Consumers in Thailand are snapping up crocodile meat due to a significant increase in the price of pork which is a staple in the Thais' diet. This was due to African swine flu affecting pigs in the country and a post-pandemic economic recovery.

(a) With reference to the above events, explain the likely changes in the consumer expenditure on pork and crocodile meat in Thailand. [10]

Question analysis		
Command Word	Explain (consumer expenditure)	Give economic reasoning
Content Required	Changes in consumer expenditure (P x Q), non-price demand and supply factors	
Context	Market for pork and crocodile meat in Thailand	
Approach	<ol> <li>Explain the change i disease and econom</li> <li>Explain the change i due to changes in th</li> </ol>	n consumer expenditure on pork due to nic recovery; and n consumer expenditure on crocodile meat ne price of pork (substitute)

Introduction	<ul> <li>Consumer expenditure refers to the amount spent on a particular good or service. It is calculated by price multiplied by quantity of a good.</li> </ul>	Define key term of question
Requirement 1: Market for Pork	<ul> <li>The market for pork has been affected by the African swine flu and the post-pandemic economic recovery.</li> <li>The emergence of African swine flu has affected the ability of pork producers to supply pork. Pigs affected by the disease would not be suited for sale and as the disease can be contagious, this can easily affect other pigs in the farms. This would lead to a ↓ supply of pork.</li> <li>The post-economic recovery refers to Thailand enjoying economic growth after a period of recession or slowdown. There would be a rise in national income leading to greater purchasing power. Pork is likely to be considered a normal good with a positive value YED as it is considered a staple. This means as income increases, the demand for pork would increase as well.</li> <li>A fall in supply of pork would lead to a shortage of pork. This would cause upward pressure on prices. As the price rises, utility-maximising consumers, constrained by their budget, reduce quantity demanded, and the units of output that can only be produced at higher marginal cost now become profitable at higher prices, incentivising firms to increase quantity supplied to capture the positive marginal profits.</li> </ul>	Explain the change in supply and demand for pork. State and explain assumptions e.g., normal good Provide a detailed market adjustment process

	<ul> <li>The process will continue until the price eventually reaches P1 where quantity demanded exactly balances quantity supplied and the shortage is removed, removing further pressure on the market to adjust. The new equilibrium quantity rises to Q1.</li> <li>As pork is a staple food in Thailand, the demand is likely to be price inelastic (PED&lt;1) based on its high degree of necessity (or due to its low substitutability with other meats). A rise in price of pork would result in a less than proportionate fall in quantity demanded of pork. This means that given a fall in supply, the consumer expenditure on pork would rise as the increase in expenditure due to the increase in price is larger than the fall in expenditure due to the less than proportionate fall in quantity.</li> <li>The rise in demand would lead to an increase in price and quantity of pork. This would cause expenditure to rise.</li> <li>Both the shifts in demand and supply have led to a rise in expenditure, contributing to an overall increase in expenditure on pork.</li> </ul>	Analysis of change in expenditure should be rigorous (including the use of PED) Link back to the question
Requirement 2: Market for crocodile meat	<ul> <li>Consumers in Thailand are switching over to crocodile meat as the price of pork rises. This suggests that pork and crocodile meat are considered substitutes, as they are both sources of protein, with a cross elasticity of demand that is positive (XED&gt;0).</li> <li>With a rise in pork prices, this would lead to a fall in quantity demanded of pork as consumers switch to an alternative protein such as crocodile meat. There is a ↑ demand for crocodile meat.</li> <li>Given the rise in income due to the economic recovery, there would also be a rise in demand for crocodile meat, assuming it is a normal good as well.</li> <li>Given the overall increase in demand, there would be a rise in consumer expenditure as there is an increase in both price and quantity of crocodile meat.</li> </ul>	Explain the change in demand for pork, include the explanation of the relationship between both markets. Link back to the question

L3	Answer is relevant to the context provided and the changes in	8-10
	consumer expenditure using the demand and supply framework for	
	both the markets for pork and crocodile meat are rigorously	
	analysed with appropriate use of elasticity concepts where relevant.	

L2	Answer is relevant to the context and either lacks scope, i.e., only one market is analysed, or lacks rigour, i.e., consumer expenditure is assertive, lacking in use of relevant economic concepts. There may also be some errors present in the explanation.	5 – 7
L1	Answer is irrelevant and/or there are gross conceptual errors in the explanation.	1-4

(b) Discuss the policy options the Thai government can implement to address the rising price of pork. [15]

# Question analysis

Command Word	Discuss (policy	Provide multiple perspectives (policies)
	options)	
<b>Content Required</b>	Policies that address ris	ing prices of a good
Context	Market for pork in Thail	and
Approach	1. Explain <u>at least 2 po</u> pork in Thailand. Th	<u>licies</u> that would address then rising price of ere should be scope demonstrated in
	selecting the policy options e.g., demand-related, supply-related or price control policies.	
	2. Provide an evaluativ	e conclusion on the policy options.

Introduction	• Given that pork is a staple in Thailand, the government may be concerned about the rising prices. The government may thus consider options to arrest/reduce the price increases.	
Option 1: Increasing supply via subsidies	<ul> <li>The government could consider providing indirect subsidies for pork. This involves payments from the government to pig farmers to reduce the unit cost of producing pork. This would lead to an increase in supply of pork, addressing the shortage created.</li> <li>A rise in the supply of pork would lead to a surplus causing price of pork to fall.</li> <li>Strengths: This would work quickly and not reduce consumption of pork.</li> <li>Limitations: The use of indirect subsidies is a costly policy. However, given that demand for pork is price inelastic, the extent of the subsidy required would be small to achieve a significant fall in price of pork. Thus, this would mean the cost to the government may not be so large. The susceptibility to disease would is still present, which would reduce the effectiveness of the policy to raise supply given the time required.</li> </ul>	Define, Provide an example and explain how the policy works. Explain the strengths/ limitations of the policy option

Policy 2: reducing demand via	<ul> <li>Alternative supply-related policies: Investment by the government to increase the supply of pork (long-term) e.g., allocating more land, R&amp;D to reduce the impact of swine flu on pig farms.</li> <li>As seen in the preamble, consumers would switch to other protein alternatives given the rising price of pork. The government could also consider expanding the</li> </ul>	Define, Provide an example
developing other	production of alternative proteins to reduce the demand for pork, and keep pork prices low.	and explain how the
substitute proteins	<ul> <li>The government could explore expanding the production of other traditional proteins such as chicken or beef, and can also look into less traditional options such as crocodile meat. By raising the supply of these alternatives, this would reduce the price of the alternatives. Consumers will then switch over from pork to these alternatives, reducing the demand for pork which reduces the pork prices.</li> <li>Strengths: Developing/expanding alternatives would make the country more resilient to diseases that are specific to certain proteins.</li> <li>Limitations: Depending on the method of expanding production, the policy may take a long time to affect pork prices. The effectiveness of the policy also depends on the choice of alternative. The closer the alternative is as a substitute of pork, the greater the XED value is. This would mean that the demand and price for pork would fall to a larger extent. The effectiveness also depends on the PES of pork. The more price inelastic the supply of pork, the more effective the policy is to reduce the increase in price given the fall in demand for pork. Given that the pig stocks are affected by the disease and the time taken to rear new stock, the supply is likely to be price inelastic.</li> </ul>	policy works. Explain the strengths/ limitations of the policy option
Option 3: Price Ceiling/	<ul> <li>Lastly, the government could use a price ceiling keep pork prices low. A price ceiling is the maximum price that</li> </ul>	Define, Provide an
Max Price	<ul> <li>a good can be legally sold at.</li> <li>For the price ceiling to be effective, the price ceiling has to be set below the market equilibrium. This will limit the price of pork from increasing further.</li> <li>Strengths: Work quickly to reduce price.</li> <li>Limitations: Results in permanent shortage of pork which could lead to illegal sales of pork at prices above the price ceiling. This would render the policy ineffective. The extent of the shortage is dependent on value of PED and PES of pork.</li> </ul>	example and explain how the policy works. Explain the strengths/ limitations of the

Conclusion• The most effective policy would be one that could work quickly to reduce the price. Overall, the use of indirect subsidies and price ceiling would be the most effective a pproaches as they work quickly, unlike policies aimed at the long-term development of alternative proteins or the expansion of pig farming.• However, the permanent shortage resulting from a price criteria and/or			policy
<ul> <li>Conclusion</li> <li>The most effective policy would be one that could work quickly to reduce the price. Overall, the use of indirect subsidies and price ceiling would be the most effective a ranking of approaches as they work quickly, unlike policies aimed at the options the long-term development of alternative proteins or the expansion of pig farming.</li> <li>However, the permanent shortage resulting from a price criteria and/or</li> </ul>			option
<ul> <li>government towards using indirect subsidies instead of price controls. Indirect subsidies avoids the problem of permanent shortages and does not reduce the consumption of pork.</li> <li>To ensure a more long-term solution to the problem, and to increase the resilience of Thailand to future price increases, the use of short-term policy like indirect subsidies should be complemented with policies that focus on the long-term development of alternative proteins. This long-term approach would have the added benefit of ensuring that the future protein-specific</li> </ul>	Conclusion	<ul> <li>The most effective policy would be one that could work quickly to reduce the price. Overall, the use of indirect subsidies and price ceiling would be the most effective approaches as they work quickly, unlike policies aimed at the long-term development of alternative proteins or the expansion of pig farming.</li> <li>However, the permanent shortage resulting from a price ceiling and the fall in consumption of pork may sway the government towards using indirect subsidies instead of price controls. Indirect subsidies avoids the problem of permanent shortages and does not reduce the consumption of pork.</li> <li>To ensure a more long-term solution to the problem, and to increase the resilience of Thailand to future price increases, the use of short-term policy like indirect subsidies should be complemented with policies that focus on the long-term approach would have the added benefit of ensuring that the future protein-specific diseased desent arises the results are staries.</li> </ul>	option Conclusions can include a ranking of the options based on clear use of criteria and/or judgments on the use of the various policy options

L3	Responses demonstrated rigorous analysis of at least 2 policy options to address the rising price of pork. The choice of policies should demonstrate scope (a range of policy types). Explanation of policies should be accompanied by the limitations.	8 – 10
L2	Responses are either lacking scope (1 policy only) or lacking in explanation (e.g., lacking rigour in explanation and/or limitations of policies). There may be some inaccuracies in the explanation.	5 – 7
L1	The answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There may be basic errors of theory or an inadequate development of analysis.	1-4

E3	For an answer that builds on appropriate analysis to	5
	evaluate policy options, that recognizes unstated	
	assumptions and evaluates their relevance, and that	
	synthesizes economic arguments to arrive at well-	
	reasoned judgements and decisions regarding the options	
	available to address the rising price of pork in Thailand.	

