

H1 Macro Essays

4a) Explain how rising global protectionism may affect Singapore's circular flow of income. [10]

4b) Discuss the view that globalisation is likely to support an economy's recovery from the global economic slowdown. [15]

(a)

INTRODUCTION	
Define circular flow of income Define rising global protectionism State how rising global protectionism may affect SG's CFY	<p>In a 4 sector economy, the circular flow of income is a model showing flows of goods and services, factors of production and income between the various economic players: firms, households, government and foreign sector. This model is used to illustrate how changes in its key components, which are consumption expenditure, injections (investment, government expenditure & export revenue) and withdrawals (savings, taxes and import expenditure), would affect the equilibrium level of national income of an economy.</p> <p>Rising global protectionism is the response of some governments to protect their domestic industries' production and employment in face of the global recession. Common protectionism measures are import tariffs and/or quotas, export subsidies and export quotas even.</p> <p>SG is a small open economy which embraces free trade but faces the threat of rising global protectionism by its trading partners. This may affect SG CFY through the foreign sector, mainly the injection of export revenue and the withdrawal of import expenditure. These changes will affect the equilibrium level of national income of SG economy.</p>
BODY	
Para 1 to explain CFY (with or without a simple diagram)	<p>Figure one shows a simple illustration of the circular flow of income. Firstly, households provide the factors of production for firms who produce goods and services. In return, households receive factor payments (such as wages, rent, dividend, interest, profits). Households will in turn spend their wages on final goods and services produced by the firms. This shows that consumption expenditure is necessary to generate income in the circular flow as factors of production will be employed to produce goods and services and factor payments will continue to be paid by firms. This allows households to have disposable income to afford consumption of goods and services.</p> <p>With the various economic players, the circular flow is more dynamic with injections such as investments by firms, government expenditure and export expenditure; as well as withdrawals such as savings, taxes</p>

	<p>and import spending. Injections refer to expenditure which does not come from the expenditure of households. They include investment expenditure, government spending and export expenditure. Investment is the money that firms spend on buying new plant and equipment or the act of firms building up stocks or inputs, semi-finished or finished goods. Government expenditure is expenditure made by local and national government agencies on goods and services that domestic firms produce. Expenditure on exports occurs when residents abroad buy a country's exports of goods and services.</p> <p>On the other hand, withdrawals refer to any part of income that is not passed on within the circular flow of income. Withdrawals comprise savings, taxes and import expenditure. Savings are income that households choose not to spend but to put aside for the future, taxes are paid to the government out of household income, consumer expenditure or firms' profits, while import expenditure is domestic expenditure on foreign produced goods and services.</p> <p>Any changes in these key components, which are consumption expenditure, injections and withdrawals, would affect the equilibrium level of income of an economy. The circular flow will be at equilibrium as long as total income = total expenditure = total output.</p>
Para 2 to explain how rising global protectionism may affect SG CFY through X revenue	<p>Rising global protectionism</p> <ul style="list-style-type: none"> → SG trading partners such as USA imposes import tariffs → Rise in P of SG exports to USA → Fall in Qd of SG exports to USA by MTP → $E_p > 1$, assuming USA domestically produced goods are close substitutes for SG exports → X revenue of SG falls
Para 3 to explain how rising global protectionism may affect SG CFY through M expenditure	<p>Rising global protectionism</p> <ul style="list-style-type: none"> → SG trading partners e.g. China imposes export subsidies → Lower prices of imports into SG → rise in Qd of imports by SG by less than proportionate → $E_p < 1$ as they are mainly imported raw materials & necessities → M expenditure falls → fall in withdrawals of SG CFY <p>OR</p> <p>Rising global protectionism</p> <ul style="list-style-type: none"> → SG trading partners e.g. China lowers export quotas of raw materials like rare earths → Higher prices of imported raw materials into SG → fall in Qd of imports by SG by less than proportionate → $E_p < 1$ as they are mainly imported raw materials & necessities → M expenditure rises → rise in withdrawals of SG CFY

Para 4 on the likely change in eqm income of SG CFY	<p>Assuming CFY at equilibrium initially</p> <ul style="list-style-type: none"> → injections = withdrawals → total expenditure = total income <p>Assuming that</p> <ul style="list-style-type: none"> → X rev falls & M exp rises → injections < withdrawals → total expenditure < total income → signaling a weaker demand for goods and services → encourages firms to produce less output → employ less factors of production → pay out less factor payments to households in the form of wages, salaries, profits, rent and interest → fall in total income until it equals to total expenditure and reaches equilibrium
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Marking Scheme

