

(a)	Using the information in Table 1 and Extract 5,		
	(i)	calculate and interpret the likely value of income elasticity of demand for Chinese outbound tourism in 2016.	[2]
		<p>Calculation</p> <ul style="list-style-type: none"> Income elasticity of demand = % change in Qd / % change in Y = 6 / 6.7 = 0.90 [1] <p>Interpretation</p> <ul style="list-style-type: none"> Chinese outbound tourism is considered a necessity as it positive income inelastic.[1] 	
	(ii)	explain how the rise in Chinese outbound tourism might contribute to the value of the Renminbi against the USD from 2013 to 2016.	[2]
		<ul style="list-style-type: none"> Renminbi (RMB) depreciated against the USD as seen in Table 1 [1]. Rising outbound tourism means that Chinese tourists will exchange more RMB for foreign currencies like the USD to spend on their trips, thus raising the supply of the RMB in the FOREX market [1] <p><i>(Although tourism expenditure is conceptually considered as spending on the service imports, there is no need for this to be explicitly mentioned for full credit to be awarded.)</i></p>	
	(b)	Explain how an increasing preference for outbound tourism might change China's multiplier value.	[2]
		<ul style="list-style-type: none"> With rising preference for outbound tourism, Chinese households will spend a greater proportion of every additional RMB earned on foreign goods and services, which are withdrawals from the circular flow [1] This will raise China's marginal propensity to withdraw (MPW), hence lowering its multiplier value since $k = 1 / \text{MPW}$ [1]. <p><i>(Answers which explain why MPM may rise or why MPC may fall are also acceptable. However, to get full credit, these terms must be explicitly mentioned. Answers which show a clear understanding of the multiplier process can still be awarded full credit even if there is no mention of any form of multiplier formula)</i></p>	
	(c) (i)	Use an aggregate demand and aggregate supply diagram to explain why investments and government infrastructure projects have led to excess capacity in China described in Extract 7.	[3]
		<ul style="list-style-type: none"> Rising investments and government spending on infrastructure raises AD through its I and G components and also AS through greater capital accumulation [1] However, excessive and indiscriminate investments could have caused AS to rise faster than in AD thus causing excess capacity to arise (or causing the extent of excess capacity to increase) [1] Diagram showing AS shifting right more than AD resulting in a larger gap between actual and the full employment output levels [1] <p><i>(Diagrams which do not <u>explicitly show</u> the change in the gap between actual and full employment output levels will not be credited)</i></p>	

	(ii) Explain why the change in the fiscal balance in Table 1 suggests China's government spending on infrastructure projects might not be optimal.	[3]
	<ul style="list-style-type: none"> Table 1 showed the possibility of a rising fiscal deficit or decreasing fiscal surplus or [1], which suggests that government spending on infrastructure has been rising faster than tax revenues [1] Such spending is not optimal as it has failed generate enough economic growth to enable tax revenues to rise sufficiently to pay for such spending [1] <p>OR</p> <ul style="list-style-type: none"> Table 1 shows a rising fiscal deficit or decreasing fiscal surplus which could be due to rising government spending on infrastructure [1] However such spending was sub-optimal / excessive / wasteful because it resulted in many underutilized airports and buildings (extract 7) [1] <p><i>(The use of the term 'worsening balance' is acceptable for 1st mark. The 2nd answer will not score full marks because it does not address tax revenues which is the other aspect of a fiscal balance besides government spending)</i></p>	
	(d) Discuss whether the practice of a 'two-tier tourism payment system' is on balance, beneficial to the consumers, firms and recipient country.	[8]
	<p>Introduction</p> <ul style="list-style-type: none"> As tourism accounts for 10% of all jobs and output globally (extract 6), tourism is an undoubtedly an important industry for many countries The 'two-tier tourism payment system' is a form of price 3rd discrimination (PD), which occurs when different groups of consumers are charged different prices for the same product for reasons not associated with differences in costs. Given the importance of tourism on any economy, the impact of such PD on consumers, firms and the recipient country needs to be carefully analyzed <p>Consumers</p> <ul style="list-style-type: none"> The demand by tourists is likely to be less price elastic: <ul style="list-style-type: none"> They may be more well-off and hence the entrance fees of the attractions form a relatively small proportion of their income They may consider such attractions as 'must-sees' or necessities since they may not get chance to do so once they leave the country On the other hand, the demand by locals is likely to be more price elastic because they may be poorer and they can always visit such attractions when they are free so there is a low degree of necessity Since locals are charge lower prices than tourists, local consumers will benefit while foreign consumers will suffer from such PD. <p>Firms</p> <ul style="list-style-type: none"> According to economic theory, PD enables firms to earn higher profits as compared to charging a single price for all consumers, hence firms should benefit from the 2 tier payment system However, if firms were to be too extreme in their PD e.g. those in Venice, this might result in complaints to regulatory bodies like the European Commission, which might then clamp down on such practices (extract 6) thus causing their profits to fall instead <p>Recipient country (economy)</p> <ul style="list-style-type: none"> As such PD enables firms to earn more revenue from tourists, this will boost AD which through the multiplier effect will generate higher output, income and employment throughout the economy However if the PD were to be too extreme, this may tarnish the reputation of 	

