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ECONOMICS Higher 1 Syllabus 8823

Examiner's Report

Year 6 Prelims 2022 Case Study Question 2



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ECONOMICS

Y6 H1 Prelims 2022



Case Study 2

(a) With reference to Figure 1, summarise the main changes in Vietnam's GDP from [3] 1985 to 2019.

Overall trend [1m]

 Vietnam consistently recorded positive annual GDP growth rates hence GDP rose from 1985 – 2019.

Refinement [additional 2m - 1 mark for each correct observation]

- GDP grew at an increasing rate from 1985 to 1995.
- GDP grew at a falling rate from 1996 to 1999.
- GDP grew fastest in the period from 1992 to 1998 (at least 8%).
- GDP grew at a steady rate of around an average of 6-7% between 1999 to 2019.

Suggested summary of main changes:

Vietnam consistently recorded positive annual GDP growth rates hence GDP rose from 1985 – 2019. In the earlier years, from 1985 to 1995, Vietnam's GDP grew at an increasing rate, peaking at 9.5% in 1995. In the period between 1992 and 1998, Vietnam's GDP grew the fastest, with growth rates of at least 8%. However, after 1995, GDP started to grow at a falling rate, reaching a steady rate of around 6-7% on average, between 1999 and 2019.

Comments:

- Many students being unable to provide a <u>summary</u> of <u>main changes</u> in GDP.
- There were some students who mixed up GDP and GDP growth rate. These resulted in misinterpretation of the data, with some students stating that fastest increase in GDP was from 1986 to 1989. This would be correct for GDP growth rate, but incorrect for GDP. The fastest increase in GDP should be from 1992 to 1998 where growth rate was at least 8%.
- Students should also recognise that question requirement was to 'summarise the main changes', so stating that GDP grew fastest in 1995 and grew the slowest in 1986 are invalid observations. A one-year data does not constitute a summary of changes. A summary entails observation from a range of years (at least 3 years).
- Similarly, a statement like 'GDP rose at a rising rate from 1985 to 2019' is also not very meaningful as it does not provide information about main changes since rates of growth varied quite a lot over the data range.

(b) (i) Explain the difference between GNI and GDP. [1]

One mark for clear difference explained:

GDP is the total value of all final goods and services produced within the geographical boundary of a country, regardless of whether resources used in production were local or foreign owned. On the other hand, GNI is the total income received by the residents of a country, regardless of where the factors of production are within or outside the country. OR

GNI = GDP + Net factor income from abroad i.e. income earned by the country's factors of production residing overseas is added to GDP, while income earned by foreign factors of production residing within the county is deducted from GDP.

- The main reason students did not do well for this question was the weak knowledge of GNI. Weaker scripts could not define GNI accurately.
- Better scripts were able to explain that the difference lies in net factor income from abroad.
- Most of the better scripts explained that income earned by the country's factor of production based abroad was added to GDP. However, students should note that income earned by foreign factors of production based within the geographical boundary must also be deducted from GDP.

(ii) Extract 1 states that "Singapore's economy stands to benefit from [4] Vietnam's continued growth".

Explain one way that 'Vietnam's continued growth' can increase Singapore's GDP and one way that it can increase Singapore's GNI.

First 2 marks for explaining how 'Vietnam's continued growth' → increase in GDP

Singapore's economy stands to benefit when foreigners from the region visit the country as tourists, to attend school or do business'

 Vietnam's continued growth → Higher income → Higher purchasing power [1] → increase demand for goods produced in SG or increase X → Increase AD due to increase net exports → Increase SG's GDP. [1]

Next 2 marks for explaining how 'Vietnam's continued growth' → increase in GNI

'Growing affluence in Vietnam creates tremendous growth opportunities' and 'More Singapore companies are choosing to invest in Vietnam, riding on... the country's steady growth.'

Vietnam's continued growth → Higher expected returns in investment / higher expected profits earned by SG firms who set up in Vietnam [1] → when profits are repatriated from Vietnam → Increase SG's GNI. [1]

Comments:

- There were better explanations for how GDP could increase due to Vietnam's continued growth, compared to the explanation for GNI.
- Most of the mistakes stemmed from weak knowledge of GNI. This is worrying as GNI is an
 important key economic indicator. GNI per capita is used to measure material standard of living
 and is part of the composition data for Human Development Index (HDI). This lack of knowledge
 also impeded the crafting of good responses for part (e).
- Many weak answers mixed up the effects of Vietnam's continued growth on GDP and GNI.
- Economic analysis also tended to be weak. For example, many students stated that Vietnam's continued growth will increase the demand for produced goods and services in Singapore. A better response would first acknowledge the rise in income, hence purchasing power. Similarly, many students just lifted from case material and stated that SG firms would increase investment in Vietnam due to continued growth. Better responses would explain the underlying factor contributing to increased investment e.g. higher expected rate of returns or profits.