E2	For an answer that makes an attempt at evaluation or a conclusion that answers the question but does not explain the judgment or base it on analysis.	3 – 4
E1	For an answer that gives superficial evaluative statement(s) without supporting analysis and elaboration	1-2

- a) Explain how a profit maximising firm sets prices, and why under certain conditions, different prices may be charged for the same good. [10]
- b) Discuss whether lowering prices is the best strategy a firm can adopt to reduce the competition that it faces. [15]
- a) Explain how a profit maximising firm sets prices, and why under certain conditions, different prices may be charged for the same good. [10]

# **Question Analysis**

#### Part 1: Command word:

Explain how -> use economic reasoning to explain the process

#### Concepts:

Profit-maximising firm set prices (on the DD curve) at profit maximising output (MR = MC) **Context** 

No specific context. Use appropriate exemplifications.

# Approach

R1: Assuming that a firm can set its own prices and adopts single-pricing, explain how it will restrict its o/p and produce at MR = MC; and then set the highest price possible based on its DD curve to maximise profit. Draw a diagram to illustrate.

# Part 2: Command word:

Explain why -> using economic reasoning to explain the case

# Concepts:

Profit-maximising firm may adopt price discrimination when conditions are met to increase its profit further.

# Context

No specific context. Use appropriate exemplifications.

# Approach

R2: State the conditions (firm is a price-setter, can segregate the market based on PED & (3) prevent resale across markets) and explain why when these conditions are met, the firm can charge different prices for the same good (i.e adopt price discrimination) to increase its profit further.

Answer		
Introduction	Assuming that firms are price-setters, they will charge the highest price possible based on the demand for their product at the profit-maximising output level, to maximise their profit, and if certain conditions are met, charge different pricing for the same good to increase their profit. The profit-maximising output is determined using the marginalist principle, which states that economic agents will weigh the marginal cost (MC) against the marginal benefit (MB) of consuming or producing an additional unit of good/service and stop consumption/production only when MC=MB.	Provide overview and define key terms – marginalist principle
Body: R1: Explain how a profit- maximising firm set prices (on	A profit maximising firm will restrict o/p and produce at MR = MC; and assuming that it is able to set its own prices and adopts single-pricing, will set the highest price possible based on its DD curve to maximise profit.	Point
the DD curve) at profit maximising output (MR = MC)	Define profit and state the profit-maximising condition. Profit is calculated based on the difference between total revenue and total costs. Assuming a firm to be rational and profit-maximising, it will produce up to the point where marginal revenue (MR) equals marginal cost (MC) and MC cuts MR from below.	Explain
	Explain how MR will fall as output increase if the firm is a price setter and how MC will always increase at output increases due to the law of diminishing marginal returns.	
	Referring to Figure 1, assume that the firm is a price setter, ie it is able to influence the price of a good by altering its own output. However, facing a downward-sloping demand curve, it can only control either its price or output but not both. Assuming standard pricing, to sell more units of output, it has to lower its price on the last unit and all previous units. Hence its marginal revenue or revenue from selling an additional unit of output is below its price [MR < P] and will fall as output rises (MR curve lies below the demand curve). On the other hand, the marginal cost or the cost of producing an additional unit of output rises as output level rises due to the law of diminishing marginal return.	
		Diagram



Body:	If a firm can be certain conditions, it will be able to	Point
R2: Explain how	charge different prices for the same good and increase its	
a profit-	profit further.	
maximising firm		
may adopt price	State the conditions.	Explain
discrimination	Selling the same good at different prices for reasons not	
when conditions	associated with differences in cost of production is known	
are, to increase	as price discrimination. Firms practice price discrimination	
its profit further.	to increase its profit and will be able to do so if the	
	following conditions are met:	
	• The firm can set price, i.e. it is a price setter.	
	• The firm can distinguish the price elasticity of	
	demand across individuals/groups.	
	<ul> <li>The firm can separate/segment the markets at low</li> </ul>	
	or no cost and prevent resale between the	
	different markets.	
	Explain why if these conditions are met, the firm can	
	charge different prices for the same good (i.e adopt price	
	discrimination) to increase its profit further.	
	If the firm can get price, it can charge different prices to	
	different consumers	
	different consumers.	
	If the firm can distinguish the price elasticity of demand	
	across individuals/groups, it can charge a higher price in	
	the market where demand is more price inelastic and a	
	lower price where the demand is more price elastic. For	
	instance, customers may be grouped according to:	
	<ul> <li>geographic markets e.g. price of college</li> </ul>	
	textbooks sold within US and outside US	
	<ul> <li>product use markets e.g. Microsoft office</li> </ul>	
	software for business users v.s. educators and	
	students	
	• customer types e.g. senior citizens and students	
	enjoy lower ticket prices at theme parks,	
	cinemas and performances	
	If the firm can segment the market based on observable	
	characteristics at low or no cost and can prevent the resale	
	between the different markets such that consumers	
	cannot buy goods in the cheaper market and resell it in the	
	more expensive market, it can ensure that price equality	
	will not be restored and it can continue to charge different	
	prices for the same good to different consumers based on	
	their different willingness and ability.	



L3	There is a thorough knowledge of facts and theory with an excellent ability to describe and explain in a precise, logical, reasoned manner. There is excellent use of appropriate examples relating a firm setting its prices to max profit, and why under certain conditions, different prices may be charged for the same good.	8 - 10
L2	The answer is relevant, although the theory may be incompletely explained, e.g. candidate may have explained how a profit maximising firm sets output instead of prices and /or why under certain conditions, different prices may be charged for the same good but not both.	5 – 7
L1	The answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There may be basic errors of theory or an inadequate development of analysis, e.g. e.g. using DD-SS framework to explain equilibrium price when the question is from firm's POV or not knowing the profit-maximising condition and the conditions to practice price discrimination.	1-4

(b) Discuss whether lowering prices is the best strategy a firm can adopt to reduce the competition that it faces. [15].

# **Question Analysis**

#### **Command Word**

• Discuss whether: Analyse from at least 2 perspectives, highlighting the limitations of each before making a judgment using economic reasoning.

# Concepts

- Firms' behaviour: Include both price and non-price strategies.
- Firms' aim: To reduce competition.

#### Context

• More appropriate to discuss in the context of firms competing in an oligopoly where firms are mutually inter-dependent and likely to engage in strategic behaviour to reduce competition or a monopoly trying to maintain its monopoly power. Use appropriate exemplification to support explanation of each perspective.

# Approach

- State how the level of competition is determined by the no. of competitors, the degree of barriers to entry as well as the extent of product difference which affects the availability substitutes. The lower the no. of close substitutes, the lower the level of competition.
- R1: Explain how lowering price can be a good strategy to reduce competition using strategic pricing strategies such as predatory pricing and limit pricing. Highlight the

limitations/adverse consequences of lowering prices as a strategy to reduce competition (may start a price war -> losses which is not sustainable)

- R2: Explain non- price strategies that a firm can adopt to reduce competition, eg. R&D and advertising etc to raise BTE (via raising brand loyalty) to lower competition; or collusive pricing strategy like price-fixing through cartel or price leadership. Highlight their limitations / adverse consequences (illegal; need Govt's approval etc)
- E: Make a judgement on whether 'lowering prices' is indeed the best strategy to reduce competition. If yes, why and under what conditions? If no, why not?

