

INNOVA JUNIOR COLLEGE
JC 2 PRELIMINARY EXAMINATION
in preparation for General Certificate of Education Advanced Level
Higher 2

ECONOMICS

9757/01

Paper 1

25 August 2017

2 hours 15 minutes

Additional Materials: Writing Paper and Cover Page

READ THESE INSTRUCTIONS FIRST

Write your name and class on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid/tape.

Answer **all** questions.

Please begin each question on a **fresh sheet of paper**.

At the end of the examination, **submit each case study question separately**.

Attach a **cover page** to **each case study question** and write the **question number** on the cover page.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [] at the end of each question or part question.

You are advised to spend several minutes reading through the data before you begin writing your answers.

You are reminded of the need for good English and clear presentation in your answers.

This document consists of **8** printed pages and **0** blank page.



Answer **all** questions

Question 1

United States' Pharmaceutical Industry

Extract 1: The Pharmaceutical and Biotech Industries in the United States

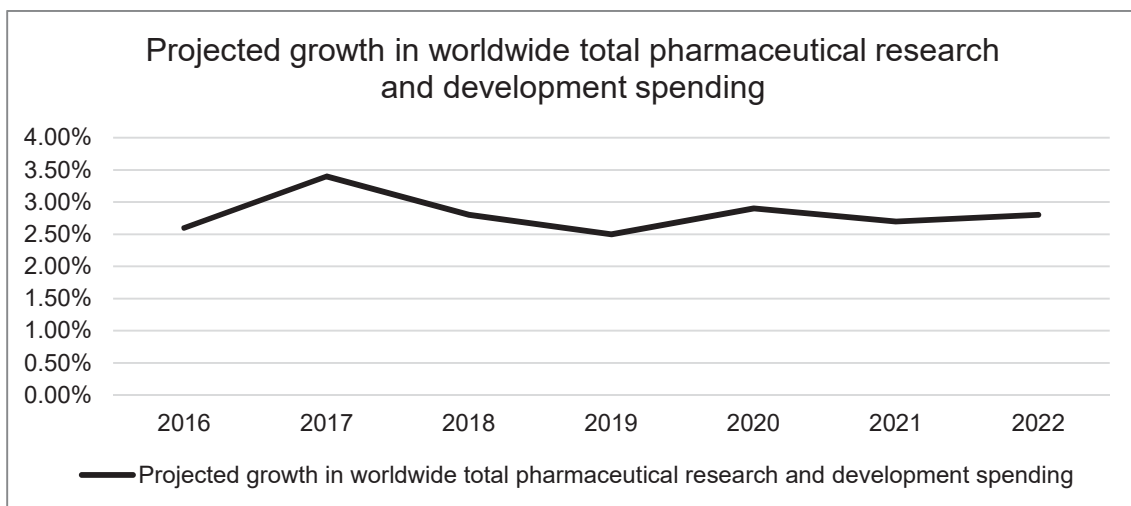
The United States is the world leader in biopharmaceutical research and development (R&D). In particular, San Francisco Bay Area and Northern California have the largest concentration of biotech companies in the nation. It is home to nearly 1,377 life science and biotech companies that employ more than 140,000 people. Bioscience companies based in the Bay Area reported total worldwide revenues of \$4.1 billion and exports worth \$2.7 billion.

The largest aggregation of research universities and federal research institutions in the U.S. is also in the Bay Area. "We are located in Emeryville, Calif. to leverage the rich intellectual talent in the San Francisco Bay Area, collaborating with academic institutions and biotechnology companies to improve patient outcomes." said Mariellen Gallagher, a spokesperson for Novartis Institutes for BioMedical Research, the drug discovery unit for Novartis.

According to the Pharmaceutical Research and Manufacturers Association (PhRMA), U.S. firms conduct the majority of the world's research and development in pharmaceuticals and hold the intellectual property rights on most new medicines. Its strengths include an intellectual property system that rewards innovation through patent and data protection, a science-based regulatory system that is considered the most rigorous in the world, the world's largest scientific research base fostered by academic institutions and decades of government research funding, and robust capital markets.

Source: *SelectUSA*, accessed 10 August 2017

Figure 1: Projected total worldwide Pharmaceutical Research and Development (R&D) Spending from 2016 to 2022



Source: *EvaluatePharma*, accessed 10 August 2017

Extract 2: Patent in the U.S. Pharmaceutical Industry

The policy debates in the pharmaceutical industry revolve around promoting innovation and increasing competition in markets. The level of R&D in the industry relies heavily on the patent

system. The firm which developed the drug are rewarded from monopoly profits of the drug sales for the duration of the patent. Discovery of new drugs confer benefits to the society with more effective and improved health outcomes. On the other hand, once the patent expires, the entry of generic drugs manufacturers erodes patent-protected monopoly profits and reduces the associated society's deadweight losses. Although the patent on an innovative drug expires on a specific date, the drug's trademark may live on and possibly delaying or impeding subsequent competition.

Because regulation and patents has had important effects on the level of innovation in the pharmaceutical industry, a great deal of research has been done on this trade-off between innovation and competition.

Source: *Harvard University and National Bureau of Economic Research*, accessed 10 August 2017

Extract 3: Competition from generic drug producers

Generic medicines are proven to be chemically and therapeutically equivalent to originator brands, but are significantly cheaper. Generic drug manufacturers do not incur R&D costs and are able to offer a significant price advantage to the originator brand. The use of generic medicines has been seen in many countries as a partial remedy to address the problem of ever increasing expenditure on pharmaceuticals.

Falling drug prices can have a tangible impact on one's treatments for illnesses that take a particularly large toll on the nation's health. For example, the cost of high cholesterol medication fell by 10 percent for a 30-day supply, which quickly reduces the healthcare spending for patients who have chronic conditions like excess cholesterol and diabetes.

Source: *LSE Health*, The London School of Economics and Political Science, accessed 10 August 2017

Extract 4: India's Generic Drug Manufacturers: Poised for Continued Growth

Over the last 10 years, the export prowess of India's generic pharmaceutical industry has reshaped the global pharmaceutical business. Since the 1970s, with the abolition of patent protection rights, India's pharmaceutical industry has been dominated by home-grown generic drug makers. Indian generic drug makers also managed to gain a foothold in regulated markets such as the US and Europe. In fact, Indian companies are second only to US-based companies in approval of generic drugs, maintaining a total share of nearly 30%-40% on a consistent basis.

Countries in the European and African regions are also the prime consumers for Indian generics medicines. Increasing influence of foreign multinationals has become a cause of concern for authorities and market players. At the same time, patent expiries may turn out to be a growth booster.

However, quality issues are an ongoing challenge for the Indian pharmaceutical industry. US Food and Drug Administration (FDA) has not only increased the frequency of its inspections but also intensified scrutiny on drug manufacturing facilities in India, resulting in delayed product approvals or restrictions in export to the US market.

Source: *Nasdaq*, 29 February 2016

Extract 5: Is The Golden Era Of Pharmaceutical Profits Over?

For decades, the pharmaceutical industry has been highly profitable. The recipe for such profits has been pretty simple for most of the last half-century – discover a chemical or molecule that treats a common problem, like hypertension or diabetes and make billions of dollars while that product is still under patent protection. But of course, profits were never so simple. It takes billions of dollars to develop one new drug suitable for testing in humans and even then, the drug might turn out to be too toxic or to have too little benefit to make it on to the market. It might take a handful of such drugs before a company finally finds one that works to recover the rising cost of new drug development. With the number of common illnesses in need of interventions dwindling and competition from generic manufacturers, it is getting increasingly difficult to earn enough to make up for the competition and cost of innovation.

Source: *Forbes*, 29 July 2016

Questions

- (a) In extract 1, it is mentioned that San Francisco Bay Area and Northern California have the largest concentration of biotech companies in the nation.

Explain how this might bring about cost savings to the biotech companies. [4]

- (b) (i) Describe the trend in projected total worldwide pharmaceutical R&D spending from 2016 to 2022. [2]

(ii) Explain one reason for the trend observed above. [2]

- (c) Explain how the entry of generic drugs manufacturers after expiration of patent “reduces society’s deadweight losses” from monopoly pricing under patent. [4]

- (d) Discuss the macroeconomic impact of the rise of India’s generic pharmaceutical industry on US and India. [8]

- (e) The case study highlights various benefits and costs of the pharmaceutical industry to society.

Assess whether regulation through patent is the most appropriate form of government intervention in the pharmaceutical industry to maximise benefits to society. [10]

[Total 30 marks]

Question 2

Slowing Economy and Rising Income Inequality

Table 1: Macroeconomic Indicators of the United States 2008 - 2015

Year	2008	2009	2010	2011	2012	2013	2014	2015
Real GDP growth rate (%)	-0.29	-2.78	2.53	1.60	2.22	1.68	2.37	2.60
Inflation, consumer prices (annual %)	3.84	-0.36	1.64	3.16	2.07	1.46	1.62	0.12
Net trade in goods and services (current US\$ in billions)	-708.73	-383.78	-494.66	-548.63	-536.77	-461.88	-490.18	-500.34
Unemployment (% of total labor force)	5.78	9.25	9.63	8.95	8.07	7.38	6.17	5.28
US Central government debt, total (% of GDP)	64.03	76.32	85.60	90.18	94.40	96.61	97.11	97.84

Source: World Bank

Extract 6: Slow growth, rising income gap

The US economy barely grew in 2015 as a strong dollar sapped exports, manufacturing declined and consumer spending cooled. Consumer spending, which makes up about two-thirds of gross domestic product, rose 2.2 per cent, marking a slowdown from the 3 per cent in the third quarter. Meanwhile, investment fell 2.5 per cent as energy companies pared back spending in light of the fall in the price of crude oil. The economy has added 13.6m jobs since bottoming in 2010. However, the central bank noted that economic growth is slow even as the labour market conditions improved.

During the last few decades, income inequality has increased significantly in the US. In 2013, the national Gini Index stood at 0.476, up from 0.463 in 2007 and 0.397 in 1967. With an expanding share of the gains from economic growth flowing to a tiny fraction of high-income US households, average family income for the bottom 90 percent has been flat since 1980. The slow wage growth of the America's middle class partly owes to a slowdown in productivity growth.

Extract 7: It's time to focus on the redistribution of income to poorer workers

Economic Professor Kaushik Basu at Cornell University says that one of the biggest challenges economists and politicians have to face is that the increase of technology has spurred the globalisation of labour in a way never before encountered.

According to Basu, the sharp rise in technology that links workers in different places now allows wealthy nations to access cheap labour that was earlier tucked away in faraway places. The ability to outsource workers has improved world GDP and the standard of living for people in developing countries and thus should be celebrated. But the problem is the “bottom end of labour” in rich countries like the US is now in direct competition with “workers in poorer countries who command a much lower wage”.

Basu says that while poverty is improving in developing countries, this competition for labour “is causing inequality to get exacerbated” in wealthy countries. This highlights that the winners from globalised labour are not just the worker in the poor nations, but the firms in the wealthy ones. He also argued that the push towards greater protectionism is precisely the wrong path to take. Instead, governments need to focus more on distributing profits to workers.

Outsourcing has actually been very good for economic growth in wealthy nations such as the open economy in the US of the 1980s and 1990s. He argues that, were the US under a protectionist trade policy to block the outsourcing of labour it would look very good “at first sight” because it would seem like “you’re protecting jobs among your own workers in your own country”. But he argues what would happen is that other nations would continue to use the cheap labour and would outcompete the protectionist nation.

Basu argues that “GDP growth is not an end in itself”. Often those who argue in favour of reducing income inequality do so by arguing that it “is actually good for GDP growth”. He argues however that while this is often the case, reducing income inequality may slice off a little of the GDP growth. He argues that the way to respond is for both an open economy (which is good for GDP growth), but also that governments must “think of some form of redistribution so that workers get their income shored up or take the form of better services like health and education. To this end, while not discounting the idea of a minimum wage, he argues “the time has come to allow workers to get a share of profits”.

Source: Adapted from *The Guardian*, 29 Nov 2016

Extract 8: Growth vs Income Inequality

Economists say that some inequality is needed to propel growth. Without the carrot of large financial rewards, risky entrepreneurship and innovation would grind to a halt. However, the recent rise in inequality has prompted a new look at its economic costs. Inequality could impair growth if those with low incomes suffer poor health and low productivity as a result, or if, as evidence suggests, the poor struggle to finance investments in education. Inequality could also threaten public confidence in growth-boosting policies like free trade, fuelling calls for greater protectionism. Economic eminences such as Ben Bernanke and Larry Summers argue that inequality may also contribute to the world's "savings glut", since the rich are less likely to spend an additional dollar than the poor.

Crafting a response to rising income inequality is tricky, however. Some of the negative impact of income inequality on growth can be blamed on poor government policies in highly unequal

countries. Over the past generation or two, inequality has risen most in places where progressive policies, such as high top tax-rates, have been weakened. A little more redistribution now might improve economic growth.

Source: Various

Extract 9: Ensuring that economic growth is more inclusive

One key area of focus for Singapore policymakers is how to make sure no one is left behind. Several key measures have been put in place in recent years, chief among them SkillsFuture. Its initiatives, announced in Budget 2015, aim to provide a range of opportunities for workers to continue their education and training so that they can improve their skills and incomes throughout their careers. Another example is the \$8 billion Pioneer Generation Package to help citizens aged 65 and above in 2014 meet their healthcare costs for life, with subsidies on medical services.

DBS economist Irvin Seah points out that it is the Government's prudence in adding to and managing its reserves over the decades that has allowed it to deliver such packages in the first place.

But as the Singapore economy moves forward, the Government has to account for increased spending in healthcare and eldercare and a changing revenue base, said Mizuho Bank economist Vishnu Varathan. The challenge is how to do so without overtaxing the working class over the next 10 to 15 years.

