

Suggested answers:

Question 1:

(a)	(i)	<p>Compare the trends in the percentage of population aged 60 and over for the developed and developing countries from 1950 to 2050.</p> <ul style="list-style-type: none"> - There is a rising trend in the percentage of population aged 60 and over for both the developed and developing countries. (1) <p style="text-align: center;">AND</p> <ul style="list-style-type: none"> - The percentage of population aged 60 and over is higher for developed countries compared with developing countries for the period shown.(1) <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> - <i>developing countries are predicted to experience a faster rate of increase in percentage of those aged 60 and above of the total population over the forecasted period.</i> <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> - <i>Over the recorded period, developed countries experienced a faster rate of increase of those 60 and above than developing countries. (maybe give % figures)</i> 	[2]
	(ii)	<p>Account for the above demographic trends.</p> <p>2 factors [1 for identifying 1 for explaining] x 2: (4m)</p> <ul style="list-style-type: none"> - Longer life expectancy due to better healthcare services - Falling birth rates (fertility rates) due to higher opportunity costs in having children. - The percentage of population aged 60 and over for the developing countries is lower because of higher population growth rates. 	[4]
	(iii)	<p>With the use of a diagram, explain the likely effects of this demographic change on a product market.</p> <ul style="list-style-type: none"> - Increase in demand for hospital beds, walking sticks, healthcare etc. - Rightward shift in the demand, c.p, upward pressure on price due to a shortage at the existing price → increase in P and Q. - <i>Demand factor identified (1m)</i> - <i>Brief explanation of price mechanism – impact on P& Q (1m)</i> - <i>Diagram (1m)</i> 	[3]
(b)		<p>With reference to extract 4, explain a redistributive measure that the government could implement to reduce income inequality.</p> <ul style="list-style-type: none"> - Government transfer money from its coffers (revenue collected from progressive taxes) to low income earners through <u>transfer payments</u> like workfare income supplement, the Special Employment Credit, conservancy charge rebates, subsidies for skills upgrading programme etc. - This will increase the disposable income of the low income earners and hence close the income gap - <i>Redistributive measure - (1m)</i> - <i>Explaining redistribution how income is redistributed from the rich to the poor. – (2m)</i> 	[3]

		<ul style="list-style-type: none">- 'measures' <u>that are <i>not</i> clearly redistributive eg.</u> – “Skills training programme” Allowing lesser skilled workers to upgrade themselves and be able to command a higher wage thus narrowing the income gap. <i>Measure - (1m)</i> <i>Explanation– (1m)</i>				
(c)		<p>Discuss the impact of an ageing population on an economy.</p> <p><u>Negative impacts</u></p> <ol style="list-style-type: none">1. Slow down economic growth2. Fall in labour force participation rate → fall in labour supply, c.p, → increase in wage → increase in costs of production.3. Fall in income of the older workers → fall in purchasing power → fall in consumption → fall in AD → fall in real NY4. Increase in government expenditure on healthcare needs, transfer payments for the aged & pensions →government may run a budget deficit. There is opportunity costs in this financing expenditure → impede economic growth5. Ageing population may worsen income inequality (extract 4)6. Fall in productivity of the aged <p>However, the negative impacts of the aged on economy may not be so serious if the</p> <ol style="list-style-type: none">1. Aged workers are highly educated.2. There is improvement in technology which can enable the aged to continue working <p><u>Positive impacts</u></p> <ol style="list-style-type: none">1. Benefited the pharmaceutical companies (extract 1). A new source of income from discovery of new drugs for the aged. This will cover the loss of their income due to expiry of patents.2. Development of silver industry like tourism, healthcare, etc <p><u>Judgement</u></p> <ul style="list-style-type: none">- How significant the impact will depend on the government taking preemptive policy measures- Possible measures the government could undertake to mitigate long term negative effects- Restructure economy to better cater to the needs of the aged <table><tr><td>L2</td><td><ul style="list-style-type: none">• A well-developed 2-sided answer, supported by case evidence and theoretical framework, that discusses the positive AND negative effects of an ageing population on the economy• A well-developed 1-sided answer (positive or negative effects) using an economic framework discussing the impact of an ageing population on an economy (max 4)• An undeveloped 2-sided answer that discusses both positive and negative impacts of ageing on an economy with limited use of an economic framework</td><td>4-6</td></tr></table>	L2	<ul style="list-style-type: none">• A well-developed 2-sided answer, supported by case evidence and theoretical framework, that discusses the positive AND negative effects of an ageing population on the economy• A well-developed 1-sided answer (positive or negative effects) using an economic framework discussing the impact of an ageing population on an economy (max 4)• An undeveloped 2-sided answer that discusses both positive and negative impacts of ageing on an economy with limited use of an economic framework	4-6	[8]
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			<ul style="list-style-type: none">An answer with some reference to data [max 5]			
		L1	Brief and/or superficial answer that merely lists information with no or limited explanation	1-3		
		E	Evaluative comments with justification	1-2		
(d)		With reference to data, discuss whether building more hospitals by the government is the best way of addressing the healthcare needs of the aged. Based on extract 3, the rapidly ageing population will lead to an increasing demand for healthcare needs like hospitals, nursing homes, outpatient health services and social services. This increase in demand for hospitals will result in a shortage of hospitals and the healthcare needs of the aged are not taken care of. (diagram) <u>Thesis : Building more hospitals by the government is an efficient method to meet the healthcare needs of the aged</u> Government has to build more hospitals to cater to the needs of the aged because <ol style="list-style-type: none">Market dominance: There is <u>under supply of hospitals due to the presence of monopoly power</u>. If left to the market, the numbers of hospitals is below the socially optimum quantity, and the price charged is greater than MC. There is a deadweight loss due to the undersupply of hospitals (diagram).Income inequality (affecting affordability). Lower income aged may not be able to afford healthcare. If left to the market,(aged) low income earners may not be able to afford hospitalization. Market may function to serve only those who are able to pay. – <i>“The retired, elderly poor, for example, will not benefit from higher wages - but will suffer the inflation that comes in tandem, he notes. This group, who are both old and poor, will continue to grow”</i> –Government to build more hospitals to cater to the needs of the low income earners.Merit Good and Imperfect Info: Healthcare underconsumed from society’s point of view due to imperfect information and external benefit not captured in the decision making process of the consumer thus leading to an inefficient allocation of resources (diagram). In reaction to underconsumption producers underproduce. Government intervenes to build more hospitals increasing supply and thus lowering price and encouraging consumption. Therefore, <u>Anti-Thesis : Building more hospitals by the government is not an efficient method to meet the healthcare needs of the aged</u> <u>Limitations</u> <ol style="list-style-type: none">The supply of hospitals is price inelastic, hence the increase in supply may not meet the increase in demand.There is also a shortage of healthcare workers to work in the hospitals.Costly to build hospitals <u>Alternative measures</u> <ol style="list-style-type: none">Improve the outpatient healthcare services for eg, provide home visits so that the aged can recuperate at home instead of staying in the hospitalCollaborate with the private hospitals and community hospitals in terms				[10]