(c) With reference to Extract 2 and use of relevant economic analysis, comment [7] whether the Vietnamese government ought to be concerned with the country's vulnerability to climate change.

Approach:

Vietnamese government ought to be **concerned**

 \rightarrow Due to negative impact on the economy \rightarrow In terms of attainment of the $\underline{3}$ macroeconomic goals

 \rightarrow Economic growth (actual and potential), Unemployment and Inflation.

(Answers relating to sustainable or inclusive economic growth are equally acceptable)

Thesis: The Vietnamese government ought to be concerned about climate change as it would result in negative macroeconomic impact on the economy [up to 4 marks]

Climate change → changes in weather conditions such as 'temperature and precipitation'
 → reduce yield of farm products → price of agricultural products [1]

 As Vietnam has 'high dependence on agriculture' → loss of export competitiveness of agricultural products → Fall in export revenue → Fall in net export (assuming import expenditure unchanged) → Fall in AD [1]

[Students can also interpret 'high dependence on agriculture' as agriculture products making up a large proportion of output produced in Vietnam. Hence when yields are reduced \rightarrow Fall in AS]

- This will lead to an unplanned surpluses and firms will reduce output and hire less worker. When workers' income falls → fall in income-induced consumption, triggering further decreases in AD and income → RNY falls more than proportionately than the initial fall in AD → Fall in actual economic growth. [1]
- Moreover, climate change → 'significant infrastructure damage' such as 'roads [being] washed away' → fall in productivity and efficiency e.g. firms transporting goods and services will not have to use alternative longer routes → fall in productive capacity → Fall in AS → reduction in the maximum amount of goods and services that can be produced → Fall in potential economic growth. [1]
- Climate change may impede Vietnam from achieving sustained economic growth.

Anti-thesis: However, the Vietnamese govt need not be overly concerned [Additional 3 marks]

- Extract 2 also suggested that 'projected temperature and precipitation changes to 2050 are not significantly large to substantially reduce yields'. This means that the fall in supply is unlikely to be large and thus, Vietnam may not lose its exports competitiveness for the agricultural products → Smaller extent of fall in AD [1]
- In terms of road infrastructure, 'Vietnam can take preemptive measures' and 'upgrade unpaved roads' → improving quality of roads which means that the fall in AS is mitigated.
 [1]
- Climate change is unlikely to substantially impact overall growth and development for at least the next few decades → Sufficient time to implement policies to prevent negative effects. [1]
- Reasoned conclusion [1]

Comments:

- Better responses relied on an acceptable economic framework e.g. AD-AS. The best answers utilized a well-drawn AD-AS diagram to analyse the potential macroeconomic effects of climate change.
- In contrast weaker responses did not make use of an acceptable economic framework. These answers tended to lift chunks of information from the case material without analysing the effects on AD and AS.
- More importantly, many of the answers failed to link their analysis to macroeconomic effects such as inflation rate, unemployment and actual &/or potential growth.
- (d) With reference to Extract 3, discuss how automation might worsen [8] unemployment and increase income inequality.

Approach:

- Explanation of how automation might worsen unemployment
- Explanation of how automation might increase income inequality
- Evaluation: 'might' aspect of the question → focus on the likelihood of increase in unemployment and income inequality occurring, in relation to longer term retraining and more progressive taxation systems, for example

Suggested outline:

Introduction:

Increase in automation \rightarrow 'good for educated workers' while 'low-skilled workers will become more susceptible to unemployment and wage depression'

Explanation of how 'automation' might worsen unemployment

Increased reliance of labour replacing equipment e.g 'drone-like machines... to make deliveries' to 'AI-powered customer service software → This is due to machines offering lower cost or are more cost effective or reliable than labour, as shown during Covid pandemic.

- These machines have replaced e.g. delivery workers and customer service staff → workers, most likely low-skilled, are laid off.
- These workers will <u>seek job opportunities</u> in industries <u>where jobs are available</u>. However, if they <u>lack the relevant skills to enter the industry</u> i.e. they are occupationally immobile → Their <u>existing</u> <u>skill set does not match those required in available job</u> → Mismatch of skills → increase structural unemployment.

