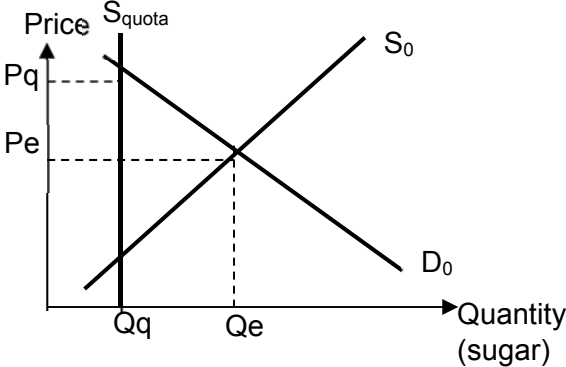
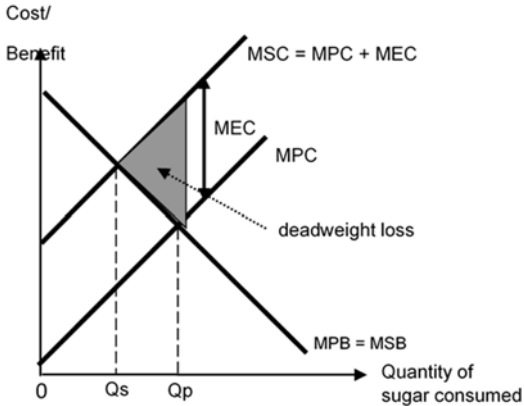
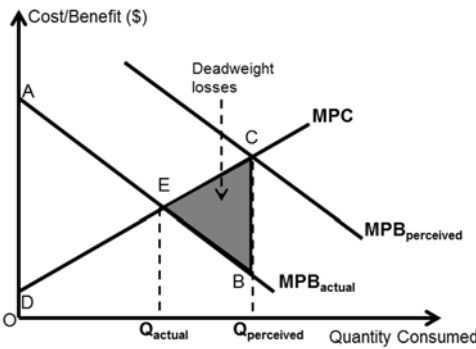


Suggested Answer: CSQ 1

Qn	Questions																																											
a)(i)	Why might the changes shown in Table 1 have led to a decrease in the world price of sugar?	[2]																																										
	Greater surplus of sugar in the world markets. (1m) Surplus in 2016/17 = 173,980 – 170,773 = 3,207 (,000 metric tons) Surplus in 2017/18 = 191,823 – 174,125 = 17,688 (,000 metric tons) The surplus grew bigger thus adding more pressure for prices to decrease in the price of sugar. (1m)																																											
a)(ii)	Given the information contained in Table 1, identify the country that has had the greatest impact on world prices. Justify your answer.	[3]																																										
	<p>The country with the greatest impact would be the one with the greatest change to supply or demand for cotton on the world market. (1m)</p> <table><tr><th></th><th>2016/17 7</th><th>2017/18 8</th><th>2016/17 7</th><th>2017/18 8</th><th>2016/17 7</th><th>2017/18 8</th></tr><tr><td>China</td><td>9,300</td><td>10,250</td><td>15,600</td><td>15,700</td><td>-6,300</td><td>-5,450</td></tr><tr><td>India</td><td>22,200</td><td>32,445</td><td>25,500</td><td>26,500</td><td>-3,300</td><td>5,945</td></tr><tr><td>European Union</td><td>18,313</td><td>21,150</td><td>18,700</td><td>18,800</td><td>-387</td><td>2,350</td></tr><tr><td>Pakistan</td><td>6,825</td><td>7,425</td><td>5,100</td><td>5,400</td><td>1,725</td><td>2,025</td></tr><tr><td>United States</td><td>8,136</td><td>8,393</td><td>10,979</td><td>11,181</td><td>-2,843</td><td>-2,788</td></tr></table> <p>India has had a large impact as it changed from a net importer (-3,300 000 metric tons) to a net exporter (5,945 000 metric tons) (From adding to supply to adding to demand). (2m)</p>		2016/17 7	2017/18 8	2016/17 7	2017/18 8	2016/17 7	2017/18 8	China	9,300	10,250	15,600	15,700	-6,300	-5,450	India	22,200	32,445	25,500	26,500	-3,300	5,945	European Union	18,313	21,150	18,700	18,800	-387	2,350	Pakistan	6,825	7,425	5,100	5,400	1,725	2,025	United States	8,136	8,393	10,979	11,181	-2,843	-2,788	
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b)	Using diagrams, explain what determines the extent of the change in the quantity of soft drinks consumed by the different types of consumers following the imposition of the sugar tax in UK.	[4]																																										
	<ul style="list-style-type: none">Identify the “different types of consumers”; those with price elastic dd vs those with price inelastic dd.- PED<1 include consumers with high income (expenditure on sugar is a small proportion of income).- PED>1 include consumers with low income. <div></div>																																											

