CSQ1: Healthcare and Health Insurance

(a)		**Using the information from Extract 1, compare the change in share of health expenditure as a percentage of GDP between Singapore and Ireland from 2011 to 2015.**	**[2]**
		While Singapore's healthcare expenditure as a percentage of GDP increased, that of Ireland decreased. [1m] In terms of magnitude, the extent of the decrease for Ireland was larger than the increase for Singapore. [1m]	
(b)		**Explain how each of the following led to the trend in healthcare expenditure in Singapore.**	
	(i)	**'the development and adoption of new and expensive health technologies' and 'rising wages'**	**[4]**
		Both increase COP → fall in supply [1] Fall in supply → increase P and decrease Q [1] Since healthcare is a necessity, demand is price inelastic [1] So, fall in Q is less than prop to increase in P, causing TE to increase [1]	
	(ii)	**'population ageing' and 'lifestyle risk factors'**	**[2]**
		Both lead to an increase in D for healthcare [1] Increase in D → increase in P, Q, and hence TE [1]	
(c)		**Explain how the statement "retrenched PMETs from other fields cannot easily enter the healthcare sector due to a mismatch of skills" illustrates a form of inefficiency in the healthcare market.**	**[2]**
		The statement shows inefficiency due to factor immobility [1] This is because the occupational immobility caused by the lack of skills means that these retrenched PMETs remain unemployed, which causes productive inefficiency (not producing on the PPC) as labour resources are not utilised. [1] Also accept structural unemployment but must be linked to some form of inefficiency for full credit.	
(d)	(i)	**Explain the source of market failure caused by '(h)aving an insurer pay 100 per cent of a patient's bill' (Extract 2).**	**[2]**
		The action of undergoing medical procedure undertaken by consumer but cost of going for healthcare procedures borne by insurer [1] This creates moral hazard where the consumers will overconsume even if the procedures are not necessary / consumers will not be careful about health [1]	
	(ii)	**With reference to the case material, assess the use of deductibles and co-insurance (Extract 3) to address the market failure in (d)(i).**	**[8]**
		Question analysis: Command word = "assess" → Need 2 sides and an evaluative conclusion Content = "the use of deductibles and co-insurance to address the market failure" → Need to explain how deductibles and co-insurance correct the market failure due to moral hazard and the limitations Context = insurance industry Introduction	

Deductibles and co-insurance are supposed to correct the market failure due to moral hazard in the insurance market.

<u>Thesis: Use of the 2 measures solves moral hazard</u>
Both the deductible and co-insurance require consumers to co-pay for the healthcare they consume, even though they have insurance. This solves the overconsumption due to moral hazard as consumers will consider whether they really need the treatment when they have to co-pay for it. Without such co-payment (i.e., if the insurance company pays for everything), consumers will consume healthcare services even if they don't need it.

<u>Anti-thesis: Limitations of the 2 measures</u>
However, there may be implementation problems. First, because of imperfect information, the deductible and co-insurance amount may be set too high or too low. This is seen in Extract 4 where there is a great variance in deductible and co-insurance across different countries, which shows that there may be a lack of research on what the optimal levels of deductible and co-insurance are.

Additionally, the 2 measures may worsen inequity. Extract 2 points out that the reduction in price of healthcare paid by consumers due to insurance is a good thing as it improves access by low income. Conversely, making consumers co-pay for healthcare would worsen inequity as it increases the price of healthcare to consumers. Since healthcare is a necessity and a higher price might make it unaffordable to low income consumers, deductibles and co-insurance may worsen inequity. Additionally, such payments are regressive in nature as they take up a larger portion of the poor's income than the rich's.

<u>Conclusion</u>
In conclusion, deductibles and co-insurance are necessary to correct moral hazard. However, how well they are used depends on specific context of the country. For richer and more developed countries, the optimal deductible and co-insurance should probably be set higher since consumers have greater purchasing power. Additionally, we also need to consider whether there are other policies to mitigate the effects on equity. For example, higher deductibles and co-insurance payments may be optimal if there are complementary policies like means-tested subsidies for low income consumers to offset the negative effect on equity.

