**Essay Question 1**

**Singapore experienced a quarterly growth rate of -0.7% from April to June 2012. However, during the same period, inflation rate remained high at about 5%. Explain why inflation can remain high despite a slowdown in economic growth in Singapore. [10]**

Introduction

Inflation is a sustained, inordinate and general increase in prices. When this occurs, it implies that the price level has increased over the previous year and this is measured by the consumer price index. Economic growth refers to the growth of the production in term of actual or potential production capacity. Slow economic growth may lead to a fall in real GDP which is the value of GDP in real terms after correcting for inflation.

Main Body

**1) Explain the meaning of slow economic growth and how it occurs**

Slow economic growth may arise in the economy due to the following reasons. Firstly, the economy may lack financing in terms of lower tax revenue and reserve built up from previous budget which implies less funds for the government to use to finance their budget, which consequently result in limited government expenditure. Next, the economy may suffer from the loss of export competitiveness due to changing terms of trade or loss of comparative advantage which limits the net export growth of the country. Furthermore, lower business sentiments and consumer confidence may also impact the influence of investment and consumption expenditure on the economy and hence facing slower growth.

**2) Explain why slow economic growth will contribute to inflation**

With a slow increase in aggregate demand when the economy is at the rising cost condition, demand-pull inflation will ensue. Demand-pull inflation occurs as a result of the rise in aggregate demand, leading to an excess demand condition and a rise in price level, only when the economy is experiencing rising cost condition or full employment condition. As such, even when the economy experiences slow economic growth with moderate increase in aggregate demand, inflationary pressures will arise.

AD2

Y2=Y3=YF

Real GDP

AS0

AD3

AD1

Y1

GPL

P2

P3

P1

Diagram 1 – Demand-pull Inflation

As seen from the diagram, the slow rise in AD from AD₀ to AD1 will lead to an increase in real GDP from Y1 to Y2. However, at the same time, prices will increase from P1 to P2 given the economy is experiencing rising cost condition.

In addition, when the economy is full employment at Y2, the economy will experience an increase in national income in terms of nominal GDP but increase in prices, with no increase in real GDP.

**3) Evaluation of the depending factors in the occurrence of inflation when there is slow economic growth**

Finally, such a condition of inflation occurring simultaneously with slow economic growth occurs only when there is full employment condition. Furthermore, it depends on prevailing cost condition as any corresponding cost-push inflation will lead to a fall in real GDP instead.

4) The possibility of stagflation whereby the economy experiences cost-push inflation and has a slowdown in the growth due to the stagnation of growth in the change in AD. Price can still increase if the cost of production increases as there will be a decrease in the aggregate supply that leads to the rise in price.

5) Draw the diagram on stagflation and describe the diagram.

Conclusion

In conclusion, the government should be aware of the increase in prices possibly occurring when there is slow economic growth so as to alleviate both the inflationary impact while stimulating economic growth.

**(b) "Inflation is harmful to an economy and hence it should be the priority of the Singapore government to reduce inflation." Discuss. [15]**

Introduction

To consider whether inflation should be the main priority of the government there is a need to observe the inflationary condition in relation to other aims of the government base on the degree of impact on the economy.

Main Body

**1. Explain the other macroeconomic aims of the government**

Besides achieving price stability, other priorities of the government include attainment of economic growth, healthy balance of payments as well as full employment. Full employment refers to the full utilization of resources for the production capacity which is measured in term of employment rate. A healthy balance of payments implies a decent surplus which will affect the flow of the currency and thus affect the exchange rate.

**2. Explain and evaluate why inflation is more severe economic concern and should be placed as the main aim of the government**

Low inflation will ensure that the cost of living and cost of production is kept low. Internally, low inflation ensures cost of living is low to prevent unequal distribution of income as price increases for basic necessities will undermine the purchasing power of the lower income group while it raises the wealth of the rich when the price of assets appreciates. Low inflation can also help to maintain level of savings which is a critical source of funding for investment when the purchasing power and future value of money is maintained and thus, encourages the ability and willingness to save. Most importantly, low inflation will ensure that there will be improvement in standard of living, given that any percentage in GDP will be greater than percentage increase in price level, holding population growth constant, to induce a rise in Real GDP per capita.

