

ST ANDREW'S JUNIOR COLLEGE
PRELIMINARY EXAMINATIONS – 2011
General Certificate of Education Advanced Level
Higher 2

Suggested Answers
and Mark Schemes

ECONOMICS

9732/01

Paper 1: Case Study Questions

14 Sep 2011

2 hours 15 minutes

Additional Materials: Answer Paper

READ THESE INSTRUCTIONS FIRST

Write your name and class on all the work you hand in.

Write in dark blue or black pen on both sides of the paper.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.



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This document consists of **18** printed pages.

[Turn Over

Question 1

New Formula and Glittery Growth for Singapore

Extract 1: Singapore Tourism Revenue Surges on Record Visitor Arrivals

The money spent by tourists visiting Singapore surged last year after a record number of people travelled to the city-state, attracted by two new casinos amid a rebound in the global economy.

Spending rose 49 percent to S\$18.8 billion (\$14.7 billion) last year, exceeding the government's forecast of as much as S\$18.5 billion, the Singapore Tourism Board (STB) said in a statement today. International visitor arrivals rose 20 percent to 11.6 million in 2010.

Efforts to boost tourism in 2010 included the inaugural Youth Olympic Games, while the Singapore leg of Formula One, the world's most-watched motor sport, took place for the third year.

Adapted from *The Straits Times*, 12 November 2010

Extract 2: Sentosa IR Edges Ahead of Rival Marina Bay Sands (MBS)

Genting Singapore after being awarded its casino license, continues to lead the field in what is shaping up to be an intense horse race in Singapore's booming gaming market. Yesterday, it also unveiled details of new attractions set to make Universal Studios Singapore, housed within its Resort World Sentosa (RWS), a leading theme park in the region. Popular ride Battlestar Galactica, which has been suspended from operations since March, will re-open in the first half of next year.

RWS said yesterday that it is well on track to meet its visitor targets for the first year of operations – 13 million – while giving more details about its upcoming enhancements. It said that its four hotels are fully operational, and that the show *Voyage De La Vie* opened in July to a good response. This quarter, RWS will launch the world's largest animatronic attraction, Crane Dance, at the waterfront. Universal Studios Singapore remained popular with local and overseas guests, although the main attraction Battlestar Galactica is still closed. RWS said that the ride and another new attraction, called Journey to Madagascar, will be opened in the first half of next year.

MBS, which is owned by America's Las Vegas Sands, markets itself as a business and convention centre. Its 57th-floor "skypod", which seems to balance precariously atop three curving towers, is widely admired. Its infinity "skypool" is now the "go-to destination" for starlets who wish to splash around in bikinis for the cameras. It also has the world's biggest ballroom and a perfectly vast shopping centre. Just a 10-mins ride away, RWS projects itself as a family resort: it boasts a large Universal Studios set, as well as the obligatory fun rides.

Adapted from *The Straits Times*, 12 November 2010

Extract 3: Crown looks to attract more Middle East high rollers

Casinos operator Crown Ltd says it is feeling the effect of competition from new casinos in Singapore but may be in a better position when extensive refurbishments of its Melbourne and Perth casinos are completed.

"We expect to continue to feel the impact of Singapore, and it's a question as to how we can replace that business with new business out of China and also new business out of Singapore," Crown chief executive Rowen Craigie said.

One thing Crown Ltd is looking at is attracting more gamblers from the Middle East to Melbourne's Crown casino and Burswood casino in Perth.

Crown wants to improve links between the VIP gaming operations at the Aspinall's Club in London and its two Australian casinos, after completing its acquisition of Aspinall's in May 2011. "Aspinall's offers the group the opportunity probably to tap into the market that Aspinall's has traditionally serviced, which is the Middle East market," Mr Craigie said. "But we think in better integrating the two operations (Australia and the UK), we would be hopeful to get some new business out of the Middle East to Australia."