Introduction	The ultimate goal of all firms is to maximise profit. The the lower the level of competition, the higher the possibility to making profits. The level of competition within an industry is determined by the no. of competitors, the degree of barriers to entry as well as the extent of product difference.	Identify the aim of the firms and highlight what will reduce the level of competition.
R1: Lowering prices to reduce competition	Lowering prices can be a strategic move to lower the level of competition by eliminating existing competitors and preventing the entry of new competitors. This can be done through pricing strategies such as limit pricing and predatory pricing.	Point
	<b>Limit pricing</b> is the practice of charging a price below the firm's profit-maximising price (Po) (refer to Figure 1 in part a) and producing a quantity greater than that at which marginal revenue equals marginal cost in order to deter	Explain
	<ul> <li>entry. For instance, assume that a firm is making very large supernormal profits and attracting entry of new firms into the market</li> <li>To prevent potential competitors from entering: The incumbent firm may deliberately limit its price and profits earned so as not to attract new entrants.</li> <li>In the figure 2 below, the average cost curve (AC) for the firm and its potential competitor is drawn. The incumbent firm being more established, thus more able to reap economies of scale would enjoy a lower AC curve than its potential competitor.</li> <li>The potential competitor, if it wants to compete successfully, must either charge the same or a lower price than the incumbent firm does not charge a price higher than PL, its competitor will not be attracted into the industry due to its limited ability in earning supernormal profits.</li> </ul>	Example



	over the years <b>If not, the incumbent firm itself</b> <b>may be driven to bankruptcy if a price war</b> <b>erupts.</b> Lowering prices such as limit pricing and predatory pricing can be a strategic move to lower the level of competition by eliminating existing competitors and preventing the entry of new competitors.	Link
R2: Non-price Strategies to reduce competition	A firm can adopt non-price strategies to reduce competition too. Strategies such as R&D and advertising etc aim to raise BTE (via raising brand loyalty) to lower competition.	Point
	A firm's' desire to avoid mutually-destructive price competition can adopt non-price strategies such as advertising, location, research and development (R&D), packaging and sales promotions (lucky draws, free gifts, membership schemes) to create product differentiation, reduce the closeness of substitutes and drive its competitors out of the market, hence reducing the level of competition.	Explain with examples
	Advertising and R&D can help generate a higher demand and reduce both cross and price elasticity of demand (through creating brand awareness and brand loyalty) for a firm's product. Referring to Fig 3, the firm's demand will shift out from Dd0 to Dd1, and correspondingly its MR. At the same time, AC rises from AC0 to AC1 from the increase in fixed cost. The marginal cost, however, does not change – the cost to produce an additional unit of output is unaffected by this lump-sum spending. The profit- maximising output increases from Q0 to Q1 while price rises from P0 to P1.	

	$\begin{cases} \\ P_1 \\ C_1 \\ P_0 \\ C_0 \\ Q_0 \\ Q_0 \\ Q_1 \\ Q_0 \\ Q_1 \\ Q_0 \\ Q_1 \\ Q_0 \\ Q_1 \\ $	
	Figure 3: Effect of non-price competition on output	
	The consumers may develop brand loyalty and begin to see other brands less favourably and less of a close substitute. If the competitors' DD curve fall so drastically that TR can no longer covers its TC, the competitor will make losses and shut down -> hence reducing the level of competition within the industry.	
	The high cost of R&D and advertisement can also act as a strategic barrier to entry by raising market penetration costs hence reducing the level of competition.	
	Limitations	Link
	Both above strategies do not come cheap. They add to the firm's fixed cost and shift the entire AC curve upwards – at every unit of output produced, cost per unit is now higher.	LIIK
	The effectiveness of the strategy is dependent on consumers' taste and preference. If the increase in demand is not significant, firm may not be able to reduce the level of competition despite incurring the cost.	
	Non-price strategies such as R&D and marketing could be used by a firm to reduce competition by raising BTE.	
R3: Merger and acquisition to reduce	A firm may choose to reduce competition through merging with its competitors or even acquiring it.	Point
compeition	This is beneficial in industries where there are substantial internal economies of scale to be reaped, the minimum efficient scale is large. With the LRAC continuously falling	Explain

	over a large range of output, firms in these industries need to be large to keep their unit cost down. Through the merger / acquisition, the firm can lower its average cost and charge lower prices, under-cuting their competitors whose unit COP are higher, and further reducing the competition if the remaining competitors make losses and shut down. Additionally, through allowing the enlarged firms to charge lower prices, the IEOS enjoyed by large firms act as strategic entry deterrence. <b>Limitations</b> Instead of enjoying IEOS, the firm may find itself facing IDOS due to the incompatibility of corporate cultures of the two entities coming together. With IDOS, total cost increases more than proportionately to the increase in output. In the worst-case scenario where the merger/ acquisition adds more to the firm's cost than it does to its revenue, profits fall. If the firm has the means to reduce competition through merger and acquisition, their behaviour tend to attract the	
	attention of the regulators. For example, if it is deemed by the authorities to result in a loss of competition in the market which could lead to the loss of efficiency and consumer welfare, the government could step in to block the merger (antitrust laws). which leads to the loss of efficiency and consumer welfare. Mergers and acquisition could be used to reduce competition by reducing the no. of competitors.	Link
Conclusion	[Overall Stand] Lowering prices is certainly not the best strategy a firm can adopt to reduce competition due to the uncertainty of outcome and possible unintended consequences.	Summative conclusion
	[Substantiation] [RI] Lowering prices is at best a short-term strategy to reduce competition from the firm's perspective as it cannot be sustained over the long run. It should be adopted by a firm only if it is the dominant firm with a huge market share and its average cost significantly lower than its competitors. It should also have huge past accumulated supernormal profit to sustain its losses.	Play down the significance of lowering prices which you have assessed to be not the

Regardless, it may lead to retaliation if a price war breaks	best way to
out and the competitors are similar in standing (ie has the	reduce
same cost structure and market share) -> end up in a lose-	competition.
lose situation -> there would in a fall in price for all the	
firms without any increase in output -> fall in profit and	
may incur losses instead. There could be a fall in the	
quality of the goods too as firms cut cost to cut price ->	
worsen economic welfare from the society's perspective.	
	Play up the
[R2] In comparison, non-price strategies such as R&D is a	significance of
better long-term strategy to reduce competition, from the	non-price
society's perspective as it will lead to dynamic efficiency.	strategies
Dynamic efficiency is a situation in which firms are	which you
technologically progressive (investing in R&D for the	have assessed
purpose of product and process innovation) to meet the	to be better
changing needs and wants of consumers over time.	than lowering
Product innovation gives rise to new products being	prices in
introduced into the market helps expand consumer	lowering
choice. Having a wide variety of goods in the market	competition.
means that consumers will be able to find goods that	
better cater to their individual tastes and preferences.	
Process innovation drives productivity growth. This helps	
to lower the marginal and average costs which can	
potentially bring down prices and hence benefiting	
consumers too. Whichever form it takes on, dynamic	
efficiency raises consumer welfare.	

L3	There is a thorough knowledge of facts and theory with an excellent ability to discuss the various perspectives in a precise, logical, reasoned manner. There is excellent use of appropriate examples to support how a firm uses price and non-price strategies to reduce competition and their limitations in achieving their goal.	8–10
L2	The answer is relevant and two-sided, although the theory may be incompletely explained, e.g. candidate may have only discussed how one strategy can be adopted to reduce the competition, with the other strategy only discussed in a cursory manner. Or it could be a one-sided response explaining how either price or non-price strategy could be used to reduce competition. There could be incomplete analysis on how the strategies work but without specifically linking it to reducing competition.	5 – 7

L1	The answer is mostly irrelevant and only contains a few	1-4
	valid points made incidentally in an irrelevant context.	
	There may be basic errors of theory or an inadequate	
	development of analysis.	

E3	For an answer that builds on appropriate analysis to evaluate whether 'lowering prices' is indeed the best strategy to reduce competition, recognises unstated assumptions and evaluates their relevance, and that synthesises economic arguments to arrive at well- reasoned judgement.	5
E2	For an answer that attempt at evaluation or a conclusion that answers the question but does not explain the judgment or base it on analysis.	3 – 4
E1	For an answer that gives superficial evaluative statement(s) without supporting analysis and elaboration	1 – 2

While e-cigarettes have seen a rise in popularity in recent years, there are concerns about its use as a gateway to smoking among young people. E-cigarette makers have been accused of false advertising that misleads adolescents about the nicotine content and addictiveness of its products.

(a) Explain how a rational consumer may go about making decisions whether to [10] consume e-cigarettes, and how false advertising may affect social welfare

#### **Question Analysis**

Command word	Explain how	Explain the process	
Content required	<ul> <li>A rational consumer making decisions</li> <li>False advertising affect social wolfare</li> </ul>	Marginalist principle Market failure	
	wellale		
Context	E-cigarettes, no specific country		
Approach	R1: Students should use the marginalist principle to explain how consumers decide if and how many e-cigarettes to consume.		
	R2: Students should explain how information failure as a result of advertising (whether from the underestimation of the actual M from supplier-induced demand) may lead to market failure.		

