

2022 SH2 Prelim CSQ 2 Suggested Answer Outline

(a)	<p>With reference to Extract 4 and Table 2, explain two reasons why India is against the removal of import tariffs.</p> <p>[4]</p>
	<p>Any Two well-explained argument for protectionism (i.e. against the removal of import tariffs) below with clear reference to Extract 4 or Table 2:</p> <p><u>Protect Domestic Employment</u></p> <ul style="list-style-type: none"> India is against the removal of import tariffs on industries such as the 'textiles, agriculture and dairy sectors' (Extract 4) as this would result in increase in its domestic unemployment as such sectors employ 'hundreds of millions of workers'. [1] With the removal of import tariffs in such sectors, the lowered relative price of tariff-free imports from countries such as China would lead to a more than proportionate increase in quantity demanded of imports given that such goods are likely price-elastic in demand with the great availability of substitutes from other countries. This would thus lead to an increase in import expenditure, and ceteris paribus, would lead to a fall in aggregate demand (AD), which would lead to a fall in derived demand of labour, causing cyclical unemployment in India. [1] <p><u>Protect Balance of Payment</u></p> <ul style="list-style-type: none"> As seen in Table 2, India has a current account deficit up to 2019 and thus may be against the removal of import tariffs to protect against an overall balance of payment deficit. [1] By reducing import expenditure, it will help India avoid depleting its foreign exchange reserves, thus allowing India to be able to intervene to sell foreign currencies to appreciate its exchange rate when necessary for example to deal with possible concerns of imported inflation or boost foreign investor's confidence in India. [1]
(b)	<p>Using a diagram and Extract 5, explain how the removal of import tariffs would impact consumer surplus.</p> <p>[3]</p>
	<ul style="list-style-type: none"> There will thus be an increase in consumers' surplus where consumers will benefit from 'cost-savings passed down' (Extract 5), where the lowered cost of import tariff which is removed is passed down to consumers in terms of lower prices of imported end consumer goods. [1] With an import tariff, equilibrium price in the economy would be at P_T and quantity demanded will be at Q_3 as seen in Figure 1. With the removal of import tariffs, there will be an increase in quantity demanded by consumers from Q_3 to Q_4 as well as fall in equilibrium price from P_T to P_W as seen in Figure 1 thus leading to a greater difference between the price consumers are willing to pay and actually pay. [1] Thus, there is an increase in consumers' surplus is seen in Figure 1 from area ABP_T to ACP_W. Well-labelled and well-referenced diagram. [1]

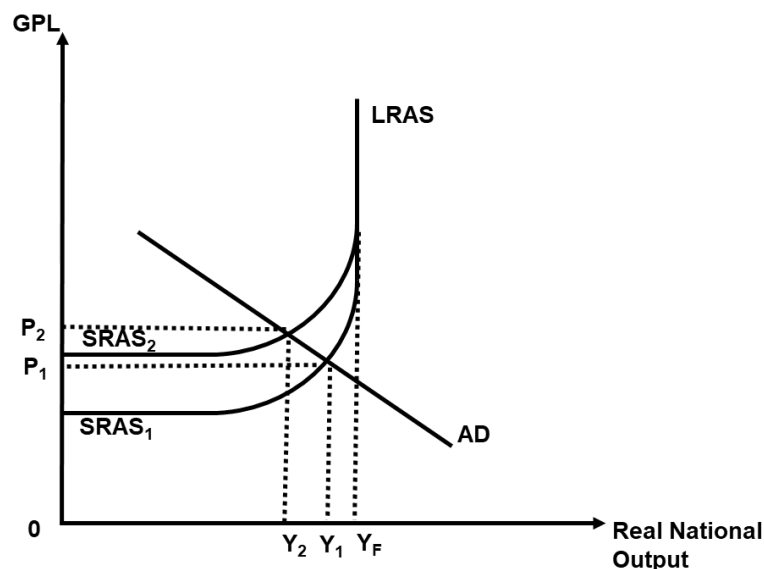
	<p style="text-align: center;">Fig. 1: Tariff Diagram</p>
(c)	With reference to Extract 6:
(i)	Explain how an increase in foreign direct investment may impact the balance of payment in Singapore in the short run and the long run. [3]
	<ul style="list-style-type: none"> • In the short run, an increase in foreign direct investment (FDI) will mean more debit transactions increasing the long term capital flows thus worsening the country's capital and financial account, despite leading to an improvement in the overall balance of payment (BOP) position. [1] • Increased FDI also suggests repatriation of profits by the FDI from Singapore back to the FDI's countries of origin in the long run. [1] • The increase in debits would worsen Singapore's primary income account, thus worsening the current account and thus worsening of Singapore's BOP in the long run. [1]
(ii)	Explain why an increase in foreign direct investment may lead to an increase in the rate of unemployment in Singapore. [2]
	<ul style="list-style-type: none"> • FDI in Singapore will lead to an increase in demand for high skilled labour as seen in how increase in FDI created 'a diversity of good jobs in research, product development, manufacturing and commercial functions', causing structural shift in the economy. [1] • Low skilled labour in Singapore thus lacks the necessary skills to be employed in such jobs and thus the jobs skills mismatch will lead to an increase in structural unemployment in Singapore. [1]
(d)	Discuss the relative benefits of diversification for a resilient supply chain as compared to specialisation of exports to an economy engaging in international trade. [8]
	<p><u>Introduction</u></p> <ul style="list-style-type: none"> • State that the benefits to an economy can be indicated by the economy's achievement of the macroeconomic goals as well as improvement to the economy's standard of living (SOL).