	<p>of the usage of resources like doctors, nurses and hospital beds. This will help to reduce the demand for government hospital services.</p> <p>3. Extend healthcare subsidies to the private hospitals and clinics such that the demand for government hospitals would be reduced.</p> <p>4. Preventive measures for them to stay healthy.....</p> <p><u>Conclusion</u></p> <p>There is a limit in which government can increase the number of hospitals due to high costs involved and shortage of healthcare workers. The long term solution is to improve the health of the aged and to collaborate & pool resources with the private healthcare sectors.</p> <table border="1"> <tr> <td>L3</td><td> <ul style="list-style-type: none"> • A well-developed 2-sided answer, supported by case evidence and theoretical framework, that describes how building more hospitals achieves efficiency and addresses the healthcare needs of the aged AND goes on to highlight that an attempt to build more hospitals may not necessarily achieve an efficient outcome and meet the needs of the aged. • Limited use of data (max 7) </td><td>7-8</td></tr> <tr> <td>L2</td><td> <ul style="list-style-type: none"> • A well-developed 1-sided answer that describes how building more hospitals achieves efficiency and addresses the healthcare needs of the aged using a cost/benefit analysis framework. [max 4] • An undeveloped 2-sided answer (and/or with some concept errors/issues or limited use of case evidence) that also highlights the possibility that building more hospitals may not necessarily achieve an efficient outcome and also meet the needs of the aged. [max 5] • An answer with some reference to data </td><td>4-6</td></tr> <tr> <td>L1</td><td> <ul style="list-style-type: none"> • Brief and/or superficial answer that merely lists information with no or limited explanation </td><td>1-3</td></tr> <tr> <td>E</td><td>Evaluative comments with justification</td><td>1-2</td></tr> </table>	L3	<ul style="list-style-type: none"> • A well-developed 2-sided answer, supported by case evidence and theoretical framework, that describes how building more hospitals achieves efficiency and addresses the healthcare needs of the aged AND goes on to highlight that an attempt to build more hospitals may not necessarily achieve an efficient outcome and meet the needs of the aged. • Limited use of data (max 7) 	7-8	L2	<ul style="list-style-type: none"> • A well-developed 1-sided answer that describes how building more hospitals achieves efficiency and addresses the healthcare needs of the aged using a cost/benefit analysis framework. [max 4] • An undeveloped 2-sided answer (and/or with some concept errors/issues or limited use of case evidence) that also highlights the possibility that building more hospitals may not necessarily achieve an efficient outcome and also meet the needs of the aged. [max 5] • An answer with some reference to data 	4-6	L1	<ul style="list-style-type: none"> • Brief and/or superficial answer that merely lists information with no or limited explanation 	1-3	E	Evaluative comments with justification	1-2	
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**[Total:
30]**