Level	Descriptor	Marks
L2	Balanced answer that explains how deductibles and co-insurance corrects moral hazard and their limitations. Answer makes sufficient reference to the case material. Explanations are well-developed.	4-6
L1	Answer lacks balance (missing thesis or anti-thesis) or depth (explanations are underdeveloped) or reference to the case material.	1-3
E	A judgement of the use of deductibles and co-insurance based on the context.	1-2

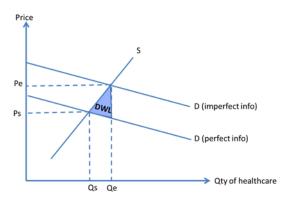| (e)		**With the use of the case material and your own knowledge, discuss whether the setting up of the Agency for Care Effectiveness (ACE) will help Singapore achieve its microeconomic aims.**	**[10]**
		Question analysis: Command word = "discuss whether" → Need 2 sides and an evaluative conclusion Content = "setting up of ACE will help Sg achieve micro aims" → Need to explain how ACE will result in efficiency and equity and how it may not (i.e., limitations of policy) Context = healthcare industry Introduction: Explain the market failure in the healthcare industry due to imperfect info The microeconomic aims are efficiency and equity. ACE is meant to combat the problem of "physician-induced demand". Physician-induced demand causes both inefficiency and inequity. When patients have imperfect information, they may be persuaded by doctors to consume more care than necessary. This causes the demand for healthcare to be higher than it should be. Referring to the figure above, the demand for healthcare due to physician-induced demand is at D(imperfect info), which is higher than it would be if consumers had perfect info. As such, the market equilibrium would be at Qe while the socially optimal quantity would be at Qs. Since Qe exceeds Qs, there would be overconsumption of healthcare and hence a deadweight loss of the shaded area. Social welfare is not maximised and there is allocative inefficiency. Additionally, since the higher demand also causes the price of healthcare to be higher at Pe instead of Ps (Extract 5: physicians may charge a higher fee), it may also cause inequity as poor consumers who actually require the healthcare may be unable to afford it. Thesis: ACE will help achieve micro aims (efficiency and equity) ACE publishes drug guidances on how well the drugs work and their cost-effectiveness. As this information is made public, it helps to correct the imperfect information of consumers. As consumers would now have perfect information of whether the drugs work, the demand for healthcare should fall from D(imperfect info) to D(perfect info). This would cause the market	

equilibrium to fall from Qe to Qs. Hence, overconsumption is corrected and the DWL is avoided. Thus, ACE helps to achieve efficiency.

Additionally, since the fall in demand would also cause a fall in the price of healthcare from Pe to Ps, the healthcare would then become more affordable to the low income consumers who really need it. This also reduces inequity.

Anti-thesis: ACE will not help achieve micro aims as it has limitations
However. There are limitations to ACE. The drug guidances may have a limited effect for consumers who are fully covered by their insurance as they have little incentive to find out whether the treatments are really necessary since they are not paying for it. As such, the fall in demand may be limited.

Additionally, it is also unlikely for consumers to question doctors as doctors are perceived to be the professionals.

Finally, ACE may only have a limited reach. In the course of 2 years (2015 to 2017), it only released guidances for 11 drugs. There is still a great scope for physician-induced demand related to other drugs and treatments.

Conclusion
In conclusion, ACE may not be able to help Singapore achieve its microeconomic aims of efficiency and equity in the short run. This is because of the limited number of drug guidances released and the non-questioning attitudes of most patients. However, in the long run, the context in Singapore would change. As time passes, the number of drug guidances released would start accumulating, creating lesser and lesser space for physician-induced demand. Additionally, as the Singapore population becomes increasingly educated and vocal, more patients would be willing to challenge doctors based on the information released by ACE. As such, ACE would help Singapore achieve its microeconomic objectives in the long run.

Level	Descriptor	Marks
L2	Balanced answer that explains how ACE can help achieve efficiency and equity (by correcting market failure due to physician-induced demand), and how it may not (limitations of ACE). Explanations make good use of economic analysis. Max 5 for an answer that does not include equity	5-7
L1	Answer lacks balance (missing thesis or anti-thesis) or depth (explanations are underdeveloped) or both.	1-4
E2	A judgement of whether ACE will help Singapore achieve efficiency and equity based on the context.	2-3
E1	An unexplained judgement	1