Explanation of how 'automation' might increase income inequality

- Automation is "good for educated workers'. The <u>increased use of advanced equipment</u> e.g. Alpowered software <u>requires the skill sets of high-skilled and educated workers</u> such as robot programmers or those with the skills to operate more complex machinery → <u>Increase demand</u> for high-skilled workers → Shortages → <u>Drive up wage</u> of high skilled workers.
- In contrast, low-skilled workers are 'susceptible to wage depression'. Low-skilled workers are unlikely to possess the necessary skills and unable to compete with robots in terms of cost →
 Decrease demand for low-skilled workers → Surplus → Fall in wage for low-skilled workers.
- Increase wage for high skill while depressed wages for low-skill workers → widen income gap, hence increasing income inequality.

Possible evaluation:

- However, automation might not necessarily lead to increased unemployment and income inequality.
- If the government were to implement policies which encourage workers to retrain and acquire new skills, this could allow them to remain employed as they can move into industries where their skillset match the job opportunities. Moreover, employers will value more highly-skilled workers and their wages will rise.
- In conclusion, there will be increased unemployment and income inequality unless the government adopts policies to mitigate the effects of automation. Since retraining workers and equipping them takes time to take effect, it is likely that there will be increased unemployment and income inequality in the short run, but this can be mitigated in the long run when the policy takes effect.

L2	•	Covered both the main aspects of the question i.e. Analysis of how automation may lead to both worsened unemployment and increased income equality. Rigour is demonstrated in economic analysis.	4 – 6	
L1	•	Only one aspect covered i.e. increased unemployment <u>or</u> increase income equality. Economic analysis is lacking in depth.	1-3	
In addition, up to a further 2 marks for valid evaluative comment. Focus on the 'might' as				

- Most students made good attempts to explain the effects of automation on both the main aspects of the question i.e. (1) worsen unemployment and (2) income inequality. However, the main difference between stronger and weaker answers was the depth in analysis.
- Students who lumped the explanation of the 2 aspects together tended to be weaker in analysis.
- In contrast, students who explained each of the 2 aspects in separate paragraphs tended to be more rigorous.
- Some students displayed misconception on cyclical unemployment, explaining that automation causes cyclical unemployment (rather than structural unemployment). Students should understand that cyclical unemployment, otherwise known as demand-deficient unemployment, must stem from a lack of aggregate demand. It is wrong to infer that less workers needed implies that less output is produced. Especially in the case of this question, the output is now produced by utilising machinery rather than labour resource.
- It is worrying that a large number of students failed to provide an evaluation for this question. Students are reminded that evaluation is required when answering questions which calls for discussion, i.e. when the command word is 'discuss'.

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(e) Discuss whether data given in Table 1 is sufficient for economists to compare the [10] living standards between Singapore and Vietnam in 2019.

Introduction:

Standard of living comprises both material and non-material aspects.

- Material SOL refers to the quantity of goods and services available for consumption by the average person in the economy in a given time period.
- Non-material SOL refers to the qualitative aspects of welfare e.g. access to quality healthcare, education and living environment in general.

Development/Main body:

Students will need to assess material and non-material SOL using relevant data and interpretation of data to take a stand on whether data is sufficient to determine whether an average Vietnamese or Singaporean has a higher SOL. They can also bring in relevant data that is from their own knowledge. The following points can be considered:

To support the view that data given is sufficient to compare living standards between an average Singaporean and Vietnamese.

- Table 1: Singapore's GNI per capita (2017 PPP\$) is 88,155 while Vietnam's is 7,433.
 - GNI per capita = GNI/total population, measuring the average income per person in the population. A higher GNI per capita in SG suggests higher average income in SG.
 - Moreover, the GNI is PPP\$ adjusted, accounting for differences in cost of living in both countries. Hence a given dollar should be able to buy the same quantity of goods in both countries.
 - A higher GNI per capita (PPP\$) hence implies that an average Singaporean will have a higher purchasing power which allows them to <u>consume a higher quantity of goods and</u> <u>services to satisfy their material needs and wants</u> → Therefore, an average SG citizen may seem to have a higher material SOL than an average Vietnamese.
- Table 1: SG's life expectancy at birth of 83.6 is higher than Vietnam's of 75.4. This implies that there is <u>better nutrition and higher quality of healthcare</u> in SG than Vietnam → Higher <u>non-material SOL</u> since more of SG citizens are <u>able to live a longer and healthier life</u>.
- Table 1: SG's expected year of schooling and mean years of schooling at 16.4 years and 11.6 years respectively are also higher than that of Vietnam's (12.7 and 8.3 years respectively) → Higher non-material SOL in SG than Vietnam as an average SG citizen has <u>better access to education</u> and <u>better ability to acquire knowledge</u>.

