2018 CJC H1 Prelim

CSQ 1 Answers

Suggested Answers:

(a) (i) With reference to Table 1, describe the trend in the price of sugar between January 2015 and December 2016. [2]

General Trend: Increasing trend of the price of sugar from January 2015 to December 2016. [1]

Refinement: Sharp fall in the price of sugar from Jan to Mar 2015 OR Sharp rise in the price of sugar from Mar to Jun 2016 OR Sep to Dec 2016. [1]

(ii) With reference to Extract 1 and using a demand and supply diagram, explain the price changes of sugar in 2016. [5]

2 Possible Approaches:
Approach 1: Price increased from Jan to Sep 2016, price fell from Sep to Dec 2016 (explain using DD/SS shifts)
Approach 2: Price increased from Jan to Sep 2016 (explain using DD/SS shifts), Sharp increase from Mar to Jun 2016 (explain using PED/PES analysis)

Increase in Price from Jan – Sep 2016 [3m]
Increase in DD due to rise in income of middle class from emerging economies, assuming sugar is a normal good. [1]
Fall in SS due to adverse weather conditions in Brazil (El Nino) [1]
Simultaneous shift = shortage at P_e, leading to rise in Equilibrium Price + Diagram [1]
Other accepted answers: Increase in current DD due to consumers' expectations of higher future sugar prices.

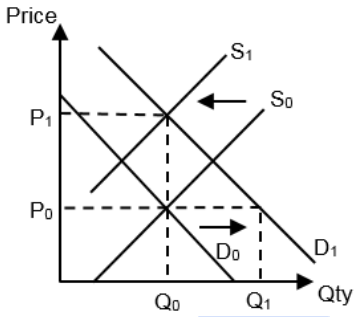


Fig 1: Increase in Price of Sugar [1]

Approach 1: Fall in Price from Sep – Dec 2016 [2m]
Increase in SS due to producers' expectations of more sustainable profit [1], ceteris paribus, the sugar price will fall in certain periods when there is a surplus at the P_e. [1]
Approach 2: Sharp Rise in Price from Mar – June 2016 [2m]
Given a fall in SS, PED is inelastic due to lack of close substitutes for sugar [1], it will lead a sharp increase in price. [1] OR
Given an increase in DD, PES is inelastic due to lack of spare capacity

/ lengthy period of harvest [1], thus, price of sugar will increase sharply. [1]

(b) To what extent is the global deficit in sugar likely to lead to an improvement in standard of living of sugar growers in Brazil. [7]

Standard of living measures the welfare of the average citizen in an economy and it consists of both the material and non-material aspects. Material SOL considers the quantity of goods and services consumed by an average citizen while non-material SOL reflects the qualitative aspect of life such as the life expectancy and level of education.

Thesis: The deficit in sugar will improve the SOL of growers in Brazil

PED of Sugar likely to be less than 1, given the lack of close substitutes. Thus, a global deficit in sugar market will increase price, leading to a less than proportionate fall in quantity demanded of sugar, increasing the TR of sugar growers. Profits = TR – TC, assuming TC stays constant, profits will increase for sugar growers. The increase in profits will thus increase the disposable income of the growers and this will increase their purchasing power and ability in the consumption of more goods and services. The material SOL of growers will increase.

Anti-thesis: The deficit in sugar will not improve the SOL of growers in Brazil

Also, there is a lack of data on the non-material SOL of growers. Growers might be incentivized to work longer hours to reap greater profits from sugar production, thus this will increase the stress level and reduce amount of leisure hours to be enjoyed. Thus, the non-material SOL of growers might worsen due to the deficit in sugar.

Given the PED value of sugar, the price of the commodity is subjected to large fluctuations in the free market. This is due to supply shocks such as the adverse weather conditions / government interventions via the use of indirect subsidy. When the price of sugar falls given an increase in supply in the medium/long term, the TR and profits for growers will fall and this will reduce the material SOL of growers.

Other possible considerations: Negative externalities in production, If PED > 1 due to availability of close substitute (natural or artificial sweeteners), thus TR will fall.

Synthesis

Stand and Substantiation: The extent of effect on SOL depends on the net effect between material and non-material aspects, as well as whether the profits of sugar growers can be sustained in the long run, as changes in total costs is uncertain. It may actually increase with bad weather conditions making farming more difficult and time consuming.