Question 2:

(a) (i) **Explain what is meant by labour productivity.** [1]

- Labour productivity refers to the output produced per worker [1]

(ii) Describe the trend in Singapore's labour productivity growth from 2010 to 2012. [2]

- General trend: Singapore's labour productivity growth showed a generally falling trend between 2010 and 2012. [1]
- Refinement: There was a negative change in labour productivity of -1.4% in 2012, suggesting that labour productivity fell during the year. [1]

(b) **Using Table 1, compare the internal and external economic performance of Singapore and Vietnam over the given period.** [5]

Internal economic performance [3]

- **Economic growth:** Following the spike in real GDP growth to 15.2% in 2010, the Singapore economy has seen a sharp slowdown in growth to 2.5% in 2012. In comparison, the pace of growth is more even in Vietnam. Although the increase in GDP growth in 2010 was not as pronounced, they experienced a less significant slowdown in economic growth thereafter.
- **Inflation rates:** Inflation rates in both countries have generally been rising but the rates in Vietnam is significantly higher across the given period → potential threat to LT growth.
- **Unemployment rates:** Both economies experience declining unemployment rates but the rates for Singapore is higher than Vietnam.

External economic performance [1]

- **Current account:** Based on current account balance as a percentage of GDP, Singapore is more reliant on the external economy for growth compared to Vietnam:
 - Singapore experiences a current account surplus (positive current account balance as a percentage of GDP) throughout the given period while Vietnam's current account position as a percentage of GDP improved from a deficit in 2009 and 2010 but to a surplus from 2011 onwards.
 - Singapore's current account balance as a percentage of GDP is significantly higher than that of Vietnam.

Conclusion [1]

- Vietnam seems to have a stronger internal economy although strong inflationary pressures may threaten longer-term growth.
- External economy more critical in driving growth in Singapore compared to Vietnam.

(c) (i) **Explain the causes of inflation in Vietnam** [4]

Demand-pull inflation [2]

- Push for stronger growth → currency devaluation (Extract 8) → exports

relatively cheaper in foreign currency and imports relatively more expensive in domestic currency $\rightarrow \uparrow (X-M \rightarrow \uparrow AD \rightarrow \text{if } \uparrow AD \text{ not matched by AS} \rightarrow \text{demand-pull inflation.}$

Cost-push inflation [2]

- Increase in power, fuel and coal prices (Extract 8) $\rightarrow \uparrow$ cost of production \rightarrow cost-push inflation
- Currency devaluation (Extract 8) \rightarrow imports relatively more expensive in domestic currency $\rightarrow \uparrow$ cost of imported raw material $\rightarrow \uparrow$ cost of production \rightarrow cost-push inflation.

(ii) Discuss whether the Vietnamese government's approach is sufficient to battle inflation. [8]

Introduction: Vietnamese government's approach to battling inflation: raise interest rates / tighten money and credit; and cut budget deficit \rightarrow to address demand-pull and cost-push inflation as detailed in (c)(i).

Thesis: Vietnamese government's approach can be used to battle inflation

- Raise interest rates to 14% in a flurry of increases; tighten money and credit (Extract 8) \rightarrow contractionary MP
 - \uparrow interest rates $\rightarrow \uparrow$ cost of borrowing $\rightarrow \downarrow$ incentive to consume and invest; also rising opportunity cost of consumption $\rightarrow \downarrow C$ and $I \rightarrow \downarrow AD \rightarrow$ curbs demand-pull inflation.
- Cut budget deficit \rightarrow contractionary FP
 - Cut budget deficit (Extract 8) $\rightarrow \downarrow$ government expenditure by pruning inefficient public investment ($\downarrow G$) and \uparrow direct taxes ($\downarrow C, I$) $\rightarrow \downarrow AD \rightarrow$ curbs demand-pull inflation.

Anti-Thesis #1: Vietnamese government's approach is not sufficient to battle inflation due to limitations

- Policies do not address cost-push inflation.
- Policies work to mitigate the effect of rising AD on GPL but do not address the root causes (root cause is $\uparrow X-M$ but FP and MP affects C, I and G).
- Limitation of policies adopted:
 - Raise interest rates – effectiveness depends on interest elasticity of investments; compromise short-term growth (Table 1: growth rates fell from 6.2% to 5.2% between 2011 and 2012) and employment in the SR and possibly potential growth due to $\downarrow I$ in the LR.
 - Cut budget deficit –time lag, rigidity of government spending and political consideration of raising taxes.