One way would be to raise the current 7% GST, noting that many countries have 10% or more. But several ministers have said that the Government has no plans to raise the GST for now, and would not do so without justification. Retired four-term MP Inderjit Singh hoped higher taxes could be avoided, as the cost of living is already a big issue in Singapore.

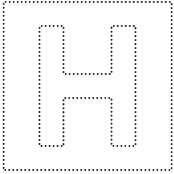
Source: *Straits Times*, 27 Sep 2017

Questions

- (a) (i) Describe the overall economic performance of the US between 2008 and 2015? [2]
- (ii) Explain how a strong US dollar would affect the economic performance of US in 2015 as shown in Table 1. [2]
- (b) Using demand and supply analysis, explain how the competition for labour is “causing inequality to get exacerbated” in wealthy countries. [4]
- (c) With the use of a diagram, explain an argument for and against the implementation of a minimum wage as mentioned in Extract 7. [4]
- (d) Discuss the impact of globalisation of labour on various groups of economic agents in developing countries. [8]
- (e) Extract 9 mentioned that Singapore has shifted towards inclusive growth.
Discuss whether US should follow Singapore’s approach towards growth. [10]

[Total: 30]

- End of Paper -



INNOVA JUNIOR COLLEGE
JC 2 PRELIMINARY EXAMINATION
in preparation for General Certificate of Education Advanced Level
Higher 2

ECONOMICS

9757/02

Paper 2

14 September 2017

2 hours 15 minutes

Additional Materials: Writing Paper and Cover Page

READ THESE INSTRUCTIONS FIRST

Write your name and class on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid/tape.

Answer **three** questions in total, of which **one** must be from Section A, **one** from Section B and **one** from **either** Section A or Section B.

Please begin each essay question on a **fresh sheet of paper**.

At the end of the examination, **submit each question separately**.

Attach a **cover page** to **each essay question** and write the **question number** on the cover page.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [] at the end of each question or part question.

You are advised to spend several minutes reading through the data before you begin writing your answers.

You are reminded of the need for good English and clear presentation in your answers.

This document consists of **3** printed pages and **1** blank page.



Answer **three** questions in total.

Section A

One or two of your three chosen questions must be from this section.

- 1** Malaysia implemented a 6 per cent Goods and Services Tax (GST) in 2015 on all goods and services except for staple food and some medicine.

Discuss the various impact of such a tax on consumption and production decisions in various markets. [25]

- 2** In July 2017, giant e-commerce player, Amazon, launched its Prime Now services in Singapore. Prime Now allows Singapore users to place online orders through its phone app, for same day delivery on a range of retail items from food to electronic to baby products.

(a) Explain why the retail market in Singapore is contestable. [10]

(b) Discuss the extent to which large firms in Singapore's retail market is better able to survive the entry of new competitors such as Prime Now as compared to smaller firms. [15]

- 3 (a)** Explain how rational decision-making by consumers and producers results in efficient resource allocation in a free market. [10]

In Singapore, Citizens and Permanent Residents have to pay an entry fee of \$100 to enter into casinos for 24 hours while in Malaysia, it is free of charge. However, in both countries, there is an age limit of 21 years old and above to enter casinos.

(b) Assess why governments may impose different policies in tackling market failure associated with the same demerit good. [15]

Section B

One or two of your three chosen questions must be from this section.

- 4** In 2016, Singapore's GDP at 2010 prices grew by 2 per cent, the unemployment rate rose slightly to 2.1 per cent while the inflation rate stood at negative 0.5 per cent. The external demand, supported by both merchandise exports and services exports, grew at a slower pace of 1.6 per cent.
- (a)** Explain how the above economic indicators can be used to assess Singapore's economic performance. [10]
- (b)** Assess the usefulness of the above economic indicators as measures of changes in standard of living in Singapore. [15]
- 5** Assess the relative effectiveness of demand-side and supply-side policies in achieving macroeconomic objectives in Singapore. [25]
- 6** Globalisation has brought about greater exchanges of goods and services, capital and labour between countries. Some countries embraced it while other resisted it.
- (a)** Explain the reasons for increasing globalisation. [10]
- (b)** Evaluate why different countries may have different responses towards globalisation. [15]

- End of Paper -

BLANK PAGE

H2 Case Study 1 Answer

(a)	<p>In extract 1, it is mentioned that San Francisco Bay Area and Northern California have the largest concentration of biotech companies in the nation.</p> <p>Explain how this might bring about cost savings to the biotech companies.</p> <p><u>Answer</u> Biotech firms can benefit from reaping external EOS having the largest concentration of biotech companies in the nation.</p> <p><u>Economies of concentration</u> As mentioned in extract 1, the 1,377 life science and biotech companies employs more than 140,000 people. This suggest a developed pool of skilled workers has been established in the region where the firms can leverage the rich intellectual talent in the San Francisco Bay Area. Firms benefit from lower search and recruitment cost of labour.</p> <p><u>Economies of information</u> San Francisco's Bay area and North California has the world's largest scientific research base fostered by academic institutions and decades of government research funding. Firms can hence obtain up-to-date information on production at a lower cost by sharing the cost of research instead of spending on expensive research independently.</p> <p>2m for each type of external EOS.</p>	[4]
(b) (i)	<p>Describe the trend in projected total worldwide pharmaceutical R&D spending from 2016 to 2022.</p> <p><u>Answer</u> Projected total worldwide pharmaceutical R&D spending from 2016 to 2022 has been increasing at a rather constant rate.</p> <p>OR Projected total worldwide pharmaceutical R&D spending from 2016 to 2022 has been increasing at an increasing rate.</p> <p>1 m for identifying increase 1m for constant rate of increase or increased rate</p>	[2]
(ii)	<p>Explain one reason for the trend observed above.</p> <p>The increase in projected R&D spending is due to lowered cost of R&D as evidenced in Extract 1 where there has been decades of government research funding which subsidises the firms' research</p>	[2]

	<p>cost.</p> <p>OR</p> <p>An intellectual property system that rewards innovation through patent and data protection helps protect firms' profits from sale of drug during patent period. This encourages firms to continue R&D in expectation of possible future profits with new drugs invented.</p> <p>1m for stating the reason 1m for explanation</p>	
(c)	<p>Explain how the entry of generic drugs manufacturers after expiration of patent “reduces society’s deadweight losses” from monopoly pricing under patent.</p> <p>Entry of drug manufacturers after expiration of patents increase <u>number of firms in the market</u>. [1] Demand for firm (AR) <u>decreases</u> and become more <u>price elastic</u>. [1] With the fall in price and quantity, <u>mark up between P and MC is reduced</u>. [1] This <u>reduces the DWL area</u>. i.e society’s deadweight losses. [1]</p>	[4]
(e)	<p>Discuss the macroeconomic impact of the rise of India’s generic pharmaceutical industry on US and India.</p> <p>Rise of India’s generic pharmaceutical industry has largely positive impact on India and negative impact on US</p> <p><u>Positive impact on India</u> With reference to extract 4, Indian generic drug makers managed to gain a foothold in regulated markets such as the US and Europe, being second only to US-based companies in approval of generic drugs and with countries in the European and African regions also being its prime consumers. This indicates increase in X volume and hence revenue of India in generic drug exports. Also, investments in India’s pharmaceutical industry is likely to increase with prospering of the industry. Hence, AD increases as shown in figure 1 above, resulting in economic growth and improving BOP. More jobs are also likely to be created lowering cyclical unemployment.</p> <p><u>Evaluation</u> However, quality issues are an ongoing challenge for the Indian pharmaceutical industry. US Food and Drug Administration (FDA) has not only increased the frequency of its inspections but also intensified scrutiny on drug manufacturing facilities in India. To continue to export to the US market, firms in India has to ensure that they meet the stringent criteria and standards of FDA in drug quality.</p> <p><u>Negative impact on US</u> As generic drug manufacturers in India do not incur R&D costs, they</p>	[8]

able to offer a significant price advantage to the originator drug brand of US firm. This suggests an increase in imports volume into US and hence import expenditure increases as patients switch to generic drugs as close substitutes since generic medicines are proven to be chemically and therapeutically equivalent to originator brands, evidenced in extract 3. Also, countries in the European and African regions are now prime consumers for India generics medicine as evidenced in extract 4. This suggests a fall in demand for US produced drug exports to these regions with the higher competition from India. X volume and hence revenue for US drug falls too. This worsens both AD and BOP of US, which may lead to higher unemployment rates.

Evaluation

Impact of competition is not only with US companies of brand drugs but also generic drug companies in US. Impact on macro goals could be more significant. However, being the world leader in biopharmaceutical research and development (R&D), with an intellectual property system that rewards innovation through patent and data protection, there is still room for US brand drugs companies to innovate on new drugs so as to capture sales and revenue in new drugs introduced. Investment level from the industry could still be high, hence mitigating impact on goals.

Also, introduction of generic drugs results in fall in drug prices. For example, in extract 3, fall in cost of high cholesterol medication quickly reduces healthcare spending for patients. This improves SOL for patients in US as savings from lowered drug price can be used to spend on consumption of other goods and services.

Conclusion

India likely to benefit from rise of India’s generic pharmaceutical industry as they expand to European and African regions beyond US. i.e less impact on stringent quality control of FDA and rapid expansion of markets

US on the other hand, is likely to suffer negative impact on goals as in extract 5, **golden era of pharmaceutical profits are over**. It takes billions of dollars to develop one new drug but too little benefit to make it on to the market. Brand drug companies in companies are likely to experience **fall in profits and hence combining impact of competition from India, the industry might decline hence impact macro goals of US**.

<p>Level 2: Well explained analysis on both India and US considering internal and external macroeconomic impact. Max 4 for well-explained analysis of macroeconomic impact of either India or US or only internal or external macroeconomic impact.</p>	<p>4-6</p>
--	------------

	Level 1: Under-developed analysis of macroeconomic impact on India and US.	1-3	
	Evaluative Comment: Provide an evaluative comment and judgement on the overall impact on India and US economy	1-2	
(f)	<p>The case study highlights various benefits and costs of the pharmaceutical industry to society.</p> <p>Assess whether regulation through patent is the most appropriate form of government intervention in the pharmaceutical industry to maximise benefits to society.</p> <p>Question approach: This question requires the student to compare the different ways governments might intervene in the pharmaceutical industry to increase consumer welfare by ensuring competitive outcomes, but still ensuring that producers have the incentive and ability to innovate.</p> <p>Introduction Governments intervene in the pharmaceutical industry to achieve dynamic, productive and allocative efficiency. Due to the high degree of necessity of pharmaceutical drugs in curing some diseases, there are also equity issues that governments would like to address. Patents is one method that governments can implement to achieve these objectives and this can be compared to other policies that governments can implement to achieve the two goals of efficiency and equity.</p> <p>Thesis 1: Regulation through patents is the most appropriate form of government intervention as it allows governments to achieve both dynamic efficiency.</p> <p>Explain how patents allow protection of firm's supernormal profits from innovation and provides incentive and ability to innovate.</p> <ul style="list-style-type: none"> - Patents allow firm which developed the drug to be rewarded from monopoly profits of the drug sales during the patent period (extract 1) - This suggests that demand for the drug will be highly price inelastic since no new firms rights to produce and sell the drug - Draw monopoly diagram to illustrate supernormal profits - The protected supernormal profits provides incentive and ability to firms to continue innovation in new drugs - Dynamic efficiency is achieved, new drugs can cure and extend lives of patients → M and NMSOL can be improved <p>Thesis 2: Patents balances effect of monopoly on drugs with improved efficiency once patents expires where generic drug manufacturers may now enter the market to sell generic versions of the drug.</p>		[10]

Explain how patents with only limited period one expired allow entry of generic drugs manufacturers to erode patent protected monopoly profits and reduces the associated society's DWL.

- Possible to include diagram of fall in AR and gentler slope to indicate improved allocated efficiency
- The introduction of competition will help to improve productive efficiency of firms in the industry

Evaluation: It is difficult to determine the optimal length of the patent duration. If the patent expires too quickly, the firm that has developed the drug will not be able to reap enough profits to cover the cost of drug development. If the patent lasts too long, the firm reaps supernormal profits at the cost of consumer welfare.

Anti-Thesis 1: Price regulation is a more appropriate form of government intervention as it allows governments to achieve allocative efficiency.

- Oligopolistic market structure due to high barriers to entry and high fixed costs
- Demand for the pharmaceutical drugs highly price inelastic since few available substitutes
- Draw monopoly diagram to illustrate allocative inefficiency
- Furthermore, equity issue may result as low income households may not be able to afford expensive drug treatments
- Government may introduce AC or MC pricing to increase allocative efficiency
- $P=MC$, allocative efficiency is achieved

Anti-Thesis 2: Reducing regulatory barriers to entry in the pharmaceutical industry is a more appropriate form of government intervention as it allows governments to achieve productive and allocative efficiency.

Explain how regulatory barriers to entry in the pharmaceutical industry may **deter competition by new entrants**. For example, the licensing process to get a new drug into the market is highly prohibitive (Extract 5: "billions of dollars to develop one new drug suitable for testing in humans")

- Thus **barriers to entry are very high hence, demand is highly price inelastic**
- The incumbent firms in this oligopolistic market structure charge higher prices compared to the perfect competition equilibrium price
- $P > MC \rightarrow$ allocative inefficiency
- Reducing barriers to entry by simplifying the drug development process by reducing the time it takes to approve applications, making licensing fees cheaper, etc.