- Diversification will help ensure resilience against supply-side shocks which may affect the internal stability of an economy.
- Specialisation may allow countries to benefit from cost advantages from internal economies of scale as well as gains from trading according to theory of comparative advantage.

Body

• Benefit to an Economy with Diversification for a resilient supply chain

- The COVID-19 pandemic has demonstrated both 'supply and demand shock' to the global economy (Extract 6). This has caused disruptions to supply chains as 'countries imposed lockdowns and export bans'. For an economy that is reliant on the global economy for imports such as Singapore, this vulnerability will result in compromise to its internal stability.
- By 'diversifying supply sources' specially for essential items (Extract 6), Singapore as an economy is able to ensure that it is able to have access to imported inputs from cheaper sources that are less likely to be affected by lockdowns thus managing the price of such imported inputs. This will thus help mitigate any significant increase in imported cost of production to the economy.
- This helps to keep the economy SRAS from worsening, thus helping to curb any possible import price-push inflation due to possible supply shocks or export bans with diversification of supply sources.
- This also helps to maintain internal stability in terms of actual economic growth, as firms reliant on imported inputs will respond to the lower cost of production by lowering prices as well as increasing production.



• Benefit to an Economy with Specialisation

- For an export-reliant economy such as Singapore, there would be greater benefit gained from specialisation to tap on gains from trade according to theory of comparative advantage.
- Given Singapore's high-skilled labour as well as large proportion of capital endowments, it is likely that Singapore has a lower opportunity cost and thus comparative advantage in high-tech and capital-intensive industries. Thus as the global economy shifts to provide

greater opportunities in the 'digital economy' as well as 'e-commerce' which Singapore has a comparative advantage in, Singapore will be able to gain from specialising according to her comparative advantage in these high-tech and capital-intensive industries.

- By specialising according to comparative advantage, an economy will thus increase its exports, assuming mutually beneficial terms of trade. Ceteris paribus, the increase in its export revenue would thus lead to an improvement in its aggregate demand (AD). The increase in AD would thus lead to a more than proportionate increase in national income via the multiplier process, thus leading to actual economic growth. The increase in derived demand for labour at each multiplier stage also would help lower cyclical unemployment in the economy.
- The increase in export revenue would also lead to increase in credit items in the economy's balance of trade account, thus leading to an overall improvement in its balance of payment position.

Evaluative Conclusion

- Whether or not an economy should diversify for a resilient supply chain or specialise depends on the nature of the economy. For an economy that is largely dependent on export for growth such as developing economies, then there are higher relative benefits to specialisation. For an economy that is largely dependent on imports due to lack of natural resources, then such economies should focus more on diversifying for a resilient supply chain.

