of how the policies adopted by both Singapore and China will address the income gap. Limited use of case study evidence.	1-3
L2	A good discussion of the policies adopted by the two countries, with case study evidence. Limited substantiation from case study. Weak comparison between countries. Maximum 5 marks – Discussion of policies without comparison.	4-6
L3	A good discussion with comparison between China and Singapore. Supports discussion with case study evidence.	7-8
E	Judgment based on evaluation	1-2

[Total: 30]