	<ul style="list-style-type: none"> The factor that determines the extent of the change in price when an indirect tax is imposed is the PED. Define PED. (1m) Show the contrast in Price when $PED > 1$ and when $PED < 1$. (Q to Q_i vs Q to Q_e) (3m) 	
c)	<p>Extract 2 refers to the effects of removing quota on sugar production.</p> <p>Using a supply and demand diagram, explain the effect on the market for sugar in UK of such quota removal.</p>	[3]
	 <p>-Define 'Quota' (1m)</p> <p>-Price & Quantity with quota is P_q and Q_q. (1m)</p> <p>-After the removal of the quota, Price will fall to P_e and quantity will rise to Q_e. (1m)</p>	
d)	<p>Explain the determinants of a rational consumer's decision on whether to consume sugary drinks.</p>	[6]
	<ul style="list-style-type: none"> - Explain what constitutes 'rational' decision making (to maximize net benefits) (1m) - Relate 'utility' to consumer's benefit. (1m) - Explain the marginalist principle: (2m) <ul style="list-style-type: none"> • Define marginal cost and marginal benefit. • Explain why net benefits is maximized at the consumption level where marginal benefit equals marginal costs. - Explain the determinants of marginal benefit. (tastes, price of substitutes, complements, intended and unintended benefits etc) (1m) - Explain the determinants of marginal costs. (price paid for the good, time given up for the consumption process, other goods forgone, intended and unintended costs etc) (1m) 	
e)(i)	<p>Using Extract 3, explain why the Singapore government would want 'to reduce the amount of sugar in all the soft drinks consumed in Singapore'.</p>	[5]

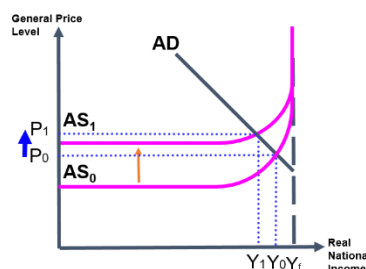
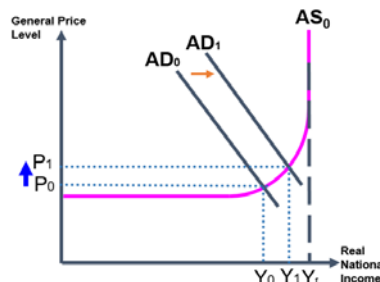
	<ul style="list-style-type: none"> - State the Micro objective of government (Allocative Efficiency). To achieve this governments strive to eliminate (or reduce) deadweight loss, due to negative externality in consumption and information failure. (1m) - Explain how the consumption of sugar leads to external costs (illness) <p><u>Deadweight loss resulting from external costs:</u></p>  <p>(2m) Note: The MEC identified should be loss in efficiency due to illness (diabetes)</p> <p><u>Deadweight Loss due to information failure. (When Perceived Benefit > Actual Benefits)</u></p>  <p>(2m) Note: Equal credit should be awarded to those who take the costs approach i.e, (Perceived Costs < Actual Costs)</p> <p>Figure 8: Reduction in net private benefit due to imperfect information</p> <p>[Max of 3m is only ONE source of mkt failure is explained]</p>	
e)(ii)	<p>Discuss whether the problem of increased incidence of diabetes in Singapore caused by the unlimited consumption of sugary drinks can better solved by education rather than indirect taxation.</p>	[10]
	<p>INTRO: Outline the criterion by which policy solutions are assessed; including 'effectiveness' (ability to eliminate the deadweight loss) and cost of implementation (monetary costs & opportunity costs)</p> <p>THESIS: Explain how education can be effective eliminating the d w loss resulting from overconsumption of sugary drinks.</p> <ul style="list-style-type: none"> - Limitations; effectiveness of internalising the external cost and/or correcting the misinformation, explicit costs of education programmes. <p>-ANTITHESIS: Explain how the taxation works.</p>	