Level	Descriptors	Marks
L1	Considered superficially the impact on SOL. Answer is one-sided - considers positive OR negative impact on SOL. Answer contained inaccuracies and/or lack economic analysis.	1-3
L2	Provided a balanced argument by considering both the positive and negative impact on SOL. Max 4m – 2-sided analysis of mSOL / nmSOL is being considered. Max 5m – For a balanced argument that lacks case evidence as support. High L2 should consider both material and non-material SOL.	4-6
EV	Provided a well reasons stand by considering possible perspectives of: (1) Weighing of mSOL and nmSOL (2) Sustainability of profits in the LR	Up to further 1m

(c) (i) With reference to Extract 2, explain the relationship between sugar and ethanol. [2]

Sugar and ethanol are competitive in supply as seen in extract 2, when production of sugar rises, that of ethanol falls [1] as they both require the same factor inputs / resources (land, labour etc) in production. [1]

(ii) Using the marginalist principle, explain why a grower decides to switch from ethanol to sugar production. [4]

Step 1: Explain Marginalist Principle [1m]:
Assume growers are rational profit maximisers - Weigh the Marginal Benefit (MB) against the Marginal Cost (MC) in making rational decisions, maximise profit when MC = MB. [1]
If MB>MC, farmers will continue to grow the additional unit of crops. If MB<MC, farmers will cut back on their production of an additional unit of crops. They will stop only when MB=MC of growing crops.

Step 2: Give examples of MB and MC (1m each):
Ethanol or Sugar POV:
MB of ethanol/sugar production: price of ethanol/sugar and thus additional revenue farmers can earn from the sale of an additional unit of ethanol/sugar. [1m]
MC of ethanol/sugar production: additional cost of growing an additional unit ethanol/sugar, for example additional rent on land [1m]
Step 3: Explain the decision to switch (1m):
Ethanol POV:
Price of sugar is rising due to the deficit → thus opportunity cost of producing ethanol, and not producing sugar, is rising
This means for ethanol producers MC > MB → they stop ethanol production and switch to sugar production until new MC = new MB

OR

Sugar POV:

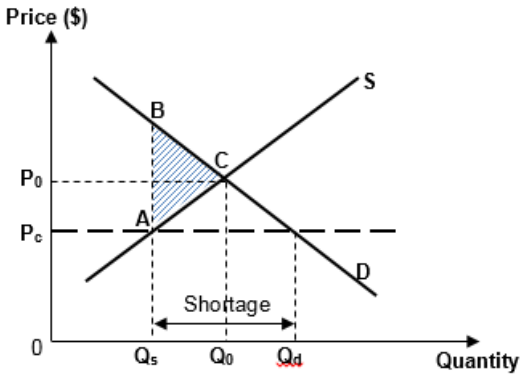
Price of each additional unit of sugar is rising due to deficit → additional revenue is rising
As MB > MC for sugar production → more farmers will switch to producing more sugar until <u>new MB = new MC</u>.

(d) Using Extract 3, discuss if the benefits of implementing the price ceiling on sugar outweigh the costs. [8]

Intro:
An effective price ceiling is a legally established maximum price below the market equilibrium price. The price ceiling aim to keep the price of sugar low to benefit consumers in Thailand.

To determine whether the decision to implement the price ceiling is justified, a weighing of the costs and benefits will be taken.

Thesis: Benefit of Price Ceiling – Lower Price for certain consumers



When the price ceiling (P_c) is imposed, this will lead to a lower price than the original price P_0, and benefit certain consumers (lower income group) as it will make sugar more affordable than before. This might improve equity in terms of resource allocation.

But this is based on the assumption that the consumers will be able to have access to the lower-priced sugar as there is a shortage, since at price P_c, quantity demand (Q_d) exceeds quantity supply (Q_s).

When a shortage is experienced, the commodity would have to be allocated on a first-come-first served basis via rationing, by either producer's preferences or through government's preference.

Anti-thesis 1: Costs of Price Ceiling – Deadweight Loss

But since the price ceiling is a legally established price, sellers cannot sell above this price (P_c). Hence the shortage cannot be eliminated in the market.

Since only Q_s is traded in the market.as a result of the price ceiling, a welfare loss is created. The welfare loss is represented by the Area ABC.

