

2013 JC2 Prelim Economics H1

CSQ 1

a.	i)	Describe the trend of world coffee prices in Figure 1.	[2]
		World coffee prices were generally rising until end of 1Q in 2011 (1), thereafter falling (1).	
	ii)	Using economic concepts, account for the changes in world coffee prices between 2010 and 2012.	[5]
		<p>Coffee prices were rising between 2010 and 1Q 2011 can be explained by (max 3m):</p> <ol style="list-style-type: none"> 1) Increase in DD <ul style="list-style-type: none"> - Increase in number of coffee drinkers - Increase in speculation DD due to expectations of rising prices 2) Fall in SS <ul style="list-style-type: none"> - Poor harvest in leading coffee-producing countries, e.g. Brazil and Columbia <p>Coffee prices were falling between 1Q2011 and beginning of 2012 can be explained by (max 2m):</p> <ol style="list-style-type: none"> 1) Decrease in DD <ul style="list-style-type: none"> - Decrease in speculation DD due to volatility in the financial market - Decrease in DD due to falling income <p>Changes in prices have been significant due to inelastic SS of coffee (max 2m).</p> <ul style="list-style-type: none"> - Any shifts in the DD curve will result in a sharp change in the prices. <p>3+2+2 = max 5</p>	
	iii)	With reference to the data, explain how the trend of world coffee prices will continue in 2013.	[3]
		Expectation that SS will increase faster than the increase in DD → expectation of falling prices (1) → fall in DD (1) → world coffee prices will continue to fall (1)	
b	i)	Using economic analysis, explain the market failure described in Extract 3.	[4]
		<p>There is no well-established property right of water bodies (2m)</p> <p>→ Coffee planters will free-ride on the water bodies and discharge waste water into water bodies at low or no cost</p>	

		<p>Since coffee planters only care about their private benefits and costs and do not care about externalities (3m)</p> <ul style="list-style-type: none"> ➔ Coffee planters will discharge waste water into water bodies since that is the cheapest way to deal with the waste water ➔ Since waste water released is a health hazard and causes stomach diseases, $MEC > 0$ ➔ The irresponsible actions of coffee planters will result in welfare loss 	
	ii)	<p>In light of the above market failure, you have been tasked by the government to evaluate the appropriateness of the measures implemented by the various bodies mentioned in the data and recommend how the market failure can be better tackled.</p>	[8]
		<p>Measure #1: Lagoon methods to treat water + Regulation</p> <p>This technique recycles the waste water generated from the coffee pulping machines until the water is free from pollutants. Hence, if the coffee planters use this technique there will be a reduction in negative externalities generated which addresses the root of the market failure.</p> <p>Regulation is a command measure and there needs to be close monitoring and harsh penalties in place to stop the coffee planters from continuing to pollute the water bodies and flout the rules set by the PCB. This is necessary for the measure to be successful</p> <p>Evaluation:</p> <ul style="list-style-type: none"> - This measure is however resource intensive as manpower has to be allocated by PCB or village government to closely monitor the use of lagoon system. - Besides a well-established system of rules and penalties must be in place to effectively deter flouting of the rules. - However, due to resource constraints, there is weak monitoring by the PCB in the 1,300 coffee estates, hence enforcement was left to the village governments which may not have the expertise in dealing with the monitoring. - From the data, many coffee planters in many estates are still not using the lagoon methods and continuing to generate external costs on third parties. <p>Measure #2: Subsidies given to use dry pulpers</p> <p>Subsidies given to coffee planters reduce the cost of switching to dry pulpers which encourages these planters to use the dry pulpers which use less water and hence generate less waste water. This will reduce the negative externalities generated which will address the root of the market failure.</p> <p>Evaluation:</p> <ul style="list-style-type: none"> - Due to the weak monitoring of the use of lagoon systems, higher subsidies can be given to encourage planters to switch to a 'cleaner' method. 	

