

IJC Preliminary Examination 2018
Paper 1 Question 1 Suggested Answers

2018 H2 Prelim Case Study Q1

- (a) Explain why all the price elasticities of demand values in Table 1 are negative. [2]

Price elasticity of demand measures the responsiveness of quantity demanded of a good to a change in the price of the good itself. The negative values of the price elasticities of demand reflects the law of demand, which states that the price and quantity demanded of a good are inversely related. For example, as the price of a good like fruit and vegetable changes, the quantity demanded of fruit and vegetable will change in the opposite direction.

Mark allocation

Stating law of demand – 1 mark

Explanation of inverse relationship between price and quantity demanded of a good – 1 mark

Markers' comments

A large number of candidates accounted for the magnitude of PED instead of sign. Hence, many explained factors for $PED < 1$ instead of focusing on the law of demand as the reason gaining no credit for their explanation.

- (b) With reference to Table 1, explain the impact on UK consumers' spending on meat when there is

- (i) an increase in the price of meat, [2]

As the PED value of meat is less than 1, a given increase the price of meat will lead to a less than proportionate fall in quantity demanded of meat. Consumers spending on meat, given by Price x Quantity, will increase as the increase in spending due to increase in price will offset the fall in spending due to a fall in quantity demanded of meat.

Mark allocation

Explanation of meaning of PED value – 1 mark

Explanation of link between increase in price and consumers' spending – 1 mark

Markers' comments

Quite a number wrongly argued that since an increase in the price of meat causes the quantity of meat consumed to fall, there will therefore be less spending on meat without the use of the PED concept to consider which effect will be greater. Some others

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incorrectly apply the YED concept instead. There is also tendency to confuse a change in demand with a change in quantity demanded.

- (ii) a recession. [2]

As YED value of meat is positive, a recession, which results in a fall in income, will lead to a fall in the demand of meat as well. Hence, the overall effect will be a fall in the consumer spending of meat as the price and quantity of meat consumed falls.

Mark allocation

Explanation of meaning of YED value – 1 mark

Explanation of link between recession and consumers' spending – 1 mark

Markers' comments

Quite a number used the magnitude of YED instead of the sign. The link between fall in income and fall in demand for food was not made too. Therefore, the impact on total expenditure is incorrectly explained.

- (c) With reference to Figure 1 and the use of the concept of opportunity cost, compare the effect of a rise in price of food on lower income UK households and other UK households. [4]

Opportunity cost of a decision refers to the next best alternative forgone.

A households' income is either spent on food and drinks or other goods and services. With a rise in price of food, the household's expenditure on food increases, as demand for food is price inelastic. There will then be a reallocation of more of household's budget for food and drinks, which means opportunity cost incurred in terms of other goods and services that can be consumed.

As food takes up larger proportion of income of lower income households compared to other households, with the increase in expenditure on food, they will have lesser income left. Hence, lower income households more likely to have to forgo non-essential goods compared to other households incurring greater opportunity cost.

Mark allocation

Explanation of concept of opportunity cost – 1 mark

Explanation of effect of rise in price of food on lower income and other households with the use of Figure 1 – 3 marks

Note:

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If explanation did not use Figure 1 – max 2 marks

If explanation shows application of the concept of opportunity cost but did not make comparison between lower income and other households – max 3 marks

Markers' comments

There were some excellent responses for this question which demonstrated a clear understanding of the requirements of the question. While most were able to interpret Figure 1, many lost marks as they did not apply the concept of opportunity cost to explain the effect on household spending and make valid comparison.

- (d)** Explain the likely impact of Brexit on the UK consumers' welfare. [2]

With Brexit UK is no longer part of the EU and tariff barriers on goods from the countries in the EU will be applicable, raising the prices of imports from the EU, leading to lower consumer surplus. There could also be reduction in choice of goods available to the UK consumers if producers cut down on some types of imports due to greater trade restrictions. Hence, UK consumers' welfare will be lowered as a result.