Adapted from *www.heraldsun.com.au*, 29 August 2011

Table 1: Quarterly Revenue earned by Marina Bay Sands (MBS) and Resort World Sentosa (RWS) in 2010 – 2011 (in million SGD)

Integrated Resorts/Year	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011
Marina Bay Sands	N.A.	\$281	\$631	\$728	\$760	\$958
Resort World Sentosa	\$460	\$979	\$744	\$788	\$922	\$728

Note: N.A. = Not available; 1Q 2010 = 1st Quarter 2010

Source: *Quarterly Financial Reports* of MBS and RWS,
www.straitstimes.com, June 2011

Extract 4: Government funding for Formula 1 (F1) Race

The F1 race is set to generate \$100 million for Singapore each year. But many question whether the returns are big enough for the government to fund 60% in organising the \$150 million race. The spillover benefits to the economy are very large, whether it is tourism spending or consumer spending or business activity. "If STB is able to support this at a level comparable to the benefits for tourism and the economy, then it is justifiable. There are also mechanisms in place to ensure that if in fact the race is very successful, very profitable, then, profits beyond a certain pre-agreed level between STB and Singapore Grand Prix Pte Ltd will be ploughed back to defray the cost, in other words, to reduce the government grant," Minister of State for Trade and Industry, S Iswaran said.

Adapted from *Channel NewsAsia*, 26 May 2007

Extract 5: F1 Tickets Sold Online Buck High Price Trend

People fishing for a quick buck have cast their eyes on the latest happenings in town - the F1 race this weekend. More than 300 tickets have been spotted for sale on popular auction websites such as Ebay just days before the race is flagged off this Sunday. One listing is offering a three-day pit grandstand ticket for more than S\$2,000. That's some S\$600 above the official price of S\$1,400.

However, a large number of the tickets sold online are going for as much as 60 per cent below the official price. The practice is prohibited. Under the official purchase terms and conditions, tickets may not be resold or transferred for free or otherwise. Singapore Grand Prix Pte Ltd has served legal notice on at least one website for reselling F1 tickets and are in the midst of gathering more evidence against several more.

Adapted from *Channel NewsAsia*, 25 September 2008

Questions

- (a) (i)** Describe the trend of the revenue earned by Resort World Sentosa (RWS) from 1Q 2010 to 2Q 2011. [2]
- (ii)** Using economic concepts, account for your observations in **(a) (i)**. [4]
- (b) (i)** With reference to the data given, explain the likely market structure of the gaming industry in Singapore. [4]
- (ii)** Using a diagram, assess how the entrance of the two casinos (RWS and MBS) into the regional gaming industry would affect casino operator Crown Ltd. [4]
- (c)** Using economic analysis, discuss whether reselling of F1 tickets should be prohibited. [6]
- (d)** Assess the impact of the decision made by the Singapore government to build the two integrated resorts on its economy. [10]

[Total: 30]

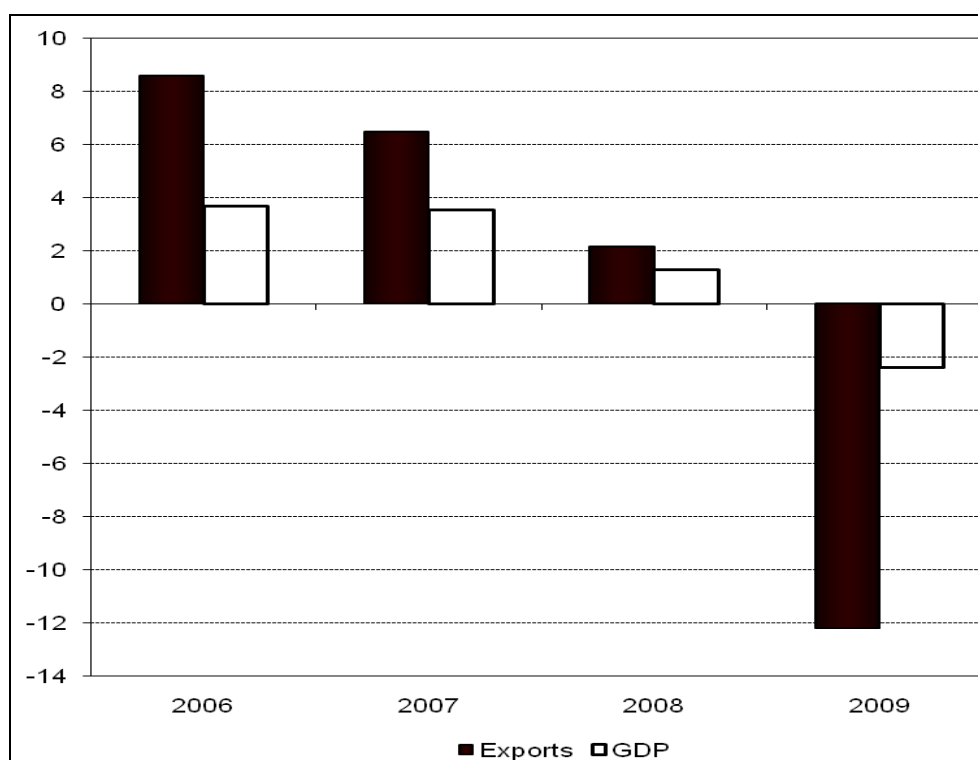
Question 2

Economic Recovery and Trade

Table 2: Singapore's Key Economic Indicators

	2006	2007	2008	2009
Consumer Price Index (% change)	1.0	2.1	6.6	0.6
Unemployment Rate (%)	2.7	2.1	2.2	3
% change in GDP at 2005 market prices	8.7	8.8	1.5	-0.8