	<p>the recipient country, thus causing tourist arrivals and spending to fall in the long run, which will instead adversely affect output, income and employment</p> <p>Conclusion / Evaluation</p> <ul style="list-style-type: none">Unless the difference between local and tourist price is unreasonably large, my view is that a 2 tier payment system should overall be beneficialThis is especially so if the extra revenue from PD is used to better maintain the heritage sites (extract 6) as this will enable tourism growth to be more sustainable, thus benefiting all consumers, firms as well as the recipient country in the long run. <p>Mark Scheme</p> <table><tr><td>L2: (4-6)</td><td><ul style="list-style-type: none">Analyses the impact on consumers, firms <u>and</u> the recipient country.Provides a balanced response with positive and adverse impacts*Applies the economic concepts of PD and PED**Elaborates with sufficient rigour and detailSupports answers with case evidences</td></tr><tr><td>L1: (1-3)</td><td><ul style="list-style-type: none">Lacking in anyone of the L2 criterions</td></tr><tr><td>E: (+2)</td><td><ul style="list-style-type: none">Takes a substantiated stand on whether the 2 tier payment system is individually / collectively beneficial for consumers, firms and the recipient country</td></tr></table> <p>*For full L3 marks to be awarded, positive and adverse impacts need to be presented for each and all parties</p> <p>**Analysis without PED will be capped at 4m</p>	L2: (4-6)	<ul style="list-style-type: none">Analyses the impact on consumers, firms <u>and</u> the recipient country.Provides a balanced response with positive and adverse impacts*Applies the economic concepts of PD and PED**Elaborates with sufficient rigour and detailSupports answers with case evidences	L1: (1-3)	<ul style="list-style-type: none">Lacking in anyone of the L2 criterions	E: (+2)	<ul style="list-style-type: none">Takes a substantiated stand on whether the 2 tier payment system is individually / collectively beneficial for consumers, firms and the recipient country	
L2: (4-6)	<ul style="list-style-type: none">Analyses the impact on consumers, firms <u>and</u> the recipient country.Provides a balanced response with positive and adverse impacts*Applies the economic concepts of PD and PED**Elaborates with sufficient rigour and detailSupports answers with case evidences							
L1: (1-3)	<ul style="list-style-type: none">Lacking in anyone of the L2 criterions							
E: (+2)	<ul style="list-style-type: none">Takes a substantiated stand on whether the 2 tier payment system is individually / collectively beneficial for consumers, firms and the recipient country							
(e)	<p>Assess whether the Singapore government should be more concerned with the impact of China's economic slowdown on the economy or the demographic challenges.</p>	[10]						
	<p>How could China economic slowdown adversely affect the Singapore economy?</p> <ul style="list-style-type: none">Economic slowdown in China → ↓ income → ↓ M and ↓ outward FDIChina is a major export market for Singapore => Singapore experiences large ↓ X & ↓ I → ↓ AD → ↓ output and employment → ↑ unemployment↓ X → ↓ (X-M) → ↓ BOT → ↓ BOP↓ Inward FDI → worsening of capital and financial account → ↓ BOP <p>How could changing demographics adversely affect the Singapore economy?</p> <ul style="list-style-type: none">Aging population → ↓ C → ↓ AD → ↓ output and employmentAging population → shrinking labour force → ↓ quantity of labour → ↓ AS → ↑ GPL and ↓ output and employmentAging population → ↑ public spending on healthcare and ↓ taxes from income and consumption → strain on the government budget → ↓ public spending on other productive areas e.g. education → ↓ potential growth <p>(Note: Explanations can be in terms of either reduced output or slower growth)</p> <p>Conclusion / Evaluation</p>							

	<ul style="list-style-type: none">• While China's economic slowdown would have had a large adverse impact on the Singapore economy in the short run, the long run impact is arguably limited as Singapore can always diversify into other export markets given time• In contrast, while it is always possible for the Singapore to open its "immigration faucet" to mitigate the adverse effects of its aging population, such policies have proven to very unpopular in the past (extract 8) and is likely to face much social and political objections in the foreseeable future• Hence Singapore government should arguably be more concerned about its demographic challenges rather than China's economic slowdown.	
Mark Scheme		
L2 (5-7)	<ul style="list-style-type: none">• Analyses the impact on the Singapore economy of <u>both</u> China's economic slowdown <u>and</u> its own demographic challenges• Applies relevant economic tools of analysis e.g. AD AS or PPC• Elaborates with sufficient rigour and detail	
L1 (1-4)	<ul style="list-style-type: none">• Lacking in anyone of the L2 criteria	
E (+3)	<ul style="list-style-type: none">• Takes a substantiated stand on which problem is of a greater concern for the Singapore government	

[Total = 30 marks]