Mark allocation

For a clear explanation of one impact of Brexit on consumers' welfare.

Markers' comments

Many students applied the concept of standard of living which resulted in imprecise responses. Quite a number merely lifted phrases from the extracts instead of explaining the implications of Brexit on UK before linking it to the impact on consumers' welfare.

- (e)** Discuss the extent to which the survival of firms in the UK food and drinks manufacturing sector will be adversely affected "as the UK leaves the EU". [8]

As the UK leaves the EU (Brexit), the firms in the UK food and drinks manufacturing sector could be facing greater cost and revenue pressures which can adversely affect their profits.

As mentioned in Extract 2 and 3, Brexit is likely to lead to rise in cost of production due to rise in wages in the sector as UK faces lower supply of workers with the loss of EU workers and higher cost of imported raw materials with the resulting tariff barriers imposed on imports into UK. At the same time, greater uncertainty about the prospects of UK economy after Brexit has weakened consumers' confidence, possibly resulting in lower demand for food and drinks.

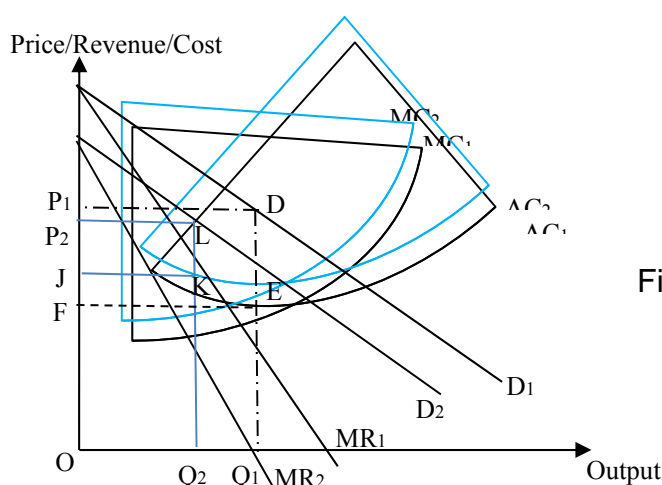


Figure 1

Figure 1 illustrates the effect of the above changes on a firm in the industry. Assuming the firm's objective is to maximize profits, the equilibrium price and output of the firm is given as OQ_1 and OP_1 where $MR_1 = MC_1$. The initial profits earned by the firm is FP_1DE . With the increase in cost of production, the cost curves will shift to MC_2 and AC_2 while the fall in demand will shift the demand and MR curves to D_2 and MR_2 respectively. As such, the new equilibrium output and price is now OQ_2 and OP_2 where $MR_2 = MC_2$. The new profits earned by the firm is lowered as given by JP_2LK . Hence, Brexit might affect the survival of firms adversely.

However, the extent of the effect might vary for different firms in the sector. It depends on how much the firms are impacted by the rise in the cost of production. This in turn depends on how heavily reliant the firms are on imported raw materials for ingredients, labour from the EU and the nature of their production. Firms that are more reliant on imported raw materials, labour from EU are more labour-intensive in their production method are likely to be more adversely affected as their cost of production might rise by a larger extent. As the sector consists of small, medium and large firms (Extract 2), it is likely the initial profit margins of the smaller firms are lower as compared to the large firms. Hence, the smaller firms could find that their total cost rise even to such an extent that they are unable to cover their total revenue and thus less able to survive in the sector as compared to larger firms.

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It could also be dependent on the availability of strategies for firms to respond to the revenue and cost challenges. To counter the rise in cost of production, firms could either switch to domestic sources for their raw materials, improve the efficiency of their local workers or even switch to less labour-intensive production methods. To address their revenue challenges, firms can consider diversifying their markets overseas to make up for the fall in demand and total revenue. These measures enable them to maintain their profits and therefore survive. However, these measures do not take effect immediately. For example, it was mentioned in Extract 3 that developing some of these “takes time and needs a level of confidence”. It might also depend on the level of capacity of the firms in the sector. Smaller firms might not have as much resources as the larger firms to adopt the measures mentioned above. As such, they might be under more severe threat in the sector as a result of Brexit.