CSQ2: Globalisation and Deglobalisation

(a)	**Explain how any two pieces of the data shown in the Figures and Table 1 show that the world is in a state of 'deglobalisation'.**	**[2]**
	Any two of the three possible answers Figure 1: Fall in world trade as % of GDP means that there is a reduction in the flow of goods across borders (lower X and lower M) [1] Figure 2: Migrant stock increasing at decreasing rate → slowing labour flows [1] Table 1: Increase in non-tariff barriers → reduces M (of importing country) and X (of exporting country) = less flow of goods across borders [1]	
(b)	**Suggest another piece of information and explain how it would help determine whether the world is in a state of deglobalisation.**	**[2]**
	FDI as % of GDP over the same time period [1]. If FDI as % of GDP has been decreasing, then that would support the idea that the world is in a state of deglobalisation. Conversely, if it is increasing, then it would not support the idea that the world is in a state of deglobalisation. [1] Accept other possible measures of trade, capital flows, or labour flows. 1m for identification of indicator and 1m for explaining how it would show whether there is deglobalisation.	
(c)	**Using the case material from Extract 6,**	
	(i)	**Explain a benefit of globalisation**	**[2]**
		From Extract 6, "Globalisation is credited with helping to increase the global standard of living by allowing populations in every country to consume more.". This is because with more free trade under globalisation, more countries can benefit from the theory of comparative advantage where countries can mutually benefit when they specialise in producing the good in which they have a comparative advantage (lower opportunity cost) and trade. [1] The specialisation and trade allows the residents in the countries to consume beyond their PPCs, increasing their living standards. [1] 1m for stating theory of CA 1m for linking to higher living standards (from consuming beyond PPC)	
	(ii)	**Explain two reasons for the trend of deglobalisation.**	**[4]**
		From Extract 6, the two reasons are "job insecurity and stagnant wages" "job insecurity": FDI outflows from developed economies to developing economies where labour is cheaper resulted in a fall in demand for labour in developed economies, causing increased unemployment and lower job security. [2] "stagnant wages": Labour inflow from developed to developing economies caused an increase in supply of labour, which depresses wages. This offsets any existing wage gains such that wages remain stagnant. [2] Accept other links from globalisation to "job insecurity and stagnant wages". For each link, 2nd mark only awarded if there is economic analysis.	

(d)		**Explain how the tariffs imposed by President Trump would be 'an act of self-harm on American households'.**	**[2]**
		For households: tariffs on finished consumer goods → increase in price of imports → fall in real disposable income → reduction in mat SOL [2] Accept all reasonable links from protectionism to negative effect on households. 2nd mark only awarded if there is economic analysis that shows the effect on consumers (effect on mat SOL or consumer surplus).	
(e)		**Discuss whether producers of different goods in the US will experience net benefit from President Trump's tariffs (Extract 7).**	**[8]**
		<table><tr><td>Question analysis: Command word = "discuss whether" → Need 2 sides and an evaluative conclusion Content = "producers of different goods will experience net benefits" → Need to explain how producers of different goods will experience benefits and costs from the tariffs Context = US</td></tr></table> Introduction The benefits and costs of Trump's tariffs on producers can be analysed in terms of the impact on the producers' profits. The producers in US include producers of electronics, sneakers, iron, steel, and cars. Thesis: Producers would benefit from the tariffs Trump's tariffs on electronics, sneakers, iron, and steel would cause the prices of these imports to increase. This would increase the demand for substitutes produced in the US. The increase in demand would then lead to an increase in both price and quantity sold of such US products, which would lead to an increase in TR. Assuming the increase in TR exceeds the increase in TC as firms increase production, the US producers of electronics, sneakers, iron and steel would enjoy an increase in profits. Anti-thesis: Producers would incur costs due to the tariffs However, producers may suffer a cost too. For US carmakers, the tariffs would cause an increase in price of imported and domestically-produced steel (explained in the paragraph above), which would increase their cost of production. This would cause a reduction in profits. A similar argument would apply to US producers that rely on importing semi-finished products from China. Additionally, producers may also suffer a fall in demand for their products when China retaliates against Trump's tariffs. This may be done through retaliatory tariffs or boycotts of U.S. goods or throttling the flow of students and tourists to the U.S. The fall in demand for goods produced by US producers would then cause a reduction in price and quantity and hence total revenue of US producers. This would cause a fall in the profits of US producers. For example, a reduction in tourists from China would cause a fall in demand for US souvenir producers. Conclusion:	

In conclusion, whether the producers would enjoy net benefits from Trump's tariffs would depend on the specific context of the industry in terms of how close it is as a substitute to the imports that tariffs have been imposed on, how dependent it is on imported raw materials and whether these raw materials are subjected to the tariffs, and how vulnerable the industry is to retaliation from China. For the car industry, it is likely to suffer net costs since Chinese cars are poor substitutes to US made cars in US so there would not be a significant increase in demand from the tariffs; it is highly reliant on imported steel and hence would experience a large increase in cost; and it is a prime target for retaliation given the high volume of US car exports to China. For other industries, more information would be required for a judgement to be made.