Marking Scheme:

L2 4-6 marks	<p>For an answer that demonstrates knowledge and understanding and has application and analysis:</p> <p>At least GOOD breadth that considers the following economic concepts in explaining multiple and balanced perspectives, viewpoints, relationships and factors. MOST points chosen should be of relevance and significance in answering the question.</p> <p>At least GOOD depth in economic analysis that reflects the following in MOST explanations.</p> <p>✓ Accurate use of economic concepts, clear elaboration, and precise use of economic terminologies, language and phrasing.</p> <p>The answer should also be supported by:</p> <p>Well-labelled and well referred to diagram(s) / Tool(s) of analysis drawn with precision (where appropriate).</p> <p>Evidence(s).</p> <p>Logical structure.</p>
L1 1-3 marks	<p>For an answer that demonstrates knowledge but lacks understanding, application and analysis:</p> <ul style="list-style-type: none"> • INSUFFICIENT breadth that considers the following economic concept(s). Point(s) chosen may be of relevance but may not be of significance in answering the question. • INSUFFICIENT depth in economic analysis that may reflect the following:

	<table border="1"> <tr> <td></td><td> <ul style="list-style-type: none"> Lack of accuracy in the use of economic concepts, lack of clarity in elaboration, and lack of precision in the use of economic terminologies, language and phrasing. </td></tr> </table> <table border="1"> <tr> <td>E2 2 marks</td><td> For an evaluation that contains A synthesis of earlier economic arguments to arrive at relevant judgements/decisions (i.e. answer the question). Well-explained criteria-based evaluative comments supported by accurate and clear analysis to provide fairness in views. A good summative conclusion. </td></tr> <tr> <td>E1 1 mark</td><td> For an evaluation that contains Relevant but unexplained evaluative judgement(s)/statement(s) i.e. evaluative judgement(s)/statement(s) not supported by analysis or A relevant unexplained conclusion </td></tr> </table>		<ul style="list-style-type: none"> Lack of accuracy in the use of economic concepts, lack of clarity in elaboration, and lack of precision in the use of economic terminologies, language and phrasing. 	E2 2 marks	For an evaluation that contains A synthesis of earlier economic arguments to arrive at relevant judgements/decisions (i.e. answer the question). Well-explained criteria-based evaluative comments supported by accurate and clear analysis to provide fairness in views. A good summative conclusion.	E1 1 mark	For an evaluation that contains Relevant but unexplained evaluative judgement(s)/statement(s) i.e. evaluative judgement(s)/statement(s) not supported by analysis or A relevant unexplained conclusion
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(e)	<p>Discuss whether participation in the RCEP would likely enhance the living standards of an economy. [10]</p> <p><u>Introduction</u></p> <ul style="list-style-type: none"> State that participation in the RCEP will bring about greater integration of economies in the ASEAN region in terms of trade in goods and services as well as foreign direct investment (FDI). With an increase in trade and FDI, there will likely be an improvement to aggregate demand (AD) of an economy which may contribute to improvement to the material standard of living (SOL) of an economy. However, with trade and FDI, there may be concerns of vulnerability to internal stability due to large inflow of imports as well as income inequity which may compromise on the material and non-material aspects of SOL. <p><u>Body</u></p> <p><u>1. Improvement to material SOL with RCEP</u></p> <ul style="list-style-type: none"> RCEP will lead to 'tariff elimination for at least 92 per cent of goods traded among members', thus leading to improved price competitiveness of a countries exports. With lowered tariffs, price of exports are lower to the foreigners. For countries that export goods that are relatively price-elastic such as manufactured goods that have substitutes that are exported by other countries, the lower price of exports will lead to a more than proportionate increase in quantity demanded of exports, and thus increase in export revenue. Ceteris paribus, this increase in export revenue will lead to an increase in an economy's AD. In addition, RCEP helps facilitate FDI across member countries as member nations are able to 'invest in fellow RCEP countries without having to meet conditional performance requirements'. RCEP members nations also agree to 'share information' that may be relevant to help small and medium enterprises engage in FDI. With an increase in FDI, an economy's AD increases. In addition, the likely accumulation of capital assets with FDI as well as transfer of new ideas and technology will likely enhance an economy's productive capacity, leading to further improvement in LRAS. Thus, with the increase in non-inflationary economic growth, the household's disposable income in the economy increases. The increase in real purchasing power and thus ability to 						

consume more goods & services will thus indicate an improvement to an economy's material SOL.