Level	Descriptors	Marks
2	Well-developed and balanced explanation of impact of UK leaving the EU on the firms in the UK food and drinks manufacturing sector. If only considered either revenue or cost aspects – max 4 marks	4 - 6
1	Under-developed explanation of some impact of UK leaving the EU on the firms in the UK food and drinks manufacturing sector with limited reference to context.	1 - 3
Evaluation		
2	Use of appropriate criteria with relevant use of context to come to a justified stand.	2
1	Unjustified stand with limited/no reference to context.	1

Markers' comments

Overall, responses to this question are either descriptive or involved superficial analysis. While some tried to break down the effects of Brexit on the firms' revenue and cost, subsequent discussion on how the firms' ability to survive was weak, with many using the shutdown condition loosely without much consideration of the context in which this concept can be useful. While most attempt to provide a balanced explanation of why firms may or may not be adversely affected, there was little attempt in majority of the responses to address “the extent” to which the firms are likely to be adversely affected with reference to the case materials.

- (f) Extract 4 mentions that international trade really matters to UK economy and the government must use all resources available to boost exports in a post-Brexit UK.

Discuss the measures that the UK government can adopt to boost their exports. [10]

With Brexit, UK would lose its access to the EU market and not be able to enjoy free movement of its products across EU anymore (Extract 5). With tariff barriers imposed on its exports, their goods will become relatively more expensive compared to other EU goods within EU. Hence, UK is likely to find the volume of its exports to EU being reduced as a result. Given that EU countries are major trading partners of UK, the fall in its export revenue is likely to be significant. With international trade being important to the UK economy (Extract 4), it is crucial that the UK government put in place sufficient measures to boost their exports so that the UK economy will not be too adversely affected.

In light of the above, one immediate concern that the UK government needs to address is the continuation of access for UK exports to foreign markets. To achieve this, the UK government will need to initiate negotiation of free trade agreements (FTA) with its trading partners so that tariff barriers can be removed to ensure that UK exports can remain competitive in these markets. This should not only include individual countries in the EU and the US which are UK's major trading partners but also other emerging economies like China which might be of increasing importance to the UK as well. It is important for UK not only to have access to more markets but also to tap on the growth in markets like China to boost the demand for their exports further. With rising income and growing affluence, UK is in a good position to export luxury goods like cars and jewellery to such markets as the demand for luxury goods is likely to be rising faster.

However, the UK government faces some constraints in seeking FTA with its trading partners. As mentioned in Extract 5, "UK's trade negotiating strength and efficiency" as an individual economy could be limited as compared to being in a regional grouping as the other countries might not perceive the UK market to be sizeable enough for their consideration. On the other hand, negotiating FTAs as an individual economy instead of being part of a collective grouping could be more advantageous as there is no longer a need to be bound by the interests of other countries. Thus UK might have greater success in achieving more favourable terms for its trade with the rest of the world.

With the likelihood of Brexit having a negative effect on UK exports and uncertainty surrounding negotiation of FTAs, there is also an urgent need for the UK government to implement supply-side policies to boost

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productivity and improve the quality of their products to ensure that they become more competitive in the international markets. In particular, the government needs to provide more funding to the key export sectors such as those mentioned in Extract 4. This should provide the needed resources and incentive for the producers in these sectors to engage in research and development and invest in better technology to lower their cost of production and boost their output. As mentioned in Extract 5, with the UK government's support, the food and drinks sector can "improve the national defences against plant and animal diseases and benefit from the latest scientific advances" so that the yield from this sector can be improved.

With UK having factor endowment in terms of highly skilled workers and more advanced technology, its economy is likely to have a comparative advantage in production of good that are more technology or research-intensive, like cars and medicines as well as services. Such investments could also be directed to further enhance UK's comparative advantage in these areas by lowering the opportunity cost in the production of such goods. The above measures should enable the goods to be priced more competitively. In addition, an improvement the quality of its goods could lead to lowering of the price elasticity of demand for UK exports, allow them to withstand competition from other countries' goods in the international markets.