- Increase no of firms → reduce market share and power → reduce allocative inefficiency and increase equity (lower supernormal profits)

Evaluation: However, there are other barriers to entry such as brand loyalty. This ensures that the barriers to entry in the pharmaceutical industry remain high. Furthermore, regulation exists to ensure that new drugs meet the necessary safety requirements. Other BTEs also include high start-up cost due to sophisticated machines required. Thus, governments can only do so much in terms of reducing regulatory barriers to entry. Might not improve allocative efficiency

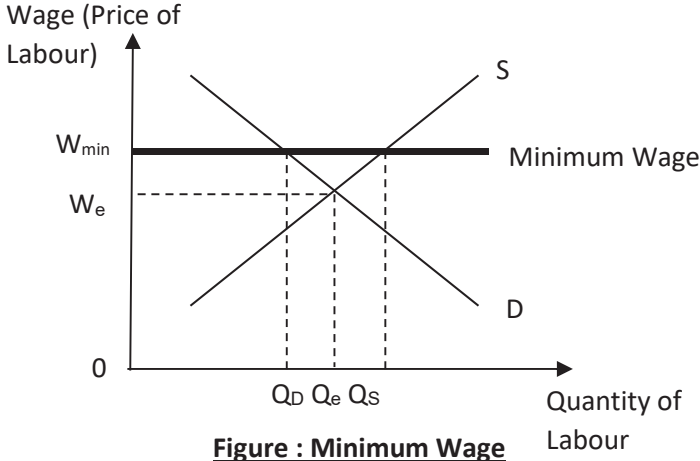
Conclusion: Patents allow the government to balance the objectives of allocative and dynamic efficiency. It is appropriate because it is necessary for governments to protect intellectual property rights in order to ensure innovation. However, its limitation is in selecting the length of patent. Though reducing regulatory barriers may be a good strategy in theory, it is not appropriate to the pharmaceutical industry because there is a limit to how much the government can reduce regulatory barriers. Furthermore, it may be ineffective because the pharmaceutical industry already has numerous barriers to entry such as high fixed equipment costs or brand loyalty.

Level 2: Well-developed explanation of how the policies allow the government to achieve its goals of efficiency and equity.	4-7
Some credit will be given if students consider the impact of the policies on macroeconomic goals.	
Level 1: Under-developed explanation of how the policies allow the government to achieve its goals of efficiency and equity.	1-3
E2: Provide judgement on the appropriateness of the policies with respect to the criteria of equity and efficiency.	2-3
E1: Evaluation without justification	1

[Total 30 marks]

Questions

(a)	(i)	Describe the overall economic performance of the US between 2008 and 2015. [2]
		<p>Suggested Answer: Students need to use any 2 of the indicators below to suggest improved economic performance.</p> <ul style="list-style-type: none"> - improved BOT → increase in amount of exports to other countries - fall in unN → greater utilisation of labour - increase real GDP → increase in output produced - Inflation rate fell but GPL increase moderately → price stability
	(ii)	Explain how a strong US dollar would affect the economic performance of US in 2015 as shown in Table 1. [2]
		<p>Suggested Answer: Appreciation of US dollar → higher price of US's exports relative to other goods and services in the international market → fall in US's export volume. Lower price of US's imports relative to domestically produced goods → consumers switch away from domestically produced goods and services to buy more imports. Overall, net exports fall → reduce AD → lower economic growth, lower employment and worsen BOT (assuming MLC holds)</p>
(b)		Using demand and supply analysis, explain how the competition for labour is “causing inequality to get exacerbated” in wealthy countries. [4]
		<p>Suggested Answer:</p> <div style="display: flex; justify-content: space-around;"> <div data-bbox="368 1055 842 1503"> <p style="text-align: center;">Figure : High-skilled labour</p> </div> <div data-bbox="874 1055 1348 1503"> <p style="text-align: center;">Figure : Low-skilled labour</p> </div> </div> <p>- DD for high-skilled labour ↑ from D0 to D1. However, the long period of training involved in acquiring the specialised skills means that SS of high-skilled workers tends to be inelastic in the short run. With an inelastic supply S_i, the shortage created by the ↑ in demand results in a sharper ↑ in wage (W_0 to W_1) for the high-skilled workers, ceteris paribus. [2]</p> <p>- In contrast to high-skilled labour, the SS of low-skilled labour is more elastic – without any special training required, quantity supplied of such workers can be changed readily in response to changes in wage. Due to relocation of jobs out of wealthy countries, demand for low-skilled labour in the country fall from D2 to D3. Wages fall ceteris paribus, although by less than proportionate to fall in quantity supplied. [2]</p>

	<p>The sharp \uparrow in wages of the high-skilled workers and the fall in wages of the low-skilled workers lead to a widening income gap in many wealthy countries.</p> <p>Max 3m – if no use of elasticity of supply</p>
(c)	<p>With the use of a diagram, explain an argument for and against the implementation of a minimum wage as mentioned in Extract 7. [4]</p>
	<p>Suggested Answer:</p>  <p style="text-align: center;">Figure : Minimum Wage</p> <p>Argument For: A government imposes a minimum wage at W_{min} to prevent the wage from falling too low in order to protect the low-skilled workers' income. [1]</p> <p>Arguments Against: [2]</p> <ul style="list-style-type: none"> - At the minimum wage W_{min}, quantity supplied of labour is greater than quantity demanded ($Q_S > Q_D$), creating a surplus of labour. Thus, unemployment will increase. Given that the demand and supply of low skilled labour are both price elastic, it is likely that the minimum wage will cause significant number of workers to be unemployed. - Less incentive for workers to upgrade skill and knowledge, hence workers will become more inefficient in the long run. - Increases firms' unit cost of production assuming labour productivity remains constant \rightarrow lowers profitability of firms <p>1 m – correct diagram with explanation</p>
(d)	<p>Discuss the impact of globalisation of labour on various groups of economic agents in developing countries. [8]</p>
	<p>Suggested Answer:</p> <p><u>Impact on producers</u></p> <p>(+) increased outsourcing to developing countries \rightarrow increase scale of production \rightarrow ability to reap internal EOS e.g. technical EOS – cost savings enjoyed raises level of profits, ceteris paribus</p> <p>(+) transfer of knowledge and better production methods \rightarrow improve productivity \rightarrow lower unit cost of production \rightarrow higher profitability</p> <p>(+) increased outsourcing \rightarrow increase demand for firms' services \rightarrow increase in TR and profits, ceteris paribus</p> <p><u>Impact on consumers</u></p>

(+) movement of low-skilled jobs from developed to developing countries → higher DD for low-skilled and hence higher wages of low-skilled in developing countries + higher employment → higher household income and purchasing power → higher ability to afford more goods and services → higher material SOL

Impact on government/economy

(+) increase price competitiveness of exports due to EOS enjoyed by firms → increase export volume → increase AD

(+) higher investments in new production facilities by firms from developed countries → increase AD + transfer of technology and skills from developed countries → increase productivity of labour in developing countries → increase productive capacity → increase LRAS.

→ increase in AD and LRAS → increase RNY, employment and material SOL

(+) Improve poverty and lower income inequality as lower-skilled workers' income increase → govt may spend less on welfare payments to low-income group

Evaluation

While globalisation of labour largely benefits the different economic agents in developing countries in the short term, they may face potential backlash from developed economies in the long term because globalisation of labour has exacerbated the income inequality in developed countries by depressing the wages of low-skilled workers. So, if the developed countries seek to adopt the protectionist trade policy to block the outsourcing of labour to protect their lower-skilled workers, this would reduce the extent of gains for developing countries. Hence, developing countries may need to reduce reliance on the outsourcing from developed countries.

Mark Scheme

L2	Well-developed answer on the impact on 3 different economic agents in developing countries. Max 5m for impact on only 2 economic agents.	4-6
L1	Undeveloped explanation of the impact on the different economic agents in developing countries. Max 3m for impact on only 1 economic agent.	1-3
E1	Provide an evaluation on the extent of the impact on the economic agents of developing economies that is based on economic reasoning.	1-2

(e)

Extract 9 mentioned that Singapore has shifted towards inclusive growth.

Discuss whether US should follow Singapore's approach towards growth. [10]

Suggested Answer:

US is facing **slow growth and rising income inequality**. It is important to note that there is a trade-off **between higher econ growth and lower income inequality** (Extract 7: "reducing income inequality may slice off a little of the GDP growth"): efforts to reduce income inequality means less resources are allocated to achieve higher economic growth → forgoing a higher level of growth that could potentially be achieved.

Yes, US should focus more on achieving **inclusive** growth rather than rapid growth

- US's income inequality has increased over the years (extract 6) → would slow down long-term growth further because lower income group suffer from poor health and low productivity and cannot invest in education (extract 8) hence slow down rise in AS.

- A little more redistribution might improve economic growth (extract 8). Since lower income group has higher MPC than higher income group, increasing the income of the lower income group can achieve higher level of C to spur economic growth.
- improve income inequality → reduce inequitable distribution of resources

No, US should focus more on generating economic growth rather than lowering income inequality

- US is still experiencing slow growth (extract 6) and unemployment is still rather high (Table 1) - there is room for further improvement in economic growth and employment
- Explain benefits of growth such as higher material SOL that could be enjoyed by the citizens when their household income increases. Once higher economic growth is attained, US can still achieve inclusive growth through progressive income tax and redistribution.
- Anyway, some degree of income inequality is needed to propel growth (extract 8). The existence of large financial rewards would incentivise people to engage in risky entrepreneurship and innovation which could drive greater investments → increase AD and AS → achieve higher actual and potential economic growth

Conclusion/ Evaluation

- For a developed country such as US, it is difficult to pursue high growth rates - current 2.6% GDP growth rate is considered satisfactory (while not as good as pre-2008 recession period, but at least GDP growth has been improving) → should focus on lowering income inequality to achieve more inclusive growth like Singapore

- While SG is able to provide \$8 billion Pioneer Generation Package to help the older citizens due to its large amount of reserves, it is more difficult for US to pursue inclusive growth due to its large fiscal deficits (Table 1 shows increasing govt debt as a percentage of GDP). So, increased spending to support the lower income group through transfer payments could add further strain on US govt budget. The tax rate in US is already at a higher rate and over-taxing could contribute to severe disincentive to effort.

- US can achieve higher econ growth and lower income inequality at the same time given appropriate govt policies e.g. investment in information and communications technology and investments on human capital through education and training

Mark Scheme:

L2	Well-developed and balanced answer that provided arguments for and against US achieving lower income inequality vs higher economic growth. There is consideration of the possibility of trade-off between lower income inequality and higher economic growth. Answer is well-contextualised with use of case evidence.	5-7
L1	Undeveloped explanation on the arguments for and against achieving lower income inequality vs higher economic growth. Answer is not contextualised, with little use of case evidence. Max 4m for a developed, one-sided answer.	1-4
E1	Provide an evaluation on whether US should follow SG's approach to achieve inclusive growth that is based on sound economic reasoning.	1-3

[Total: 30]

Suggested Answer

Q1 Malaysia implemented a 6 per cent Goods and Services Tax (GST) in 2015 on all goods and services except for staple food and some medicine.

Discuss the various impact of such a tax on consumption and production decisions in various markets. [25]

Question interpretation and requirement:

This is a rather open ended question because students can select and choose the various markets (necessity vs luxury goods markets, markets imposed with GST vs those exempted from GST) to discuss the impact of the GST. In discussing the impact, what is certain in the question is that GST (an ad valorem tax) would lower the supply of goods, ceteris paribus. However, the extent of change in market quantity and price would depend on numerous factors. This is where students should make use of relevant concepts such as elasticity, differing firms' action within a market, initial market price of gds/svs etc to examine the impact of GST on consumer decision (in terms of Qdd and spending) and producer decision (in terms of Qss, how much GSTs to absorb). Students can also analyse how decisions may differ across different consumers or producers in the same market.

Being an open-ended question, markers should not expect every possible outcome to be discussed but reward the quality of the response. Students are expected to touch on some of the analysis below.

Introduction:

- Explain that GST is an indirect tax on producer which raise unit COP and thus decrease SS (in a pivotal manner since it is an ad valorem tax (% tax))
- Explain the effects of GST on markets in general (higher market P and lower market Q) due to fall in SS, shown by a diagram.
- Explain what is meant by consumers (how much to buy and how much to spend) and producer decisions (how much to produce and how much to price dependent on absorption of GST).

Body: Note that the analysis may not have to be in this order but this represent the various ways in which students can approach the question. To hit L3, students need to be able to analyse at least 2 different ways.

Approach 1: Analyzing impact using 2 markets with different PEDs when SS falls

Using a market where DD is price inelastic as example:

- Assuming ceteris paribus and similar initial market prices of the gds/svs in the 2 markets, when SS falls due to GST, the good with price inelastic demand will result in a more than proportionate increase in price and less than proportionate fall in Qdd. (explain in context with diagram for diagrammatic analysis)
- Gave 1-2 brief reasons why DD may be price inelastic.
- Consumer decision → consume less than proportionately due to price inelastic demand given the higher price, consumers will end up spending more on that good.
- Producer decision → produce less than proportionately since they know that demand is price inelastic. However, a GST would result in less revenue earned by the producers and

some firms in the market may end up with subnormal profit which may cause some firms to close now.

To examine impact of GST on producer further, we would need to look at the relative elasticity of DD and SS to determine who bear greater tax burden. If we assume that DD is more price inelastic than SS then producer would bear less tax burden and firms

- Provide a comparative analysis for the market with price elastic demand.

- 2 diagrams to shows contrast in terms of new market price, quantity and consumer spending for the same SS shift on 2 different PED. Accept parallel shifts in SS as well but comment on it.

Preliminary Evaluation: extent of negative impact on consumers and producers decisions depend on the PED,

Approach 2: Analyzing impact of using a market in which GST is imposed and one in which GST is not imposed

- Student can use XED to explain how the higher market price in the good in which GST is imposed can affect the DD for the good in which GST is not imposed.