Source: Singapore Department of Statistics

Figure 1: Volume of world merchandise exports and GDP, 2006 – 2009
(Annual % change)

Source: www.wto.org

Extract 6: Singapore's economy bounces back

Singapore appears to be emerging from its worst recession on record after the economy expanded at an annualised rate of 20.4% between April and June. The rapid expansion compares with a revised contraction of 12.7% in the first quarter from January to March. It was the first quarterly expansion in a year, lifted by increased drug sales and construction activity, said the Ministry of Trade and Industry. However, the government still expects the economy to contract for the year. The government now predicts the economy will decline between 4% and 6% for 2009 as a whole, less than its earlier estimate of a contraction of between 6% and 9%.

There was a big sigh of relief for many Singaporeans as the economy expanded in the second quarter at its fastest rate in nearly 6 years. Growth surpassed expectations, with a more than 20% rise from the previous quarter. All thanks to a surge in biomedical production, pharmaceuticals and high-end specialist manufacturing. And increased demand for flu vaccines helped an already recession-proof sector to expand. Exports, which are the real lifeblood of Singapore's economy, rose nearly 6% in May. Shipments of raw materials such as iron ore are picking up. The reason, yet again, appears to be China. The rest of the manufacturing sector is still struggling, however, and retail sales are still down. Domestic consumption is not picking up, so analysts say the worst may not be over yet.

Source: *BBC News*, 14 July 2009

Extract 7: Rising Protectionism

A steady buildup of protectionist measures could "slowly strangle" international trade and undercut the effectiveness of national stimulus plans, according to a report the World Trade Organisation (WTO) sent its 153 members on Thursday. Since early this year, there has been "significant slippage" in the global commitment to free trade due to the global economic crisis, the WTO said. "There have been increases in tariffs, new nontariff measures and more resort to trade defense measures such as antidumping actions."

The report lists examples of measures countries are taking to protect their companies and economies -- from European import tariffs on Asian plastic bags to a ban on Chinese toys in India. In March alone, South Korea raised import tariffs on oil; Mexico raised tariffs on 89 U.S. goods; Ukraine slapped an extra 13% tariff on all imports; the U.S. raised duties on imports of Chinese steel pipes; and Argentina mandated a special license for toy imports.

Twelve countries have acted to help their automobile industries. The U.S., Brazil and France have handed out generous loans. India has required licenses and Argentina has set prices for importation of foreign car parts. Ten countries, and the EU, have raised tariffs on imported steel. The WTO praised some nations for explicitly promoting trade. Argentina has eliminated export taxes on 35 dairy products. Brazil has expanded a program to give loans to exporters. China has scrapped import tariffs on steel plates. The Philippines has cut tariffs on wheat and cement. "More trade-policy initiatives of this kind, particularly if they were to be taken collectively by the major trading countries, would make an impact on a global scale," the WTO said.

Source: *Wall Street Journal*, 27 March 2009

Extract 8: Inflation rises with Asia's recovery

Asian economies, buoyed by fiscal pump-priming, loose monetary policies and growing intra-regional trade, have generally rebounded from recession faster and in better financial shape than other regions around the world. But as economic recovery comes quicker to Asia than in Europe and the United States, inflationary threats are rising as regional governments remain reluctant to rein in their crisis-induced stimulus measures, including, in many countries, record low interest rates.

As fast economic growth resumes, so too are pricing pressures that some say could undermine the medium-term effectiveness of government stimulus measures. Food and energy are major components of Asia's consumer price indices - accounting for as much as 60% and 15% respectively in certain economies. There is growing evidence of labour shortages across the region, with Chinese firms in the country's export-oriented southern regions complaining of insufficient skilled workers. Increasing consumer spending power, too, is contributing to inflationary pressures.