However, the above measures are not likely to take effect in the short term as time is needed for them to work. Hence, there might be a need for the UK government to complement it with another measure in the short run. For example, it was highlighted in Extract 2 that some "businesses have benefited from the weaker pound" as the price of exports becomes relatively lower in terms of foreign currency. However, this is beneficial only for those businesses that are not heavily dependent on imported inputs. Furthermore, as this depreciation was likely to be triggered by loss of confidence due to the prospects of Brexit, further depreciation will weaken confidence which is undesirable for UK's economic outlook. In any case, this measure will only be of limited help in the short run as the more important areas of focus for the UK remains the negotiation of FTA and supply-side policies specifically targeted at the export sector to boost exports in the long run.

Level	Descriptors	Marks
2	Well-developed explanation of the measures the UK government can adopt to boost exports with sufficient scope and reference to the context.	5 - 7

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1	Undeveloped explanation of the measures the UK government can adopt to boost exports with limited reference to the context. OR A well-developed explanation of only one measure.	1 – 4
	Evaluation	
2	Use of appropriate criteria with relevant use of context to come to a justified stand.	2-3
1	Unjustified stand with limited/no reference to context.	1

Markers' comments

While most are able to explain relevant measures that the UK government can adopt, there is generally rehearsed answers which do not have much reference to the context given. Many answers focused on the use of depreciation and provided correct explanation of its mechanism but there was little consideration to its appropriateness in this case. Similarly, the use of supply-side measures tend to be explained in general terms rather than targeted specifically at boosting exports in this case. As such, the limitations of the measures were also generic in nature in most cases. Evaluative comments were also lacking in many of the responses.

[Total: 30]

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Paper 1 Question 2 Suggested Answer:

- (a) (i) Using Figure 1, account for the difference in Japan's real and nominal wage from 2016 to 2017. [2]

[1m] Describing the difference

[1m] Explain the reason

The gap between Japan's real and nominal wage from 2016 to 2017, is widening. [1m] The widening gap between real and nominal wage is to the rise of inflation rate. Real wage is where the effect of inflation (sustained and inordinate increase in goods and services) has been eliminated in relation to prices in a selected base year (year 2014). [1m]

- (ii) Explain **one** demand and **one** supply factor to Japan's nominal wage trend [4]

PRELIMINARY EXAMINATION SUGGESTED ANSWERS

from 2014 to 2017.

Possible Demand Factor [2m]	Possible Supply Factor [2m]
<ul style="list-style-type: none"> • Positive economic growth ⑨ Rise in purchasing power ⑨ Firms increase output ⑨ Labour is a derived demand ⑨ DD for labour 	<ul style="list-style-type: none"> • Ageing population or Shrinking population ⑨ SS of labour

Nominal wages

Quantity of Labour

Conclude that SS of labour > DD for labour

⑨ Rising nominal wages

- (b) China's policymakers' has attempted 'to wean its dependence on credit-fueled investment and government spending and move instead to a consumer-driven growth model'. [6]

Discuss the possible short-term and long-term consequences of the above attempt on China's living standards.

Introduction

Standard of living refers to the level of economic and social well-being of a population. As stated in the preamble, China's policymakers has attempted to reduce dependence on credit-fueled investment and government spending and move instead to a consumer-driven growth model.

Point 1: Possible short-term consequences on material SOL

- China economy is now the second largest in the world + China has a large domestic market, well-endowed with resources
- Ⓜ China is able to increase reliance on domestic consumption
 - Rise in consumption expenditure (as seen from Table 2)
- ⑨ Improve material SOL

Define material SOL: Material well-being is indicated by amount of goods and services an average person can have access to and this is commonly measured by GDP per capita.