Hence, when there is a price ceiling and only Q_s is traded, welfare is not maximized. Marginal Benefit exceeds Marginal Cost for every unit of product that was not consumed from Q_s to Q_o. Welfare could have been

higher if these units were consumed. Hence the shaded area represents the welfare loss).

Anti-thesis 2: Costs of Price Ceiling – Black Market

A 'black market' where purchases occur illegally at a price higher than the maximum price of P_c could result from the shortage. In extreme cases, the prices could rise higher than the original free market price, which render the government intervention ineffective as resource allocation is worsened.

Anti-thesis 3: Costs of Price Ceiling - Illegal sale of sugar overseas

Extract 3: "profiteers normally smuggle domestic sugar to sell in neighbouring countries, especially when global sugar prices rise above the fixed domestic retail price". Due to profit motive, there will be less sugar available for sale in Thailand as producers sell their sugar overseas at higher prices. This will worsen the shortage situation.

Synthesis:

Stand + Substantiation: As the costs of intervention is higher than benefits, the decision to implement the price ceiling is not justified. The intended consequence of a lower sugar price for consumers might be compromised due to the rise of black market as well.

Level	Descriptors	Marks
L1	Considered superficially the impact (costs vs benefits) of price ceiling on the consumers, producers and society. Answer contained inaccuracies and/or lack economic analysis.	1-3
L2	Provided a balanced argument by considering the impact (costs vs benefits) of the price ceiling on the consumers, producers and society.	4-6
EV	Provided a well reasons stand by considering possible perspectives of: (1) Government priorities between equity and efficiency (2) Sustainability of the policy in the long run	Up to further 2m

(e) (i) With reference to Extract 4 and using a diagram, explain the economic case for the imposition of a sugar tax to curb obesity. [5]

Consumption of sugar generates negative externalities [1m], thus leading to an inefficient allocation of resources in the free market.

MEC of overconsumption of sugar lead to obesity, which will reduce the productivity and thus reduce economic competitiveness and lower economic growth of a country. [1m]

As the social optimum output is less than free market equilibrium, there is an overconsumption of sugar. [1m]

Since the MSC exceeds MSB over the range of overconsumed quantities, there is a deadweight loss incurred on the society, thus societal welfare is not maximized. [1m]

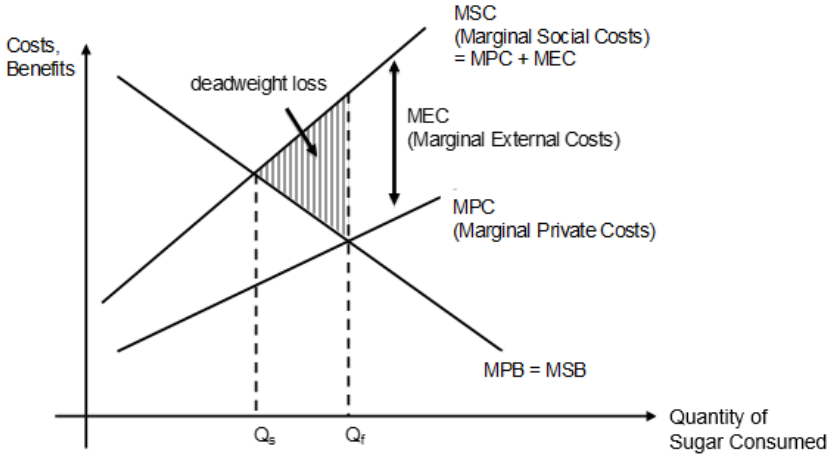


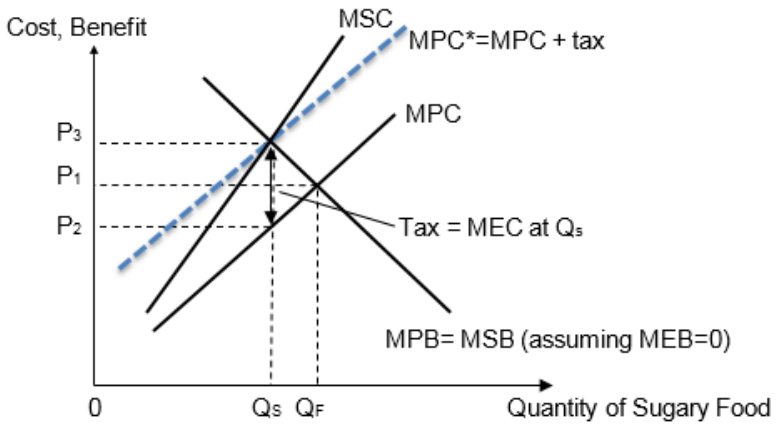
Diagram [1]

Note: Overconsumption due to imperfect information is <u>not relevant</u> to the question as the justification is for the use of Pigouvian tax.