The International Monetary Fund (IMF), for one, does not support the rapid withdrawal of Asia's fiscal stimulus measures, warning that while economies have recovered they may not be strong enough yet to stand alone. Due to the still-fragile nature of the recovery, fiscal policies need to remain supportive of economic activity in the near term.

At the same time, the IMF said "countries that are already enjoying a relatively robust rebound of activity and credit will have to tighten monetary conditions earlier and faster than their counterparts elsewhere". Whether Asia's central banks do so in a timely and effective manner will determine whether Asia's recovering economies sustain growth or set the macroeconomic stage for the region's next bust.

Source: *Asia Times*, 25 February 2010

Questions

- (a) (i) Describe the trend of Singapore GDP from 2005 - 2009. [2]
- (ii) What does your observation in (a) (i) say about the Singapore's economic performance over the same period? [4]
- (b) "Exports, which are the real lifeblood of Singapore's economy, rose nearly 6% in May" (Extract 6).
Consider how the above could impact the Singapore government's use of exchange rate policy to boost its economy. [6]
- (c) (i) State any two causes of inflationary threats in Extract 8. [2]
- (ii) Assess whether the IMF has adopted the right approach in not supporting the rapid withdrawal of fiscal stimulus measures by Asian countries. [6]
- (d) (i) Using Figure 1, explain the relationship between real GDP growth and trade growth of the world from 2006 - 2009. [2]
- (ii) Some countries have moved away from free trade while others promoted it. Discuss under what circumstances these differing approaches would benefit the countries involved. [8]

[Total: 30]

~~ End ~~

SUGGESTED ANSWERS AND MARK SCHEMES

Case Study Question 1

- (a)(i) Describe the trend of the revenue earned by Resort World Sentosa (RWS) from 1Q 2010 to 2Q 2011. [2]

General Trend

The revenue earned by Resort World Sentosa generally increased from 1Q 2010 to 2Q 2011. [1]

Refinement/Anomaly

However, the revenue earned by Resort World Sentosa fell during 3Q 2010 and 2Q 2011. [1]

- (a)(ii) Using economic concepts, account for your observations in (a)(i). [4]

Reason for the General Trend

As mentioned in Extract 1, “the money spent by tourists visiting Singapore surged last year after a record number of people travelled to the city-state”. Therefore, the general increase in the revenue earned by Resort World Sentosa (RWS) is due to the increase in the demand by international visitors to tour in Singapore in year 2010 as they were attracted by the two newly opened casinos, the inaugural Youth Olympic Games as well as the Formula One. [2]

Reason for the Refinement/Anomaly

(Note that the students are only required to account for just one of the refinements or anomalies)

Fall in revenue during 3Q 2010

As the casinos in RWS and MBS generally provide similar services in the gaming industry, they can be considered to be substitutes. [1]

The fall in RWS revenue from 2Q 2010 to 3Q 2010 could be attributed to the opening of MBS in 2Q 2010. The entrance of MBS into the gaming industry may result in a fall in demand for RWS services, especially for consumers whose demand tend to be more price elastic, thus causing the revenue earned by RWS to fall. [1]

Fall in revenue during 2Q 2011

The fall in the revenue earned by RWS during 2Q 2011 could be due to the success of its rival, Marina Bay Sands (MBS), having successfully marketed its facilities such as the infinity pool to attract visitors (Extract 2). [1] This resulted in more tourists preferring MBS to RWS. Being a substitute to MBS, RWS hence experienced a fall in demand and revenue earned from its casino and other recreational services. [1]

(b)(i) With reference to the data given, explain the likely market structure of the gaming industry in Singapore. [4]

The market structure of the gaming industry is likely to be a duopoly (an oligopoly is also acceptable). [1]

Candidates are to support this by relating this to two of the characteristics of a duopoly or an oligopoly. [3]

Number of firms

A small number of large firms would dominate the market. The gaming industry in Singapore is made up of rivals RWS and MBS. These are the only two firms in the gaming industry in Singapore.

Barriers to entry (BTE): High BTE.

Either

Government regulation: In order to enter the gaming industry in Singapore, firms have to first obtain licenses (Extract 2 Para 1).

Or

Set-up cost: There are high set-up costs involved in entering the gaming industry as it takes a large amount of capital and resources in order to set up these firms. As such, this deters new entrants into the gaming industry.