- Producers in markets in which GST is not imposed can decide to produce more or less depending on the XED

Evaluation: Conclude that the differing (positive or negative) impact is due to cost vs benefits of the GST on various markets. Evaluate that the extent of the positive impact on the market in which GST is not imposed depend on the closeness of the relationship of the good and the type of relationship (complement or substitutes).

Approach 3: Analyzing impact using 2 markets with different initial market prices (low vs high initial price) when supply falls

Using luxury market as example:

- Market with high initial price of gds/svs eg car or other big ticket items, GST would cause a much higher rise in absolute price of a more expensive good thus resulting in larger fall in Qdd. Impact on consumer spending depends. Converse is true for market with low initial price.

- provide diagrammatic analysis using two diagram

- GST imposed on a luxury good market would cause a much larger leftward shift in SS, causing Qss to fall significantly. The price of the good will increase by a much larger absolute amount. Producer is less likely to absorb the GST since it will result in a huge loss of revenue. Producer will produce much less in future.

- 2 diagrams to shows contrast in terms of new market price, quantity and consumer spending with ad valorem tax.

Evaluation: impact differs across income groups of consumers, producers may face shut-down especially for luxury markets if the GST resulted in substantial loss of revenue. Producers may choose to produce or sell cheaper versions of the same type of goods.

Overall evaluation and conclusion

- conclude that the impact on consumers and producers in a free market depends on (i) PED, (ii) whether the GST is imposed, (iii) initial market price of the product which affect the amount of GST.

- evaluate that in a free market where we assume many sellers and buyers, their decision are affect in similar manners but in the real world, different consumers may respond differently depending on their responsiveness to GST, income level etc. Different producers may also react differently due to imperfect firms where they are able to influence price which will depend on the market structure and competition, ability to absorb or pass on the GST to consumers etc.

Suggested Mark Scheme (9757)

	Knowledge, Application/Understanding and Analysis	
L3	For an answer that uses appropriate demand, supply and elasticity concepts as analysis to explain the impact on decision of both consumers and producers. Good use of diagrams to provide an analytic explanation from more than one perspective. Student only need to provide 2 approaches.	15-20
L2	For an answer that uses demand and supply framework with limited analysis to explain the impact on consumers and producers decision. Diagrams are not use effectively as analytical tool. Max 14 if students only provide 1 form of analytical comparison/approach. Max 9 if answer only capture 1 market or only explain impact on consumers or producers.	9-14
L1	For an answer that shows knowledge of how GST may affect decisions. For an answer that consist of huge conceptual errors.	1-8

	Evaluation	
E3	For an answer that uses analysis to support an evaluative conclusion on why different impact on consumer and producer decision may occur depending on the extent in which they are affected by the GST, or cost/benefits that may occur due to the GST.	4-5
E2	For answer that make some attempt at evaluation or conclusion about the above.	2-3
E1	For an answer that give unsupported evaluative statement	1

Suggested Mark Scheme (9732)

	Knowledge, Application/Understanding and Analysis	
L3	For an answer that uses appropriate demand, supply and elasticity concepts as analysis to explain the impact on decision of both consumers and producers. Good use of diagrams to provide an analytic explanation from more than one perspective	15-21
L2	For an answer that uses demand and supply framework with limited analysis to explain the impact on consumers and producers decision. Diagrams are not use effectively as analytical tool.	10-14

	Max 14 if students only provide 1 form of analytical comparison. Max 9 if answer only capture 1 market or only explain impact on consumers or producers.	
L1	For an answer that shows knowledge of how GST may affect decisions. For an answer that consist of huge conceptual errors.	1-9

	Evaluation	
E2	For an answer that uses appropriate demand, supply and elasticity concepts as analysis to explain the impact on decision of both consumers and producers. Good use of diagrams to provide an analytic explanation from more than one perspective	3-4
E1	For an answer that give unsupported evaluative statement	1-2

2017 H2 Prelim Paper 2

- 2 In July 2017, giant e-commerce player, Amazon, launched its Prime Now services in Singapore. Prime Now allows Singapore users to place online orders through its phone app, for same day delivery on a range of retail items from food to electronic to baby products.
- (a) Explain why the retail market in Singapore is contestable. [10]
- (b) Discuss the extent to which large firms in Singapore's retail market is better able to survive the entry of new competitors such as Prime Now as compared to smaller firms. [15]

Part (a)

Introduction

A contestable market exists when there are low barriers to entry and exit such that new competitors can enter the market. For a perfectly contestable market, entry into and exit out is costless. This means there are no barriers to entry and no barriers to exit, such as sunk costs and contractual agreements. A contestable environment is common in most industries, including retail markets, even when there appears to be one or more dominant businesses with significant market share.

The factors to consider in determining contestability of a market include how costless entry and exit is, low consumer loyalty and access to technology.

Costless entry and exit

Costless entry and exit increases the contestability of the market. Barriers to market contestability exists when there are strong barriers to entry and existence of sunk costs i.e. cost that have been committed to a business and cannot be recovered once a firm chooses to compete. If there is however costless exit condition, it reduces the risks of entering a market since firms will not incur significant cost even if they are not successful. Potential entrants can operate a 'hit and run strategy', which means that they can 'hit' the market, given there are no or low barriers to entry, make profits, and then 'run', given there are no or low barriers to exit.

Unlike other industries, like those in manufacturing, the retail market in Singapore is less capital-intensive and technology-intensive. For example, the financial resources required for the infrastructure, machinery, R&D and advertising in starting up a fashion boutique or grocery shop is lower as compared to that required in setting up a firm producing manufactured goods as the most significant cost in setting up a retail store is likely to be the rental and renovation cost. In the case where the retailer does not need to store their stocks in advance, it can even cut down on inventory cost. Given the low initial capital outlay, the penalty for leaving the market in terms of the foregone capital investment is lessen. Hence, entry and exit becomes less costly in the retail market, making it more contestable.

Low consumer loyalty (for existing firms)

The retail market in Singapore is characterised by low consumer loyalty. This ensures that price becomes determining factor in consumers' buying decisions. On the other hand, if an incumbent has strong consumer loyalty, then it will be difficult for a new firm to enter the market as they would have to spend a lot of funds on advertising which is a sunk cost. Even then advertising may not be sufficient to change customer loyalty to very strong brands.

While the level of customer loyalty of consumer loyalty is dependent level of product differentiation in the market, it is likely to be lower for retailers compared to firms producing a good or service. Huge advertising and R&D expenditure by manufacturers from sportswear to electronic gadgets have the effect of differentiating their products and made consumers have become more attached to their brands. Hence reducing the value of cross elasticity of demand for their products, making the demand for their products less responsive to price reductions from their competitors. On the other hand, retailers usually do not incur such large scale expenditure to differentiate themselves and their means of differentiation tends to be limited. Some forms of differentiation can include the quality of the service and type or range of products they offer for sale. For example, the firms in the grocery market in Singapore are differentiated in different aspects. Some specialise in good quality meat, some on the freshness of their daily produce and some provide online deliveries. However, given the close substitutability of many of their products, the focus on the pricing of their products as a way to compete is quite commonly seen among the supermarkets in Singapore, with some even having their own house brands for the purpose of providing consumers with more value for their money.

Access to technology

The retail market in Singapore is a contestable market because there are less impediments to potential firms accessing the technology needed in the market. The relatively low cost and ease of availability of such technology means that existing firms find it hard prevent potential firms from contesting in the market. Hence, with more accessibility to technological advancement that support the development of e-commerce, potential firms not only find it easier to enter the retail market but also to compete with less resources. As e-commerce retailers, they can cut down on the start-up costs even more as compared to traditional brick-and-mortar retailers. Furthermore such technology also enable them to reach their target consumer groups and promote their products to them much more easily. In quite a number of cases, such technology even allows some smaller firms to sell their products to an international market instead of being confined to just the domestic market, boosting their revenue further and hence profits further, with little additional cost incurred.

Conclusion

In recent years, the above factors have allowed a growing number of markets and industries to become genuinely contestable and this includes the retail market in Singapore.

Suggested Mark Scheme (9757)

Level	Descriptor	Marks
L3	Clear explanation, using economic analysis, of the factors affecting contestability in the retail market in Singapore with good use of examples.	8- 10
L2	An explanation of the factors affecting factors affecting contestability in a market with some use of examples that could be applied to the context of retail market in Singapore. Descriptive explanation – max 5 No examples given in explanation - max 5	5- 7
L1	Some knowledge of factors affecting contestability with errors. Limited use of examples and little explanation.	1- 4

Suggested Mark Scheme (9732)

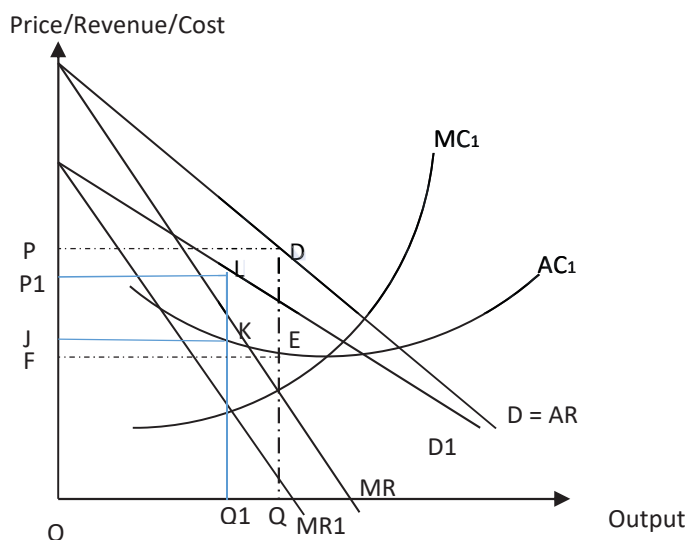
Level	Descriptor	Marks
L3	Clear explanation, using economic analysis, of the factors affecting contestability in the retail market in Singapore with good use of examples.	7 - 10
L2	An explanation of the factors affecting factors affecting contestability in a market with some use of examples that could be applied to the context of retail market in Singapore. Descriptive explanation – max 5 No examples given in explanation - max 5	5 - 6
L1	Some knowledge of factors affecting contestability with errors. Limited use of examples and little explanation.	1- 4

Part b

The entry of Amazon's Prime Now into Singapore is likely to pose a threat to the existing retailers due to the scale its operation. One factor that affects the price, output, revenue and profitability of the firm is the size of the firms which is usually related to the degree of competition, and hence the market structure in which it operates. But other factors, like the ability of the firms to adapt and adopt alternative strategies and the nature of the product that the firms sell also impact their susceptibility to such a threat.

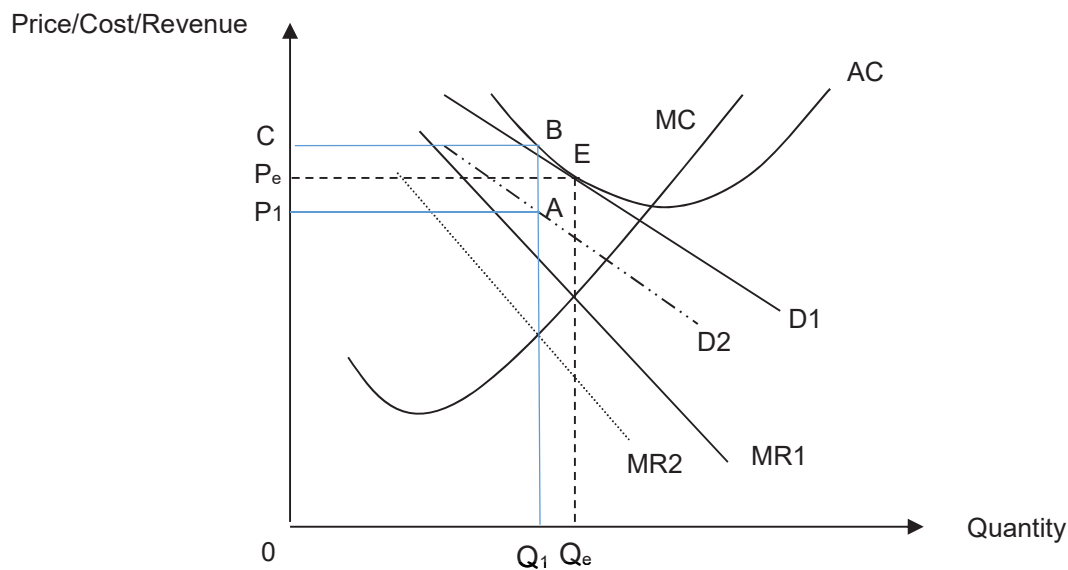
Thesis: Large firms in Singapore's retail market is better able to survive the entry of new competitors as compared to smaller firms

Large firms in Singapore's retail market able to survive the entry of new competitors as compared to smaller firms due to the level of profits they are likely to enjoy. Large firms enjoy significant market share and would therefore be in less competitive markets which tend to be more oligopolistic in nature. For example, the grocery market in Singapore is dominated by supermarket chains, such as Cold Storage, NTUC Fairprice and Sheng Shiong. As such, each of the supermarket chain has significant market power and its demand is more price inelastic. Due to the certain revenue and cost advantages accruing to the firm, in the form of its more established and wider network of supply and distribution as well as marketing economies of scale, it is able to enjoy greater supernormal profits even in the long run and therefore is able to survive the entrance of new competitor in the market. Suppose a supermarket earns supernormal profits as illustrated in the figure below. Being profit maximising will mean that it produces where $MR=MC$ with equilibrium price and output at OQ and OP respectively and supernormal profits earned represented by area $PDEF$. With the entry of Amazon's Prime Now, demand for its product falls and becomes more elastic, for example from D to $D1$, and its total revenue will fall to $OP1LQ1$. As its TR is able to cover its TC, it is still able to enjoy supernormal profits of. Though profits are lower than before, it does not need to exit the industry. Hence, it can be seen that a large firm, is less vulnerable to threat of entry of new competitor as its chances of staying in the industry is probably higher.