- ⑨ Consumers are now able to consume a wider variety of goods and services
- ⑨ Rise in AD ⑨ Rise in real GDP ⑨ Rise in short-term material SOL

Point 2: Possible long-term consequences on material SOL

- China's policy makers reducing dependence on credit-fueled investment
- ⑨ Reducing China's exposure to external volatility eg Eurozone debt crisis, World Financial Crisis
- ⑨ Domestic firms now can earn more stable revenue & profits due to the increase leverages on domestic C + Firms (Domestic & foreign) will increase investment for production of goods to be sold to the large domestic market
- ⑨ Sustained economic growth
- ⑨ Rise in long-term material SOL

Point 3: Possible short-term & long-term consequences on non-material SOL

However, economic growth does not necessarily leads to higher living standards. Living standards also comprise of qualitative aspects of life such as access to quality healthcare and education, living and working conditions, the number of hours worked as well as the access to a clean public spaces, that is, free from air, noise, and traffic pollution.

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China's current pollution levels adversely impacts its non-material living standards. From Extract 7, it is noted that China has declared a war against pollution in 2014. Since then, China has achieved some success in reducing pollution levels, though the current air pollution levels still exceed China's own standards.

+

Sustained rise in GDP per capita

⑨ Increase in tax revenue (income tax, corporate tax & sales tax) collected

® Government can allocate more resources to reduce pollution levels

® Larger rise in long-term non-material SOL as compared to short-term non-material SOL

Level	Description	Marks
Level 2	Well-developed explanation on the possible short-term and long-term consequences of the move towards consumption-driven growth model, on China's living standards.	3-6
Level 1	Description of material and non-material living standards, without addressing to question requirements.	1-2

- (c) In the light of the fiscal consequences of the shrinking population, assess the options in which Japan could reduce its government debt. [8]

Question Analysis:

Command Word	Concept/Content Word	Context
'Assess'	'Options'	'Japan'
Consider at least 3 options and weigh them so as to come to a conclusion about their effectiveness or appropriateness.	Demonstrate thorough understanding of policies to reduce government debt	Consider the fiscal consequences of shrinking population in Japan

Introduction

Shrinking population

⑨ declining fertility and increasing longevity

Explain the fiscal consequences of the shrinking population

- Rise in G : in spending on age-related programmes (health and pensions)
- in Tax Revenue collected (due to lower income tax revenue & sales revenue)

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- ⇒ Ballooning and unsustainable public debt
- ⇒ Opportunity costs such as sharp cuts in other spending or necessitate large tax increases that could hinder economic growth.

Given the above dire fiscal consequences, a multi-pronged policy approach is required.

Main Body: Option 1a: G - Gradual reduction in age-related programmes

Address the growth of age-related government expenditure

- Reform public healthcare system to contain growth of public health spending
 - Policies can help to ensure that new technologies reduce, rather than raise, health care costs, without adversely affecting health outcomes. Eg: use of health information technology (for example, to collect, store, and share patient data) so as to reduce costs while protecting healthcare outcomes.
 - Government to provide greater support for primary and preventive care—which helps improve health and reduce the need for more costly treatments at a later stage—and improve provider payment systems to control costs.
 - Raise competition among insurers and service providers

In summary, containing the growing costs of health care would help reduce long-term fiscal risks of unsustainable public. On average, health care costs are projected to increase faster than economic growth. This is due not only to population aging but to technological improvements in health care that result in better but more costly services. Assuming that above policies are able to keep the growth of health care costs per capita in line with GDP per capita, health care spending will increase at a slower rate, reflecting only demographics.

- Reform public pension system to help offset the effects of aging. Eg: raise the retirement age to complement efforts to boost the labor force participation of older workers. It would also help to better align retirement ages to longevity gains amongst many Japanese elderly.

Limiting factors

A gradual pace of reform to pension and health systems would help to spread the burden across generations. There is greater urgency to move on healthcare reforms as Japan population is shrinking fast coupled with rising government debt.