Anti-Thesis #2: Vietnamese government's approach is not sufficient to battle inflation \rightarrow need for other measures

- Suggest supply-side policies to reduce COP \rightarrow address cost-push inflation.
- Judgement
 - Approach of Vietnamese government work to mitigate the effect of rising AD on GPL but does not solve cost-push inflation.
 - Propose the need for a mix of policies to address both demand-pull and cost-push inflation.

Levels	Description	Marks
L2	<p>A balanced answer which recognises that while raising interest rates and cutting budget deficit can be used to solve demand-pull inflation, it does not address cost-push inflation. Evaluation of policies needed, with application to Vietnamese context.</p> <p>For a well-developed answer that focuses on either raising interest rates or cutting budget deficit, with evaluation → max 4m</p>	4-6
L1	One-sided answer with limited or no evaluative comments on the approach taken OR sketchy two-sided answer that does not make reference to data provided.	1-3
E	Well-developed evaluative judgment whether the approach adopted by Vietnam to address inflation is sufficient.	1-2

(d) To what extent do you agree with the view that “Singapore's nipping foreign labour inflow policy may warrant a review”? [10]

Students must talk about the pros & cons of the tightened foreign labour inflow policy to comment on whether it needs adjustment in the light of the problems associated with the policy & give judgment based on the arguments given.

Intro: Singapore characteristics of being resource scarce & trade dependent → the need to depend on foreign worker & exports & FDI. However, it has also put strain on both the physical infrastructure and the social conditions of Singapore.

Explain the recent changes in the foreign labour inflow policy → Stricter policy to reduce the overdependence on foreign workers by imposing quotas & levies
(**Extract 5**)

Thesis: It is necessary for Singapore to review foreign labour inflow policy

- Explain how foreign labour inflow policy leads to inflationary effects → lowered SS of foreign labour → COP ↑ (Higher cost of employing foreign workers because of higher levy and also need to offer higher wages to local workers) → SRAS ↓ → GPL ↑ → Cost push Inflation. (Last para Ext 5 & also 3rd Para Ext 6). Also RNY ↓ → C.P Negative impact on economic growth. (**Technical Recession –Ext 6**). Must Draw diag of SRAS shift.
- Possible Impact on export competitiveness and FDI → Higher GPL will impact cost competitiveness (**Extract 6**) as our exports become more expensive because of inflation & also because of higher costs of doing business (**Ext 6 high lab costs & compression of profit margins**)

Anti-thesis: Singapore should not change foreign labour inflow policy because the Govt is in the process of Economic restructuring

- Reducing the over reliance on foreign labour will force the firms to improve labour productivity that has been falling → long-term or “sustainable” growth (**Extract 7**).It will also encourage firms to be more innovative and efficient.
- Draw LRAS shift to show sustained growth with price stability in LR.

Anti-thesis: Singapore should not change foreign labour inflow policy because the problems may be because of other reasons and also because the Govt is already implementing other policies.

- The increase in GPL may not due to a tighter labour market but because of other reasons like imported inflation (**last para Ext 5**) , high COE premiums and rentals →thus changing the foreign labour policy will not address the root cause of the problem.
- Inflationary pressures contained in part by ER appreciation – Table
- Support given to SMEs already (**Ext 7**)

Evaluation:

- In conclusion, while tighter inflow of low wage foreign labour would have impact on overall growth and inflation in Singapore in the short term, the main focus should be on managing the pace of adjustment and not abandoning the process of weaning off cheap labour entirely.
- Other factors such as external demand, exchange rates, government policies would also matter because in recent years, they are clearly making a bigger impact on cost of doing business in Singapore. – For example being an export-oriented economy, the Singapore government acknowledges that cost competitiveness is important for our companies and had used policy tools such as rental rebates, utility charges and tax rates to enhance our competitiveness.
- Thus it is too early to comment on whether **“Singapore's nipping foreign labour inflow policy may warrant a review”** because the long term impact of the economic restructuring needs to be seen.

Levels	Descriptor	Marks
L3	A well-developed balanced answer with economic analysis that thoroughly explains whether the stricter foreign worker policy needs review or not in the Singapore context.	7-8
L2	Able to explain how the stricter foreign worker policy creates potential problems that needs some adjustments but may not have elaborated on all anti thesis issues OR may not have given enough case study evidence	4-6
L1	One-sided answer with limited or no link to the nipping of the foreign worker policy OR sketchy two-sided answer that does not	1-3

	make reference to data provided OR Merely lifting evidence from the passage but no clear link to economic problems	
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E	Judgment based on Economic restructuring → able to give evaluation based on short term losses Vs Long term gains	1-2
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