Small firms, for example those more commonly found in monopolistic competitive markets, might have lesser ability to survive. Such markets faces greater degree of competition and are characterised by the presence of a large number of relatively small firms, each selling a differentiated product. Typically, these features can be found among the among the fashion boutiques in Singapore. Each of this firm is a price setter as it has some degree of control over its price and the demand curve is downward sloping. But due to the weaker market power, its demand curve tends to be more price elastic. With low barriers to entry, there is greater freedom of entry and exit in the industry and less revenue and cost benefits as compared to large firm, such firms might only earn normal profits in the long run.

With reference to the figure below, a monopolistic competitive firm is seen originally to be in equilibrium where $MR = MC$ at output OQ_e and price OP_e , where it is earning normal profit as $TR = TC = \text{area } OP_eEQ_e$. With entry of a new competitor, the firm's demand curve will thus shift to the left (from D_1 to D_2). As a result the fall in price to OP_1 and output to OQ_1 at the new equilibrium means that the firm's revenue is now OP_1AQ_1 . Since the TR is below the TC, the firm is thus making a subnormal profit of P_1CBA . In the short run, the condition for the firm to shut down is whether its TR is able to cover its TVC. If TR is be able to cover its TVC and some of its TFC and the firm will continue production in the short run. However, should the demand fall more drastically and result in TR being lower than TVC, then the firm will shut down.



As firms must earn at least normal profit to continue production in the long run and firms that cannot make normal profit have to leave the industry. Hence, smaller firms are more vulnerable to closure due to the lower profit margin that these firms are able to maintain.

However, the extent to which the demand of firms are impacted are also dependent on the cross elasticity of demand of the products offered by Amazon with respect to that of those of these firms. If the products available in Amazon are close substitutes with high XED value, to those of the large firms, then the impact on the large firms' revenue and profits might be significant as well.

The impact on existing firm's demand is also on the range of products that Amazon offers as an online retailer as this could be an important consideration for consumers when shopping online. In the short run, Amazon's range of 20,000 products in comparison to average supermarket has about 50,000 items, means that an existing supermarket is likely to have an edge and therefore better able to survive. In the long run, if Amazon broaden their range of products, it is likely to pose a big threat to the large supermarket chains' ability to survive as well.

Anti-thesis: There are other factors besides size of firms determining ability of firms to survive

(i) Strategies firms adopt

On the other hand, the ability of firms to adapt and adopt alternative strategies to survive can be important factor to determine firms' ability to survive. With greater competition, firms will need to develop strategies to prop up their profit margins.

As Amazon is an e-commerce player, the entry of Amazon is expected to pose a greater threat to existing firms using e-commerce platforms. While, the supermarket chains and consumer electronics chains such as Harvey Norman and Courts are affected, the impact is could be significant for online grocers such as RedMart and honestbee too. At the same time, with the promise of same day delivery, it is clear that Amazon is not competing on pricing of products, which is an unsustainable strategy in the long run, but rather the quality of the service, in terms of the speed of the delivery. Hence, if smaller firms like RedMart and honestbee are able to provide better quality of service, in terms of online shopping experience and delivery, they are still able to survive in the market.

It is anticipated that Amazon's entry might not have as much impact on retailers in malls, as they provide a different shopping experience. In addition, with recent changes in the retail market, there are more incentive for retailers to combine online and offline shopping experiences. This presents them with an additional channel of revenue which will enable them to earn more profits. Hence, retail firms which are able offer a better shopping experience by integrating the online and offline experience for the consumers might have advantage and still survive the competition from Amazon.

With changes in taste and preferences, changing lifestyles, the retail market is always changing. Smaller firms are said to be more adaptable to changes in market conditions and are able to better response and cater to new demands. This flexibility allows small firms to tap on growing demand in certain segments of the market faster than large firms. For example, in response to greater competition, smaller firms that try to create an edge by positioning themselves in a niche segment, like organic food, might be able earn sufficient revenue and remain profitable.

(ii) Nature of demand

While large firms may have sophisticated database, marketing and promotions, small retailers are still know their customers individually. This is important for retailers in market where personalised attention to service is required. Hence, by providing

personalised recommendations with their offerings, for example, they are better able to value-add their service to the consumers as compared to large firms. This will ensure that they are still able to maintain their demand even with the entry of new competitor in the market.

The retail market for some luxury goods may be limited due to the very high price. This is true for distinctive products like exclusive clothing and high quality jewellery, where only a small group of customers are willing and able to pay for the element of uniqueness and prestige. Despite the relatively small demand, it is sufficient to keep these small firms profitable to survive. However, only a limited number of smaller firms will be able to derive the above benefits based on the nature of the demand for their products.

Conclusion

To a large extent, large firms are less vulnerable to threat of entry of new competitor due to large profit margin they have initially as compared to small firms. However, it can also be seen in some cases that the ability of the firms to adapt and adopt alternative strategies and the nature of the good that the firms sell are also important in affecting their vulnerability to such a threat. Firms that are more flexible in adapting are more likely to survive. With recent changes in retail market, those firms that are able to tap on the technological advancement and changing taste and preferences more likely to withstand the threat.

Suggested Mark Scheme (9757)

Knowledge, Application/Understanding and Analysis		
L3	A <u>developed</u> analysis, supported with the good use of examples, of the reasons why large firms in Singapore's retail market may and may not be better able to survive the entry of new competitors as compared to smaller firms.	8-10
L2	An <u>underdeveloped</u> , descriptive explanation of the reasons why large firms in Singapore's retail market may and may not be better able to survive the entry of new competitors as compared to smaller firms. One-sided answer – Max 7 Without the use of examples – max 6	5-7
L1	For an answer shows some basic knowledge of the reasons for why large firms are better or small firms can survive that are largely unexplained or one that is largely irrelevant and/or contains conceptual errors.	1-4
Evaluation		
E3	An insightful evaluation that uses analysis to support a judgement on the extent that large firms in Singapore's retail market may better able to survive the entry of new competitors as compared to smaller firms.	4-5
E2	Some attempt at evaluation or conclusion about the extent that large firms in Singapore's retail market may better able to survive the entry of new competitors as compared to smaller firms.	2-3
E1	For an answer that gives unsupported evaluative statement(s).	1

Suggested Mark Scheme (9732)

Knowledge, Application/Understanding and Analysis		
L3	A <u>developed</u> analysis, supported with the good use of examples, of the reasons why large firms in Singapore's retail market may and may not be better able to survive the entry of new competitors as compared to smaller firms.	9-11
L2	An <u>underdeveloped</u> , descriptive explanation of the reasons why large firms in Singapore's retail market may and may not be better able to survive the entry of new competitors as compared to smaller firms. One-sided answer – Max 7 Without the use of examples – max 6	6-8
L1	For an answer shows some basic knowledge of the reasons for why large firms are better or small firms can survive that are largely unexplained or one that is largely irrelevant and/or contains conceptual errors.	1-5
Evaluation		
E2	An insightful evaluation that uses analysis to support a judgement on the extent that large firms in Singapore's retail market may better able to survive the entry of new competitors as compared to smaller firms.	3-4
E1	For an answer that gives unsupported evaluative statement(s).	1-2

H2 Prelim Essay Question 3

- a) Explain how rational decision-making by consumers and producers results in efficient resource allocation in a free market. [10]

Suggested answer for (a):

Due to the problem of scarcity where there are limited resources to meet unlimited wants, economic agents have to make decisions on the 3 fundamental questions of resource allocation – what and how much to produce, how to produce, and for whom to produce. Rational-decision making assumes that consumers and producers make choices that maximize their self-interest.

Rational consumers who aim to maximize their utility make choices on the amount and type of goods to purchase based on additional satisfaction derived and additional costs incurred from consuming an additional unit of the good. Likewise, rational producers aiming to maximize profits make choices among the various methods of production based on the additional revenue gained and additional costs incurred from producing an additional unit of the good. The pursuit of self-interest by both rational consumers and producers addresses the problem of scarcity via the working of price mechanism to bring about efficient allocation of resources.

Rational consumers who pursue self-interest will cast their dollar votes to transmit their preferences for the types and quantities of goods and services they prefer. Consumers influence producers' decisions on what to produce based on their demand preferences. The amount they are willing and able to pay is determined by the additional satisfaction they derived from consuming an additional unit of the good. This is represented by the demand curve which is also the marginal private benefit (MPB) curve of the consumers. Assuming that there is an absence of externalities, $MPB=MSB$.

Producers who seek to maximize profits will receive the price signal from consumers. Prices of goods and services preferred by consumers will rise when quantity demanded exceeds quantity supplied. Rational producers will respond to this price signal by diverting more resources to produce more of those goods and services whose prices have risen and hence deemed to be more profitable. Profit-maximizing producers will also decide on how to produce by comparing the relative prices of factors of production to achieve the lowest cost. Furthermore, rational producers who are profit-motivated **will only produce goods and services** for consumers who are willing and able to pay. The amount which producers are willing and able to supply at various price levels represents the supply curve. Producers' decision to supply is based on the extra cost incurred in producing an extra unit of the good or service. Hence, the producer supply curve is also the marginal private cost (MPC) curve. Assuming that there are no externalities, $MPC=MSC$.

The intersection of the demand ($D=MPB=MSB$) and supply ($S=MPC=MSC$) curves leads to an equilibrium price at $0P_e$ and quantity at $0Q_e$. At the price of $0P_e$, consumers decide what and how much to buy and producers decide on what and how to produce based on price signal. This is also a situation where $MSC=MSB$ where resources are efficiently allocated.

For example, a shortage may arise if there is an increase in demand for a good – for e.g. through an increase in taste and preference. At the original price level, OP_1 , quantity demanded exceeds quantity supplied, resulting in a shortage. Rational consumers and producers will begin to respond to the shortage. Due to the shortage, consumers will begin to bid up the price so that they can get the good/service, resulting in an upward pressure on prices. As the price increase, some consumers will not be willing or able to pay for it and hence quantity demanded falls. Concurrently, as the price rises, producers find it more profitable and will increase their quantity supplied. The price will continue to rise until quantity demanded equals quantity supplied. This is where equilibrium quantity and price is attained. Assuming that there is no source of market failure, for example externalities, consumer and producer surpluses are maximised, and so is society's welfare.

In conclusion, rational decision making by consumers and producers guide efficient resource allocation via the price mechanism which determines what to produce, how much to produce, how to produce and for whom to produce.

Mark scheme (9757)

Level of Response Mark Scheme (LORMS)		
L3	Well-developed explanation of how rational decision making by consumers and producers helps to allocate resources efficiently.	8 – 10
L2	Under-developed explanation of how rational decision making by consumers and producers helps to allocate resources efficiently. Max 5m for answers that only address rational decision making of either consumers or producers.	5 – 7
L1	For a descriptive answer that is irrelevant or has conceptual errors and inaccuracies.	1 - 4

Mark scheme (9732)

Level of Response Mark Scheme (LORMS)		
L3	Well-developed explanation of how rational decision making by consumers and producers helps to allocate resources efficiently.	7 - 10
L2	Under-developed explanation of how rational decision making by consumers and producers helps to allocate resources efficiently. Max 5m for answers that only address rational decision making of either consumers or producers.	5 - 6
L1	For a descriptive answer that is irrelevant or has conceptual errors and inaccuracies.	1 - 4

In Singapore, Citizens and Permanent Residents have to pay an entry fee of \$100 to enter into casinos for 24 hours while in Malaysia, it is free of charge. However, in both countries, there is an age limit of 21 years old and above to enter casinos.

- b) Assess why governments may impose different policies in tackling market failure associated with the same demerit good. [15]

Suggested answer for (b):

Note: students may provide any appropriate example of demerit goods besides gambling.

Explain how market fails in the case of demerit goods e.g. casino gambling

- Consumption of the demerit good is deemed socially undesirable by government
- Generate negative externalities in consumption
 - E.g., in the case of gambling, the external cost is the lower productivity of the workforce that is caused by the addiction to gambling. This will result in a lower economic growth. There will also be social instability if addiction to gambling and bankruptcy rises, resulting in higher crime rates. → the existence of MEC creates a divergence between MPC and MSC.
 - In their pursuit of self-interest, gamblers consider only their private costs and benefits. The market equilibrium level of consumption, Q_e occurs at the point where consumers equate their MPB to MPC. MPB is the benefit enjoyed by individual from the consumption of an additional unit of gambling e.g. the satisfaction of winning. MPC is the cost faced by the individual in the consumption of an additional unit of gambling e.g. the bets placed
 - However socially optimal level of output, Q_s is determined where $MSB=MSC$. MSB is the benefit enjoyed by the society in the consumption of an additional unit of gambling. MSC is the cost incurred by the society in the consumption of an additional unit of gambling.
 - $Q_e > Q_s$ → overconsumption of gambling activities → deadweight loss incurred by society
- Imperfect information about the benefits and costs derived from the consumption of gambling: individuals may have a lower perceived cost of gambling than its actual cost → overconsumption of gambling beyond socially optimal level
- Thus, when left to the free market, there will be over-consumption of demerit goods such as gambling due to imperfect information and the presence of negative externalities. Hence, governments may intervene to reduce the deadweight loss to increase society's welfare and improve allocative efficiency through different policies such as indirect tax, regulations/legislation and public education

Explain reasons why governments may impose different policies to tackle overconsumption of the same demerit good.