(b)(ii) Using a diagram, assess how the entrance of the two casinos (RWS and MBS) into the regional gaming industry would affect casino operator Crown Ltd. [4]

The entrance of the two casinos (RWS and MBS) into the gaming industry would increase the supply of casino operators in the region. This increase in competition in the region is likely to result in a fall in demand for casino operator Crown Ltd, assuming RWS and MBS are substitutes to that of Crown Ltd. At the same time, the demand for casino operator Crown Ltd will become more price elastic. This will result in a fall in the price and quantity, causing a fall in revenue earned by casino operator Crown Ltd.

Students should draw a diagram showing how a fall in AR and MR curve with gentler slope would result in a fall in price and quantity.

In the long run, as mentioned in Extract 3, if Crown Ltd is successful in attracting more gamblers from the Middle East to Melbourne's Crown casino and Burswood casino in Perth as well as improve links between the VIP gaming operations at the Aspinall's Club in London, the demand for Crown Ltd might increase and also become more price inelastic in the long run.

Furthermore, due to the acquisition and integration of Australia's and UK's operations, Crown Ltd might enjoy internal EOS and average cost (AC) might fall. Therefore in the long run, assuming other things remain constant, Crown Ltd might experience a rise in profits.

Level	Knowledge, Application, Understanding and Analysis
L2 (3 – 4)	Able to explain the effect on the <u>profits</u> of Crown Ltd with an accurately drawn diagram, showing a rise in demand and a relatively more price inelastic demand curve together with a fall in costs <u>in the LR</u> .
L1 (1 – 2)	Able to explain the effect on the <u>profits</u> of Crown Ltd with an accurately drawn diagram, showing a fall in demand and relatively more price elastic demand curve <u>in the SR</u> .

(c) Using economic analysis, discuss whether reselling of F1 ticket should be prohibited. [6]

Reselling of F1 tickets should be prohibited because as mentioned in Extract 4, it will create a black market where people who want to earn quick bucks would sell their F1 tickets online at a high price of about S\$600 above the official price of S\$1,400. This should be discouraged as this will reduce consumer surplus as the price has gone up too high.

If the black market price were to increase to a level that results in bona fide F1 fans not being able to afford the tickets anymore, these fans' welfare will be reduced as they are now being denied by the highly speculated prices. The 'unnecessary' higher prices would also mean reduction in the consumer surplus of all, including those who managed to obtain the tickets eventually.

In addition, if reselling of F1 tickets is not prohibited and causing fans to await for the 'discounted' tickets available online, this might lead to a fall in demand for official full-priced tickets and thus a fall in the eventual revenue of the organiser which implies a fall in the returns to such investment. As the government will need to give more grants to organise the F1 event in view of the fall in the returns, there will be opportunity cost incurred as the increased government grants could be used to provide funding on other areas such as healthcare etc. As implied by Extract 4, lower profitability of the organiser would mean lower chance of government recouping the outright grant expended to fund this event.

However, reselling of F1 tickets may have its merit as there is still a large number of the tickets sold online are going for as much as 60 per cent below the official price (Extract 4). This shows that there could be ticket holders (not the profiteers), who have bought the tickets earlier, are willing to sell a lower price due to valid reasons due to unforeseen circumstances of not being able to turn up for the event. If this group of people were not allowed to resell their F1 tickets, there would be allocative inefficiency. This is because the tickets could not be reallocated to people who have a strong desire to attend the event and could not get the tickets earlier. As a result, there might be wastage of resources.

Level	Knowledge, Application, Understanding and Analysis
L3 (5 – 6)	Able to explain why reselling of F1 tickets should and should <u>not</u> be prohibited with economic analysis.
L2 (3 – 4)	Able to explain why reselling of F1 tickets should be prohibited with economic analysis.
L1 (1 – 2)	Smattering of valid points. Economic analysis is largely missing.

(d) Assess the impact of the decision made by the Singapore government to build the two integrated resorts on its economy. [10]

Candidates should assess both the internal as well as external impact on the Singapore economy on the building of the two integrated resorts (IRs). The internal impacts could be on macroeconomy as well as microeconomy.

Internal factors:

Economic growth

The decision made by the Singapore government to build the two IRs would result in an increase in aggregate demand (AD) due to an increase in investment in the Singapore economy. The investment of Genting Singapore and Las Vegas Sands, having won the bids to build Resorts World Sentosa (RWS) and Marina Bay Sands (MBS) respectively, would directly increase the investment component of AD, thus resulting in a rightward shift in AD. Due to an increase in total expenditure, there would be greater production of goods and services, which result in greater employment of resources. As unemployment falls, there would be greater income earned which in turn leads to greater consumption. Through the multiplier process, there would be an increase in real national income.