Answer		
Introduction	Consumers aim to maximise utility and they can achieve this by using the marginalist principle, which states that economic agents will weigh the marginal cost (MC) against the marginal benefit (MB) of consuming or producing an additional unit of good/service and stop consumption/production only when MC=MB.	Define key terms – marginalist principle
	However, such rational decision-making may have a negative impact on social welfare, especially when it is affected by false advertising, which may lead to information failure.	Highlight source of market failure
Body: Requirement 1	A rational consumer will weigh his marginal private benefit (MPB) against his marginal private cost (MPC) of consuming e-cigarettes to decide if and how many e- cigarettes to consume.	Point
	The MPB of consuming e-cigarettes may be stress relief, which may lead to increased productivity and higher wages at work, which the MPC of consuming e-cigarettes may be the financial cost of the e-cigarette itself, as well as the medical cost incurred from health problems associated with smoking e-cigarettes.	Explain
	When MPB > MPC: there is a net gain from consuming an additional e-cigarette, and the rational decision is to consume that additional unit. Referring to Figure 1, at Q1, marginal benefit (aQ1) exceeds marginal cost (bQ1), yielding a net gain of ab from the consumption of that unit of the good. In fact between Q1 and Qe, marginal benefit exceeds marginal cost. Increasing consumption from Q1 to Qe would add Q1aeQe to total benefit while only Q1beQe to total cost, yielding a net benefit or economic welfare of abe. In other words, restricting consumption (or production) to Q1 would mean forfeiture of economic welfare (or welfare loss) of abe.	
	When MPB < MPC: consuming that additional e-cigarette brings about a net loss, and the rational decision is to refrain from consuming that additional unit.	
	At Q2, marginal cost (cQ2) exceeds marginal benefit (dQ2), yielding a net loss of cd from the consumption of that unit of the good. In fact, with marginal cost exceeding marginal benefit between Qe and Q2, consumption these units of output would add QeecQ2	

	to total cost while only QeedQ2 to total benefit, yielding	
	a net loss of economic welfare of edc. In other words,	
	cutting back consumption (or production) to Qe would	
	avoid this loss of economic welfare.	
	Benefit &	
	cost (\$)	Diagram
	C	
	$O$ $Q_1 \rightarrow Q_e \rightarrow Q_2$ Quantity	
	Only when MPB exactly equals MPC, the consumption of	
	the last unit of e-cigarettes adds as much to the	Link
	consumer's benefit as it does to cost and there can be no	
	more additional gains to be had. At this point, the net	
	benefit is maximized.	
Body:	However, false advertising may distort this decision-	Point
Requirement 2	making process and affect social welfare.	
	As consumers do not have complete and accurate information about the product they are consuming (since false advertising may mislead adolescents about the nicotine content and addictiveness of its products), they may underestimate the actual marginal private cost of consuming e-cigarettes. Their perceived MPC is lower than the actual MPC – as a result, they will consume up to QP, the point where the last unit output consumed brings them as much benefits as it costs them to consume it, i.e. where MPBperceived = MPC.	Explain
	However, if consumers had full and accurate information about the actual private costs of e-cigarettes, they would have consumed up to QS, where MPBactual=MPC. Assuming the absence of externalities, this is also the point where social welfare is maximized. Consumers, making decisions based on perceived costs and benefits, will therefore consume more than the socially optimal level.	
		Diagram

	$\int_{Q} \frac{P_{Q}}{Q_{S}} \frac{P_{Q}}{Q_{Q}} P_{Q$	Link
Conclusion	In summary, a rational consumer who aims to maximise his/her utility will use the marginalist principle to decide if and how much e-cigarettes he/she should consume. However, because of the presence of false advertising, there may be a need for the government to intervene.	Summary of points Link to part (b)

L3	Answer is relevant and well-developed in both requirements; the explanations are analytical and supported with diagrams and real-world examples.	8 - 10
L2	Answer is relevant; however, answer may be under- developed (in either requirement) (e.g. answer may not clearly explain <i>why</i> marginalist principle states that consumers will consume up to MB=MC to maximise utility, OR why false advertising will affect social welfare)	5 – 7
L1	Answer is largely irrelevant (e.g. a pre-prepared answer on externalities leading to market failure) or there are gross conceptual errors present in the answer.	1-4

(b) Discuss the factors that a government should consider in its decision to [15] intervene in the market for e-cigarettes.

# **Question Analysis**

Command word	Discuss the factors	Present multiple factors	
Content required	- Decision to intervene	Market failure policies	
		Factors that affect which	
		policy is used	
Context	E-cigarettes, no specific country		
Approach	R1/R2: Students need to explain at least two factors that would		
	influence a government's decision to choose one policy over another,		
	in their intervention in the market for e-cigarettes.		
	Tip: Pick factors that enable you to bring in a range of policies (from		
	market-based solutions, to command-and-control policies).		

#### <u>Answer</u>

	A government seeks to maximise social welfare for the betterment of society. In the market for e-cigarettes, not only does the presence of false advertising prevent consumers from accessing accurate and complete	Identify goal of the government
Introduction	information (as examined in part (a)), e-cigarettes could also be a gateway to smoking among young people, generating negative externalities that worsen market failure.	Explain briefly why a govt needs to intervene
Introduction	Hence there is a need for the government to intervene with relevant policies such as taxes, bans, regulations and public education. However, in deciding which policies to implement, the government may have to consider the (i) root cause of the market failure, whether it is caused by negative externalities or information failure or both (ii) the size of the marginal external cost	Overview
	(MEC) and (iii) the certainty of outcome.	
Factor 1: The <b>root</b> <b>cause</b> of the market failure	In its decision to intervene in the market for e-cigarettes, the government has to first identify the <b>root cause</b> of the market failure.	Point
	Besides information failure as mentioned in part (a), there could also be the presence of negative externalities generated from the consumption of e- cigarettes. The exposure to secondhand aerosols from e- cigarettes is associated with increased risk of bronchitis symptoms and shortness of breath among young adults,	



	For example, the Health Promotion Board in Singapore launched a campaign back in 2019 to educate young people and parents on why e-cigarettes are unsafe for use. During the campaign, a lively presenter blended a tasty looking fruity milkshake at a colorful juice bar as part of a presentation, but then added some car fuel to the mix. The stark contrast in the scene attempted to bring across clearly the message of how seemingly appealing and flavorful vaporizers can hide dangerous chemicals. Such campaigns leverage on consumers' saliency bias, which refers people's tendency to focus on information that is more prominent and over other less prominent but equally relevant pieces of information. This allows consumers to retain and recall such information with ease when making consumption decisions later on. Hence, considering the root cause of the market failure is important in enabling the government to pick appropriate policies to implement.	Example Advantage: Leverage on saliency bias
		Link
Factor 2: Extent of market failure	Even when the government is certain that the root cause of the market failure is due to negative externalities, the size of the negative externalities generated may also affect the choice of policy. When the size of the MEC generated from the consumption of e-cigarettes is extremely large, such that the marginal social cost (MSC) exceeds the marginal social benefit (MSB) at all output levels (as shown in the diagram below), the government may want to implement a complete ban instead of using indirect taxes to reduce consumption. This is because there is no positive quantity of e-cigarettes to be consumed that will maximise societal welfare. In this case, it is much better for the government to ban the good, since any consumption of the good will result in welfare loss. In the free market, the deadweight loss that results is given by the shaded area below.	Point Explain <u>how</u> factor affects policy choice: taxes vs ban



	Hence, considering the size of the MEC is important in	
	enabling the government to pick appropriate policies to	
Factor 3: The	Finally, besides the root cause of the market failure and	Point
certainty of	the size of the MEC generated, the government may also	
outcome	want to consider the certainty of outcomes.	
	The certainty of outcomes varies between policies; if the government prefer a policy with a more certain outcome, they may want to choose to implement policies such as taxes, bans or legislations, as compared to public education, where the outcome is less certain (even if it does target the root cause of the market failure). This is because the public may not be receptive to such campaigns or may be desensitized to these messages over time. Furthermore, public education may take a long time to get the message across as it is not easy to change people's mindsets and habits.	Explain
	In comparison, taxes, bans or legislations lead to more certain outcomes with proper monitoring and enforcement. The government can conduct regular checks and set the fines for people who do not comply high enough such that the cost of non-compliance (likelihood of being caught x fines paid) exceeds the benefits.	
	For example, the sale of e-cigarettes is banned in 25 countries; market authorisation is required in 17 other countries. In countries permitting the sale of e-cigarettes, minimum age-of-purchase policies are common.	Example
	Hence, we can see that countries do not only rely on public education to discourage consumption of e- cigarettes due to the lack of certainty in terms of outcomes; very often, there are other policies implemented as well.	Link
Conclusion	[Stand] The most important factor that a government	Summative
	should consider in its decision to intervene in the market	conclusion
	for e-cigarettes is the <u>root cause</u> of the market failure.	
	[Substantiation]	
	- The size of the negative externalities generated	Play down
	only becomes important if the government is	the
	clear about what is the main cause of the market	significance

failure. For example, if the main cause of the	of
market failure is due to false advertising, then	alternative
the size of the MEC generated is less of a concern	factors
as the overconsumption of e-cigarettes is more	
due to information failure than it is due to	
negative externalities.	
- Similarly, certainty of outcomes is important only	
if the situation is urgent and the government is	
pressed to resolve the market failure	
immediately. While e-cigarettes may be a	
'gateway to smoking' among young people, the	
smoking habit usually takes a while to develop	
and hence the government may not be that	
concerned that the certainty of outcomes for	
different policies vary.	
- Root cause of the market failure is the most	Play up the
important factor to consider because it increases	significance
the effectiveness of policies implemented in	of the
tackling the market failure. For example, even if	factor you
the government adopts a heavy-handed	have
approach and bans e-cigarettes, there is still	chosen as
likely going to be a black market for it (despite	the most
monitoring and enforcement) because	important
consumers simply do not understand the risks	
associated with vaping. In this case, it is far more	
effective to use public education at the same	
time to educate consumers on the true costs of	
e-cigarettes.	

L3	Answer is relevant and well-developed in both requirements; the explanations are analytical and supported with diagrams and real-world examples.	8-10
L2	Answer is relevant; however, answer may be under- developed (in either requirement) (e.g. answer may not clearly explain <i>how</i> factor identified can help the government choose one policy over another)	5 – 7
L1	Answer is largely irrelevant (e.g. a pre-prepared answer on policies resolving negative externalities without highlighting factors a government may consider) or there are gross conceptual errors present in the answer.	1-4

	For an answer that (so far as required by the question)	
E3	builds on appropriate analysis to evaluate contemporary	5
	issues, perspectives and policy choices, that recognizes	

	unstated assumptions and evaluates their relevance, and that synthesizes economic arguments to arrive at well- reasoned judgments and decisions.	
E2	For an answer that makes some attempt at evaluation or a conclusion that answers the question but does not explain the judgement or base it on analysis.	3 – 4
E1	For an answer that gives superficial evaluative statement(s) without supporting analysis and elaboration.	1 – 2

UK's central bank, the Bank of England, has raised interest rates for the fourteenth consecutive time as it warned that the cost of borrowing will remain high. While the Bank of England acknowledges that the hike will make things 'difficult' for many, the move was necessary to bring inflation down.