Reason 1: Different perceived extent of negative externalities generated from consumption of the same demerit good

- E.g. SG government may perceive gambling as a socially undesirable good that generates significant amount of MEC from consumption and hence high level of overconsumption → need to impose an entry fee of \$100 to discourage locals from gambling at casinos. The additional monetary cost of entering the casino increases the MPC of gambling to MSC, forcing consumers to internalize the MEC. Hence, this may reduce the over-consumption of gambling, bringing the market equilibrium level of consumption of gambling (Q_e) closer to the socially optimal level (Q_s) and reducing deadweight loss. The higher the perceived level of MEC, the higher the entry fee that could be imposed.
- In contrast, the Malaysian government may perceive the MEC from gambling to be insignificant, hence no need to impose an entry fee i.e. allow free entry.
- If government perceives the level of MEC to be too significant to society, they may even consider banning the consumption of the good.

Reason 2: Different extent of information failure

- If government thinks that there's a large degree of information failure resulting in larger divergence between perceived MPC and actual MPC, and hence greater over-consumption, it may implement various public education campaigns to correct the problem of info failure. E.g. campaigns to raise awareness of problem gambling with gambling-related advertisement on how gambling negatively impacts the family are designed to reduce imperfect information. If successful, these campaigns may effectively reduce the divergence between perceived MPC and actual MPC (i.e. raise perceived MPC to actual MPC) and causing the Q_e to move closer to Q_s . With a smaller level of over-consumption, this would reduce deadweight loss.
- However, if government thinks that the degree of info failure is low and insignificant, they may not carry out or invest less funds on public campaigns.

Reason 3: Different relative effectiveness/ limitations of policies across countries.

- The effectiveness of an indirect tax depends on the PED of the demerit good. If $PED < 1$, Q_d would fall less than proportionate to the increase in price → indirect tax ineffective. A higher level of tax might be required to reduce the consumption to Q_s .
- So, this would mean that the imposition of the entry fee of \$100 will likely be more effective in deterring Singaporeans who are very responsive to the increase in cost of gambling particularly the lower-income group which might be the SG gov't's target group as they are less able to cope with the gambling losses.
- Given that gambling is addictive in nature, demand for gambling would tend to be price inelastic. As such, while the casino entry fee may increase the cost of gambling, it is likely to result only in a less than proportionate fall in quantity demanded for gambling. Furthermore, the public campaigns is likely to take a long time to educate and change the mind-set of consumers - public education is likely to be met with limited success in the short run in dealing with the problem of gambling. As such, the government may want to consider a wider range of short term policies in order to better deal with the problem of gambling such as casino exclusions as a form of regulation - a ban is placed on the people who were either recommended by family members or by the gamblers themselves; and/or legislation such as imposing the age limit of 21 years old

- Depends on whether government can obtain accurate information to estimate the PED, MEC, MSB, MSC correctly to determine the optimal amount of tax and Qs correctly.

Reason 4: Different economic priorities of government

- E.g. Malaysian govt may prioritize economic growth over efficiency through increase in C of gambling from casino industry (hence allowing free entry into casinos for the locals) whereas SG govt may focus more on achieving allocative efficiency in this market – reduce over-consumption of gambling from Qe to Qs by imposing an entry fee
- The degree and type of government intervention in the market for demerit goods depend on the extent of external costs generated from consumption of the demerit goods and/or extent of information failure which is perceived differently by different countries. This in turn depends on the extent of govt failure e.g. whether govt can estimate MEC correctly – might be difficult to quantify the MEC of gambling in monetary terms given imperfect info of govt
- The degree and type of intervention will also depend on the costs and benefits of the measures adopted in relation to the perceived deadweight loss incurred by the society when there's no govt intervention.
- Depends on whether government has sufficient funds available to implement a range of short-term and long-term policies to reduce the consumption of demerit goods more effectively.

Mark scheme (9757)

Level of Response Mark Scheme (LORMS)		
L3	<p>For a well-developed answer that thoroughly explains (at least 2 reasons) why governments may impose different policies (at least 2 policies explained) in tackling market failure associated with the same demerit good. (neg ext and info failure)</p> <p>Answer shows excellent application with the use of appropriate examples of demerit goods.</p>	8 – 10
L2	<p>For an undeveloped answer that attempts to explain why governments may impose different policies in tackling market failure associated with the same demerit good.</p> <p>Answer shows some application with the use of appropriate examples of demerit goods.</p> <p>For a well-developed explanation of 1 reason why governments may impose different policies (with the policies explained) - Max 7m</p> <p>Mere explanation of policies without explanation of reasons why governments may impose different policies – Max 6m</p>	5 – 7

L1	For a descriptive answer of the causes of market failure or largely listing of reasons. Answer may contain conceptual errors and inaccuracies.	1 - 4
Evaluation		
E3	Well-reasoned evaluation/ judgments on why governments may impose different policies in tackling market failure associated with the same demerit good, based on prior economic analysis.	4 – 5
E2	Largely unexplained judgments. Some attempt at evaluation or summative conclusion.	2 – 3
E1	An unsupported evaluative statement(s) or judgment(s) that lacks explanation.	1

Mark scheme (9732)

Level of Response Mark Scheme (LORMS)		
L3	For a well-developed answer that thoroughly explains (at least 2 reasons) why governments may impose different policies (at least 2 policies explained) in tackling market failure associated with the same demerit good. Answer shows excellent application with the use of appropriate examples of demerit goods.	9 – 11
L2	For an undeveloped answer that attempts to explain why governments may impose different policies in tackling market failure associated with the same demerit good. Answer shows some application with the use of appropriate examples of demerit goods. For a well-developed explanation of 1 reason why governments may impose different policies (with the policies explained) - Max 8m Mere explanation of policies without explanation of reasons why governments may impose different policies – Max 7m	6 – 8
L1	For a descriptive answer of the causes of market failure or largely listing of reasons. Answer may contain conceptual errors and inaccuracies.	1 – 5
Evaluation		
E2	Well-reasoned evaluation/ judgments on why governments may impose different policies in tackling market failure	2 – 4

	associated with the same demerit good, based on prior economic analysis.	
E1	Largely unexplained judgments.	1 – 2

2017 H2 Prelim Paper 2

- 4 In 2016, Singapore's GDP at 2010 prices grew by 2 per cent, the unemployment rate rose slightly to 2.1 per cent while the inflation rate stood at negative 0.5 per cent. The external demand, supported by both merchandise exports and services exports, grew at a slower pace of 1.6 per cent.
- (a) Explain how the above economic indicators can be used to assess Singapore's economic performance. [10]
- (b) Assess the usefulness of the above economic indicators as measures of changes in standard of living in Singapore. [15]

Part (a)

Introduction

Economic performance can be assessed in terms of attaining the macroeconomic goals of the country, such as sustained economic growth, low level of unemployment, low inflation rate and healthy balance of payment. Economic performance can be internal or external, and it can be measured via key economic indicators such as Gross Domestic Product (GDP) and unemployment and balance of payments (BOP).

(i) Real GDP growth

The first indicator to assess Singapore's economic performance is the Gross Domestic Product (GDP). GDP refers to the value of all final goods and services produced within a given country during a given period of time. In order to see how fast Singapore economy is growing we look at the real GDP growth rates. In 2016, Singapore's real GDP as seen by GDP at 2010 prices, grew by 2 percent. The data indicates that the GDP figures has taken inflation into account as given by $\text{Real GDP growth (\%)} = \text{Nominal GDP growth (\%)} - \text{Inflation rate (\%)}$. Hence, the positive GDP growth rates indicates that the overall output level has increased. As such there is an increase in production of goods and services and higher employment opportunities. However, while the positive real GDP growth reflects Singapore experiencing economic growth, a 2 per cent increase, shows that Singapore experiencing slow economic growth as it could be lower than desired. While this suggest that Singapore has averted a recession, which is a contraction of the economy, such subdued growth rates is probably an indication that the economy is facing some economic challenges and that firms and consumers might not be too optimistic about spending and the government will need to monitor the situation more closely to ensure economy does not slip into a recession, which means that the goal of sustained economic growth is not achieved.

(ii) Inflation rate

Secondly, inflation rate is also a key economic indicator. Inflation rate is measured by the percentage change in Consumer Price Index (CPI). The goal of a government is to maintain price stability, i.e. low inflation rate, in the economy by ensuring there are no excessive increase in prices. A moderate increase in prices is desired as stable prices improves economic outlook and it can aid the process of economic decision making by firms and households and is thus conducive to economic growth. Therefore, the inflation rate of negative 0.5 per could be a great cause of concern as it is a sign that the Singapore economy is not doing well and that deflationary pressures are

present. The Singapore government is keen to prevent deflation from taking root in the economy as it can have undesirable spillover effects on an economy. For example, if the price of goods and services is consistently dropping, consumers would probably delay purchasing these items until the price was as low as possible. Delayed spending results in fewer sales and less revenue for businesses, which in turn reduces the demand for labour and thereby increases unemployment. This can weaken the Singapore economy even further, leading to a fall in economic growth.

(iii) Unemployment rate

While the primary indicator used is the real GDP growth rates, the level of unemployment is an important indicator for economists to assess economic performance as the level of unemployment indicates whether the economy is fully utilising her resources. At 2.1 per cent, Singapore's unemployment rate is relatively low in comparison to other countries. This suggests that Singapore is probably not experiencing high cyclical unemployment that usually occurs with a recession, which Singapore is not experiencing, as seen by the real GDP growth rates. However, this needs to be compared to Singapore's general unemployment trends. In this regard, this figure is an increase from the previous figures which tends to be below 2 per cent. This probably is an indication of rising structural unemployment as the Singapore economy is currently undergoing major restructuring as it shifts to more knowledge-based and technology-intensive types of production. Therefore this figure, besides indicating that the economy is can do more in utilising its resources fully, might also provide further insights to the nature of unemployment the Singapore economy is facing when compared to its long term trend, which will aid the government in developing policies to address the root problems of unemployment more specifically.

(iv) Export growth

Lastly, while BOP is not given the Singapore government can use the data on merchandise exports and services exports to assess the external performance of the Singapore economy, especially in terms of export competitiveness. As merchandise exports and services exports grew at a slower pace of 1.6 per cent, it indicates that externally Singapore may not be performing well as export demand is not growing sufficiently. As Singapore's economy is driven by external demand, a slowdown in export growth will have serious implications on its economic growth and employment and weaken its exchange rate, which can have other undesirable consequences on a small and open economy like Singapore, particularly in terms of imported inflation. Hence, this data will inform the government of the need to have measures to boost the demand for exports and strengthen the Singapore dollar.

Conclusion

In conclusion, while Singapore's real GDP growth suggests that the economy is still growing, the slow pace of growth, with further support from the other indicators suggests that Singapore's economy might not be performing well. Therefore, there is a need for the government to be more active in managing the economy to improve its economic performance.

Suggested Mark Scheme (9757)

Level	Descriptor	Marks
L3	Clear explanation, using economic analysis, of how 3 of the indicators can be used to assess economic performance in the context of Singapore. Only internal performance indicators – max 8	8- 10
L2	Some explanation of how the indicators can be used to assess economic performance in context of Singapore. . Or Well-developed explanation of 2 indicators.	5- 7
L1	Some knowledge of the use of the indicators. Little reference to context and little explanation.	1- 4

Suggested Mark Scheme (9732)

Level	Descriptor	Marks
L3	Clear explanation, using economic analysis, of how 3 of the indicators can be used to assess economic performance in the context of Singapore. Well-developed explanation of 2 indicators - max 7	7- 10
L2	Some explanation of how the indicators can be used to assess economic performance in context of Singapore. .	5- 6
L1	Some knowledge of the use of the indicators. Little reference to context and little explanation.	1- 4

Part (b)

Introduction

Standard of living refers to the level of economic and social well-being, or the average quality of life of a population which includes the material and non-material aspects of life where *material aspects* include the quantity and quality of goods and services available for consumption. *Non-material aspects* include the environment which one lives (e.g. number of working hours, leisure hours, quality of physical environment, life expectancy etc.)

Usefulness of selected indicators in indicating changes in SOL

The data given in the preamble is useful to measure changes in SOL in Singapore in the following ways:

(i) Real GDP growth

- Changes in real GDP is useful in showing changes in material SOL in Singapore. For example, real GDP growth as by growth of GDP at 2010 prices which is 2 per cent, can provide some indication that there is an increase in material SOL in Singapore in this case. As real GDP refers to the total value of final goods and services produced within a country with effects of inflation eliminated, an increase in the real GDP figure reflects increase in the quantity of goods and services produced. This implies an increase in the quantity of goods and services available for consumption for the households and hence higher material SOL in Singapore. (Note that since real GDP growth rate is provided, inflation rate is not needed for the assessment of changes in SOL)
- The higher level of real GDP also indicates higher income and purchasing power which will allow the households in Singapore to have greater ability to access quality healthcare services and education hence an increase in non-material SOL.

(ii) Unemployment rate

- The fairly low unemployment rate, which has been constant at around 2 per cent indicates that most in the Singapore labour force are able to get a job which then enables them to earn an income. This means that the Singapore government is able to continue its collection of tax revenue. This can be used by the Singapore government to spend on developmental projects like building a more reliable and efficient rail network. This leads to a higher non-material SOL as individuals do not need to endure the **hassle and stress of travelling in congested roads** and have greater assurance that they can get to their destinations on time. Additionally, the relative ease in **getting jobs** may also mean the **stress from being unemployed** is greatly reduced, leading to a **rise in non-material well-being** of the average person.
- However, rising unemployment rate would mean that those that more workers in the labour force are out of a job and this can mean a loss of income for these individuals. As a result, standard of living for this group of workers could have fallen instead.