For certain countries like India, the individuals are not depending on the industries for livelihood and the rate of unemployment is not as important for the country. The low income group is greatly affected by inflation as the increase in price denies them consumption of essential goods like medical services but the unemployment rate does not affect the individuals as the farmers are not accounted in the employment rate in the economy, given that their activities are subsistence activities. (for self sufficient)

Inflation is also a serious problem as lower income group are affected more as their purchasing power is discounted extensively and there is wider income disparity in income distribution. The rise in price of goods and services undermines the poor extensively as their well-being is compromised while the rich gets greater wealth, creating more social dissatisfaction hat undermines social stability.

Externally, low inflation is an important aim of the government as it maintains cost of production to ensure the country is able to develop competitiveness in the export market and in attracting Foreign Direct Investment (FDI). By keeping the cost of production low, the price of export in foreign value and the cost of FDI will be low to induce rise in export demand and FDI, critical to any economy that is export dependent. If the export demand and FDI have not been reduced, there will be no depreciation of the local currency which will affect the flow of fund into an economy that will affect the economy which has a financial centre for economic development.

Furthermore, curbing inflation will help to solve the negative impacts on other aims of government. By reducing cost-push inflation in terms of imported inflation, this reduces the cost of production for export firms in Singapore, which will translate to lower prices of final goods and hence improvement in export competitiveness, improving Singapore’s actual growth and hence balance of payments in current account. Likewise, lowering inflation stimulates investments, which increase actual growth in the short run, improves potential growth in the long run as well as balance of payments in the financial account. As such, focusing on low inflation as a macroeconomic aim is seemingly beneficial as the main priority.

**3. Explain and evaluate why inflation should not be the main aim of the government**

However, focusing on other aims of the government are equally, if not, more important as well. The attainment of actual growth and hence reduction of demand-deficient unemployment is able to reduce inflationary pressures. When employment and wages of workers are improved, it will reduce wage bargains from trade unions and hence dampen wage-push inflation.

Likewise, the attainment of potential growth can reduce inflationary impacts. The expansion of resource capacity due to the implementation of the long run supply-side policies such as manpower development and infrastructural development will increase the productive capacity of the economy. This will lead to a rise in the real GDP without any corresponding price increase as the expansion of the resource capacity has lowered down the cost of production.

Finally, by aiming to achieve a healthy balance of payments, it reflects the progress of the economy to ensure higher economic growth so as to dampen the effects of inflation, which are significant particularly for export-oriented industries like Singapore.

The cost in managing of unemployment is greater than the cost in managing inflation as more funding is needed to subsidize the citizens who lost their jobs than the citizens who are compromised in their real wage due to inflation.

**4. Evaluate the key determinants in evaluating economic priority**

It is important to note that the cost of managing inflationary impact is lower than the cost of managing unemployment. The cost of managing unemployment is higher due to the lower tax revenue as a result of a smaller fraction of labour force who are employed, limited the government’s ability to expand its expenditure to enhance economic development and improve the well-bring of its population. This is in addition to the greater disbursement of unemployment benefits, which comes at the expense of the country’s other areas of development. As such, the focus on lowering inflation rather than maintaining full employment is more feasible and practical from the Singapore’s government’s perspective.

Furthermore, Singapore’s small and open economy which is largely dependent on external growth compels it to focus on low inflation as an important aim. This is because any changes in external prices of raw materials and food commodities will negative impact the firms’ cost of production as well as citizens’ cost of living.

Finally, one must assess the degree of inflationary impact in relation to the severity of recession in considering the focus of low inflation rather than other aims as the main goal of the Singapore government at that point in time. For example, if Singapore was suffering from severe recession as witnessed from the global financial crisis in 2009, the aims of attaining full employment as well as economic growth will be more important than achieving price stability.