To support the view that data given is insufficient

(Provide at least one of the following considerations)

- Additional information required. Below are some examples.
 - Gini coefficient to measure income inequality.
 - A Gini coefficient of zero expresses perfect income equality, where everyone has the same income while a Gini coefficient of 1 expresses maximal inequality, where only one person has all the income
 - If SG has a higher Gini coefficient than Vietnam, this reflects that those from the lower income group in SG may not have benefitted in terms of higher income level and purchasing power.
- Number of hours spent on work per week.
 It may be the case that the high GNI per capita meant that Singaporeans work long extended hours at the expense of family and leisure time. Family life takes its toll as reflected by the falling fertility rate which partially contributed to the ageing population problem.
- Data on environmental degradation. E.g. Higher C0₂ emissions in the 2 countries
 - A higher pollution level \rightarrow environmental degradation may lower the health of an average citizen \rightarrow lower non-material SOL.

Conclusion:

Take a stand:

• On the whole, the data given in Table 1 is sufficient to draw conclusions that an average SG citizen has a higher SOL compared to an average Vietnam citizen.

Justify your stand:

- SG's GNI per capita is more than 10 times that of Vietnam's. This suggests that an average SG citizen is definitely better off than an average Vietnamese, since it is unlikely that income inequality is so large in SG that it invalids the GNI per capita data. Hence, even when Gini coefficient data is unavailable, appropriate comparisons can be made between the 2 countries in terms of material SOL.
- Nonetheless, it would be useful to supplement the data given in Table 1 with key information on NMSOL such as number of working hours, work-life balance, stress levels etc. Since as a country becomes more developed, these outcomes begin to matter more.

L3	 An answer that assesses both the material and non-material aspects of SOL with relevant use and interpretation of data. Answer can explain how GNI in PPP\$ is able to capture material SOL by overcoming differences in population size and cost of living. Answer also explains how the given data on education and health and can help compare non-material aspects Answer acknowledges other important data that would help better compare SOL between the two countries. E.g. working hours, quality of goods, types of goods, environmental issues, distribution of income, sustainability. 	5 – 7		
L2	An answer with limited development and discussion, brief recognition of importance of material and non-material aspects of SOL. Or considered only material or non-material SOL but not both.	3 – 4		
L1	Smattering of valid points.	1 – 2		
In addition, up to a further 3 marks for valid evaluative comment. This should focus on the adequacy of given data to compare standard of living between countries.				

- Most students were able to do well for this question. The good scripts provided good analysis of how the each of the given data could help to economists to compare standard of living. Due consideration was given to both material and non-material standard of living. What really distinguished stronger from weaker answers, was again the depth of analysis.
- Weak answers did not demonstrate understanding of HDI and its components. Of particular concern were students who did not understand the concept of GNI per capita [PPP], therefore erroneously stating the Table 1 excluded information to compare material SOL.
- Students should also take note that they need to explain PPP\$ when the question requires comparison of SOL between countries.
- There were some weaker answers which did not provide a balanced argument. Most often, they omitted the discussion of other relevant data which are required to supplement in the given data in Table 1 to enhance comparison of SOL between countries.
- Most students were able to provide an evaluative comment but differed in ability to justify their stand.

(f) Discuss whether supply-side policies aimed at labour markets are the most [12] appropriate policies to help the Vietnam reach its goal of achieving 'high-income status by 2045' in an inclusive way.

Introduction:

Define inclusive growth: Inclusive growth refers to a rate of growth that is sustained over a period
of time, is broad-based across economic sectors, and creates productive employment
opportunities for the majority of the country's population.

Explanation of how supply-side policies aimed at labour markets can help increase inclusive growth in Vietnam

- From Extract 4, for Vietnam 'To become a high-income nation by 2045, equitable human capital formation and higher worker productivity are key'
- Supply-side policies aimed at labour markets such as subsidies for education and training can help to develop human capital and improve labour productivity.
- When workers in Vietnam engage in training → Upskilling of workers with better qualifications and skills to handle advanced equipment and machinery. This will mean that they can perform tasks more efficiently → increase in output per unit worker hence increase labour productivity.
- An increase in productivity \rightarrow quality of the workforce improves \rightarrow increase productive capacity.
- Furthermore, re-training and skills upgrading of workers can also raise labour productivity. If labour productivity growth outpaces wage growth, unit labour cost is lowered as well, and overall AS curve shifts outward → Increase both actual and potential economic growth → sustained economic growth
- [Draw AD-AS relevant diagram]
- Moreover, improved training opportunities, especially vocationally oriented education can also
 improve the occupational mobility of workers in the economy → more workers are now equipped
 with relevant skills to access employment opportunities or land higher paying jobs. Hence
 inclusive growth is achieved.