Limitations of the selected indicators in measuring SOL in Singapore

However, the usefulness of the above indicators in measuring changes in SOL in Singapore may be limited due to the following reasons:

(Focus on need to take into account population changes and at least one other limitation)

Real GDP growth rates does not take into account population changes

The use of total (also known as 'gross') GDP does not give one much insight into living standards in a country. Over longer time periods, the use of gross GDP to measure economic growth or living standards over time also becomes less meaningful given that population changes are likely to happen. An increase in gross GDP could be due to each worker producing more (and hence generating more income), or by the economy having more workers due to population growth. A better indicator to assess changes in material SOL is real GDP per capita. This indicator is obtained through dividing real GDP by the population size. . Given that Singapore has a low population growth rate that is consistently below 2 per cent, then real GDP per capita has increased and it indicates that there is an increase in the average income, implying an increase in the material SOL of the average Singaporean.

Inaccuracies in calculation of GDP

One possible reason why the usefulness of real GDP per capita is limited is inaccuracies that can arise from calculating GDP. When an activity takes place in the hidden economy/informal economy, wages are being paid to those working and hence they may enjoy a reasonably high material standard of living, which is not accounted for in GDP statistics. The size of the hidden economy may change over time. For example, it may change due to changes in enforcement of income tax reporting, (for example on part time taxi drivers or tuition teachers), or growth in informal sectors attracting workers. In this case, the actual GDP figures would understate the material SOL as those in the informal sector would be earning wages, enabling them to purchase goods and services.

Composition of not taken into account

As the increase in exports of goods and services in Singapore, as seen from the preamble, has also contributed to an increase in real GDP it might not accurately reflect an increase in SOL. Without a corresponding increase in consumption, living standards might not be increasing as consumption gives citizens' satisfaction and not exports which would increase the satisfaction level of someone elsewhere who is purchasing the good, i.e. a foreigner.

Changes in income distribution is not taken into account

Other than real GDP per capita, there is a need to use other indicators like the Gini coefficient to measure income distribution. This is because if the higher output produced could be consumed only by a minority group with the means to afford the goods, then the average person in the country is not necessarily better off and there might not be a rise in an average Singaporean's material SOL. Hence the Gini coefficient helps to assess if there is equity (in terms of fairness and ease of access to goods and services) in the distribution of the increased output. A rise in the Gini coefficient value reflects rising income inequality in Singapore and is likely to reflect

that the SOL for the average person might not have increased. Hence, changes in real GDP per capita has be complemented by Gini coefficient data to provide more accurate assessment of how SOL has changed in Singapore.

(Note: limitations of employment rate can also be accepted)

Difficulties of measuring SOL with use of economic indicators

Qualitative aspect of SOL not fully captured

The qualitative aspect of SOL cannot be captured by output or income figures as the average person's well-being is not determined solely by the quantity of goods and services he can consume. Thus there is a need to look at qualitative indicators like the number of leisure hours the average person enjoys, personal freedom, access to education and health care etc. The qualitative aspect of life will rise if the average individual enjoys better work-life balance, and is able to find time pursue his interests. Likewise, the increased accessibility to healthcare services like health check-ups, vaccinations will also lead to higher non-material SOL of the average person as he becomes healthier.

Conclusion

Of all the indicators, real GDP growth rates is the most useful indicator and is useful to some extent in measuring changes in standard of living in Singapore, especially that of material aspect. However, a better indicator which be changes in real GDP per capita. However its usefulness can be limited due to the other limitations mentioned above. It is not sufficient and needs to be complemented with an indicator to measure income distribution like the Gini coefficient and other qualitative indicators such as hours worked, crime rates, life expectancy, healthcare, to capture changes in non-material SOL.

Suggested Mark Scheme (9757)

Knowledge, Application/Understanding and Analysis		
L3	A well-developed analysis, supported with the good use of examples, of the usefulness and limitations of the indicators in measuring SOL in Singapore.	8-10
L2	An underdeveloped, descriptive explanation of the usefulness and limitations of the indicators in measuring SOL in Singapore. One-sided answer – Max 7 Without the use of examples – max 6	5-7
L1	For an answer shows some basic knowledge of the usefulness or limitations of the indicators.	1-4
Evaluation		
E3	An insightful evaluation that uses analysis to support a judgement on usefulness of the indicators in measuring SOL in Singapore.	4-5
E2	Some attempt at evaluation or conclusion about usefulness of indicators in measuring SOL in Singapore.	2-3
E1	For an answer that gives unsupported evaluative statement(s).	1

Suggested Mark Scheme (9732)

Knowledge, Application/Understanding and Analysis		
L3	A well-developed analysis, supported with the good use of examples, of the usefulness and limitations of the indicators in measuring SOL in Singapore.	9-11
L2	An underdeveloped, descriptive explanation of the usefulness and limitations of the indicators in measuring SOL in Singapore. One-sided answer – Max 7 Without the use of examples – max 6	6-8
L1	For an answer shows some basic knowledge of the usefulness or limitations of the indicators.	1-5
Evaluation		
E2	An insightful evaluation that uses analysis to support a judgement on usefulness of the indicators in measuring SOL in Singapore.	3-4
E1	For an answer that gives unsupported evaluative statement(s).	1-2

Q5) Assess the relative effectiveness of demand-side and supply-side policies in achieving macroeconomic objectives in Singapore. [25]

Question Approach

The question tests on the array of demand-side and supply-side policies that the Singapore government adopts to achieve her macroeconomic objectives. The words 'relative effectiveness' suggests the need to compare among the policies and argue why base on certain criteria these policies are deemed to be more effective. Some criteria include type of macroeconomic objectives and policy objectives, nature of Singapore's economy, limitations of policies etc.

Introduction

Briefly explain the macroeconomic objectives of the Singapore government

Like all governments, the Singapore government aims to achieve the 4 macroeconomic objectives. In particular, due to the small and open nature of the Singapore economy, Singapore aims to achieve healthy BOP as it indicates that the Singapore economy is competitive and attractive in the international market with good exports revenue and FDI inflow. This then has implication on positive economic growth and low cyclical unemployment in Singapore. In addition, being import reliant, Singapore is vulnerable to imported inflation and this affects real purchasing power and SOL. Lastly, rising structural unemployment due to structural changes in economy, an important cause of rising income inequality is also a concern of the government. This essay seeks to assess the relative effectiveness of demand-side and supply-side policies in achieving these macroeconomic objectives in Singapore.

To achieve sustained economic growth and to keep cyclical unemployment low, the Singapore government adopts both the demand and supply side policies. The relative effectiveness between the 2 policy approaches depends on the objective and intention of the policies.

During short term economic recession such as that of the global financial crisis in 2009 where **negative economic growth resulted due to a fall in AD**, demand management policies such as depreciation of the Singapore dollar was effectively adopted to achieve the goal of sustained economic growth. The Singapore government allowed a gradual modest depreciation of the Singapore dollar. With a fall in price of Singapore's exports in terms of foreign currency, volume of Singapore's exports increases. Hence, export revenue increases. On the other hand, price of imports in terms of SGD rises. With demand for M being price inelastic in Singapore, M expenditure rises. However, as Marshall Lerner condition holds in the long run, this leads to improvement in Singapore's (X-M). Hence AD improves. With reference to figure 1 below, AD increases from AD₀ to AD₁. Real national income increases from Y₀ to Y₁. The rise in production increases hiring of workers and reduces cyclical unemployment. This combats

the fall in AD due to the fall in demand from Singapore major trading partners due to the recession.

The exchange rate policy of depreciation is effective for Singapore during the recession due to Singapore's economy being export oriented and reliant on trade performance for growth. Depreciation targets net exports which has high influence on AD and hence is effective in raising AD.

However, Marshall-Lerner condition might not hold in the short run due to contractual agreements and inability to change taste and preferences. Hence the policy might worsen trade balance in the very short run instead worsening the recession. Also, Singapore's trading partners may also engage in relative depreciation to avoid impact on net exports during recession. This further undermines the effectiveness of Singapore's depreciation to improve net exports as the price effect is offset. Also, depreciation might also be adopted by other affected countries in the recession. With relative depreciation, Singapore might not gain a price advantage in exports over her major trading partners. Hence, rendering exchange policy less effective.

To complement exchange rate policy, the Singapore government adopts expansionary FP to boost AD to promote actual economic growth and reduces cyclical unemployment. For example, the Singapore government brought forward HDB upgrading projects and construction of MRT lines to increase G and increases AD further from AD1 to AD2 to raise RNY to Y2. While EFP is effective in raising AD through G, effects are usually restricted to specific sectors such as construction industry due to the boost in G on construction of infrastructure in the country. It is also limited by feasibility of government projects to be brought forward.

The combination of exchange rate policy and EFP has their merits and flaws. In addition to the limitations mentioned above, Singapore cannot depend on depreciation of the SGD to improve AD for an extended period of time for it might invite imported inflation to the country. In fact, during risk of imported inflation, the Singapore government might adopt gradual modest appreciation stance of SGD to control prices of imported FOP and final goods into the Singapore economy. This effectively increases SRAS and reduces GPL in the country. Hence, due to the conflict between the goals, a fine balance must be achieved in the control of SGD to balance among achieving all goals of the government. Both EMP and EFP are short term policies effective only to influence AD. In the long run, supply side policies are more effective in improving competitiveness of Singapore's exports to improve trade balance and achieve macroeconomic objectives of healthy BOP, potential economic growth and lower inflation in the long run.

The Singapore government invests heavily in firms to adopt better technological production methods to improve productivity and efficiency. An example would be the Productivity and Innovation Credit where the government subsidises 60% or allowed 400% tax deductions on technological investments by firms that improve productivity. This translates to higher productivity of the economy and results in rightward shift of the LRAS from AS0 to AS1 as shown in Figure 1

above. Higher economic growth is achieved from Y1 to Y2 with lower inflation from P1 to P2. At the same time, the improved productivity could translate to better quality of exports which increases export demand and improves current account.

Adopting new technology by firms involve high costs as new machines must be bought and workers must be trained to make use of these new technology. Firms might experience rise in unit COP in the short run instead. Hence, instead of improving price competitiveness and quality of exports, prices of exports might rise instead. Supply side policy is hence only effective in the long run to improve BOP and achieve potential economic growth.

Lastly, with continued globalization and structural changes to the Singapore economy, jobs in some declining industries are lost while new jobs are created. Workers become structurally unemployed as they lack the skills to take up the new jobs. The most effective policy to resolve structural unemployment and help the Singapore government in achieving the goal of low unemployment is supply side policy of retraining workers so they may learn and match their new learned skills to the jobs. The Skill future programme where subsidies are provided by the government to encourage retraining was adopted as a national movement to provide Singaporeans with the opportunities to develop their fullest potential throughout life, regardless of their starting points.

Effectiveness of the retraining programmes depends on adaptability of workers. The older workers are likely to be more resistant to learning new skills and hence less successful in benefitting from the programme. They then may not find new jobs. The programme also incurs high budget on the government which may potentially compete funding with other programmes in the country, incurring high opportunity cost.

Conclusion and judgment

Demand side policies aim to influence AD while supply side policies on AS. With different intentions, they aim to achieve different macroeconomic objectives. Hence, its effectiveness on goals depends on its use in the first place.

In the short run, the nature of Singapore's economy has made demand side policy such as **exchange rate policy an effective tool to achieve most of the macroeconomic goals of the government as it may achieve healthy BOP, sustained economic growth, low cyclical unemployment and prevent imported inflation.** EFP in addition to exchange rate policy contributes to boosting of AD and prevent job losses during recession. **Effectiveness of these demand management policies are however, affected by the extent of their limitations in achieving the goals.** For example, severity and sources of recession as well as reaction of major trading partners.

Supply side policy on the other hand are targeted for long run effects such as improving BOP and structural unemployment. It is less effective in the short run but irreplaceable as the only tool to achieve these goals. Effectiveness also depends on cooperation of firms and workers in adopting the initiatives.

Mark scheme (new syllabus 9757)

Level	Description	Marks
L3	<p><u>18 – 20 marks</u></p> <ul style="list-style-type: none"> - For a <u>well-developed answer</u> that <u>thoroughly explains</u> an array of demand-side and supply-side policies in achieving various macroeconomic objectives in the context of Singapore. - Answer shows <u>excellent application</u> to the Singapore economy i.e. in different context, for different macroeconomic objectives and limitations of policies. - Answer is <u>well-structured</u> to reflect <u>excellent organization of ideas</u>. <p><u>15 – 17 marks</u></p> <ul style="list-style-type: none"> - For a <u>well-developed answer</u> that <u>clearly explains</u> an array of demand-side and supply-side policies in achieving various macroeconomic objectives in the context of Singapore. - Answer shows <u>good application</u> to the Singapore economy i.e. in different context, for different macroeconomic objectives and limitations of policies. - Answer is reasonably <u>well-structured</u> to reflect <u>good organization of ideas</u>. <p>Max 15m for 3 reasonably developed demand and supply side policies in achieving at least 2 macroeconomic objectives in Singapore.</p>	15 - 20
L2	<p><u>12 – 14 marks</u></p> <ul style="list-style-type: none"> - For an <u>under-developed answer</u> that <u>explain</u> an array of demand-side and supply-side policies in achieving various macroeconomic objectives in the context of Singapore. - Answer may contain some theoretical mistakes and are somewhat applied to the Singapore economy - Answer is somewhat structured to reflect <u>some organization of ideas</u>. <p><u>9 – 11 marks</u></p> <ul style="list-style-type: none"> - For an undeveloped answer that makes an <u>attempt to explain</u> at least 2 demand-side and supply-side policies in achieving various macroeconomic objectives in the context of Singapore. - Answer contains policies that are <u>relevant but insufficiently explained</u> and <u>poorly applied</u> to the context of Singapore. - Answer is <u>poorly structured</u> and reflect <u>poor organisation of ideas</u>. <p>Max 9m for only 1 well-developed policy.</p>	9 - 14