Conclusion

In view of the harmful effects of inflation and Singapore’s economic characteristics, it can be understood that it is understandable and rational for governments like Singapore to place concern on achieving low inflation. Nevertheless, other macroeconomic objectives should not be sidelined, depending on the prevailing economic conditions.

**Essay Question 2**

**“Hosting a major world sporting event is viewed as a defining moment for any country, with millions if not billions of dollars spent on improving roads, airports and other infrastructure, a reduction in unemployment and the potential enhancement of international investment and tourism.”**

 **Adapted from The New York Times, 27.06.09**

**Explain the impact of hosting a major world sporting event on the different types of employment in an economy. [10]**

Introduction

 The hosting of a major world sporting event will mean that there is a higher degree of economic activities that will affect the production, employment and economic growth of an economy. This impact is more significant in term of the impact on the different types of unemployment.

Main Body

**1. Explain the types of unemployment**

### Demand Deficient Unemployment

* + - Demand-deficient unemployment occurs as a result of a fall in demand for labour caused by an economic recession under a condition of wage inflexibility where there is ‘stickiness’ in real wage rates as workers are unwilling to accept lower wages, stated by Keynes. (difficult to adjust downward)
		- Also known as cyclical unemployment, which is contributed by a fall in export demand and foreign direct investment (FDI) which is affected by global trade and business cycle

### Structural Unemployment

* + - Structural unemployment is caused by the changing pattern of demand and/or supply in the economy as a result of sectoral adjustment, technological advancement, imperfect labour market and seasonal adjustment of production period.

### Sectoral Unemployment (adjustment in sectors of the economy)

* + - Sectoral unemployment occurs when there is a change in pattern of demand and change in cost competitiveness within a particular sector of the economy 🡪 Change in competitive advantage

### Technological Unemployment

* + - Technological unemployment occurs as a result of a change in production techniques, usually with the introduction of new technology.

🡪↑ Productivity 🡪↓dd for labour (displacement of workers due to use of capital)

🡪skill incompatibility (new technology)

### Regional Unemployment

* + - This form of unemployment occurs when a certain region experiences full employment but another region has unemployment.
		- This is due to occupational and geographical immobility between regions of a country which occurs as certain regions are no longer able to attract investment to provide employment due to poor investment environment and higher wage rate.

**2. Explain how the hosting of the major world sporting event will solve the various types of unemployment**

 In solving demand-deficient unemployment, the hosting of world sporting events will bring about higher level of aggregate demand. Level of investment will increase as there will be infrastructural and institutional development. There is also higher consumption as there is higher level of leisure activities and expenditure on goods and services due to the event. Government expenditure will also increase since there is a need to build public facilities to support the event. Lastly, some of the events may even induce the rise of visitors who will induce higher level of expenditure on tourism which will raise export demand. Consequently, there will be an increase in the level of aggregate demand which will raise production and employment and national income via the multiplier effect. There is a higher level of demand for workers which will prevent the occurrence of demand-deficient unemployment.

 The hosting of the world sporting event will also lead to higher degree of diversification of the economy, which will provide a wider range of employment opportunities that will suit the potentials of diverse group of people. This will make it easier for the economy to rely less on jobs which are too technological-based as in the high-valued industries. Furthermore, it is beneficial to have employment from sporting events as they are usually more labour-intensive than the high-valued technological-based industries which are capital-intensive. Due to these positive impacts, it will be easier for the economy to overcome structural and technological unemployment as the hosting of the global sporting event can overcome displacement of works and sports incompatibility.

 However, it is not possible for the economy to overcome frictional unemployment and regional unemployment through the organizing of the sporting event as the main influence of the investment depends on how the government allocates resources to attract investment and in the implementation of policy to solve market imperfection on employment.

**Essay Question 3**

**Discuss whether a country’s high rate of economic growth achieved by depending heavily on exports and investments is desirable. [15]**

Definition of economic growth and meaning of high rate of economic growth

State that AD components will accelerate a country’s economic growth but at all times.