- This could be a more efficient and sustainable measure to reduce the externalities.
- However, the implementation costs are significant as the government or Coffee Board may not have the funds to channel into such subsidies. This can be seen from the data in that coffee planters seem to be delaying the switch to dry pulpers because they are waiting for the Coffee Board to increase the amount of subsidy from 20% to 50%.
- Therefore, although it may be a more efficient and sustainable measure, the set up cost may be very high.

Conclusion

Several measures have been put in place to address the source of the market failure and if the coffee planters adhere to these measures the negative externalities will be reduced. However, it seems that the coffee planters have yet to take up the techniques which will reduce the amount of waste water generated which means that the source of the market failure is not addressed. Furthermore, it seems that due to the large number of coffee growing areas which translates to the large number of coffee planters, the government bodies are unable to enforce that the coffee planters are adhering to the rules. Hence, water pollution issue has not been resolved.

Level	Descriptor	Marks
L1	An answer which lists the measures implemented to address the market failure with very little explanation.	1-2
L2	A one-sided answer which explains how the measures address the source of the market failure OR A two-sided answer which explains how the measures address the source of the market failure AND evaluates the effectiveness of the measures but there are gaps in the discussion. An answer which makes some reference to the data.	3-4
L3	A well-developed two-sided answer which discusses how the measures address the source of the market failure AND evaluates the effectiveness of the measures. An answer which thoroughly uses data evidence.	5-6
E1	Conclusion with little or no justification.	+1
E2	Conclusion with justification.	+2

c.		Discuss the impact of globalisation on the coffee café market in India.	[8]												
		<p>Impact on consumers:</p> <ul style="list-style-type: none">- Globalisation → entry of foreign firms into India (e.g. Starbucks) → increase in SS (i.e. more coffee chains/joints or competition forcing firms to be more efficient) → fall in prices (ceteris paribus) + increase in Q- Globalisation → entry of foreign firms into India → increasing competition amongst firms → better quality services (e.g. environment, experience) + better variety (e.g. can cater to different taste and preferences) <p>Impact on producers:</p> <ul style="list-style-type: none">- Globalisation → entry of foreign firms into India → increases competition in the market → more competitive environment → India coffee café chains have to constantly innovate or bring down cost to maintain competitiveness → expansion of outlets + catering to local taste and preferences- Such firms may not lose a lot of market share as their prices are still relatively lower to those of Starbucks and the DD for such coffee will probably increase with growing affluence in India. <p>Overall, the coffee café market in India should expand with a higher Q and lower P. There is also more variety and choices for the consumers. Efficiency (productive and allocative) should also improve</p> <table><tr><th>Level</th><th>Descriptor</th><th>Marks</th></tr><tr><td>L1</td><td>An answer which lists the possible impact of globalisation on the coffee café market in India.</td><td>1-2</td></tr><tr><td>L2</td><td>An answer which explains<ol style="list-style-type: none">1) How the consumers will be impacted or how the producers will be impacted or2) How the impact is positive or how the impact is negative<p>OR</p>An answer which explains (with gaps)<ol style="list-style-type: none">1) How the consumers will be impacted and how the producers will be impacted or2) How the impact could be positive and/or negative<p>The answer should make some reference to the data.</p></td><td>3-4</td></tr><tr><td>L3</td><td>A well-developed answer examining a range of impact which could be positive and/or negative on both the consumers and producers with good use</td><td>5-6</td></tr></table>	Level	Descriptor	Marks	L1	An answer which lists the possible impact of globalisation on the coffee café market in India.	1-2	L2	An answer which explains <ol style="list-style-type: none">1) How the consumers will be impacted or how the producers will be impacted or2) How the impact is positive or how the impact is negative <p>OR</p> An answer which explains (with gaps) <ol style="list-style-type: none">1) How the consumers will be impacted and how the producers will be impacted or2) How the impact could be positive and/or negative <p>The answer should make some reference to the data.</p>	3-4	L3	A well-developed answer examining a range of impact which could be positive and/or negative on both the consumers and producers with good use	5-6	
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		E1	Conclusion with little or no justification.	+1	
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CSQ 2