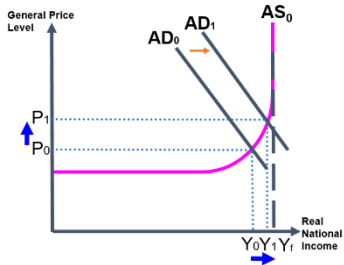
	<p>- Outline the limitations.</p> <p>ASSESSMENT of the 2 approaches (compare limitations of education with taxation)</p> <p>JUDGEMENT. Come to a judgement (made here with SR and LR considerations)</p>		
	L3	Question requirements are interpreted accurately <ul style="list-style-type: none"> - Both sources of mkt failure are addressed by the education & taxation. - The effectiveness of the two approaches are compared adequately - The criterion for assessment is clearly outlined. Appropriate concepts and diagrams are used accurately <ul style="list-style-type: none"> - MSB/MSB analysis is accurately used. - Clear understanding of $MPB_{perceived}$ and MPB_{actual} is demonstrated. - Diagrams are clearly drawn and accurately labelled (in context) - Shows a clear understanding of how the measures work. 	5-7
	L2	Addresses some questions requirement adequately Incomplete (inaccurate) use of MSB/MSB analysis Weak / unclear explanation of how the measures work. Little or no comparison of the two measures and their limitations.	3-4
	L1	A sketchy inaccurate answer that shows misunderstanding of the question requirements.	1-2
	E2	Good evaluation, well-reasoned and supported.	2-3
	E1	Some unsupported evaluative statements.	1
f)	<p>Instead of discouraging the consumption of sugary drinks, there should be subsidies on healthy dietary choices.</p> <p>Discuss whether subsidies on healthy dietary choices promote the efficient working of the price mechanism.</p>		[12]

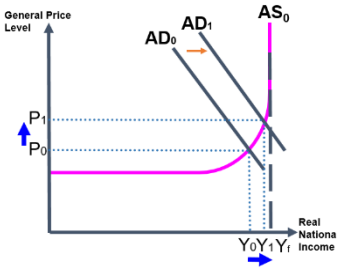
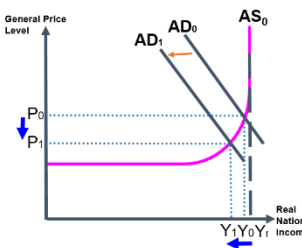
	<p>Intro: “Efficient working” (using market based intervention tools)</p> <p>Thesis (subsidising the consumer)</p> <ul style="list-style-type: none"> • Show how subsidising the consumer can correct market failure caused by positive externalities. (promotes the efficient working of Price Mechanism) • Subsidies achieve this as a market based tool • Promotes the working of the price mechanism. • Examine the limitations <p>Antithesis (subsidising producer)</p> <ul style="list-style-type: none"> • Show how subsidising the producer can correct market failure caused by positive externalities.(Promotes the efficient working of the Price Mechanism) • Examine the limitations (generic limitations of subsidies) <ul style="list-style-type: none"> ○ The amount of subsidies given can lead to over or under consumption due to imperfect info and the inaccurate valuation of the MEB by the government. ○ Opportunity cost of using subsidies. Consideration of subsidies better utilised in other areas (e.g. healthcare) <p>Judgement: Considerations:</p> <ul style="list-style-type: none"> - Which kind of subsidy is better? Why? - Are there any other approaches that promotes the working of the Price Mechanism better? 	
L3	Question requirements are interpreted accurately <ul style="list-style-type: none"> - Shows good understanding of market based vs non-market based approaches. - Recognises the relationship between ‘healthy food choices’ and ‘unhealthy food choices’. (can be viewed as merit vs demerit goods) - Clearly shows the limitations of using subsidies. 	6-9
L2	Addresses some questions requirement adequately	3-5
L1	A sketchy inaccurate answer that shows misunderstanding of the question requirements.	1-2
E2	Good evaluation, based on the measure being supportive of the price mechanism.	2-3
E1	Some unsupported evaluative statements.	1
[Total: 45]		