Furthermore, with the two IRs built, Singapore has seen an increase in tourist revenue and visitor arrivals (Extract 1 Para 2). Assuming there are no changes in the level of imports, an increase in tourist revenue would result in an increase in net exports and an increase in AD. This would also lead to an increase in real national income and thus achieve actual economic growth.

In the LR, the building of the two integrated resorts would lead to an increase in potential output as it will create new jobs and attract further related investment in the area of tourism and entertainment.

Employment

An increase in AD, as a result of the decision made by the Singapore government to build the two IRs, is usually accompanied by an increase in employment, assuming the Singapore economy has not reached full capacity. As labour is a derived demand, this increase in AD would also increase the demand for labour, thus the unemployment rate in Singapore is likely to decrease due to the employment of labour directly for MBS and RWS, as well as other jobs being created in other industries.

Inflation

Assuming the Singapore economy is still operating along the Keynesian or intermediate range of the aggregate supply (AS) curve, any increase in AD would result in an increase in the general price level. This is due to the increasingly scarce resources which investors would need to bid higher for the scarce resources, thereby pushing up the cost of production. To retain profitability, the producers will have to pass on the cost increase to consumers as higher prices.

Market failure

The impact on the Singapore economy from the decision to build the two IRs can also be explored through the microeconomic goals of the country. There is an increasing trend of addiction to gambling in Singapore since the opening of the two IRs. This may result in market failure as addiction to gambling may create external costs to the Singapore society. For instance, problems such as personal debt, bankruptcy, loss of employment or even breakdown of families may arise due to addiction to gambling. This marginal external cost generated on third parties causes a divergence between the marginal private cost (MPC) and marginal social cost (MSC) curves. As a result, the private equilibrium (where $MPC = MPB$) tends to be greater than that of the socially optimal equilibrium (where $MSC = MSB$). This overconsumption of gambling causes a deadweight loss in the Singapore society and there is a loss in welfare to society.

External factors:Balance of payment (BOP)

With an increase in the amount of net exports (as explored above), this is likely to lead to an increase in the surplus in Singapore's balance of trade (BOT) if the initial BOT position is a surplus to begin with. Assuming ceteris paribus, this would likely result in an increase in surplus in Singapore's current account (CA) balance.

Also, the government's decision to build the two IRs would result in an increase in FDI into Singapore (as explored above), and may lead to an increase in the surplus in Singapore's capital and financial account (KFA) position.

With an increase in surplus in both the CA and KFA, Singapore's BOP is also likely to experience an increase in surplus.

Exchange rate

With the improvement in Singapore's BOP position, Singapore may see a BOP surplus. This may lead to an appreciation of the Singapore dollar as a BOP surplus is indicative of greater receipts than payments for the Singapore economy and thus, signals an increase in demand of the Singapore dollar. A strong and stable exchange rate would increase the level of investor confidence in Singapore as it is indicative of external stability.

Overall impact

The overall impact on the government's decision to build the two IRs on the Singapore economy is largely positive. However, the government should also take into account the potential costs that these IRs may bring to the economy. The Singapore government should not only take reactive measure in reducing the negative impacts that these IRs may have on the Singapore economy, but also engage in more pre-emptive measures in reducing the likelihood of such costs occurring in the Singapore society. For example, the Singapore government could engage in public education of the dangers of gambling addiction before the official opening of these IRs.

(Students are required to explain effects of 2 internal + 1 external macroeconomic indicator + 1 microeconomic indicator with evaluation to score full 10 marks.)

Level	Knowledge, Application, Understanding and Analysis
L3 (7 – 8)	Explanation of effects with sufficient analysis with regard to the cause/type of impact (cost-push/cyclical/actual vs. potential growth, etc.) on internal and external macroeconomic <u>as well as</u> on microeconomic indicators.
L2 (4 – 6)	Explanation of effects on <u>internal</u> macroeconomic indicators only – up to 4 marks. Explanation of effects on <u>internal and external</u> macroeconomic indicators – up to 6 marks. Sufficient analysis must be given to score 6 marks.
L1 (1 – 3)	Smattering of valid points without a clear structure of answer. Economic analysis is largely missing.
E1 (1 – 2)	Discussion on the overall impacts of the building of integrated resorts on Singapore economy. (Overall positive or negative, LR vs. SR, any government intervention, etc)

Case Study Question 2

- (a) (i) Describe the trend of Singapore GDP from 2005 - 2009. [2]**

Real GDP increased but at a smaller rate from 2005-2008 [1] and fell in 2009. [1]

- (a) (ii) What does your observation in (a) (i) say about the economic performance about the Singapore economy over the same period? [4]**

The increase in GDP at a slower rate between 2005 and 2008 showed that growth opportunities are getting scarce as the economy is nearing its full potential output (seen from the falling unN^t rate). The decline in Singapore's real GDP in 2009 reflected a deterioration of Singapore's national income or a shrinking of output in that period.