Main Body: Option 1b: T – Strengthen tax systems

It maybe impossible to fully offset the impact of demographics on age-related spending, thus necessitating broader public sector reforms to improve the public finances. Japan will need to strengthen its tax systems and improve the efficiency of public spending programs outside of pensions and health:

- Broader tax base – increase sales tax rate or goods and services tax

⑨ Reduce government debt

Main Body: Option 2: Improve firms' international competitiveness

As observed in Table 2, Japan's export revenue only constituted 16% of GDP in 2017.

Supply-side market-oriented policies, which involve measures to free up the markets or improve market incentives, can be used to improve firms' export competitiveness.

For instance, the Japanese government can help small and medium-sized enterprises (SMEs) to grow and establish themselves via a **partial tax exemption scheme** which lowers the taxable profits of these companies.

→ These tax rebates reduce firms' unit COP and restore export-price competitiveness.

As demand for exports is price elastic ⑦ ↓ Exports price ⑦ ↑ Export Revenue ⑦ ↑ net exports and improve trade balance

→ Moreover, with the increase in profitability of investment, this allows Japan to attract FDIs ⑦ Both AD and AS increase ⑦ sustainable EG

Also, **long run supply-side interventionist policies**, which concerns direct government intervention through financial support can be used to enhance Japan's international competitiveness.

Pro-growth policies or pro-business policies that involves ↑ G on building up world class infrastructure enhancing capabilities. This spending on infrastructure can be deliberately targeted industries such as biomedical, clean technology and robotics

⑨ This will lead greater inflow of investments due to firms' increased expected rate of return

⑨ Rise in corporate tax revenue collected in the long run

⑨ Reduce government debt

Main Body: Option 3: Raising labour productivity & labour force participation rate

Long run supply-side interventionist policies, such as subsidies for retraining can help to counter shrinking population

The government can introduce the government introduced new initiatives to support life-long learning and deepening of skills. The SkillsFuture Credit can be made available for all Japanese above 25 to enhance their skills in work related areas. The use of subsidies for education and retraining enables workers to gain skills relevant in the economy.

→ Increase in skills level + labour productivity especially for low/mid-skilled workers

PRELIMINARY EXAMINATION SUGGESTED ANSWERS

⑨ increases in employability & increase labour force participation rate, especially for women and older workers, could help mitigate the impact of aging.

Limiting factors

Assuming constant productivity per worker, increasing labour force participation rates can increase GDP by increasing the number of workers, which would offset or delay some of the projected impact from aging.

Other option

Measures typically aim to offset the direct costs (through baby bonuses, family allowances, tax incentives) and opportunity costs (through parental leave, subsidized child care, flexible work schedules) of childbearing.

However, a “birth rate” solution to ageing is unlikely to work for most developed economies, including Japan. The pronatalist policies seem to have only modest effects on the number of births, although they might affect the timing of births, and to have a positive impact on the labour supply decisions of mothers.

Evaluation

Weigh at least 2 policy options and comment that Japan’s government debt is likely to grow given its rapidly shrinking population and Japanese reluctance to welcome large inflows of foreign investment and talents. A multiple-prong approach should be taken to contain the rise in government expenditure as well as to sustained raise in labour productivity in the long run.

Level of Response Marking Scheme (LORMS)

Knowledge, Understanding, Analysis		
L2	For a balanced and well-developed analysis of appropriate policy options that Japan government can employ to reduce its government debt. Answer is well-supported with evidence from the case material.	4-6
L1	For an inadequately developed answer which attempts to explain how policy options can reduce Japan’s government debt. Answer is supported with some evidence from the case material.	1-3
3m for Evaluation		
E2	Valued-judgement on whether relative effectiveness of policy options Japan government should employ, to reduce its government debt.	2
E1	Incidental evaluative comments.	1

PRELIMINARY EXAMINATION SUGGESTED ANSWERS

- (d) Discuss the view that China will eventually achieve sustainable economic growth just because it has become 'a major hub of innovative products and services'. [10]

Command Word	Concept/Content Word	Context
'Discuss'	'Sustainable Economic Growth'	'China'
Set out both sides of an argument (for and against), and come to a conclusion related to the content and emphasis of the discussion. There should be some evidence of balance, though not necessarily of equal weighting.	Demonstrate thorough understanding of factors to achieve sustainable economic growth	Consider the context of China economy

Introduction

Sustainable growth refers to growth that can be maintained without creating other significant economic problems such as resource depletion and environmental degradation, particularly for future generations. It implies a positive and stable growth rates over an extended period of time.