(a)	(i)	Hong Kong.
	(ii)	<p>Europe's "economic woes" have resulted in falling incomes amongst Europeans. Purchasing power is lowered thus reducing demand for exports from Hong Kong. This fall in export revenue will lead to lower net exports thus reducing aggregate demand and Hong Kong's national income.</p> <p><i>Falling incomes/purchasing power – 1m</i> <i>Reduced demand for exports / Fall in net exports – 1m</i> <i>Fall in AD and NY – 1m</i></p> <p><i>Given that Figure 1 references exports, other causes of falling growth in HK will not be accepted.</i></p>
(b)	(i)	<p>Cost push inflation (2m) Rising oil and food prices (Extract 1). Rising accommodation/transportation costs (Extract 2) Tighter foreign worker policy (Extract 2)</p> <p>Rising cost of production will reduce aggregate supply, causing the general price level to rise.</p> <p>Demand pull inflation (2m) Higher domestic spending (Extract 2)</p> <p>Higher consumption will lead to rise in aggregate demand, causing the general price level to rise.</p> <p><i>A maximum of 3 marks may be given if answer only addresses cost-push inflation with identification of 2 different pieces of evidence and explanation.</i></p>
	(ii)	<p>Aim: explain how inflation could affect the other economic objectives:</p> <p>Actual growth & Cyclical Unemployment</p> <ul style="list-style-type: none"> Rise in cost-push inflation is represented by a fall in AS due to higher costs of production. This will lead to reduced production by firms given the lower rate of return, thus resulting in a fall in national income and a rise in cyclical unemployment. Extent: Since inflation in Singapore is driven by both demand and supply-side factors (Extract 2), this might mitigate the impact on national income. Producers will weigh the higher costs against stronger domestic demand. However given the weak global

		<p>outlook (Extract 1), the impact on actual growth is likely to be significant given Singapore's export-driven growth (Table 1).</p> <p>Potential growth</p> <ul style="list-style-type: none"> • Rising costs will discourage FDI leading to a lower rate of capital accumulation thus hampering potential growth. • Extent: Coupled with the weak economic outlook (Extract 1) and our stuttering productivity growth in 2011 (Table 1, Extract 2), the fall in FDI is likely to be significant. <p>BOP</p> <ul style="list-style-type: none"> • As mentioned above, the fall in FDI will lead to LT capital account outflow. • Rising costs will diminish our export competitiveness and lead to reduced export revenue (assuming $E_p > 1$). This will adversely affect our current account. • Extent: While BOP is likely to deteriorate given inflation, Singapore's BOP is generally healthy (CA in Table 1) and unlikely to be of major concern. <p>Conclusion</p> <ul style="list-style-type: none"> • Adverse effect on Singapore's macroeconomic stability due to lowered growth and higher unemployment. • This is especially so given our need to maintain competitiveness in light of our dependence on external sources of growth. <table border="1"> <thead> <tr> <th>Level</th><th>Descriptor</th><th>Marks</th></tr> </thead> <tbody> <tr> <td>1</td><td>List or describe the impact on a few macroeconomic goals</td><td>1 – 2</td></tr> <tr> <td>2</td><td>Attempt at explaining of the possible impact on other macroeconomic goals but with gaps or inaccuracy in explanation Or Clear explanation of the possible impact on limited macroeconomic goals (lacking in scope)</td><td>3 – 5</td></tr> <tr> <td>3</td><td>Clear analysis of the impact on at least 3 macroeconomic goals.</td><td>6 – 8</td></tr> <tr> <td>E</td><td>Substantiated conclusion</td><td>+2</td></tr> </tbody> </table>	Level	Descriptor	Marks	1	List or describe the impact on a few macroeconomic goals	1 – 2	2	Attempt at explaining of the possible impact on other macroeconomic goals but with gaps or inaccuracy in explanation Or Clear explanation of the possible impact on limited macroeconomic goals (lacking in scope)	3 – 5	3	Clear analysis of the impact on at least 3 macroeconomic goals.	6 – 8	E	Substantiated conclusion	+2
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(c)		<p>Tightening immigration policy for foreigners (Extract 3) and slower resident growth (Extract 3) (1) has resulted in a fall of Y_f due to the reduced labour force (quantity of labour) (1). Thus despite the poor economic climate, unemployment rate has fallen given that AS fall exceeds AD fall (1).</p> <p>Appropriate AD-AS or PPC diagram (1m)</p>															