L1	<p><u>5 – 8 marks</u></p> <p>- For an answer that makes an <u>attempt to explain some policies to achieve macroeconomic objectives.</u></p> <p>- Answer is <u>somewhat irrelevant</u> and <u>contains basic errors in economic theories</u> or are <u>inadequately explained</u> which demonstrates only <u>some basic understanding of economic concepts.</u></p> <p><u>-Answer may not be applied to the Singapore economy.</u></p> <p><u>1 – 4 marks</u></p> <p>- For an answer that is <u>largely irrelevant</u> and contains <u>conceptual errors.</u></p> <p>- Answer has few valid points and demonstrates <u>poor knowledge of relevant and basic economic theories.</u></p>	1 - 8
Evaluation		Marks
E3	Value judgments made with strong economic justifications which reflects considerations of assumptions and synthesis of analysis of relative effectiveness of policies between demand and supply side policies in achieving macroeconomic objectives.	4-5
E2	Some attempts to make value judgments with some economic justification on relative effectiveness of policies between demand and supply side policies in achieving macroeconomic objectives.	2-3
E1	An attempt to make a value judgment without justification.	1

Mark scheme (old syllabus 9732)

Knowledge, Application, Understanding and Analysis		
L3	<p>For a well-developed answer that explains an array of demand-side and supply-side policies in achieving various macroeconomic objectives in the context of Singapore.</p> <ul style="list-style-type: none"> • Answer shows excellent application to the context of Singapore <p>Max 15m for 3 reasonably developed demand and supply side policies in achieving at least 2 macroeconomic objectives in Singapore.</p>	15 – 21
L2	<p>For an undeveloped answer that an array of demand-side and supply-side policies in achieving various macroeconomic objectives in the context of Singapore.</p> <ul style="list-style-type: none"> • Answer shows some good application to the context of Singapore <p>Max 9m for only 1 well-developed policy</p>	10 – 14

L1	<ul style="list-style-type: none"> • For an answer which is largely irrelevant or contains inaccurate content. • For answer which is largely descriptive. 	1 – 9
Evaluation		
E2	<ul style="list-style-type: none"> • For a judgement that is based on economic analysis on relative effectiveness of policies between demand and supply side policies in achieving macroeconomic objectives. 	3 – 4
E1	<ul style="list-style-type: none"> • For a judgement made without evaluation or economic analysis. 	1 – 2

- 6 Globalisation has brought about greater exchanges of goods and services, capital and labour between countries. Some countries embraced it while other resisted it.
- (a) Explain the reasons for increasing globalisation. [10]

Suggested Answers:

Introduction: Define globalisation and briefly describe the main factors that led to globalisation

Globalisation is the increased integration and interdependence of economies. It can be categorised as **economic globalisation**; the greater integration of goods and services (via trade), labour and capital markets and **geographical globalisation**; the reduction in travel times between locations and the rapid (electronic) exchange of information. Knowledge and production previously confined to certain geographical areas may now cross borders and be made available because of the communication and transport technological innovations.

Body 1: Explain how trade liberalisation led to increase trade flows based on the theory of CA.

One main factor that facilitates globalisation is **trade liberalisation and the promotion of free trade based on the Theory of Comparative Advantage**. The theory of comparative advantage posits that economies can mutually benefit from specialisation and exchange of goods they have a lower opportunity cost in producing. For example, between Thailand and Singapore, Thailand's vast amount of arable land and large number of rice farmers meant that it has resources that are more suited for the cultivation of rice over Singapore. In the cultivation of rice, Thailand has a **lower opportunity cost** as compared to Singapore as Singapore does not have the similar factor endowments that are suitable for rice cultivation. On the other hand, Singapore would have a lower opportunity cost in the production and manufacturing of electronic goods because of its skillful labour force and level of technological adoption. If Thailand devotes its resources to the cultivation of rice and Singapore devotes its resource to the production of electronic goods, both countries would be more efficient in their production. **With subsequent exchange**, that is, Thailand to export rice and import electronic goods, while Singapore would import rice and export electronic goods, **both countries could exploit their differences in relative opportunity cost and consume a combination of goods outside what they possibly could if they produce both goods on their own (consume beyond their PPC)**.

The greater amount as well as variety of goods available for consumption among other potential gains from free trade have led to increasing liberalisation of trade and capital markets, facilitated by governments moving towards policies such as Free Trade Agreements (FTAs) to reduce trade barriers (removing import tariff and quotas). These led to greater economic integration amongst economies and the trend of globalisation.

Body 2: Explain how development in communication technology has led to increased intergration

The revolutionary break-through in information and communication technology (ICT) and development in transport technology have also provided the drive for global integration by facilitating trade.

Development in communication technology has facilitated the transmission of information over geographical borders quickly and efficiently. This allows transnational firms to coordinate their operations worldwide via different avenues such as video conferences & emails. The implication is that firms such as Toyota and Apple Inc. are **able to set up plants worldwide by tapping on the comparative advantages in production of different types of goods in different countries** to improve their productivity and efficiency. These firms are also able to outsource part of the production process yet maintain control over them with the ease of communication. This “**slicing up of the value chain**” results in increased flow of intermediate goods as well as capital amongst the economies leading to higher degree of globalisation.

Body 3: Explain how development in transport technology has led to increase intergration

Last but not least, **developments in transport technology** have caused transportation cost and time for goods and people to shrink tremendously increasing mobility of goods and factors of production. These have enhance economies trade network and aid in the increase in trade volume. For example, sea transport has become more efficient with new technology such as (automated cargo handling and faster vessels). Better navigation system also enhanced the safety and efficiency of sea transport. The reduction in time for sea transport and cargo handling has helped to transport goods and documents for firms faster.

Conclusion: Summarise Salient Points

Not only has these technology enhance the benefits of trade, they are essential enablers of trade, without which, there would not be as much integration amongst world economies.

Syllabus 9757

Level of Response Marking Scheme (LORMS)		
L3	For a well-developed answer that clearly explains factors which led to increasing integration amongst economies based on economic reasonings (E.g. Comparative Advantage) Answers are well-supported with appropriate examples.	8 – 10
L2	For an undeveloped answer that attempts to explain factors which led to increasing integration amongst economies. Answers are descriptive and lacks economic reasonings. Answers are supported with some example.	5 – 7
L1	For an answer that is irrelevant and contains conceptual error.	1 - 4

--	--	--

Syllabus 9732

Level of Response Marking Scheme (LORMS)		
L3	<p>For a well-developed answer that clearly explains factors which led to increasing integration amongst economies based on economic reasonings (E.g. Comparative Advantage)</p> <p>Answers are well-supported with appropriate examples.</p>	7 – 10
L2	<p>For an undeveloped answer that attempts to explain factors which led to increasing integration amongst economies.</p> <p>Answers are descriptive and lacks economic reasonings.</p> <p>Answers are supported with some example.</p>	5 – 6
L1	<p>For an answer that is irrelevant and contains conceptual error.</p>	1 - 4

- (b) Evaluate why different countries may have different responses towards globalisation.
[15]

Question Approach:

The question requires students to first consider the **differing impacts** of globalisation on different countries before making value judgments on the **differing responses** these countries have towards globalisation. The impacts generally refers to the **benefits and the costs of globalisation**. Students can also consider other relevant reasons beyond cost and benefits. While these impacts must be linked to various economic objectives, the link between the impacts and hence responses must be clearly established. Responses to globalisation refer to policies to promote or impede globalisation. Last but not least, evaluative comments to justify the responses must be provided.

Suggested Answers

Introduction: Briefly describe the differing impacts of globalisation on countries and hence their differing stance towards globalisation.

Globalisation is a double-edge sword. While some countries have ride on the wave of globalisation and benefited, others have to bear associated costs of being more open to economic integration. Impacts of globalisation differ according to an economy's nature, stage of development as well as limitations of existing governing policies. Countries therefore response differently to globalisation; while some embrace globalisation, others turn protectionistic.

Body 1&2: Explain the differing impacts of globalisation and hence their differing responses to globalisation.

As mentioned in (a), globalisation has led to the increased flow of goods and services, factors of production and technology. This can bring about benefits such as increased economic growth, employment, and improvement in balance of payment position.

- Explain using AD-AS framework various impacts of increased trade, capital and labour flows.

E.g., The rise of East Asian economies is often attributed to globalisation and enhanced regional economic integration.

Increase in flow of goods and services and capital can increase the export volume and investment inflow of economies. The availability of more choices of goods and services from abroad would increase the demand of exports and hence export revenue of economies. This contributes to the aggregate demand and hence national output. Labour demand increases as firms step up production to match the increased in demand, hence reducing cyclical unemployment.

These positive impacts on economies meant that economies will response differently.

However, it can also bring about increase unemployment and worsening of balance-of-payment position.

- Explain possible negative impacts of greater trade, labour and capital flows.

Body 3: Evaluate the differing impacts of globalisation on small and open economy vs. large and less open economy and hence differing responses to globalisation.

Consider: Small & Open vs. Large and Less Open economies

Small economies can better benefit from globalisation as they stay open and gain access to bigger markets. E.g. Singapore. Reliant on trade for growth. On the other hand, large and less open economy such as USA may respond differently to globalisation as they have a large domestic market; they can hence rely less on external market. While Singapore need to stay open to trade and globalisation, USA has been turning protectionistic in recent years.

Policy responses to globalisation would differ between the two countries. While Singapore seeks to sign more Free Trade Agreements (FTAs) (the most recent being the EUSFTA), the US has pulled out from the monumental Trans-Pacific Partnership (TPP).

Evaluation: Yet, both are facing rising income inequality, partly attributed to increased globalisation as well.

Body 4: Evaluate the differing impacts of globalisation on developed and developing economies hence differing responses to globalisation.

Consider: Developed vs. Developing economies

Developing economies are more likely to benefit from globalisation especially with the increased capital flow and technological transfer, hence they are more likely to respond to globalisation positively. This enables developing economies to move up the differing stages of development. With greater economic growth and development, it can raise output, income and hence raise standard of living as more people are pull out of poverty.

Evaluation: Yet, even as developing countries open up their markets, there has been widespread criticism about developed economies ability to implement and adhere to negotiated trade obligations. Developed economies have been criticized for having **unfair trade practices** which limits the benefits of globalisation that developing economies can benefit from. Protectionist policies in industrialised countries prevent many producers in the Third World countries from accessing export markets. Also, developed economies **also give subsidies to domestic producers** while imposing high tariffs on foreign imports in order to **undermine the foreign competitors** from developing economies. This suggests that even different developing countries may choose to respond differently to globalisation because of the potential negative impacts. For example, in response to these unfair trade practices, economies may retaliate by rising trade barriers as well.

(Example: Critics of economic integration often point to Latin America as an example where increased openness to international trade had a negative economic effect. Many governments in Latin America (e.g. Peru) liberalised imports far more rapidly than in other regions. In much of Latin America, import liberalisation has been credited with increasing the number of people living below the USD \$1 a day poverty line)

Evaluation: Also, even if developing economies may benefit on the economic front, competition among developing countries to attract foreign investment leads to a "race to the bottom" in which countries dangerously lower environmental standards. This is because of the poor legislation to protect the environment and weak enforcement of environmental regulations that developing economies may have. This attracts firms in developed economies to offshore their businesses to these developing economies, which results in greater environmental degradation in developing economies. This causes negative externalities and results in sub-optimal resource allocation.

Evaluation: While some developing economies government have already begin implementing policies to prevent developed economies from exploiting them, some other developing economies are still likely to prioritise economic growth over other potential trade-offs such as environmental preservation and resource allocation efficiency because of the potential rise in material standard of living. As such, their response to globalisation would likely to differ not only from developed economies, but also from other developing economies which while also value economic growth, are also looking concern about environmental degradation and rising income inequality.

Body 5: Explain the constraints government may face in policy implementation in response to globalisation which results in differing response.

Even if economies face the same impacts of globalisation, responses may also differ because of policy limitations that government of different economies faces (Budget constraints and existing economic conditions).

Explain how policy measures in response to globalisation (to mitigate negative impacts of globalisation) may differ because of certain limitations.

Syllabus 9757

Level of Response Marking Scheme (LORMS)		
L3	For a well-developed and balanced answer which clearly explains the differing responses of different countries based on differing impacts of globalisation on different countries. Answer is well applied to different context and supported with appropriate examples.	8 – 10
L2	For an undeveloped answer which attempts to explain the differing responses of different countries based on differing impacts of globalisation on different countries. Answer is descriptive and not well applied to different contexts and/or supported by appropriate examples. Max 5 – For generic regurgitation of impacts of globalisation.	5 – 7
L1	For an answer that is largely irrelevant and may contain conceptual errors.	1 - 4
5m Reserved for Evaluation		
E3	For value judgements made with sound economic justifications. Justifications are appropriate and relates to prior analysis.	4 – 5
E2	For value judgements made with some economic justifications. Justifications made are not appropriately related to prior analysis.	2 - 3
E1	Judgements made incidentally.	1

Syllabus 9732

Level of Response Marking Scheme (LORMS)		
L3	For a well-developed and balanced answer which clearly explains the differing responses of different countries based on differing impacts of globalisation on different countries. Answer is well applied to different context and supported with appropriate examples.	9 – 11
L2	For an undeveloped answer which attempts to explain the differing responses of different countries based on differing impacts of globalisation on different countries. Answer is descriptive and not well applied to different contexts and/or supported by appropriate examples.	6 – 8

	Max 6 – For generic regurgitation of impacts of globalisation.	
L1	For an answer that is largely irrelevant and may contain conceptual errors.	1 - 5
4m Reserved for Evaluation		
E2	For value judgements made with sound economic justifications. Justifications are appropriate and relates to prior analysis.	3 - 4
E1	For value judgements made with some economic justifications. Justifications made are not appropriately related to prior analysis. For judgements made incidentally.	1 – 2