Thesis: Yes, China will eventually achieve sustainable economic growth just because it has become 'a major hub of innovative products and services'

China has become a major hub of innovative products and services

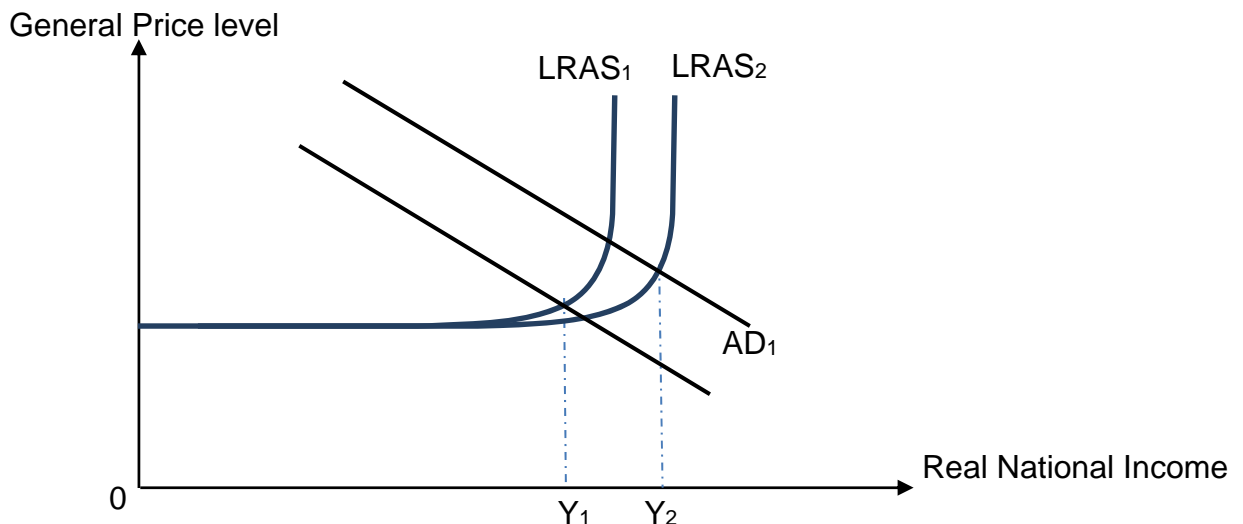
1. Innovations in manufacturing eg R&D by Huawei Technologies
2. Innovations in digital economy eg Taobao digital pay app, Alipay

1. Innovations in manufacturing	
Process manufacturing innovations ⑨ more cost-efficient methods of production ⑨ lower unit COP ⑨ increase SRAS ⑨ reduce GPL ⑨ in price of domestic goods ⑨ in price competitiveness of exports ⑨ As DD for China's manufacturing exports is price elastic ⑨ X revenue	Product manufacturing innovations ⑨ improvement in product quality ⑨ Rise in non-price competitiveness of X ⑨ Further DD for X of China ⑨ X rev will expand further ⑨ Entice greater inflow of FDIs
The above increases in X and I ⑨ in AD, demand-deficient unemployment rate ⑦ increase in real national income from Y_1 to Y_2	

PRELIMINARY EXAMINATION SUGGESTED ANSWERS

At the same time, accumulation of new capital ⑨ increases in productive capacity ⑨ increases in LRAS from $LRAS_1$ to $LRAS_2$

® Non-inflationary sustained economic growth ($AD + LRAS$)