(d)		<p>Exchange rate policy</p> <ul style="list-style-type: none"> • Currency appreciation (extract 2) targets both demand-pull and cost-push inflation. This may also increase the price competitiveness of our exports which have high import content, thus bringing in greater export revenue. • However, currency appreciation to address short-term fluctuations in price may not be suitable due to its limited effectiveness (1% appreciation of the Nominal Effective Exchange Rate (S\$NEER) will lead to a 0.8% decline in the domestic CPI level over eight quarters – Extract 2). However Singapore is limited in its choice of monetary policy since it is an interest rate taker. • While exchange rate policy will reduce imported inflation, it may lead to slower growth since exports are now relatively more expensive in foreign currency. Thus while an effective means of addressing inflation, the impact on growth is more uncertain. <p>Supply-side policies</p> <ul style="list-style-type: none"> • Singapore's focus on productivity through financial incentives (Extract 2) will cause PPC to shift outwards and possibly achieving non-inflationary growth. Likewise, productivity gains will aid in lowering costs (cost-push inflation) and thus boost production (actual growth). • This will help complement demand-side efforts to boost growth which might be limited due to our weak multiplier. • But given that Singapore is a mature economy (Extract 2) with a large tertiary sector, it is not as easy to increase productivity by simply increasing capital or labour. Our productivity gains are typically lower than our neighbours (Extract 2). Furthermore take-up by firms is slow suggesting the incentives may do little to address growth in the short term (Extract 2). <p>Conclusion</p> <p>Singapore's policy mix tends to take a longer term view in achieving both inflation and growth. In the short term, they appear to be more effective in addressing inflation woes. However, productivity gain for Singapore may be elusive given its economic structure. Perhaps Singapore should consider exploring new markets and continue its training of her workers to ensure that its growth is more balanced.</p> <table border="1"> <thead> <tr> <th>Level</th><th>Descriptor</th><th>Marks</th></tr> </thead> <tbody> <tr> <td>1</td><td>Describe the effects of the policies without making good connection on inflation and economic growth</td><td>1 – 2</td></tr> <tr> <td>2</td><td>Attempt at explaining the effectiveness/non-effectiveness of the policies undertaken but with gaps or inaccuracy in explanation</td><td>3 – 4</td></tr> <tr> <td></td><td>Or Clear explanation of the effectiveness or non-</td><td></td></tr> </tbody> </table>	Level	Descriptor	Marks	1	Describe the effects of the policies without making good connection on inflation and economic growth	1 – 2	2	Attempt at explaining the effectiveness/non-effectiveness of the policies undertaken but with gaps or inaccuracy in explanation	3 – 4		Or Clear explanation of the effectiveness or non-	
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			effectiveness of the policies undertaken but largely 1-sided.	
		3	Clear analysis of the effectiveness and non-effectiveness of the policies undertaken on achieving low inflation and sustainable economic growth.	5 – 6
		E	Substantiated conclusion	+2

Question 3

- a) Explain how resources are allocated in a free market economy. [10m]
b) If a good or service gives rise to positive externalities, it should be produced by the Singapore government. Discuss [15]

Suggested outline part a)

How resources are allocated in a free market economy:

The price of a good reflects the value placed on it by consumers. Consumers indicate their tastes and preferences to firms by the price that they are willing and able to pay for the goods. The higher the demand, the more consumers want that good or service, the price of the good or service will increase (this shows consumers' sovereignty)

Producers indicate how much they are willing to supply at every price level using a combination of labour and capital to produce the output. Producers seeking to maximise profits would only produce goods which consumers demand. The higher the price of a good, the more the producers will supply the good

In this way, the *price acts as a signal* telling the producers what to produce and how much of the good to produce, this will determine the allocation of resources among various goods.