(a) Explain one domestic and one international factor that may increase an [10] economy's rate of inflation.

# Question Analysis

Command word	Explain	Explain the reasoning	
Content required	- Domestic international factor	Internal and external	
		causes of inflation	
	- Increase rate of inflation	Explain how this causes a	
		faster increase in GPL	
Context	No specific country		
Approach	R1: Students should explain an internal cause of demand-pull or cost- push inflation		
	R2: Students should explain an external cause of demand-pull or cost- push inflation		
	Tip: Make sure you have both demand-side and cost-side caus inflation covered!		

#### Answer

	Inflation refers to an increase in a country's general price	Define key
	level (GPL). This can be caused by a persistent increase	terms
	in AD (demand-pull inflation) or an increase in the unit	
Introduction	cost of production, causing AS to fall (cost-push	
	inflation). Such causes may arise domestically or	Overview
	internationally, not only causing the GPL to rise, but to	
	rise faster than before.	

Requirement 1: Domestic factor (Demand-pull inflation)	One domestic factor that may increase an economy's rate of inflation may be an increase in consumption expenditure ( $C_D$ ), leading to a persistent increase in AD that exceeds AS when the economy is near or at full employment, causing upward pressure on prices.	Point
	The increase in $C_D$ may be because positive expectations about future income; consumers may expect higher income in the future because of the post-pandemic recovery around the world and therefore increase their spending now. Having previously postponed spending on vacations, entertainment, and restaurants as a result of the pandemic, consumers may also therefore be spending more now as part of "revenge spending".	Example
	$P_{4}$ $P_{3}$ $P_{2}$ $P_{4}$ $P_{3}$ $P_{2}$ $P_{1}$ $Q$	Diagram
	An increase in AD, results in unplanned disinvestment as firms draw down stocks to meet the unanticipated increase in AD. In response to the unplanned disinvestment, firms increase output in the next production cycle in attempt to restore their inventories to their optimal level. As firms enter the factor market to demand for more factors of production. Holding the supply of factors of production constant, the increased competition for factors of production bids up factor prices. This increases the unit cost of production and firms, to protect their profits, pass on part of the higher costs to buyers by raising prices of final goods and services. In the figure above, the increase in AD from AD0 to AD1, holding AS constant, is accompanied by an increase in the general price level from P0 to P1 even while real national income increases from Y1 to Y2, towards the full employment level of Yf.	Explain
	Demand-pull inflation worsens as the economy approaches full employment. If AD continues to increase, e.g. from AD2 to AD3 and further to AD4, in the absence of available spare capacity, the shortage created can no longer be met by increase in production. The economy adjusts to a new equilibrium fully through	

Poquiromont 2:	increase in the general price level (to P4), without any increase in real national income which remains at the maximum level of Yf. Therefore a faster increase in C <sub>D</sub> will lead to a further increase in AD, which translates to a higher inflation rate in an economy.	Link
International factor (Cost-push inflation)	rate of inflation may be an increase in unit cost of production because of external supply shocks.	Point
	The Russia-Ukraine crisis has disrupted oil and natural gas supplies, pushing up global energy prices significantly since Russia is the world's largest gas exporter and one of the top three oil producers in the world. Consequently, energy-importing countries will experience an economy-wide increase in unit cost of production as energy is an essential factor of production in many production processes	Example
	$\begin{array}{c} GPL \\ P_{3} \\ P_{2} \\ P_{1} \\ Q \\ $	Diagram
	When firms experience increases in unit cost of production independent of AD factors, the same output will be supplied by firms only at higher prices. In the figure above, this is represented by the upward shift of the AS curve from AS1 to AS2. Firms respond to the higher unit cost by partly decreasing output and partly increasing price of final goods and services to protect their profits. As firms cut back production, demand for factors of production also fall. Ceteris paribus, unemployment increases. Overall, the general price level rises from P1 to P2 and real national income falls from Y1 to Y2, further below the full employment level of real national income Yf.	Explain
		Link

	A faster increase in unit cost of production will lead to a further fall in AS from AS2 to AS3, which translates to a higher inflation rate in an economy.	
Conclusion	Both domestic and international factors can contribute to an increase in inflation rate in an economy. When GPL	Summary
	is rising faster than before, it may be an indication for the central bank and the government to step in and implement appropriate policies.	Link to part (b)

Students can also highlight external factors causing demand-pull inflation (e.g. rising incomes in trading partners' economies) and internal factors causing cost-push inflation (e.g. shrinking workforce as a result of falling birth rates and an aging population).

#### LORMS

L3	Answer is relevant and well-developed in both requirements; the explanations are analytical and supported with diagrams and real-world examples. No reference to faster increase in GPL – capped at 8m	8 - 10
L2	Answer is relevant; however, answer may be under- developed (in either requirement) (e.g. answer may not clearly explain <i>how</i> an increase in AD and/or a fall in AS led to a rise in GPL, or how factor highlighted is a domestic/international factor)	5 – 7
L1	Answer is largely irrelevant (e.g. an answer focusing on the impacts of inflation rather than the causes of it) or there are gross conceptual errors present in the answer.	1-4

(b) Discuss whether an increase in interest rates is the most appropriate policy [15] to bring inflation down in an economy.

#### **Question Analysis**

Command word	Discuss whether	Multiple perspectives	
Content required	- An increase in interest rates	Contractionary monetary	
	- Most appropriate policy	policy	
	- Bring inflation down	At least one other policy	
Context	No specific country		
Approach	R1/R2: Students need to explain at least two policies that would reduce		
	inflation in an economy.		

Answer		
Introduction	A government has 4 macroeconomic aims, one of which is price stability. When there is rising inflation in an economy, it may be an indication for the government to engage in appropriate policies such as contractionary demand-management policies like fiscal or monetary policies, or supply-side policies like cost-cutting measures.	Overview
	Whether increasing interest rates is the most appropriate policy to bring inflation down depends on the root cause of the inflation as well as the country's economic characteristics.	
Requirement 1: An increase in interest rates	Thesis: An increase in interest rates may be an appropriate policy to bring inflation down in an economy.	Point
	When the central bank raises interest rates, this is known as a contractionary monetary policy. This decreases AD since the rise in interest rate raises both the opportunity cost of using savings for consumption, and the cost of borrowing for purchases on credit. Either way, it discourages consumption, including consumption of domestically-produced goods and services (Cd). At the same time, the higher interest rate raises the cost of borrowing relative to the expected return on investment, creating a disincentive for firms to borrow to finance their investment. Overall, the decrease in Cd and I will cause AD to decrease. As AD decreases, this moderates the increase in AD (AD0 to AD2 instead of to AD1, relieving the competition for factor inputs and reducing the rate of inflation. General price level AS <sub>0</sub>	Explain
	$P_{1}$ $P_{2}$ $P_{0}$ $P_{0}$ $AD_{1}$ $AD_{1}$	Diagram
	Real national income	
		Example

With inflation rising around the world in 2022, major central banks have been working hard to bring prices back down and stabilize their economies. Central banks in the 10 most-developed economies, including the UK, have raised interest rates, with the highest policy rate increased to beyond 3%.	
Anti-Thesis 1: An increase in interest rates may not be an appropriate policy to bring inflation down in an economy.	
The effectiveness of an increase in interest rates in bringing down inflation in an economy depends on the interest elasticity of consumption and investment.	Point – interest- inelasticity
During periods of economic booms, households and firms may be highly optimistic about the future – an eruption of "animal spirits" could start a virtuous circle of entrepreneurial risk-taking and investment. When firms are optimistic about the future market conditions, i.e. they expect higher rate of return on investment, they would increase investment. Hence, even if interest rate were to be increased, it would not reduce consumption and investment significantly – consumption and investment are interest-inelastic. This would therefore reduce the effectiveness of monetary policy.	Explain
This may explain why the Bank of England has had to increase interest rates for the 14 <sup>th</sup> consecutive time, indicating that earlier rounds of lifting policy rates have had minimal impact in reining in the increase in AD.	Example
Besides its limited effectiveness, an increase in interest rates is also likely to make things difficult for many, as mentioned in the preamble. For example, homeowners on a variable rate residential mortgage (i.e. their interest payments vary according to prevailing interest rates) will have to pay more in interest payments as a result of the interest rate hike. This will significantly affect their standard of living as homeowners find themselves having to dip into past savings in order to keep up with interest payments, or even to take up a second job to make ends meet, substantially increasing stress and working hours	Point – unintended negative consequences Explain
	Link