Process manufacturing innovations include manufacturing firms seeking less polluting methods of production (Extract 7: China had prohibited new coal-fired power plants in the country's most polluted regions)

⑨ China will eventually achieve sustainable economic growth

Anti-Thesis: No, other factors are also critical in determining whether China will eventually achieve sustainable economic growth

Factor 2: Ability of workers to reskill and upskill

The shift towards consumption-driven growth model

→ Shifting trade flows (China moving to own sources of FOPs) & increase R&D capabilities

→ Upgrading of industrial structure ⑨ Loss of CA in re-export industries

→ Rise in structural unemployment since some jobs become redundant and the retrenched workers are unable to move into the new industries with the mismatch of skills

⑨ Slower economic growth

On the other hand, workers who are able to work with the new technology will be able to earn higher income levels ⑦ widen income gap between these two groups of workers ⑦ creating more inequity in the country as the rich can consume more while the poor will consume less with lesser dollar votes

Factor 3: Ability of government to reduce pollution levels to World Health

Organisation recommendations

The Chinese government ability to enable greater use of renewable energy such as solar, wind, nuclear and other greener energy sources

Possible policy options:

- Imposition of carbon tax on polluting manufacturers based on CBA, where $\text{tax} = \text{MEC}$ at output ($\text{MSB} = \text{MSC}$)
- Imposing regulatory standards
- Investment in greener technology eg increase govt spending to boost R&D efforts in green technology

⑨ Reduce CO₂ emissions & able China to meet WHO air pollution standards

⑨ Reduce environmental degradation & improve non-material welfare of workers as they now enjoy better air quality and are less likely to suffer respiratory illness in future

⑨ Achieve sustainable growth

Evaluation

Higher government expenditure in greener technology may lead to reallocation of resources from other sectors in need.

Optional factor: Ability of China to continue reaping the benefits of globalisation

Currently, US President Donald Trump has shaken the foundations of global trade, slapping steep tariffs on billions of dollars' worth of goods from the EU, Canada, Mexico and China. Thus, whether China can continue to achieve sustainable economic growth depends on China's ability to harness the gains of globalization.

Eg: The Chinese government is actively and directly intervening to development China's infrastructure with other nations. China's vision for Eurasia is its "one belt one road" strategy, a plan to wrap its own infrastructure and influence westward by land and by sea. The land route is the most ambitious project to integrate continental Asia and Europe. The sea route allows for Chinese ports and bases to facilitate trade through the Indian Ocean to the Horn of Africa and the Mediterranean.

- This will allow for greater flow of trade, increasing China's export revenue and actual economic growth.
- The cost of obtaining raw materials may also be lowered due to cheaper imports coming into China, hence reducing imported inflation and cost push inflation, leading to increase of SRAS and hence NY increases (actual economic growth) and general price level falls (Diagram to show SRAS increasing right).
- In addition, better infrastructure allows for productive capacity to increase for China as it attracts more investments in the long term. This increases the LRAS, hence allowing for potential economic growth (Diagram to show LRAS increasing right).

Evaluation

PRELIMINARY EXAMINATION SUGGESTED ANSWERS

Building of such massive infrastructure such as roads and sea ports will require huge government spending from the Chinese government. If the government is not prudent with its spending, it could potentially lead to high government debt. Furthermore, these infrastructures require long term maintenance from the Chinese government which requires more fiscal spending from them in the long run.

Overall Evaluation

Weigh the factors and comment on the relative importance of the factors.

Level of Response Marking Scheme (LORMS)

Knowledge, Understanding, Analysis		
L2	For a balanced and well-developed discussion on the factors to achieve sustainable economic growth. Answer is well-supported with evidence from the case material.	5-7
L1	For an inadequately developed answer which attempts to explain the factors to achieve sustainable economic growth. Answer is supported with some evidence from the case material.	1-4
3m for Evaluation		
E2	Valued-judgement on the significance of the factors to achieve sustainable economic growth.	2-3
E1	Incidental evaluative comments.	1