(ii) Using evidence from the case study and/or your own knowledge, discuss the government's considerations in implementing a sugar tax to tackle obesity. [12]

Intro:
Use of tax is to achieve Qs in the market of sugary drinks.
In the decision to use tax to tackle obesity, the government will need to consider various factors in order to achieve its intended outcomes.

Consideration 1: Weighing Benefits versus Costs
Benefits: Tax is effective in achieving Qs



As seen in Extract 5, the sugar tax "would help combat child obesity as well as tooth decay". A tax equal to the <u>marginal external cost at Q_s</u> (P_2P_3 per unit) is imposed by the government. There is internalisation of the externality, i.e. a tax makes the private firm/consumer take into account the negative externality in their decision making. This causes the consumer's new MPC to shift up

to MPC*. As a result of this, the consumer consumes sugary food until its new MPC = MPC*=MPB, i.e. at Q_s. The allocative efficient output level Q_S is achieved and the deadweight loss is eliminated. There is also a change in prices in the market. The equilibrium price was initally at P_1 but the new price is P_3.

Besides being a market oriented tool, the tax revenue can also be used to fund other policies (public education or subsidy for healthy food).

Costs: The demand sugary drinks is likelyu to be very price inelastic due to the addictive nature of consumption. Thus, the tax to reduce over-consumption is ineffective unless the tax is very high. And as seen in Extract 5, "sugar intake from soft drinks has been declining for several years now, down 17% since 2012. There is no evidence worldwide that a tax on soft drinks has had an impact on levels of obesity". The tax on sugary drinks might not be addressing the root causes of obesity, which might be other food sources (high-fat content) or a lack of exercise.

Consideration 2: Constraints faced by government
Due to the finite budget available, the government will need to consider the monetary and opportunity costs of implementing a tax (implementation and monitoring costs etc)
Dependent on the severity of the issue, time will also be a constraint in meeting the intention of the government intervention. Tax policy can be considered relatively swift as compared to public education, which takes a long time to influence the mindsets and habits of consumers.

Consideration 3: Information available and accuracy/reliability of data
Effectiveness of tax depends on the accurate evaluation of MEC @ Qs, which in reality, will be impossible to assess for different individuals under different contexts. Reliability of data will also be a problem. Accurate information pertaining to costs / benefits of implementation will also aid in the decision-making process. Data on the main source of obesity (need not be from sugary drinks consumption) will also ensure if the government is targeting the root of the issue.

Consideration 4: Other policies available
Use of regulation or public education in achieving Qs – set quota on the amount of sugar content in sugary drinks; increase awareness of the actual cost and 3rd party cost of consumption of sugary drinks.
Counter-Argument:
Regulations: Penalties imposed must be hefty enough to deter violations – such that only occasional checks are necessary to ensure that regulations are being followed by sugary food producers. If penalties are not severe enough, more frequent checks by the regulatory authority would be required and this may raise the costs of monitoring. Society gains only if the benefits outweigh the costs of implementation.
Public education: The effectiveness of persuasion is not certain since they are voluntary. It depends on how receptive people are to the campaigns and education. High costs involved in education, e.g. the advertising costs in carrying out campaigns. These costs

are likely to be borne by taxpayers. Difficult to gauge the success or to ascertain the factors leading to a change in the consumption habits.

Consideration 5: Perspectives of stakeholders
Government should also consider the impact of the tax on consumers: PED >1 due to habit forming nature, thus ineffective in reducing the consumption of sugary drinks. Total expenditure will also increase for consumers, which might worsen income inequity and SOL of the lower income group, especially since their diet consists of largely cheaper processed food that is high in sugar and fat.
For producers, the extent of impact on profit margin due to the increase in COP via tax. Negatively affects the income and SOL of producers.