Limitations of supply-side policies aimed at labour markets

- However, burden of financing such supply-side measures may pose to be a huge financial burden on the Vietnamese government.
- Additionally, skills training and upgrading is long term in nature as it takes time to acquire new skills and to be adept at them, hence the policy may not be as effective in addressing the issues and may only materialize in the long term.

Explanation of how fiscal policy is also necessary to increase inclusive growth in Vietnam

- Extract 4 also suggest that 'fiscal policy can play a critical role in accelerating Vietnam's progress toward high-income status in an inclusive way' where government expenditure spent on 'public investments' are 'needed to eliminate poverty and grow the economically secure and middle classes'.
- For example, the Vietnamese government may need to spend more on improving transport such as good road network or ensuring reliable electricity supply in the poorer (usually less urbanized) areas of the country → such that it raises productivity across industries and firms → outward shift of AS → potential economic growth.
- Moreover, these public investments \rightarrow attract FDI \rightarrow increase AD
- Increase AD → Unplanned shortages → Firms raise output → Generates job opportunities and hence stronger demand for labour, the main and often the sole asset of the poor → increase access to income for the previously unemployed → inclusive EG.
- Via the multiplier process, workers who earned income → increase income induced C → additional increase in AD → which in turn generates jobs in wider spectrum of sectors → increase Y → increase EG in an inclusive manner.
- Extract 4 also suggests that the Vietnamese government should 'explore the use of new taxes' to fund the public investments as well as ensuring that 'public expenditures [are] directed in the right way'. E.g. the Vietnamese government would need to '[scrap] subsides for electricity... [and] channeled [the funds] to increase unemployment benefits and other forms of transfer payments'.

Limitations of fiscal policy

• Similar to supply-side policies aimed at labour markets, public investments require large amount of funding.

Discussion on 'most appropriate'/Conclusion

- Given that both public investments and subsidies for training entails a large amount of funding, the Vietnamese government must ensure that fiscal policy reforms are implemented to ensure that they have sufficient budget to implement them.
- Moreover, appropriate public investment will increase productivity, hence actual and potential growth in the Vietnam. Government transfer payments to the poor are also vital to improving inclusive growth.
- In contrast, supply-side policy such as subsidies for education and training of workers, on the other hand, take a long time to bear fruit. While it can help promote inclusive growth in the long run, it cannot address the short run concerns of those in currently in poverty.
- As such fiscal policy would be a more appropriate policy to help the Vietnam reach its goal of achieving 'high-income status by 2045' in an inclusive way.

L3	• An answer that explains how both supply-side policies aimed at labour markets and at least one other policy are used to increase actual and/or potential growth in an inclusive way.	6 – 9			
L2	 An answer that explains how policies to increase actual and/or potential growth OR policies that reduce income inequality or improve inclusivity. 	3 – 5			
L1	Vague, descriptive, list-like answer	1 – 2			
In ad	In addition, up to a further 3 marks for valid evaluative comment.				

• Top marks to be given when 'most appropriate' is addressed i.e. need to weigh between the two policies surfaced.

- This question was well attempted.
- Most students understood the requirements of the question, with majority of students surfacing fiscal policy as the alternative policy to supply-side policy.
- There were many good answers with well-drawn diagrams to support economic analysis of how the 2 policies worked.
- The quality of the analysis varied e.g. in terms of explanation of the multiplier process, linkage between training and labour productivity.
- Students also varied in their ability to make appropriate use of case material. Weaker answers tended to provide a purely theoretical analysis of the policies and their limitations. Stronger responses were able to surface relevant case material, interpret the material and used them to aid their discussion.
- Students are also reminded that limitations of policies must be discussed in order to achieve evaluation marks. Having said that, a mere listing of limitations of policies does not constitute and evaluation. Instead, students must try to weigh the limitations of the policies to assess marks for evaluation.
- One major concern was that a number of students ran out of time and did not attempt this question. Students must learn to better manage their time in the examination.