	Hence the government may have to consider alternative policies to bring inflation down.	
Requirement 2: Other policies	Anti-Thesis 2: An increase in interest rates may not be an appropriate policy to bring inflation down in an economy; there are other policies which may also be appropriate.	Point
	Alternatively, the government may consider implementing a contractionary fiscal policy, where they cut government spending (G) or increase taxes in order to reduce the increase in AD. A fall in G directly reduces AD since G is a component of AD; a rise in personal income tax reduce disposable income, which leads to a fall in C <sub>D</sub> , while a rise in corporate income tax reduce post-tax profits, which in turn reduces the amount that can be re-invested, leading to a fall in investment (I). Together, the fall in C <sub>D</sub> , I and G will lead to a fall in AD.	Explain
	This slows down the rate of increase in AD thereby relieving the pressure on factor markets and moderating the extent of price increase. Similar to contractionary monetary policy, this causes AD to increase to AD2 instead of AD1, relieving the competition for factor inputs and reducing the rate of inflation.	
	Both contractionary fiscal and monetary policies potentially involve trade-offs with other macroeconomic goals, such as economic growth. If the government is too aggressive with its contractionary policies in its bid to rein in inflation, this could potentially cause too large a fall in AD, leading to a multiplied fall in real national income and a consequential rise in unemployment.	Counter- argument: Unintended negative consequences
	For economies that are suffering from cost-push inflation rather than demand-pull inflation, demand- management policies are also ineffective as it does not address the root cause of the inflation. For example, as mentioned in part (a), an international factor that may contribute to inflation is external supply shocks, leading to an increase in prices of imported factor inputs; reducing AD does nothing to help mitigate this.	Counter- argument: May not address root cause
	If the root cause of the inflation is due to an increase in unit cost of production, the government may consider	Point

implementing supply-side policies such as cost-cutting measures.	
Cost-cutting measures, by reducing unit cost, brings about a downward shift of the AS – firms are willing to supply the same output at lower prices. The reduction in unit cost of production leaves firms with larger profits, incentivising them to increase output by putting to use previously unemployed resources (including labour). At the same time, in competitive markets, firms pass on part of their cost savings to consumers by lowering the prices of final goods and services. In the diagram, the increase in AS from AS' to AS'' leads to an increase in real national from Y' to Y'', moving closer to the full employment level Y <sub>f</sub> , while at the same time bringing general price level down from P' to P''. If the economy was initially experiencing high inflation, this will help to relieve inflationary pressure.	Explain
P'AS' P'AS' P'AS' P'AS' Y'Y''YYF RNY	Diagram
For example, the Jobs Support Scheme (JSS) was introduced in the Unity Budget in February 2020 to provide wage support for employers to retain their loca employees during this period of economic uncertainty in Singapore. Under the JSS, the Government co-funds a proportion of the first \$4,600 of gross monthly wages paid to each local employee. The level and duration of support each employer receives depends on the sector in which the employer operates. One key benefit of supply-side policies is that unlike demand-management measures, it does not result in a	Example
trade-off between macroeconomic goals; as seen above, the moderation of inflationary pressure is achieved together with economic growth and a fall in unemployment.	
However, this policy is feasible only when the recession is short-lived. It is not possible for the government to continue to give out such sums when recession is	Counter- argument:

	protracted. The greater government spending could result in a budget deficit and may adversely impact the government's ability to spend on other areas e.g. healthcare and education. (Students may also explain about supply-side policies to enhance long-run growth potential as a response to accommodating future increases in AD and thereby mitigating demand-pull inflation)	Unintended negative consequences
Synthesis	<b>[Stand]</b> Whether an increase in interest rates is the most appropriate policy to bring inflation down in an economy really depends on the root cause of the inflation, as well as the country's economic characteristics.	Summative conclusion
	<ul> <li>[Substantiation]</li> <li>An increase in interest rates may be appropriate if the root cause of the inflation is demand-pull in nature. If the root cause of the inflation is cost-push, then it may be more appropriate to employ supply-side policies as it can directly tackle the increase in unit cost of production.</li> <li>That said, even when the source of inflation is demand-pull, whether it is more appropriate to engage in contractionary fiscal or monetary policy may depend on the proportion of homeowners that are already on fixed vs variable mortgages. The larger the proportion of homeowners that are on variable mortgages, the harder the interest rate hike will bite. In such a case, the government may want to consider engaging in fiscal policy instead. Hence increasing interest rates is not the most appropriate policy.</li> </ul>	Justify why it depends on root cause Justify why it depends on a
	<ul> <li>Raising interest rates is also not the most appropriate when the country is more reliant on (and therefore susceptible to changes in) external demand. For example, the sources of inflation in small and open economies such as Singapore are more likely due to international factors rather than domestic factors; conversely, relatively larger economies such as the UK may be more affected by domestic factors. Hence raising interest rates may be more appropriate for countries like the UK.</li> </ul>	country's economic characteristics

LORMS		
L3	Answer is relevant and well-developed in both requirements; the explanations are analytical and supported with diagrams and real-world examples.	8 – 10
L2	Answer is relevant; however, answer may be under- developed (in either requirement) (e.g. answer may not clearly explain <i>how</i> policy may tackle demand-pull or cost-push inflation using policy tools) One-sided response (no limitations) – capped at 6m	5 – 7
L1	Answer is largely irrelevant or there are gross conceptual errors present in the answer.	1-4

E3	For an answer that (so far as required by the question) builds on appropriate analysis to evaluate contemporary issues, perspectives and policy choices, that recognizes unstated assumptions and evaluates their relevance, and that synthesizes economic arguments to arrive at well- reasoned judgments and decisions.	5
E2	For an answer that makes some attempt at evaluation or a conclusion that answers the question but does not explain the judgement or base it on analysis.	3 – 4
E1	For an answer that gives superficial evaluative statement(s) without supporting analysis and elaboration.	1-2

In 2022, the countries with the largest trade deficits include the United States, the United Kingdom, and India.

(a) Explain the impact of a rising trade deficit on consumers and producers. [10]

Ouestion	Analy	/sis
<u>Question</u>		0.0

Command word	Explain	Explain the reasoning	
Content required	- Rising trade deficit	The effect of a fall in X-M	
	- Impact on consumers and producers	Impact on consumers and	
		producers can be measured	
		by:	
		<ul> <li>Standard of living</li> </ul>	
		(consumers)	
		- Profits (producers)	
Context	No specific country		

Approach	R1: Students should explain the impact of a rising trade deficit on consumers in terms of their standard of living.
	R2: Students should explain the impact of a rising trade deficit on producers in terms of their profits.

# <u>Answer</u>

Introduction	A trade deficit occurs when the export revenue received from goods and services (X) is less than the import expenditure on goods and services (M). When there is a rising trade deficit, this implies that X-M is falling; this could be either due to a fall in X or a rise in M or some combination of both.	Define key terms
	This has impacts on both consumers and producers within an economy, which this essay will explore.	Overview
Requirement 1: Impact on consumers	A rising trade deficit will have largely negative impacts on consumers.	Point
	Ceteris paribus, AD will decline when both domestic and foreign consumers demand for less of the goods and services produced (fall in Cd and X). As AD falls, ceteris paribus, firms add unsold goods back to their inventories as a result of the unanticipated decrease in demand. The unplanned investment signals to firms to decrease output in the next production cycle so as to restore their inventories to the optimal level and, in so doing, demand less factor inputs (including labour) and paying out less factor income. As national income falls, income-induced consumption (Cd) decreases, causing another round of decrease in AD, setting off the reverse multiplier effect where the fall in spending results in a fall in income received which causes further cuts in spending. At each successive round, the decrease in income-induced consumption gets smaller because of the leakages in the form of saving, taxes and imports. Eventually the multiplier process will end and a new equilibrium national income is attained when the fall in injections has been entirely leaked out. In the diagram, a leftward shift of AD from AD to AD' leads to a decrease in real NY from Y to Y', moving further away from the full employment level Yf, ceteris paribus. There is hence negative growth where real national income has fallen. Accompanying that is a rise in cyclical unemployment.	Explain impact on RNY

		Diagram
	Ceteris paribus, this will cause a worsening of a country's material and non-material standard of living (SOL). The fall in real national income implies that less output is produced, which means that there is less available for consumption, leading to a fall in material SOL. At the same time, the fall in output reduces the derived demand for labour, causing an increase in unemployment within an economy, increasing the stress and anxiety associated with job loss and a possible increase in social instability. Furthermore, a rising trade deficit in the BOT means that there is an increasing net outflow of the country's currency. This results in an excess supply of the country's currency in the foreign exchange market, putting downward pressure on a country's currency, causing it to depreciate against other currencies (assuming the country operates on a free floating exchange rate). As the currency weakens, the price of imports in domestic	Diagram Explain impact on external value of currency
	the currency weakens, the price of imports in domestic currency terms rises. For countries with high reliance on imports for raw materials and intermediate goods such as Singapore, unit cost of production rises, stoking cost- push inflation, eroding consumers' purchasing power as the same amount of money can now buy fewer goods and services, further reducing their material SOL.	
	Hence, due to the fall in SOL, a rising trade deficit has a detrimental effect on consumers.	Link
	Possible to also say that consumers experience a rise in SOL from an increase in consumption of imports, although the improvement in SOL is likely temporary.	
Requirement 2: Impact on producers	A rising trade deficit will also have largely negative impacts on producers.	Point
producers	A rising trade deficit can indicate a loss in export competitiveness in the world market, reducing the	Explain impact on profits as a



	The exporting firm initially produces at where MC=MR, at Q, to maximise its profits. With an increase in cost of production as a result of currency depreciation causing imported factor inputs to be more expensive when expressed in domestic terms, this causes the firm's MC and AC to both increase. Consequently, there is also a change in its profit-maximising output, as the firm now maximises its profit at where MC'=MR, at Q'. There is a fall in profits received by the firm. Hence, because of the squeeze on profitability, a rising	Link
	trade deficit largely implies a negative impact on producers. Possible to also say that producers experience a rise in profits from the improvement in export price competitiveness as a result of the currency depreciation (i.e. the trade deficit auto-corrects)	
Conclusion	Because of the negative impact on both consumers and producers, the government may want to intervene with appropriate policies to reduce the size of this deficit.	Summary and link to part (b)

L3	Answer is relevant and well-developed in both requirements; the explanations are analytical and supported with diagrams and real-world examples.	8 - 10
L2	Answer is relevant; however, answer may be under- developed (in either requirement) (e.g. answer may not clearly explain <i>how</i> the rising trade deficit affects consumers (in terms of SOL) or producers (in terms of profits) using AD/AS or firm analysis)	5 – 7
L1	Answer is largely irrelevant (e.g. an answer focusing on the causes of a rising trade deficit rather than the impacts of it) or there are gross conceptual errors present in the answer.	1-4

(b) Discuss alternative policies that may be employed to reduce a country's trade [15] deficit.