A fall in national income implied a fall in the income levels of Singaporeans and foreigners residing in Singapore. It also meant a fall in purchasing power as people's ability to consume goods and services are weaker as seen in "retail sales are still down (Extract 6)". [2]

This also means that Singapore's national output had fallen reflecting a lower level of production of goods and services. This may represent weakness in certain sectors that were dependent on exports as the world economy entered a recession. [2]

- (b) "Exports, which are the real lifeblood of Singapore's economy, rose nearly 6% in May" (Extract 5). [6]**

Consider how the above could impact the Singapore government's use of exchange rate policy to boost its economy. [6]

SR

Given that there has been a "steady build-up of protectionist measures, (Extract 7)" from other countries, the government could have depreciated the currency to lower the price of exports to compete with other countries. Assuming that Marshall Lerner condition holds, there will be increase in net exports → Increase in AD → via the multiplier, increase in NY.

However, depreciating its exchange rate would be harmful to Singapore's trading partners. Hence, Singapore would not depreciate her currency in exchange for higher economic growth. Given that Singapore exports are usually high in import content, by depreciating her currency, it will increase cost of production, leading to higher export prices.

LR

Singapore will have to appreciate her currency gradually to maintain price stability and to reduce imported inflation. This is especially when the economy faces inflationary pressures as the economy improves. Furthermore, as the effects of depreciating the currency would only affect exports and boost actual growth, Singapore government should implement supply side policies e.g. Increase labour productivity to increase potential economic growth.

(c) (i) State any two causes of inflationary threats in Extract 7. [2]

Demand-pull inflation (buoyed by fiscal pump-priming, loose monetary policies and growing intra-regional trade)

Cost-push inflation that could be due to increase in wages (evidence of labour shortages across the region) or increases in other costs of production (increase in food and energy prices).

Any 2 demand and/or cost factors

(c) (ii) Assess whether the IMF has adopted the right approach in not supporting the rapid withdrawal of fiscal stimulus measures by Asian countries. [6]

Recognise that withdrawal of fiscal stimulus means a reduction in expansionary fiscal policy in government spending to stimulate greater economic activities. An excessive fiscal stimulus result in an overheating economy as some economies may have a lack of productive capacity or skilled labour. This means that as AD shifts rightwards, it faces a shortage of resources that results in higher prices and inflationary pressure.

Thesis: IMF made the right approach in not supporting rapid withdrawal of fiscal stimulus measures.

Explain using AD/AS analysis: With rapid withdrawal of fiscal stimulus $\downarrow G \rightarrow \downarrow AD \rightarrow$ via the multiplier effect $\rightarrow \downarrow NY$. Rapid withdrawal will result in lower economic growth with the recovery of Asian countries still weak. This may mean that some Asian economies may go into a recession when their private consumption expenditure and investments are still not strong enough to bolster growth.

Anti-thesis: IMF made the wrong approach in not supporting rapid withdrawal of fiscal stimulus measures.

IMF's approach in not supporting the rapid withdrawal may be wrong as some Asian countries may have already achieved high growth rates that correspond to higher inflation rates. Using AD/AS analysis, explain that the withdrawal of fiscal stimulus may result in lower demand pull inflation when it is near full employment. Therefore, there is a need to reduce fiscal stimulus. "Credit will have to tighten monetary conditions earlier (Extract 8)".

Conclusion/ Synthesis:

Hence, the correct approach is open for discussion. Although economic indicators may show that there is growth, it may be still premature to indicate stable growth especially after the world-wide recession seen in 2009. However, because of fiscal time lags, it may be timely for Asian countries to cut back now so that the fiscal stimulus may start to ease as the economies begin to recover. Instead of a one-off fiscal measure, countries may instead opt to take a more measured approach by observing quarterly macro indicators more closely, so that any dip in economic growth may be matched by a reversal in fiscal measures, so as to correct the economy immediately.