2. Worsening of material and non-material SOL with RCEP

a) Material SOL

- With tariff elimination of the RCEP, some member nations may suffer from increase in imports instead. This is seen in the case where India refused to participate in RCEP due to concerns of 'sharp increase in imports from China' which are likely to 'adversely' impact 'small and medium-sized factories'.
- With a larger extent of increase in import expenditure as compared to export revenue, AD is likely to fall instead of increase and thus leading to a fall in national income and material SOL instead.
- This is especially so for developing economies who may need to protect their infant industry from competition from relatively more mature industries of developed economies.

b) Non-Material SOL

- FDI if there were to bring in new ideas and technology may result in structural shifts in an economy. This may lead to some workers being structural unemployed. For example, in the case of Singapore where the economy is restructuring to tap on opportunities by moving up the global supply chain and tapping on 'opportunities in the digital economy', the low-skilled workers in Singapore may face the threat of structural unemployment.
- As these low-skilled workers face a lower demand for their labour services and thus fall in their wages, this may contribute to a worsening of income inequity in Singapore.
- Worsening income inequity may compromise on social cohesion in an economy and thus compromise on an economy's non-material SOL.

Evaluative Conclusion

- Whether or not RCEP will enhance an economy's SOL depends on the nature of the economy. For example, countries that are more reliant on external sources such as trade and FDI for growth are more likely to benefit from material SOL. For example, as a small and open economy such as Singapore, where her trade value with the other RCEP members has grown steadily and accounts for 50.4 per cent of her global trade.
- Whether or not RCEP will enhance an economy's SOL also depends on the government's ability to address any threats to SOL brought about by RCEP.

Marking Scheme:

Level	Descriptors
L2 5-7 marks	<p>For an answer that demonstrates knowledge, understanding, application and analysis:</p> <p>At least GOOD breadth that considers the following economic concepts in explaining multiple and balanced perspectives, viewpoints, relationships and factors. MOST points chosen should be of relevance and significance in answering the question.</p> <p>At least GOOD depth in economic analysis that reflects the following in MOST explanations.</p>

		<p>✓ Accurate use of economic concepts, clear elaboration, and precise use of economic terminologies, language and phrasing.</p> <p>The answer should also be supported by: Well-labelled and well-referred to diagram(s) drawn with precision (where appropriate). Relevant examples and accurate use of facts. Logical structure.</p>	
	<p>L1 1-4 marks</p>	<p>For an answer that demonstrates knowledge but lacks understanding, application and analysis:</p> <p>INSUFFICIENT breadth that considers the following economic concepts. Point(s) chosen may be of relevance but may not be of significance in answering the question.</p> <p>INSUFFICIENT depth in economic analysis that may reflect the following :</p> <ul style="list-style-type: none"> ✓ Lack of accuracy in the use of economic concepts, lack of clarity in elaboration, and lack of precision in the use of economic terminologies, language and phrasing. <p>The answer should also be supported by: Diagram(s) that may not be well-labelled, may not be well-referred to and may not be drawn with precision (where appropriate). Example(s). Logical structure.</p>	
	<p>Evaluation</p>		
	<p>E2 2-3 marks</p>	<p>For an evaluation that contains A synthesis of earlier economic arguments to arrive at relevant judgements/decisions (i.e. answer the question). Well-explained criteria-based evaluative comments supported by accurate and clear analysis to provide fairness in views. A good summative conclusion.</p>	
	<p>E1 1 mark</p>	<p>For an evaluation that contains Relevant but unexplained evaluative judgement(s) / statement(s) i.e. evaluative judgement(s) / statement(s) not supported by analysis.</p> <p><u>OR</u></p> <p>A relevant conclusion.</p>	