# Question Analysis

Command word	Discuss	Multiple perspectives
Content required	<ul> <li>Alternative policies</li> <li>Reduce a country's trade deficit (i.e. cause an increase in X-M)</li> </ul>	One expenditure-reducing policy One expenditure-switching policy
Context	No specific country	
Approach	R1/R2: Students need to explain at least <u>two</u> policies that would lead to an increase in X-M in an economy.	

# <u>Answer</u>

AIISWEI		
	To reduce a country's trade deficit, a government may employ either expenditure-reducing or expenditure- switching policies.	
Introduction	Expenditure-reducing policies aim to reduce import expenditure to correct the trade deficit, while expenditure-switching policies aim to switch domestic consumer expenditures from foreign goods to domestically-produced goods to reduce the country's import expenditure, as well as to switch foreign consumer expenditures from goods produced abroad to goods produced at home to increase the country's export revenue to correct the trade deficit.	Define key terms
	Thesis 1: Expenditure-reducing policies may be employed to reduce a country's trade deficit.	Point
Requirement 1: Expenditure- reducing policies	Expenditure-reducing policies include contractionary demand-management policies (fiscal and interest rate centred monetary policies). Under contractionary fiscal policy, the government may either cut its spending (thereby reducing G) or raise direct taxes such as personal income tax or corporate income tax (thereby reducing C and I). Under contractionary interest-rate policy, the central bank may implement an interest-rate hike in order to reduce C and I. Either way, such policies aim to decrease AD through C, I or G.	Explain
	By reducing AD and national income, import expenditure (M) decline. The extent of the decline in M in response to reduction in NY depends on the marginal propensity to import (MPM). To the extent that the underlying cause of the trade deficit is a high relative	

inflation rate, contractionary demand-management policies address the root cause by bringing down domestic inflation rate. For simplicity's sake, suppose the policies bring down the general price level. A reduction in export prices, assuming export demand to be price elastic, brings about a more than proportionate increase in the quantity demanded of exports. As the same time, the fall in the general price level at home induces a switch from imports to domestically- produced substitutes. With export revenue (X) increasing and M falling, BOT position improves.	
Anti-thesis 1: Expenditure-reducing policies may not be appropriate.	
Adopting contractionary policies may correct the trade deficit but worsen the unemployment situation in the economy – hence a trade-off in macroeconomic objectives may occur.	Point – Trade- offs
The fall in AD as a result of the contractionary policies causes the economy to operate further away from full- employment output; as output falls, the derived demand for labour also declines, leading to an increase in unemployment. Of the three countries mentioned, India registered the highest rate of economic growth in 2022 and therefore can best afford to adopt such a policy; for countries such as US and UK, given their sluggish economic growth post-pandemic, they may decide against adopting contractionary policies.	Explain Example
The effectiveness of such policies in reducing the trade deficit is also uncertain and depends on elasticities. For example, the effectiveness of deflationary policies in correcting a trade deficit depends on the marginal propensity to import (MPM). The smaller the MPM, the smaller the fall in import expenditure given a fall in income level and hence the more limited the success of a deflationary policy in correcting the deficit. The effectiveness also depends on the price elasticity of demand for exports and the degree of substitutability between imports and domestically-produced substitutes. The lower the PED and XED, the less effective the policies will be in correcting the deficit.	Point – Limited effectiveness Explain

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A government may also employ supply-side policies that aim to increase price and non-price competitiveness of exports. This can be done through increasing domestic productivity through R&D, improvement in technology, training and infrastructure development, to lower unit cost of production, allowing domestic producers to reduce their prices. This will help to reduce the demand for imports (assuming a high degree of substitutability); and improve export competitiveness. Assuming demand for exports to be price elastic a reduction in export prices will bring about a greater than proportionate increase in quantity demanded, raising export revenue. Supply-side policies such as financing R&D can bring about both process and product innovation. While process innovation helps lower unit COP, product innovation results in improved quality of exports or even the development of new product types, opening up new markets. As demand for exports rises, ceteris paribus, so does export revenue.	Explain
Anti-thesis 2: Expenditure-switching policies may not be appropriate.	
The use of supply-side policies may involve high cost and place a strain on the government budget and hence may not be appropriate for countries who are also simultaneously suffering from a budget deficit (i.e. they are suffering from a twin deficit). Such government spending would also incur an opportunity cost, forgoing spending on other areas of the economy which may similarly require the government's attention, such as education and healthcare.	Point - High cost Explain
Amongst the three countries, India has the lowest level of public debt (as a % of GDP), while the UK government has accumulated the highest public sector net debt in more than 60 years, and the US government has spent more money than it takes in every year since 2001. Some economists warned that the US debt-to-GDP ratio is too high, while India's public debt is largely deemed to be sustainable. Hence India is more likely to be able to engage in such supply-side policies.	Example

	Additionally, the success of any R&D or training efforts is by no means guaranteed; additionally, such supply- side policies also have a long gestation period – for example, workers need time to undergo training – and hence it is not intended to be a quick fix to a country's trade deficit problem.	Point – Limited effectiveness Explain
	<b>[Stand]</b> Expenditure-switching policies may be better than expenditure-reducing policies in reducing a country's trade deficit.	Summative conclusion
Synthesis	<ul> <li>[Substantiation]</li> <li>This is because unlike expenditure-reducing policies, expenditure-switching policies do not involve a trade-off in macroeconomic objectives. Instead, it is very likely that the use of expenditure-switching policies can achieve multiple macroeconomic objectives simultaneously. For example, supply-side policies are also crucial in helping an economy achieve sustained growth since it can help increase a country's productive capacity to accommodate future increases in AD.</li> <li>It is important to consider the root cause of a country's trade deficit to select an appropriate and effective solution. To the extent that the underlying cause of the trade deficit is a loss of competitiveness, supply-side policies form part of the economic restructuring process to (1) regain comparative advantage, or (2) develop new areas of comparative advantage. Currency devaluation merely addresses the symptom of the issue but does not tackle the root cause. While it may be employed in the short run to buy time for supply-side policies to have an effect, countries should not rely on currency devaluation to artificially give their exports an edge, as this is likely to result in retaliation. Comparatively, supply-side policies are unlikely to be objectionable since it does not "unfairly" disadvantage any other country in the process.</li> </ul>	Compare between expenditure- reducing and expenditure- switching policies Compare within the expenditure- switching policies: devaluation vs supply- side.

Students can also highlight other expenditure-switching methods, such as protectionistic measures like tariffs.

LORMS		
L3	Answer is relevant and well-developed in both requirements; the explanations are analytical and supported with diagrams and real-world examples.	8 – 10
L2	Answer is relevant; however, answer may be under- developed (in either requirement) (e.g. answer may not clearly explain <i>how</i> policy may tackle the trade deficit by getting domestic consumers to reduce import expenditure or by getting both domestic and foreign consumers to switch expenditure towards purchasing domestic goods) One-sided response (no limitations) – capped at 6m	5 – 7
L1	Answer is largely irrelevant (i.e. it does not explain how a country's trade deficit may be reduced) or there are gross conceptual errors present in the answer.	1-4

E3	For an answer that (so far as required by the question) builds on appropriate analysis to evaluate contemporary issues, perspectives and policy choices, that recognizes unstated assumptions and evaluates their relevance, and that synthesizes economic arguments to arrive at well- reasoned judgments and decisions.	5
E2	For an answer that makes some attempt at evaluation or a conclusion that answers the question but does not explain the judgement or base it on analysis.	3 – 4
E1	For an answer that gives superficial evaluative statement(s) without supporting analysis and elaboration.	1-2

a) Explain how embracing globalisation helps an economy alleviate the problem of scarcity. [10]

#### Introduction

Globalisation is the increasing integration of economies around the world, particularly through the movement of goods, services, capital, people (labour) and knowledge (technology) across international borders.

Scarcity refers to the fundamental economic problem where the world has limited resources and people have unlimited wants and needs. The presence of scarcity is often illustrated by the combinations of output unattainable by an economy outside its production possibility curve.

#### <u>Body</u>

R1: Globalisation includes international trade; free trade allows an economy to consume beyond its production possibility curve (PPC), thus alleviating some scarcity.

Different countries have different endowments of factors of production and different levels of technological attainment; different countries have certain advantage in the production of different goods. A country has a comparative advantage in the production of a good if it can produce the good at a lower opportunity cost than its trading partner. The Law of Comparative Advantage states that if countries specialise in the products in which they have comparative advantage, then trade could be mutually beneficial to all countries. Each country is able to increase its output and by trading the output with another country both countries can gain.

The benefits of trade can be illustrated using the PPC and consumption possibility curve (CPC).