Illustrate with a diagram that shows an increase in the demand of a particular good (use an example of a good) and explain how price will adjust and eliminate the shortage at the initial price level, resulting in an increase in the equilibrium price and quantity.

The profit-motive of producers will mean firms tend to choose the least cost method. To do so, firms are guided by signals they receive regarding relative factor (resource) prices.

E.g. For a firm whose production includes both capital and labour, should the price of capital decreases relative to labour, the firm will replace labour for more capital (assuming they are both close substitutes)

The free market then distributes the good produced according to consumers' willingness and ability to pay, i.e. according to their purchasing power. Purchasing power depends on factor income (wages, rent, interest and profit).

Level	Descriptor	Marks
L1	For an undeveloped answer with superficial explanation of the role of market in allocating resources.	1 – 3
L2	Answer that attempts to provide an explanation on the role of the free market in allocating resources using price signals with the use of examples though answer may lack depth or there are gaps in explanation.	4 – 6
L3	A well-developed answer which is able to clearly state how consumers and producers interact with one another through the intersection of demand and supply to achieve an equilibrium price and output (mechanism). The analysis must address the 3 fundamental questions. Good examples are necessary.	7 - 10

Suggested outline for part b)

Intro: Define positive externalities and Singapore production

Thesis: the S'pore govt should produce

In the case of pure public goods (100% externalities):

→ Non-excludable . This means it is not possible to prevent a non-paying user from enjoying the benefits of consumption of a good - free rider problem since there is no incentive for consumer to pay. So public goods generate 100% positive externalities

→ Non-rival in nature; consumption of a good by a user does not diminish the amount of the good available to the additional user. Marginal social cost of providing the good to an additional user is zero. Difficult for private producers to charge a price for it

E.g. In the case of a pure public good like National Defence, the provision of defence security to a citizen does not diminish the level of security available to the additional citizen of a country.

Left to the free market, public goods will not be provided by private producers, there will be total market failure. Thus in this case, the S'pore govt should provide for it. Direct provision is feasible as the govt is not profit oriented, so it does not need to charge a price. It can use tax revenue to fund for the production of such goods.

Evaluation:

Government as the sole of producer of a good may result in productive efficiency as the government is not guided by profit motive. There could be excessive use of

resources and new distortions may emerge when the funding for such goods is generated through the imposition of taxes in other markets.

However, one can argue that the welfare loss generated when the market is allowed to fail is very great (because of the presence of large positive externalities). Government's direct provision is justified in this case. In order to minimise productive inefficiency, Singapore government may employ private firms to carry out production or supply the service directly while the government remains as the sole provider. E.g. Street Lamps are provided by Singapore's Land Transport Authority but their construction is carried out by private contractors.

In the case of merit goods that are non-rivalrous

Explain briefly how merit goods may result in allocative inefficiency → the presence of positive externalities → $MSB > MPB$ → the problem of under consumption → partial market failure. Thus the Singapore government intervention is needed to move the output level to where $MSC = MSB$ for optimum allocative efficiency.

Some merit goods generate large positive externalities and the MSC of providing the good to an additional consumer is negligible (similar to the case of public goods) e.g. museums and art galleries. Apart from some congestion costs during the busiest periods or additional staffing for special exhibits, the MSC of museums should be close to zero. It is difficult then to charge a price when $MSC (MPC) = 0$. So the government should provide the good for free.

The Singapore government has allowed free admissions to 11 museums for Singaporeans starting in March 2013.

Evaluation:

Even though the museums in Singapore are funded by the government, the management of the museums are allowed to run on their own. This will ensure that the museums are exposed to market forces and they will compete to bring in quality exhibits and art programmes to the public.