Marks	Descriptor
L3 (5 – 6)	Candidate is able to assess the statement using economic analysis. No conceptual errors in the explanation of the statement. Answer contains insightful evaluation.
L2 (3 – 4)	Candidate is able to explain the statement and relate case material to the statement. For 4m: answer must provide both sides of the argument.
L1 (1 – 2)	Contains several/serious conceptual errors and answer is unable to explain the statement. Candidate demonstrates a lack of understanding of what the statement explains or is unable to use economic analysis to explain the statement. One sided argument

d) (i) Using Figure 1, explain the relationship between real GDP growth and trade growth of the world from 2006 - 2009. [2]

Identify that there was a direct relationship between real GDP growth and trade growth. As net exports (X-M) rose (Figure 1), so would real GDP growth (Table 2). [2]

(d) (ii) Some countries have moved away from free trade while others promoted it. Discuss under what circumstances these differing approaches would benefit the countries involved. [8]

Intro:

Why countries differ in their approaches

Free trade may result in:

- Lower export prices as tariffs are lower. Higher export revenue results in higher production and national income. ($X \uparrow \rightarrow NY \uparrow$)
- It may even lower prices of goods and services as tariffs on them are removed.

However, protectionism may benefit countries:

- As price of imports rises as tariffs are imposed, lower import expenditure will result (assuming $PED > 1$)
- This will result in consumers switching to domestically produced goods and services and hence boost the domestic national income.

Circumstances that would benefit countries who move away from free trade

Countries that use protectionism may benefit if:

- Their economies are more dependent on domestic expenditure. As such a policy is harmful towards trade, it may result in retaliation by other trading partners that will eventually lower their national income if they are highly dependent on exports. If they are more dependent on domestic consumption, such a policy will not be detrimental to the economy as any retaliation would have less significant effects on the economy.

- Current account is in severe deficit. Such a situation may justify that they use protectionist measures especially in the short run. This may signal to other countries that this country is trying to correct its structural problems and possible loss of comparative advantage through gradually alleviating its economic problems. This will less likely result in retaliation from other trading partners. Hence with no decrease in exports but with an increase in domestic production due to a fall in import expenditure, the economy will more likely grow and benefit from such a move.
- Country is less dependent on imported raw materials. Countries that are dependent on raw materials from other countries will be faced with higher import prices due to its own protectionist measures. As a result, this will have an adverse effect on the COP and raise the price of its goods. Hence, countries less reliant on imports for raw materials are less likely to be affected by such measures.
- Country that have a favourable terms of trade. Higher import prices due to tariffs will not have an adverse effect on TOT.
- Countries that have potential infant industries.
- Countries that face dumping by others

Circumstances that would benefit countries who promote free trade

- Countries which are dependent on trade or are export-oriented due to their small domestic market.
- Countries which are dependent on imported raw materials due to a lack of natural resources. Hence, with retaliation, these countries will be more adversely affected than other countries.
- Countries that depend on free trade are less likely to use protectionism as this signal very unfavourably to their trading partners. This may harm trade relationships with other countries. As the world recovers and economic growth ensues, such strained trade relations may isolate the country and lower possible growth in the country.
- Countries that have available resources to pursue other expansionary policies are less likely to use protectionism. Countries that have budget surpluses or budget resources (can use expansionary fiscal policy) or those that has control over their own currencies (can pursue expansionary monetary policy or exchange rate policies).

Evaluation

Larger economies such as China and USA are less likely to be bothered by strained trade relationships than others. This is because they can depend on their domestic consumers to boost their economies. This depends on the size of their respective consumption expenditures as a percentage of the GDP.

On the other hand, countries which are smaller, such as Singapore and other Asian countries are more likely to continue to trade with others for fear of retaliation. Those that are large but export dependent, such as Argentina and China, can still benefit from free trade as opposed to protectionism and are more likely to expand free trade.

Level (Marks)	Knowledge, Application, Understanding and Analysis
L3 (6 – 8)	A good answer with strong evaluation on whether countries would pursue trade or protectionism under which circumstances. Good economic framework as to why countries pursue trade or protectionism, using AD-AS analysis, with clear theoretical understanding of the reasons for trade or protectionism.
L2 (4 – 5)	Weak or incomplete economic understanding of the reasons for trade or protectionism. Explanations of thesis or anti-thesis are somewhat lacking in framework and elaboration. Some arguments for both sides. Weak evaluation as to why countries may choose either policy.
L1 (1 – 3)	A mere smattering of policies without answering the question. Weak attempt in relating to the context and exists a number of theoretical errors. Economic analysis is generally lacking. Largely one-sided analysis or reasons are given without economic reasoning.