Suggested Answer: CSQ 2

(a)	<p>Using Table 2, explain why any one indicator might have been a concern to the Japanese government.</p> <p>Percentage of government debt to GDP is high (twice of that of US) [1] → <i>Ext 5, Para 2: Japan's rating could be cut further if there was an indication "that the government debt burden could rise more significantly than we currently expect", S&P added.</i> → cut in credit rating → investors lose confidence → I falls → AD falls → fall in RNY → fall in actual growth [1]</p> <ul style="list-style-type: none"> • Identify any indicator (other than unemployment) that might have been a concern [1] • Give reason [1] 	[2]
(b)	Extract 5 mentions that there is a cut in Japan's credit rating.	
(i)	<p>Explain why Japanese yen fell in value after the cut in credit rating.</p> <ul style="list-style-type: none"> • <i>Extract 2: "The decision will reignite doubts about the efficacy of Prime Minister's Shinzo Abe's three-pronged package of measures"</i> • Cut in credit rating → people lose confidence in the currency and sell Yen [1] → supply of Yen rises → value of Yen falls → depreciation [1] <p>Alternatively, demand for Yen falls as (foreign) investor and business confidence falls</p>	[2]
(ii)	<p>Using a diagram, explain how this fall in the value of Japanese yen might affect prices of goods and services in Japan.</p> <ul style="list-style-type: none"> • Depreciation → price of exports fall in foreign currency → rise in demand for exports → rise in price and quantity of exports → rise in export revenue • Price of imports rise in Yen → assuming demand for imports is price elastic since there substitutes available → quantity falls more than proportionately → fall in import expenditure • Rise in net exports → rise in AD (diagram) → rise in GPL from P_0 to P_1 → rise in prices of goods and services in Japan <p>OR</p> <ul style="list-style-type: none"> • Depreciation → rise in price of imported inputs in Yen → rise in COP → fall in SRAS → rise in GPL from P_0 to P_1 → rise in price of goods and services <p>2m – explanation 1m – diagram</p>	[3]



(c)	<p>Using Extract 4, discuss the factors that central banks should consider when deciding whether to extend quantitative easing. [7]</p> <p><u>Intro</u> Explain purpose of QE → inject money into the financial system → i/r falls → boost spending → C&I rises → AD rises → boost growth and prevent inflation from being too low</p> <p><u>Body</u> Factors to consider</p> <ul style="list-style-type: none"> • Benefits: AD rises → RNY rises → economic growth, fall in unemployment <ul style="list-style-type: none"> ○ “US unemployment fell sharply after QE started and the US economy proved relatively solid” → beneficial for US • Costs: AD rises → rise in GPL → demand-pull inflation • Unintended consequences: With lowered i/r → saving rates fell → disadvantaged pensioners and savers <ul style="list-style-type: none"> ○ “The strategy has been criticised by groups representing savers and pensioners because savings rates, have all fallen”  <p><u>Evaluate</u> Which factor is the most important factor and provide reason depending on country</p> <ul style="list-style-type: none"> • E.g. “benefits” as the most important factor – central banks need to consider whether extension of QE will really bring in the intended benefits (whether there has been some results to signal that the policy is a step in the right direction) → US has been seeing some results (Extract 4 para 2: US unemployment fell sharply after QE started) vs abysmal results in Japan (Extract 4 para 1: GDP only grew 0.4 percent despite pumping in \$1.4 trillion) → US can consider extending QE further but Japan might perhaps consider other policies instead of extending QE since the economy does not seem to be responding well OR • “costs” as the most imp factor – US has been seeing results after implementing the QE but is afraid that it might result in demand-pull inflation if QE is too extensive (afraid that cost may outweigh the benefits) → may want to pull back and not consider extending QE (Extract 4 para 2: In 2016, the US central bank is expected to announce two to three interest rate hikes after it increased rates in December for the first time in nearly a decade) <table border="1" data-bbox="339 1758 1299 1998"> <thead> <tr> <th colspan="3">Knowledge, Understanding, Application and Analysis</th></tr> </thead> <tbody> <tr> <td data-bbox="339 1794 416 1827">L2</td><td data-bbox="416 1794 1198 1998"> <ul style="list-style-type: none"> • Question requirements are interpreted accurately. Provided at least 3 factors with examples from extracts. • Appropriate economic concepts, theories and principles are used. Economic analysis is accurate, complete and well supported by contextual evidence. </td><td data-bbox="1198 1794 1299 1827">3 – 5</td></tr> </tbody> </table>	Knowledge, Understanding, Application and Analysis			L2	<ul style="list-style-type: none"> • Question requirements are interpreted accurately. Provided at least 3 factors with examples from extracts. • Appropriate economic concepts, theories and principles are used. Economic analysis is accurate, complete and well supported by contextual evidence. 	3 – 5	
Knowledge, Understanding, Application and Analysis								
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		<ul style="list-style-type: none"> Appropriate diagrams are used to support economic analysis, where relevant. 		
		L1 <ul style="list-style-type: none"> Question requirements are interpreted inaccurately. Inappropriate economic concepts, theories and principles are used. Inaccurate economic analysis. Inappropriate or wrong diagrams are used. 	1 – 2	
		Evaluation		
		E Evaluative comments are well-explained and supported by economic analysis. Made a stand on the most important factor.	2	
		Unexplained evaluative comments.	1	
(d)		<p>Explain why the Bank of Japan introduces negative interest rates while US's Fed raises its interest rates.</p> <p><u>Reason(s) why Japan introduces negative interest rates [2]</u></p> <ol style="list-style-type: none"> 1) Abenomics unsuccessful in pulling Japan out of deflation 2) "Japan's GDP only grew 0.4 percent in 2015... With inflation worryingly low and consumer spending floundering..." → Japan could experience a further contraction in the economy and a deflation if nothing is done <p><u>Negative i/r [1]</u></p> <p>"encourage commercial banks to use excess reserves they keep with the central bank to lend to businesses." → makes cost of borrowing cheaper → rise in investment expenditure → rise in AD (diagram) → rise in RNY (actual growth) and GPL (inflation)</p>  <p><u>Reason(s) why US raises its interest rates [2]</u></p> <ol style="list-style-type: none"> 1) "US economy steadily improved... unemployment fell sharply... economy is forecast to grow 3.6% this year" → substantial rise in AD → rise in GPL → inflation <p><u>Raise i/r [1]</u></p> <p>COB falls → C&I falls → AD falls → GPL falls → lower inflation rate → ensure price stability</p> 	[6]	
(e)	(i)	<p>How is the rate of inflation and standard of living related to each other?</p> <p>Rising inflation rate is inversely related to the standard of living.</p> <p>Alternative: Rising inflation due to AD rising will also result in RNY to rise, raising income and purchasing power and thus SOL.</p>		[1]
	(ii)	<p>With reference to the data where relevant, explain and comment on whether Japan will have a higher standard of living than US.</p> <p><u>Intro</u></p>		[8]