In the case of certain basic human right with large positive externalities:

Some merit goods are viewed as a basic human right, so the public sees it as the duty of the state to provide these goods for free or at very low charge. The govt ensures that these merit goods can be consumed by everyone, regardless of their income level, as it brings large benefits not only to the private consumers but also to society.

Singaporean children can get four vaccinations for free at polyclinics. The vaccinations will shield them against some common and preventable childhood infections such as whooping cough and measles. There are overwhelming benefits from these vaccinations, not only for the children but for society's public health in general. It is recommended that at least 95 per cent of the population needs to be vaccinated in order to stop outbreaks of some of these diseases. Through

government provision, the Singapore ensures that these vaccinations are accessible for every child.

Anti-thesis: the S'pore govt should NOT produce goods with positive externalities

In the case of merit goods where competition is important to ensure quality:

Government's provision may bring along inefficiency, it may result in poor quality goods or service. There could also be the problem of over consumption of the good. (Illustrate with a diagram that shows the problem of over consumption). This results in wastage and misallocation of resources. The resultant inefficiencies may be very large and reduces society's welfare significantly.

The Singapore govt regards that in some cases, goods with positive externalities, should be supplied through the market. Competition amongst providers is vital in some markets to ensure high quality service or product. Competition may also bring about innovation and may result in an array of differentiated goods or services that will benefit society. The govt's role in these cases is to influence consumption or production through subsidies or grants to correct the market to achieve efficiency. The government may also intervene through the construction of certain infrastructure or network to offset the high capital outlay for private producers.

In the healthcare industry, there is direct provision of healthcare infrastructure by the govt in the construction of public hospitals and polyclinics but the govt subsidises patient's medical fees and the hospital's operating costs. Explain with a diagram how a subsidy will correct the market failure.

The government has also given public hospitals the full autonomy to manage its operations and run as private firms to ensure a high quality service. This move also ensures that there is competition from private hospitals in attracting quality staff and may spur medical innovation for the industry

Evaluation:

Unlike govt production, a subsidy may not necessarily ensure that medical services are affordable for low income households. Therefore Singapore govt has implemented means testing, a targeted form of subsidy, to address this. This means that the low income individuals will receive more subsidies whilst those in the highest income group receives none at all.

Conclusion:

Besides pure public goods such as public defence, law enforcement services and flood control system, the Singapore government has moved towards providing some merit goods for free such as entrances to museums and early morning MRT rides. This can be attributed to the fact that the government deems these goods or services to have large positive externalities and the impact on society when provided for free, will be significant. Direct govt production in the construction of certain infrastructure, that is very costly for private producers, may also justified to increase the production of certain merit goods.

However, the Singapore government believes strongly in public-private provision of most merit goods to ensure that Singaporeans enjoy a high quality service. Instead of direct provision, the government employs market based solutions such as subsidies or grants to ensure efficiency in the allocation of resources. This is seen in Singapore's education, healthcare and public transport industry. This approach will also reduce the reliance of the citizen's on the government and is more sustainable. It will free up Singapore's budget to address potential macro problems for the economy.

L1	For a limited or inadequate analysis (descriptive knowledge) of government's production in some markets with positive externalities.	1-4
L2	<p>For an explanation to support government's production in some markets with positive externalities, provided sound economic analysis, but arguments were only one-sided</p> <p>OR</p> <p>For a balanced argument in at least 2 cases in the discussion of government's production in some markets with positive externalities, with flaws in economic analysis. Limited use of examples</p>	5-8
L3	For a balanced and well-elaborated arguments of 3 cases in the discussion of government's production or private production. Accurate use of relevant economic analysis. Good reference to Singapore's context.	9-11
E1	For an unexplained assessment, or one that is not supported by economic analysis.	1 – 2
E2	Judgment is based on economic analysis and adequately substantiated	3 – 4

Question 4

(a) Explain the benefits of free trade to a nation. [10]

(b) Discuss the extent to which the Singapore government uses trade to promote economic growth? [15]

Approach to Part (a):

Candidates are expected to differentiate between free trade versus trade since 'free' refers to no restrictions are imposed on the international transactions between nations. The benefits are based largely on the Comparative Advantage Theory that forms the basis for trade and the benefits that come with it. Ultimately, the benefits are expected to promote sustained economic growth and improve standards of living.

