**Essay Question 1**

**Traditionally, there are four main objectives for an economy to achieve: Full employment, low inflation, a balance of payment equilibrium and sustainable economic growth. However, these objectives cannot be achieved simultaneously. The government has to make a choice between the objectives for the government, because achieving success in one often leads to a failure in another.**

**Discuss how this assertion is relevant in Singapore (25)**

#### (what are the aims of government? (8)/How the aims of government will conflict with each other (10) and is this seen in Singapore?) (7)

#### Introduction

State that the government has the above four objectives to achieve but it may not be easy for it to achieve them, especially when it tries to achieve them simultaneously. Short profile of current Singapore economic situation

#### Main Body

1. **Define and explain the four main aims and their importance or benefits. (8-10)**

**(definition/measurement/characteristics/importance)**

**Full employment refers to the full utilization of productive resources such as labour.**

* measured in term of the unemployment rate (unemployed / total labour force)
* determines the actual production capacity
* affects the level of government spent on unemployment benefit and the tax revenue, leading to the rise of budget strain which may lead to the rise of debt burden if it requires financing
* may lead to unequal distribution of income and wealth, especially when there is structural unemployment. – segments of workers lost their income in the sunset industries while the workers in the sunrise industries gain higher income

**Price stability (low inflation) – it refers to the stability of the change in price level**

* measured by the consumer price index – which shows the change in the price level over the base year (year-on-year (5%) or base year comparison (105%))



* need to achieve this aim to avoid the problem of higher cost of living and cost of production
* avoid the adverse effects of hyper-inflation (loss of competitive edge, affecting the export demand and the level of foreign direct investment)

**Economic growth refers to growth of the actual and production capacity**

* **actual** production capacity refers to the actualization of resources into monetized products and services which is measured in term of the percentage change in GDP while the **potential** production capacity refers to the expansion of the availability of resources for production which is measured in term of the production possibility curve.



* EG will determine the level of goods and services available to the economy
* It determines the level of nation income which will determine the tax revenue and real per capita income – the level of tax revenue which will determine the level of government expenditure on public goods and services in the nation and the level of real per capita income which will determine the purchasing power will determine the level of standard of living
* EG will also provide the government the revenue to raise infrastructure development to raise the efficiency of the industries to raise the competitiveness of the economy

**Balance of Payment Equilibrium refers to the stability of the balance of trade, balance of payment and exchange rate (BOP surplus – net positive flow – appreciation/BOP deficit – net negative flow – depreciation)**

* external stability is imperative as it will determine the flow of currency which will affect the exchange rate
* exchange rate instability will undermine the determination of trading prices and cost of FDI which will disrupt the trading and investment activities and thus affecting the export demand and investment **(critical to Spore as high export dependency / need for FDI for economic growth**)
* also may undermine the government external debt payment and cost of living for countries that rely a lot on external economy

**1. Conflict between inflation and unemployment (inflation vs growth)**

1. Explain the conflict using AD-AS

To curb unemployment, need to conduct expansionary demand management policy to increase AD, via multiplier will increase national income – production will increase – leading to higher demand for more labour and thus solve the unemployment level but such an expansionary policy will also raise the AD excessively, leading to increase in price level when the economy is operating under rising cost condition.

To curb inflation, need to conduct contractionary demand management policy to lower AD, via multiplier will decrease price level – but such a contractionary demand management policy will also lower the AD excessively, leading to decrease in national income and production which will lead to unemployment.

1. Relate to Singapore (assertion not relevant and why)

* Emphasis on expansion of production capacity, results in both AS and AD shifting outwards. Therefore employment is increased but there is low inflation. (to attain sustainable EG)
* CPF policy and strong Singapore dollar also keeps imported inflation rates low(provide funds for exchange rate management)
* Increase in employment may result in some mild inflation but it is an affordable trade off (Can provide more employment and loss in purchasing power can be compensated with subsidies.)

**2. Conflict between internal and external stability**

1. Explain the relationship

It is difficult for the economy to adjust the interest rate to achieve internal and external stability. Increase in interest rate will help to curb inflation but it will not solve balance of payment surplus as there will be increase in capital inflow, leading to further improvement in BOP. Decrease in interest rate will lead to reduction in unemployment as investment and consumption will increase which will contribute to rise in employment and national income but such a reduction in interest rate will lead to a fall in net capital flow and thus worsen the BOP deficit.

1. Relate to Singapore (assertion is relevant for Singapore)
   * Singapore will experience such situations as the economy relies extensively on the external demand for growth and its reliance on flow of capital as it is main financial centre which will be greatly influenced by the need to stabilize the exchange rate.
   * Productivity increase, technology improvement, cost of cheap imported raw materials made possible by strong Singapore dollar and thus it is more likely to focus more on the need to stabilize the exchange rate (pre-requisite condition for the government to prevent the surface of economic problems like unemployment and to help to attain the main aim of economic growth)

(stable exchange rate – stable trading prices – promoting trading activities – increase prodn n N+)

**3. Conflict between economic growth and unemployment**

1. Explain jobless growth (high level of economic growth with low contribution to employment as the areas of growth confined to capital intensive industries)
2. Relate to Singapore (assertion is relevant for Singapore in short run)
   * Current unemployment is largely structural in nature
   * Our emphasis on productivity is double-edged in effect – it will grow the economy but the economy is likely to lead to technological unemployment (less workers are needed and skill incompatibility will occur)
   * The economy will constantly need to adjust the sectors of the economy to enhance its comparative advantage which will lead to sectoral unemployment as sunset and sunrise industries will occur
   * Demand may come back but does not mean more workers are needed as worker does not have the skills to be employed (skill incompatibility and displacement of workers)
   * Need to equip workers with new skills and also look for new demand which require the new skills

#### Conclusion

It is noted that all aims of the government are of great importance to the government but it will create problems if the aims are to be attained simultaneously. The government needs to look at the constraints and derive an optimal solution which may induce the need for the government to prioritize the aims according to the condition of the economy.