Level	Descriptor	Marks
L2	Balanced answer that explains the benefits and costs of Trump's tariffs on different US producers. Explanations make good use of economic analysis. Max 4 for an answer that only considers benefits and costs in terms of revenue **or** cost. Max 4 if different producers are not used as examples (i.e., a purely theoretical answer).	4-6
L1	Answer lacks balance (missing thesis or anti-thesis) or depth (explanations are underdeveloped) or both.	1-3
E	A judgement of whether producers will enjoy net benefits based on the context.	1-2

(f)		**With reference to the case material, discuss the factors that determine whether a country would be more successful in achieving growth through an inward- or outward-looking strategy in today's world.**	**[10]**

Question analysis:
Command word = "discuss" → Need evaluation
Content = "the factors…" → Need to explain the factors that would determine whether inward- or outward- looking strategies would yield greater success
Context = today's world

Introduction: Explain how both inward-looking strategy and outward-looking strategy achieves growth
An inward-looking looking strategy refers to an import-substitution strategy. In this strategy, countries would impose protectionist measures such as tariffs to discourage imports. For example, tariffs increase the price of imports and encourages domestic consumers to switch to purchasing domestically-produced goods. The fall in M causes a rise in X-M and hence an increase in AD. This then results in growth through the multiplier process.

On the other hand, an outward-looking strategy would involve signing FTAs and incentivising inward-FDI. FTAs would result in a reduction in barriers to both exports and imports, causing both X and M to increase. Assuming the increase in X outweighs the increase in M, X-M would rise. This would cause AD to increase, achieving growth as NY increases via the multiplier effect. Additionally, incentives such as tax rebates given to MNCs would cause an inflow of FDI. The inflow of FDI also increases AD through the I component. The technology and skill transfers from the FDI also increase productivity,

causing the AS curve to shift outwards as more output can be produced with the same amount of input, and as the cost of production decreases as the same output can be produced with lesser input. The increase in both AD and AS lead to economic growth.

Factor 1: Explain how size of domestic market affects the effectiveness of inward and outward strategies
The size of the domestic market affects how effective inward and outward strategies would be. A larger domestic market would make inward-looking strategies more effective. This is because a larger domestic market would mean that using domestic consumption to drive AD could still result in a high level of NY. For an economy with a small domestic market, however, relying on domestic C to drive AD would result in a low level of AD and hence NY. As such, a large domestic economy would make inward-looking strategies more effective while a small domestic economy would it less effective.

Additionally, with a large domestic market (i.e., high domestic demand), even with many domestic producers, each producer can still reap IEOS such that goods can be produced at a low cost while maintaining a high level of competition. This prevents x-inefficiency. Hence, AS can be at a high level due to the high level of productivity. If the domestic market is small, then there would either be only a few firms reaping IEOS or many firms competing but each firm reaping limited IEOS. The former would result in x-inefficiency due to a lack of competition while the latter would result in a high average cost of production due to a lack of reaping IEOS. Either way, productivity would not be as high and the AS would not be as high. Thus, a large domestic market causes inward-looking strategies to be more effective while a small domestic market causes it to be less effective.

Factor 2: Explain how political climate affects the effectiveness of inward and outward strategies
The political climate also affects the effectiveness of inward- and outward-looking strategies. Outward-looking strategies involve signing FTAs and encouraging capital flows. However, in today's world where there is a strong backlash against globalisation, it is more difficult to employ outward-looking strategies as governments are under political pressure to protect domestic industries.

Factor 3: Explain how level of technology in the country affects the effectiveness of inward and outward strategies
Finally, the level of technology affects the effectiveness of inward and outward strategies. Outward strategy involves the transfer of technology through FDI inflows. However, if the country is an existing technological leader, there may be very little such technological transfer. This would reduce the effectiveness of an outward-looking strategy.

Conclusion:
In conclusion, although the strong anti-globalisation sentiments in today's world seems to play a large part in determining the effectiveness of inward- and outward-looking strategies by making outward-looking strategies ineffective, it should be noted that the size of the domestic economy may still be the most important factor. This is because for economies with small domestic markets, even with an externally hostile environment, import substitution still won't allow for growth. Anti-globalisation sentiments make outward-looking strategies harder but the size of the economy makes

inward-looking strategies impossible. As such, the most important factor is still the size of the economy.

Level	Descriptor	Marks
L2	Answer explains how inward-looking and outward-looking strategies lead to growth and the factors that determine how effective these strategies are. Explanations make good use of economic analysis. Max 5 for an answer that does not include how the strategies lead to growth.	5-7
L1	Answer lacks scope (did not explain the factors determining the effectiveness) or depth (explanations are underdeveloped) or both.	1-4
E2	An explained judgement of which factor is most important.	2-3
E1	An unexplained judgement.	1