Synthesis:
Stand: You can consider choosing the most important factor
Effectiveness of the policy is likely to be the most important consideration of the govt. in implementing a sugar tax.
Substantiation:
This is because govt. intervention will be wasteful, in terms of implementation and monitoring costs if the policy is unable to achieve its intended outcome.
While in the long run, govt. can consider availability of other policies to better tackle obesity, in the short run the effectiveness and immediacy of tax may become more of a priority.

Level	Descriptors	Marks
L1	Smattering of valid points or merely explanation of how 1 point of view in the decision-making process corrects the market failure without use of case evidence	1-2
L2	An answer that explains the costs and benefits of tax and at least one other point of view in the decision-making process. However, tax policy may be under developed and not linked to how the market failure is corrected. Some use of case evidence. TBC: Max 5 marks for a well-developed 2-sided analysis of tax in correcting the market failure with use of case evidence (No link to Question on DM Framework)	3-5
L3	Well-developed analysis of costs and benefits of tax and 2 other points of view aimed in the decision-making process, with clear well-explained diagrams. Shows good understanding of the policies, and able to apply relevant advantages and disadvantages. Good use of case evidence.	6-9
EV	Stand with economic justification. This should focus on the weighing of various points of views in arriving at the	Up to 3 marks

	most optimal decision by the government.	

CSQ 2 Answers

a) (i) Compare the trend of growth in real GDP of China, United Kingdom and Singapore between 2010 and 2014. [3]

Suggested Answer:
Any 3 of the following:
- Both growth in real GDP of China and Singapore have fallen whereas UK's has improved.
- In general, China's growth in real GDP is higher than UK and Singapore, other than in 2010.
- UK's growth in real GDP is lowest among the 3 countries.
- All positive growth rates

a) (ii) Explain **two** possible factors influencing the growth in real GDP of China as seen in Table 2. [4]

Suggested Answer:
Background: There is growth in real GDP of China but it is slowing down.
Hence answer must show AD continuing to rise but at a slower rate.

Factor 1:
Assuming all other components of AD could be rising, but one of the following may be falling:
- C is falling due to a fall in consumer confidence
- I is falling due to business pessimism
- (X-M) is falling as X revenue is falling due to the emergence of other overseas competitors; Exports declining because China is moving from a manufacturing and export-driven economy to a service and domestically-driven one.
- Cut back on government spending, hence G is falling.

Other factors:
- Assume that the components of AD may be rising but at a slower rate.
- It depends on the state of the economy i.e. where AD cuts AS curve

b) (i) Explain the conflict between inflation and unemployment. [2]

Suggested Answer:
Inflation and unemployment are inversely related [1]
Explanation using AD/AS.[1]
- Type of inflation → Demand pull inflation caused by rapidly rising AD (excessive economic growth)
- Type of unemployment → cyclical unemployment caused by fall in AD (recession)

AD/AS diagram is not required.

b) (ii) Discuss whether continued deflation in the UK is a cause for concern to the UK households and firms. [8]

Suggested Answer:

Define deflation as a persistent fall in general price level.

Thesis: Continued deflation is a concern in the UK

- **Delayed spending** that may worsen and bring on a recession. People may delay their spending in anticipation of lower prices in the future. Hence when C falls, AD falls and NY falls to below Yf. Evidence in extract 1 where Hollingsworth says it could alter households' inflation expectations as well as firms' investment decisions.

- Lower future profits may lead to a **fall in in investment**, bring on a recession. Lower prices & delayed spending may affect the revenue of firms, hence their profits in the future. Together with less certainty, firms may also delay their investment decisions. Hence when I falls, AD falls and NY falls to below Yf. Evidence in extract 1 where Hollingsworth says it could alter households' inflation expectations as well as firms' investment decisions.

- During deflation, **borrowers lose** as the value of debt is higher. Greater burden on UK households and firms. Evidence from Extract 1, "UK households and firms carrying a lot of debt"

Anti-thesis: Continued deflation is not a cause for concern in the UK

- Mild deflation may increase real wages. Given constant nominal wages, a fall in prices may benefit workers with a fixed wage as they will be able to purchase more goods and services given the same level of income. Purchasing power increased.
- Not a case of concern (Evidence extract 1 "mild deflation is essential good… if driven by lower energy prices, boosting household purchasing power and lower firms' day-to-day running costs"

Synthesis:

- Deflation in the UK is likely a source of concern as it often returns once the stimulus is removed, indicating that that fall in AD is more deep rooted. Furthermore, the debt situation has worsened the problem as confidence levels drop and firms and households alike delay spending and investments.