L3	<p>For a well-developed explanation of how rising global protectionism may affect components of CFY and the equilibrium level of national income, supported by analysis and good examples.</p> <p>Max 7 for a well-developed explanation but lacking an explanation of how CFY works in general.</p>	7-10
L2	For an underdeveloped explanation of how rising global protectionism may affect components of CFY and the equilibrium level of national income, without clear economic analysis.	5-6
L1	For an answer which shows some knowledge e.g. components of CFY, names of measures for protectionism.	1-4

(b)

INTRODUCTION	
<p>Globalisation is likely to support an economy's recovery from the global economic slowdown.</p> <ul style="list-style-type: none">→ Globalisation: breaking down trade barriers & liberalisation of markets→ more free trade→ more capital flows (FDIs)→ more labour flows <p>→ support an economy's recovery: boost real national income to achieve higher positive economic growth & also employment</p>	
BODY	
Thesis	Anti-thesis
<p>Globalisation allows more free trade which may help in economy recovery.</p> <ul style="list-style-type: none">→ lower trade barriers e.g. import tariffs/ quotas→ more free trade based on CA→ Countries with strong CA can export more→ higher export revenue→ higher AD→ multiplied increase in real NY and employment <p>→ lower trade barriers e.g. export subsidies</p> <ul style="list-style-type: none">→ Imports relatively more expensive than domestically produced goods→ DD for domestically produced goods rises→ higher consumption→ higher AD→ multiplied increase in real NY and employment	<p>Globalisation intensifies trade competition which may not help in economic recovery.</p> <ul style="list-style-type: none">→ lower trade barriers e.g. import tariffs/ quotas→ lower price of imports→ Countries with relatively weaker CA will experience fall in demand for domestically produced goods→ fall in C→ lower AD→ multiplied fall in real NY & employment <p>For import-dependent countries e.g. SG</p> <ul style="list-style-type: none">→ lower export subsidies by trading partners→ rise in price of imports→ fall in Qd by LTP ($E_p < 1$)→ rise in M expenditure→ lower AD→ multiplied fall in real NY & employment
<p>Globalisation allows more capital flows which may help in economic recovery.</p> <ul style="list-style-type: none">→ lower investment regulations & increase market access→ more FDI inflow→ higher AD→ multiplied increase in real NY and employment <p>If FDIs are of export-oriented industries</p> <ul style="list-style-type: none">→ higher X rev which boosts AD as well	<p>However, this increase in capital mobility which may not help in economic recovery.</p> <ul style="list-style-type: none">→ more FDI outflow too→ Countries with relatively higher land and labour cost will suffer→ FDIs relocate to countries with abundance of cheap land & labour resources→ lower AD→ multiplied fall in real NY & employment

<p>In the long-run</p> <ul style="list-style-type: none"> → higher FDI → increase quantity of resources through capital accumulation → increase quality of resources through advanced production technologies and workers' training → expand economy's productive capacity → increase LRAS → higher potential EG 	
<p>Globalisation allows for greater labour mobility which helps in economic recovery</p> <ul style="list-style-type: none"> → ease immigration regulations to allow for inflow of foreign labour and foreign talents → increase availability of cheap foreign labour lowers labour cost → increase SRAS → also attracts investments as lower cost of production helps increase profitability → AD increases → both increase in SRAS and AD will raise real national income and supports economic recovery <p>In the long-run</p> <ul style="list-style-type: none"> → inflow of foreign labour and talents increase quantity and quality of labour → LRAS increases → higher potential EG 	<p>However, this greater labour mobility may not help in economic recovery.</p> <ul style="list-style-type: none"> → economic recession results in demand-deficient unemployment → lack of job opportunities causes domestic labour to look abroad for work → outflow of domestic labour → fall in consumption expenditure → fall in AD and multiplied fall in real national income
Conclusion	
<p>Whether globalisation helps with economy recovery depends on:</p> <ul style="list-style-type: none"> - whether the economy has strong CA in one or few industries relative to its trading partners - whether the economy is import dependent or has domestic industries that compete with import - whether global demand picks as governments all over the world implement expansionary policies to recover from the global recession 	

L3	<p>For a well-developed, balanced explanation of how globalisation may help with economic recovery and may not help, with clear economic analysis.</p> <p>Max 9 for a well-developed, balanced explanation but limited in scope e.g. only on one of the flows of globalisation (free trade/ capital flow/ labour mobility only)</p>	9-11
L2	<p>For an underdeveloped explanation of how globalisation may help with economic recovery and may not help, lacking clear economic analysis.</p> <p>Max 8 for a well-developed explanation but one-sided e.g. globalisation may</p>	6-8

	OR may not help with economic recovery.	
L1	For an answer which shows some knowledge e.g. unexplained listing effects of globalisation.	1-5
Evaluation		
E2	For an evaluative assessment based on economic analysis	3-4
E1	For an unexplained assessment, or one that is not supported by analysis. Evaluation can be the weighing of effectiveness vs limitations, the criteria to consider for the “best” policy.	1-2