	<p>Define SOL</p> <p><u>Japan will have a higher SOL than US</u></p> <ul style="list-style-type: none"> Table 1: Japan's unemployment rate is lower than US → more are employed → greater access to goods and services → higher material SOL Table 1: Japan has a longer life expectancy → indicating better healthcare and quality of life → higher non-material SOL <p><u>Japan will not have a higher SOL than US</u></p> <ul style="list-style-type: none"> Table 1: GNI per capita is greater for US than Japan → greater income accrued to one person in US than Japan → Americans are able to buy more goods and services → higher material SOL in US than Japan Extract 3: <i>"The biggest challenge is to address long working hours. The ratio of workers with long working hours is also conspicuously high when compared with Europe and the United States."</i> → lesser leisure time than in US → lower quality of life → lower non-material SOL Extract 4: Greater percentage of the aged in Japan than US & Lower fertility rates in Japan than US → percentage of people contributing to the economy is lower and with little immigration, Japan has to depend on their own population → lowers production of goods and services → material SOL falls <p>[Up to 5 marks for above]</p> <p><u>Comment [up to 3 marks]</u></p> <ul style="list-style-type: none"> Make a stand → which country will have a higher SOL → US will have a higher SOL than Japan. Despite Japan having a lower unemployment rate than US, it is not comparable since US's economy is three times that of Japan (Ext 4). US's unemployment also fell sharply and economy proved relatively solid after QE (Ext 4) showing that the policy used for US worked and this enabled a rise in RNY and therefore material SOL. Data is insufficient to make a conclusion: need other data → Although data points to Japan having a lower quality of life due to long working hours, this data on US is not provided as well as other indicators such as level of pollution → more data is needed to make a conclusion. 	
(f)	<p>With reference to Extract 7, explain possible reasons why Japanese are unwilling to spend.</p> <p>[2] Consumer confidence is low → C falls or Expectations of future fall in prices → C falls</p> <p>[2] Sales tax hike → rise in COP → fall in SRAS → fall in RNY → fall in income → fall in purchasing power → unwilling to spend →</p>	[4]
(g)	<p>Using evidence from the case study and/or your own knowledge, discuss the policy options that Japan could adopt to address its economic challenges.</p>	[12]