Suggested Answer (a)

Intro

- Free trade refers to transactions without any restrictions and often depends on the comparative advantage of a nation
- However, there may be instances where free trade occurs due to intra-industry arguments

Body

Explain the benefits of free trade

1. Actual growth
 - a. Rise in world output from increase in net exports → c.p. increases AD → via k effect → rise in national income
 - i. Greater access to markets → able to reap Economies of Scale in production → lowers price
 - ii. A vent for surplus in domestic production Eg. When there are insufficient domestic demand to fully utilise all the available resources
 - b. Rise in national income → higher purchasing power
 - c. Evaluation: depends on availability of spare capacity, else there may be inflationary pressure in the economy
 - d. Evaluation: depends on infrastructural rigidity
2. Potential growth
 - a. Structural development from greater competition and efficiency → improvements in production processes and transfers of technology → improves capacity and productivity over time
 - b. Import of capital equipment and technology to improve capacity and efficiency of domestic firms
3. Higher SOL
 - a. Rise in consumption possibilities
 - i. From import of cheaper alternatives for domestic consumers → consumer surplus rises
 - ii. From rise in import in variety of goods and services for domestic consumers → welfare increases
 - b. Rise in import → provides cheaper raw materials for production → lowers domestic cost of production

Conclusion

- Given the benefits, it is often a driver of a nation's economic growth
- However, there may be costs and trade-offs involved

Mark Scheme

Level/Mark	Competencies / Descriptors

L3 7 - 10	Well-substantiated answer that covers the areas of sustained growth and standard of living.
L2 4 - 6	Answer that lacks sufficient scope and may contain gaps in explanation. Answer that covers at least 2 out of the 3 areas in the suggested answer above.
L1 1 - 3	Mere listing of the benefits of trade without clear understanding or weak attempts in explanation of how a nation may benefit.

(b) Discuss the extent to which the Singapore government uses trade to promote economic growth? [15]

Approach to Part (b):

The basis for argument hinges on whether trade forms an essential part of a nation's contribution to national income. Thus, the characteristics of such nations should be highlighted in the answer expected. However, there may also be costs involved in trade that may require policies to mitigate. For nations that are less reliant on external demand, economic policies that focus on domestic factors may play a larger role. In the final analysis, in order for economic growth to be sustained, economic policies may be relied upon to complement the benefits of trade to boost growth.

Suggested Answer (b)

Intro

- Trade that leads to rise in (x-m) promotes economic growth in general for all economies
- But there are costs involved too Eg. Excessive rise in M becomes a withdrawal affecting rate of growth; externalities such as environmental degradation
- Degree of impact of trade to drive growth differs amongst nations Eg. Singapore more reliant than other where domestic economy contributes more to GDP
- Therefore, there is a need for macroeconomic policies to promote economic growth and curb other problems from trade

Body

Explain how & extent trade has been used to promote economic growth

1. Trade policies
 - a. Trade agreements

- i. Reduces restrictions with trade partners (i.e. reduction in tariffs)
 - increase export volumes → rise in AD → rise in national income via k effect
 - ii. Evaluation: possible rise in imports from trade partners negate rise in exports, proportion of contribution from internal demand
- b. Trade restrictions
 - i. Reduces trade restrictions → foreign countries exporting more to Singapore → rise in AD and national income for them → rise in DD for Singapore exports (beggar-thy-neighbour effect) → rise in AD → rise in national income via k effect
 - ii. Evaluation: export growth should be more than import growth due to the size of global market vs local market
- c. Trade arrangements (eg. Customs union)
 - i. Formation of trade arrangements may lead to more trade creation between member nations but leads to trade diversion with non-members
 - ii. Evaluation: complimentary endowments in factors of production or technology affects the degree of effectiveness to boost trade
- 2. Devaluation of home currency to boost net exports in times of global recession
 - a. Exports in foreign currency is cheaper → rise in export competitiveness
 - b. Imports in home currency is more expensive → fall in import expenditure
 - c. Net fall in $(x-m)$ → rise in AD → rise in national income via k effect
 - d. Evaluation: M-L condition or elastic DD for export and import, time lag (J-curve effect), proportion of contribution to GDP from external demand, root cause of falling net exports is not due to price competitiveness but a fall in foreign income levels.