Level	***Descriptors***	***Marks***
L2	*Provided a balanced argument by looking at both positive and negative impacts on households and firms.*	*4 – 6*
L1	*Considered superficially the impact of deflation on households and firms. Answer contains inaccuracies and/or lack of economic analysis.* *Max 3m for one-sided argument.*	*1 – 3*
EV	*Provided a stand as to whether the deflation experienced by the UK is a cause of concern or not. Justified stand by considering at least one criteria, ie, whether deflation is mild or severe, the extent of deflation, the root cause of deflation etc. Considered the significance of the impact on households and firms.*	*Up to further 2m*

c) (i) "The MAS uses the currency rather than interest rate to guide the economy." Explain this statement. [5]

Suggested Answer:

Open Economy trilemma – can only control 1 or 2 but not all 3 [1]

Explain SG's choice to use exchange rate instead of interest rate due to characteristics of economy

1) Small and hence dependent on trade – use exchange rate to influence (X-M) which is more significant to drive Sg's EG [2]
2) Open and hence interest rate taker – if SG offers a relatively higher i/r than other countries → inflow of hot money which will increase domestic money ss and cause i/r to fall. Therefore MAS cannot influence i/r. [2]
3) Due to free capital mobility, if there is a fall in i/r, it will lead to outflow of hot money → increase in supply/fall in dd for S$ → leading to depreciation which goes against MAS stance of gradual appreciation.

Ans must have points 1 & 2 OR points 1 & 3.

c) (ii) Explain and comment on the central bank's decision to set a zero appreciation path for the Singapore dollar. [7]

Suggested Answer:

Explain MAS' decision to use zero appreciation path: [4m]

Identify macroeconomic problems faced by Singapore: [1]

- Extract 2- Low economic growth 0.2% in 2016Q1 and inflation expected to remain negative till end of 2016. Hence slower growth is a more pertinent issue compared to inflation.

Explain how zero appreciation works:

- Zero appreciation means MAS flattened the slope of the band it uses to guide the Singdollar against an undisclosed trading basket and takes S$ off the path of modest and gradual appreciation.
- Zero appreciation will make exports appear cheaper in foreign currency terms and imports appear more expensive in local currency terms [1]
- → improve (X-M) →Increase (X-M) → increase AD [1], c.p.
- → increase RNY leading to actual economic growth [1]

Comment on MAS decision to use zero appreciation path: [3m]

- Stand: Not effective
  - Zero appreciation may not be sufficient to address fall in demand from trading partners as many economies are also suffering from weak economic growth (Extract 2 "most key economies also expected to see similar or slower growth in second half of 2016.")
  - SG government may wish to consider implementation expansionary fiscal policy to help stimulate the economy and boost economic growth.

  OR
- Stand: Effective
  - Zero appreciation policy can be undertaken assuming weak inflationary pressure on prices and hence low risk of imported inflation.
  - This stance also helps to improve our export competitiveness given the weak global economic sentiments.

d) Explain **two** possible causes of productivity issues in Singapore. [4]

Suggested Answer:
Identify cause
Explain how it leads to a fall in productivity (output per unit of input)

Factor 1: Rapid changes in technology
- Due to the **rapid growth in the use of technology**, the nature of jobs are constantly changing.
- Workers may not be able to keep up with the technology changes as they **lack the relevant skills and training** to operate the new and advanced equipment.
- Hence productivity falls as there is **less output produced per man-hour**.

Factor 2: Ageing Population
- A large proportion of the workforce is made up of the elderly 60 years and above.
- They may have **increased sick leave** as the tendency of having health problems increases with age.
- This decreases productivity as there is **less output with the same number of workers**.

Factor 3: Lack relevant skills
- Workers **may not possess the relevant skills** to perform their jobs due to changes in job scope
- A period of time is required for training and for them to acquire the skills and be proficient in their work. If workers are not receptive to changes and do not have the mindset to learn new skills, they will not be efficient and will take a longer time to complete the tasks.
- Hence a **fall in the quality of workers** leads to a fall in productivity.

e) Discuss whether the proposed approach of the Future Economy Committee is the only way for Singapore to cope with the challenges of "a less favourable external environment" (Extract 7) and the need to "move up the innovation ladder" (Extract 8). [12]

Suggested Answer:

Background information:
The implication of a less favourable external environment for Singapore would be slow or falling growth in GDP → AD fall or AD rise slowly. This is due to the fact that Singapore is an open economy dependent on imports for raw materials and exports for growth.