	<p><u>Intro</u></p> <p>Economic Challenges (Explain any 2 challenges)</p> <ul style="list-style-type: none"> • Ageing population • Declining birth rate • Deflation • Few immigrants → shortage of workers • Stagnant wages • Low growth, frequent recessions • Weak domestic market • Higher debt <p><u>Body</u></p> <p>Policy Options to address the various challenges (Explain any 2 policies):</p> <p><u>(i) Higher debt</u></p> <ul style="list-style-type: none"> • Raise sales tax → Rise in COP → fall in SRAS → rise in GPL → counters deflation • Limitation → reduces RNY → slows growth even further <p><u>(ii) Stagnant wages (+low growth, frequent recessions)</u></p> <ul style="list-style-type: none"> • Revenue from taxes could be used to finance education and training (improving vocational training programs) to improve the productivity of workers → raise income • Productivity of workers increase → quality of labour rises → LRAS rises → actual and potential growth • Limitation → effect takes time <p><u>(iii) Weak domestic market</u></p> <ul style="list-style-type: none"> • Fall in direct tax → rise in C&I → rise in AD → rise in actual growth, rise in GPL • Limitation → Fall in revenue since tax rates fall → doesn't help to reduce government debt <p><u>(iv) Few immigrants</u> → shortage of workers, ageing population</p> <ul style="list-style-type: none"> • Encouraging immigrants policy → rise in quantity of labour → rise in LRAS → rise in actual and potential growth • Encourage more women to join the workforce → labour reforms → increase in quantity of labour • Limitation: Cultural workforce traditions are rigid limits the effectiveness of this policy <p><u>Conclusion/EV</u></p> <ul style="list-style-type: none"> • Most concerning economic challenge: Stagnant wages (+low growth, frequent recessions) • <i>"Abenomics...which initially relied too much on financial and fiscal measures, has run short of solutions for tackling the structural problems facing Japan's economy. Given that the real economy has not substantially improved, persisting with monetary easing policies can only be counterproductive."</i> → ss-side policies more important • The policy options may have addressed the economic challenges of Japan but it comes at a cost. Japan has a lot of economic issues that this is inevitable. Therefore rising sales tax must be accompanied by 	
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efforts to restructure the economy – in terms of investing in capital and labour to improve productivity or to attract firms to do so. This will ensure that with the greater income and profits generated from workers and firms respectively, they will be able to contribute greater revenue from paying income and corporate tax. This will then also mean that Japan's issue of higher debt can be resolved. Simply increasing the sales tax will not be a good option since it only seems to address the problem of higher debt at face value and later on result in consumers spending even lesser, contracting the economy further. The structural issues such as long working hours and difficulty of integrating women in the workforce also contributes to the falling productivity which needs another set of structural reforms and changing mindset of employers, and not just the policy options mentioned above.

Knowledge, Understanding, Application and Analysis

L3	<ul style="list-style-type: none"> • Question requirements are interpreted accurately. Addressed 2 economic challenges with different policies and its limitations. • Appropriate economic concepts, theories and principles are used. Economic analysis is accurate, complete and well supported by contextual evidence. • Appropriate diagrams are used to support economic analysis, where relevant. 	6 - 9
L2	<ul style="list-style-type: none"> • Addresses some question requirements accurately. <ul style="list-style-type: none"> ○ Addressed only 1 challenge but 2-sided answer ○ Addressed 2 challenges but 1-sided answer • Some appropriate economic concepts, theories and principles are used. Economic analysis is accurate but incomplete. • Attempts to address the context of the question but is incomplete. • Appropriate diagrams are used but might not be explained or used to support economic analysis. 	3 - 5
L1	<ul style="list-style-type: none"> • Question requirements are interpreted inaccurately. • Inappropriate economic concepts, theories and principles are used. Inaccurate economic analysis. • Inappropriate or wrong diagrams are used. 	1 – 2
Evaluation		
E2	Evaluative comments are well-explained and supported by economic analysis. Make a stand on the most concerning economic challenge to be addressed.	2-3
E1	Unexplained evaluative comments.	1