To produce 1 unit of textile, Country A has to give up 1.6 units of computers whereas Country B has to give up only 0.5 units of computers. Country B is said to have a comparative advantage over Country A in producing textile. On the other hand, Country A has comparative advantage over Country B in producing computers.

Suppose Country A partially specializes in computers while Country B completely specialises in the production of textiles. Also assume that two countries agree on a terms of trade that is

1 unit of computer = 1 unit of textile. Referring to the diagram above, it can be seen that with specialisation and trade based on a mutually beneficial terms of trade, both Country A and B consumes more units of computer and textile than before trade.

Since the level of consumption for both goods increases for both countries beyond their PPCs, both countries gain from specialisation and trade when comparative advantage is present, and it is possible for both countries to alleviate scarcity when they embrace globalisation.

# R2: Globalisation includes capital and labour flows, and assuming that there is net inflow of capital and labour, an economy's PPC will shift outwards.

Other than international trade, embracing globalisation also allowed movement of capital goods and labour (knowledge). As a result, the country will have increase in the quantity (and quality) of resources. That will mean that the PPC can actually shift outwards to encompass more output combinations outside the original PPC.



This means a previously unattainable combination of goods (X and Y) can now be attained, thus alleviating scarcity.

Through international trade and augmenting resources, embracing globalisation will allow economies to alleviate scarcity as they are able to achieve a larger (combination of) output than before (shown on CPC and larger PPC, where a previously unattainable combination of output is now attainable).

Levels	Description	Marks
3	<ul> <li>Able to fulfil both requirements of essay</li> <li>Made good use of PPC to illustrate the effects of trade and resource flow into an economy</li> <li>Applied the concept of comparative advantage and gave succinct explanation on impact of trade on PPC, with clear links to differences in opportunity cost of production in different countries</li> <li>Answered the question by explicitly showing how a previous unattainable combination of output is now attainable</li> <li>Understood (implicitly) the meaning of alleviation of scarcity, where scarcity will always be present</li> </ul>	8-10

2	<ul> <li>Able to fulfil both requirements of essay</li> <li>Made use of PPC to illustrate the effects of trade and resource flow into an economy</li> <li>Applied the concept of comparative advantage and attempted to explain impact of trade on PPC due to differences in opportunity cost of production in different countries with some errors</li> <li>Implicitly answered the question by explicitly showing how a previous unattainable combination of output is now attainable (includes use of the AD-AS analysis instead of PPC)</li> <li>One requirement well explained but lacking in another (low L2)</li> </ul>	5-7
	- One requirement well explained but lacking in another (low L2)	
1	<ul> <li>Major conceptual errors with little coherent explanation</li> <li>Not linking theory of comparative advantage to PPC and scarcity</li> </ul>	1-4

b) Assess the view that globalisation will hinder sustainable growth in an economy. [15]

# Introduction

Sustainable economic growth refers to a rate of growth which can achieved without causing significant other significant economic problems (such as depleted resources and environmental problems), particularly for future generations. It implies a positive and stable growth rate over an extended period of time.

This concept recognises that there is a trade-off between rapid economic growth presently and future growth. The current rapid growth may exhaust scarce resources and cause environmental degradation which will undermine future growth.

# <u>Body</u>

# (R1) Thesis: globalisation will not hinder sustainable growth in an economy.

With the increase in trade and FDI flows due to globalisation, assuming increase in (X-M) and net inflow of FDI, there will be an increase in AD (where economy is operating before full employment). This will trigger the multiplier effect. Firms see an unplanned disinvestment and are incentivised to produce more. Hence, they will hire more factors of production, including labour.

As a result, factor income increases, leading to an increase in induced consumption. As consumption increases, firms will see further unplanned disinvestment, and hire more factors of production. Factor income increases further, leading to increase in consumption again. This will lead to multiple rounds of increase until the sum of all increasing leakage from the withdrawals equals to the initial injection which is the increase in export revenue. There is actual growth in the economy.

The increased FDI inflows will contribute to increase in knowledge transfer and technology. In addition, globalisation also includes the flow of labour into an economy, leading to augmentation of talent pool and competitive wages that drives productivity and work effort. All these leads to an increase in AS, which leads to potential growth, thus sustained growth.



#### On sustainable growth:

With the improvement in technology and more advanced capital, firms will achieve higher efficiency in production; this reduces wastage of resources and/or firms use less resources to produce the same quantity of goods. In addition, technology such as green technology, and improvements in processes such as recycling will also contribute to sustainable growth as reduced rate of utilising non-renewable resources or to reduce pollution.

The increase in real GDP allows government to collect more tax revenue. More funds can be directed to the preservation or management of renewable resources such that they are utilised at a sustainable rate.

#### (R2) Antithesis: globalisation will hinder sustainable growth in an economy.

There is volatility involved when trading with other countries. An economy embracing globalisation is highly susceptible to contagion effect, where recessions in its trade partner countries will cause a decline in its own AD. When trade partners experience recession, their purchasing power will decrease, and they will buy less from the given economy, leading to fall in X and eventually real national income. Economic growth in the short run will be affected.

While an economy can enjoy huge FDI inflows through embracing globalisation, MNEs are also known to be 'footloose'. These MNEs exploit and use up resources and may not transfer knowledge and technology to the host economy. Once they have exhausted the resources, they will simply leave in search of elsewhere. Sustained growth of the economy is affected and that there will be lack of sustainable growth as future generations are adversely affected.

Brain drain can also occur as highly educated and skilled people leave the less developed country in search of a better life in another country. This slows down potential growth of economy experiencing brain drain. Its sustained growth is affected, and there may be intergenerational effects as people remaining in the country will not be as well-educated and not as well paid. The government gets less tax revenue to fund the healthcare and education expenditure for the future generations.

On sustainable growth:

Increase in production due to growth through globalisation will lead to more resources utilised, including those that are non-renewable (some renewable but take time to be replenished). Without proper accounting of social costs, the utilisation of these resources often leads to market failure, where the presence of negative externalities in production leads to over-production. Industrial activities increase the emission of greenhouse gases, contributing to climate change and increasing floods or droughts. Land, sea and air pollution will eventually cause less resources to be available for use, thus threatening the shrinking of PPC (or AS) over time. Productive capacity of an economy could be reduced.

The increased economic activity also creates more logistics and packaging, further contributing to air pollution and the production of huge quantities of waste that need to be processed. The impact on climate and environment will hinder sustainable growth.

#### **Evaluation**

Globalisation presents vast opportunities for countries to grow and develop. There has been empirical evidence detailing how globalisation has contributed to the rapid development of economies. However, embracing globalisation does not assure the sustainable growth of an economy.

#### **Priority:**

In developing countries characterised by very low per capita income where large swathes of population live below the poverty line, countries tend to adopt a "growth at all costs" attitude. Raising incomes and poverty alleviation are prioritised, even if it means there will be environmental problems associated with deforestation for agricultural and industrial land, or use of cheap but dirty fuels like coal. It is only when more people get lifted out of poverty and basic needs are satisfied that governments can better afford to take a more holistic view of growth, to move towards sustainable growth. Thus, embracing globalisation should not hinder sustainable growth.

#### **Economic theory:**

Climate change and environmental degradation would constrain the expansion of the economy's productive capacity and undermine future growth, thus is it important to pursue sustainable growth in order achieve high and sustained growth in the very long run.

# Change in attitudes:

Additionally, the changing attitudes of consumers and workers (particularly those in the advanced economies) have made sustainability and ethical practices profitable. Firms are increasingly motivated to engage in sustainable and ethical sourcing of their factor inputs, as well as to adopt green technology. This present opportunities for more investment and profits to be made across countries. Developing countries, in imposing tougher environmental standards may in fact be more successful exporting to markets in the advanced economies and attracting investments from the multinational companies. Embracing globalisation will no longer conflict with an economy's desire to pursue sustainable growth.

Levels	Description	Marks
3	<ul> <li>Able to fulfil both requirements of essay</li> <li>Made use of appropriate economic analysis to exemplify the effects of globalisation on sustainable growth (including accurately drawn diagrams)</li> <li>Balanced and accurate analysis (balance between sustained growth that is more short term relative to sustaining the use of growth for generations ahead)</li> <li>There is also balance between the different aspects of globalisation: trade and FDI flows</li> </ul>	8-10
2	<ul> <li>Able to fulfil both requirements of essay</li> <li>Made use of appropriate economic analysis to exemplify the effects of globalisation on sustainable growth with some inaccuracies</li> <li>Lop-sided analysis (too much on sustained ONLY, or too much on consideration of future generations but lacking the actual and potential growth) but still largely accurate</li> <li>Focused largely on international trade but not on other aspects of globalisation (vice-versa)</li> <li>One requirement well explained but lacking in another requirement (low L2)</li> </ul>	5-7
1	<ul> <li>Major conceptual errors with little coherent explanation</li> <li>Not understanding meaning of sustainable growth and globalisation</li> <li>Lacks application of economic theory such as AD-AS analysis, multiplier effect</li> </ul>	1-4
E3	For an answer that builds on appropriate analysis to evaluate contemporary issues, perspectives, that recognises unstated assumptions and evaluates their relevance, and that synthesizes economic arguments to arrive at well-reasoned judgements and decisions regarding whether globalisation will hinder sustainable growth of an economy.	5
E2	For an answer that makes an attempt at evaluation or a conclusion that answers the question but does not explain the judgment or base it on analysis.	3-4
E1	For an answer that gives superficial evaluative statement(s) without supporting analysis and elaboration.	1-2