Explain how & extent other economic policies have been used to promote economic growth

These arguments focus on the domestic factors to promote economic growth and are effective because the domestic sectors / demand constitute a larger proportion in terms of contribution to national income. Thus, focus of policies to boost to C, I and G in the AD instead of $(x - m)$. These arguments may also be used to reduce the over-reliance on trade as the main driver of economic growth for the nation.

- 1. Expansionary demand management policies
 - a. Expansionary fiscal policies
 - i. Increase government expenditure (G) → rise in AD
 - ii. Lower taxation (T) → higher disposable incomes → rise in C and I → rise in AD
 - iii. Rise in AD → increases national income via k effect

- iv. Evaluation: limited by confidence in economy, time lag, government budget, size of k
- b. Expansionary monetary policies
 - i. Lower domestic interest rate due to increase in domestic money supply
 - ii. Encourages investment (I) due to cost of borrowing falls relative to rates of return → rise in AD
 - iii. Encourages consumption (C) due to lower opportunity cost of consumption → rise in AD → rise in national income via k effect
 - iv. Evaluation: subject to strong consumer/business confidence, interest elasticity, Singapore is an interest-rate taker.
- 2. Expansionary supply side policies – keeps inflationary pressures in check
 - a. Lowers business costs (SRAS)
 - i. Via rise in productivity → training or improvement of skills, harness technology, use of machines etc
 - ii. Helps mitigate negative impact from greater foreign competition due to increased trade
 - iii. Evaluation: mindsets, funding
 - b. Raises long run capacity of economy (LRAS)
 - i. Via Infrastructure expenditure and development → building of road networks, R&D facilities etc
 - ii. Helps mitigate structural unemployment through expenditures on training human capital
 - iii. Evaluation: time lag, funding, land space and resources

Evaluation

- Whether trade or other factors are more important to promote economic growth depends on
 - o nature of economy (degree of contribution from trade to GDP vs domestic factors)
 - o mobility and supply of factors of production in the economy
 - o state of economy (whether there are spare capacity to meet rise in AD)

Conclusion

- A nation that is more reliant on external demand (eg. Singapore) would depend on trade to drive its AD → economic growth because total trade comprises more than 300% of its GDP
- Other nations that rely more on domestic sectors for growth may therefore depend on other macroeconomic policies to boost C, I or G to increase AD

- The size of multiplier that depends on the proportion of leakage in the economy limits the effectiveness of using macroeconomic policies to promote economic growth

Mark Scheme

Level/Mark	Competencies / Descriptors
L3 9 - 11	A balanced answer that shows a clear understanding that trade and other policies can be used to promote economic growth. The extent of this synergistic relationship should be clearly demonstrated using the characteristics of economies as the basis for judgement.
L2 5 - 8	Answer that shows a clear understanding that trade and other factors can be used to promote economic growth but with some gaps in explanation (i.e. good scope but lacking depth) OR Answer that shows very clear understanding that trade can/cannot be used to promote economic growth without consideration of other factors promoting economic growth (i.e. good depth but lacking scope)
L1 1 – 4	Some attempt to answer the question but lacks both scope and depth in explanation.
E1 1 - 2	Some substantiation and evaluation of arguments demonstrated
E2 3 - 4	Well-substantiated answer that shows a clear understanding that the characteristics of an economy plays a pivotal role in how economic policies should be adopted.