The implication of needing to move up the innovation ladder for Singapore is due to our aging population (hence shrinking work force). Failing to innovate can potentially lead to a fall in AS.

Hence likely slower rise in AD in the SR and fall in AS in the LR (diagram). Therefore use of ERP is insufficient in addressing the problem of the lack of LT growth.
Formation of Future Economy Committee to look into supply-side policies:

Thesis: Supply-Side Policy is effective
- Increase training & retraining of skills → increase quality of resources (Evidence from Extract 8: "build skills and redesign jobs so that workers can be at their best")
- Increase investment in human capital & R&D → increase quality of resources → increase LRAS
  (Extract 8: "invested heavily in education, research and development, the "future of

technology" hinges on how this can be translated into innovative processes")

- Improve state of technology → advancement in technology → increase productivity → increase LRAS
  (Evidence from Extract 8: education, research and development, the "future of technology" hinges on how this can be translated into innovative processes")
- Any 2 measures well-explained (any evidence from Extract 8 with relevant explanation and links to AD/AS also acceptable)

- Explain how the above measures increase AD and AS via I, leading to sustained EG, and a fall in structural and cyclical unN, possible fall in GPL (link to any 2 macro aims).
- Draw AD/AS diagram.

Limitations of SSP: (any 2 well-explained)

- However, supply side policies incur a huge amount of funds and can be very costly for the government. There is an opportunity cost in the usage the funds as the government might have to sacrifice spending in another area, e.g. infrastructure in order to achieve this outcome.

- Furthermore supply side policies such as education and research & development take time. The success of these policies are non-guaranteed as education and retraining depend on the receptiveness of the workers to undergo the training courses. R&D also does not guarantee immediate short term results and may take many cycles of experimentation before successful results can be seen.

Anti-thesis: Explain that another policy is effective [eg. Expansionary FP]

- An expansionary fiscal policy is appropriate to deal with slower actual growth due to a less favourable external environment.
- Expansionary FP will directly increase AD through a rise in government expenditure or a fall in taxation. Fall in personal income and corporate tax will lead to an increase in C and I respectively.
- G, C and I are components of AD. These will result in an increase in AD and a multiplied increase in RNY via the multiplier effect.

Limitations of FP: (any 1 well-explained)

- However, FP does not mitigate the fall or slower rise in net exports which is one of the root causes of slowing growth. While it increases AD, it does not correct the fall in demand for SG goods due to the economic slowdown in other countries e.g. from China or EU countries.
- Furthermore, FP is only effective in mitigating deficiency in AD and is unable to address the fall or slower rise in LRAS.

- Another reason for slowing growth could be due to fall or slower rise in FDI due to weakening business confidence. This is a main factor affecting the level of I in a country and this limits the extent of AD increasing due to lower FDI.

- Extract 8 also mentioned about how disruptive business models and new tech processes (3D-printing etc.) change the way firms operate and also change the type of job skills needed. This suggests that a deficiency in AD may not be the main cause of slower growth, and thus using FP has limited ability to target AS problems.

Overall Evaluation:
Stand: The use of supply-side policy is the only feasible, long term solution for Singapore.

Substantiation: This is due to constraints faced by Singapore. Being small – need to make full use of our resources by focusing on increasing quality of labour and capital. Supply

side policy addresses the issues of poor external environment and need to move up the innovation ladder well. By improving quality of resources and prices of factor inputs, we can maintain and improve on our export competitiveness as well as to attract more FDI into Singapore.

Level	***Descriptors***	***Marks***
L3	*Well-developed analysis of policies aimed at addressing ST and LT growth with clear well-explained diagrams. Shows good understanding of policies and their limitations. Good use of examples and case evidence.*	*6 - 9*
L2	*Some explanation of policies but under developed. Economic analysis present with some use of examples.*	*3 – 5*
L1	*A descriptive, list-like answer on the proposed approach by the Committee with no economic analysis.*	*1 – 2*
EV	*Valid evaluative comment that considers the adequacy of the proposed approach by the Committee to address the problems and challenges faced, with some focus on sustained growth.*	*Up to further 3 marks*