**Essay Question 6**

**Examine the relative impact of a deep recession and a government subsidy on total consumer expenditure in different markets such as food and the Arts and Cultural events. [25] (SRJC Prelim 2012 Q2)**

Introduction

To examine the impact of a deep recession and a government subsidy on the total consumer expenditure, we need to analyse its influence on the demand and supply of these markets as a result of the change. In doing so, we need to understand how the two goods are classified which will affect the elasticity of demand for these goods and thus affect the prices and output level which will affect the consumer expenditure, given that consumer expenditure is the product of price and quantity.

Main Body

1. **Explain how a deep recession would affect the demand for the demand for inferior and normal good**

Deep recession 🡪 fall in income 🡪 decrease demand for normal good which are goods that occupy a large proportion of income spend 🡪 increase in demand for inferior goods which are goods that occupy a small proportion of income spent

1. **Explain how the consumer expenditure for goods like food will change as a result of the deep recession**

**a. Economic Causation**

↓Y🡪↓dd for food which are classified as normal good – dining out at restaurant / ↓ dd for art and cultural events 🡪↓dd for food at hawker centre (inferior)

**b. Diagram and Description of Diagram (2 diagrams)**

P

P

Q1

P0

P1

D0

D1

So

Q0

↓Y

So

Po

Do

P1

D1

Qty

Qty

Q1

Qo

Inferior Good (Hawker food)

Normal Good

As seen from the diagram, the decrease in demand for normal good from D0 to D1 will lead a supply demand condition, contributing to fall in price and quantity from P0 to P1 and Q0 to Q1. The total consumer expenditure will also decrease as total expenditure falls from P0 X Q0 to P1 X Q1.

**c. Evaluation**

1. **Explain how the consumer expenditure on Arts and Cultural events will change as a result of the government subsidy**

**a. Economic Causation**

↑govt subsidy 🡪↓COP🡪↑SS for food / Art and cultural events

**b. Diagram and Description of Diagram**

So

Do

P

Qty

S1

Q1

Q0

P0

P1

So

Do

P

Qty

S1

Q1

Q0

Po

P1

Price falls slightly for the normal good such as art and cultural events 🡪↑(gain>loss)

Why? – large proportion of income spent on these goods 🡪 availability of substitutes – many

Price falls sharply but increase in quantity is less than proportional 🡪 total consumer expenditure ↓ (loss >gain)

Why? Staple consumption

So

Do

P

Qty

S1

Q1

Q0

P0

P1

So

Do

P

Qty

S1

Q1

Q0

Po

P1

Subsidy per unit

Producer benefit more for Arts and cultural events when dd is price-elastic help producers to cover huge cost of events

Consumer benefit more for food items as it is essential to them when dd is price-inelastic

**c. Evaluation**

i. Extent of change in demand and supply

🡪Subsidy🡪↑SS or recession (↓dd for normal good / ↑ dd for inferior good)

🡪△ in dd >↑SS

-↑dd>↑SS(Inferior good) 🡪↑P, ↑Qty

-↓dd>↑SS (normal good)🡪↓P,↓Qty

Conclusion