Main Body

1. Explain how Economic growth will be attained by rise in export demand and investment

Increase in export demand and investment – rise in AD – via the k process – rise in real GDP

Draw diagram

Description of diagram

2. Why economic growth will be accelerated by the rise in export demand and investment

* Export demand is a large percentage of the GDP like SIngapore
* Both export demand and investment will induce employment – rise in income and further increases other AD components like consumption
* Spare production capacity is still large, allowing higher level of production – induce higher GDP – accelerate economic growth
* Investment will improve technological advancement – accelerate economic growth, expand production capacity to promote higher growth rate

3. why it will not?

- higher inflation due to higher cost condition – cannot produce more to raise economic growth

- exchange rate is low – price of export demand is low – low export revenue

- low valued good – slower export value – lesser growth inn NY

- low valued investment – low valued production – slow growth

4. Why it is desirable?

* Give rise to employment – bec increase in XD and I will raise production – increase in demand for labour – raise employment
* Raise SOL – increase in real GDP – higher real GDP per capita
* Investment can expand production capacity – raise the availability of resources – decrease cost condition – control inflation and maintain price stability

5. Why it will not be desirable?

* May contribute to inflation (rise in GPL) – may contribute demand pull inflation – excessive demand under rising cost and full employment condition
* Accelerated EG – unequal distribution of income and wealth
* Extensive structural adjustment – sectoral changes – structural unemployment / jobless growth

**The United States Economy**

**Figure 1: Manufacturing and non-manufacturing employment from 1998 to 2018**

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Source: *Microeconomics Insights*, accessed 3 August 2019

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# Extract 7: Understanding the decline in manufacturing employment

The US manufacturing sector started shedding jobs in huge numbers in the early 2000s, coincident with a sharp appreciation of the dollar and a widening trade deficit. Yet, statistics seem to show the sector’s output keeping up with the rest of the growing economy. Many economists saw this as a sign that high productivity growth allowed manufacturing output to expand even as the workforce dwindled. This view points to automation, not rising consumption of imports, as the main cause of manufacturing’s job losses.

However, Vice-President and Director of Research of the Upjohn Institute, Susan Houseman, cited recent research suggesting otherwise. The apparent strong growth was driven by a single industry within manufacturing: computer and electronics products. And while people have been buying more manufactured products, these products are increasingly made overseas where cost of production is lower. This shift to buying imports is further compounded by an appreciating exchange rate, which makes domestic manufactured products more expensive to local buyers and also hampers the export competitiveness of these products.

The Economic Policy Institute’s research director, Josh Bivens addressed the importance of managing the exchange rate to minimise damage to the economy. “There needs to be real credibility that the US is now committed to never again allowing the dollar to just destroy the US manufacturing sector,” Bivens said. He also echoed Houseman’s call to expand vocational training programmes to improve the skills of workers in manufacturing.

Source: W.E. Upjohn Institute for Employment Research, June 2018

**Extract 8: Time to capitalise on rare earth abundance in the US**

The Chinese government has threatened to stop shipments of strategically vital rare earth minerals to the US to gain leverage in the ongoing trade dispute. Not only does this potentially affect costs of production, but this has also sparked fear and uncertainty in US businesses.

Rare earth minerals are essential in the production of numerous 21st century technologies, from mobile phones and solar panels to electric batteries and military weapons systems. The good news is that these minerals are actually quite abundant, especially in the US. The bad news is this treasure chest of vital minerals remains in the ground due to extreme environmental rules.

The Japanese announced last year that they found minerals off their coast that are so large, they described the supply as “semi infinite” and seem primed to take on Chinese dominance in rare earth minerals. Though it will take time to get the minerals out of the ground and build the infrastructure to get them to market, China’s recent threats should be a wakeup call for US to get going now. A new investment into the American mining industry will create tens of thousands of new jobs and over time tens of billions of dollars of added output.

Source: Stephen Moore and Nicolas Loris, *The Hill* website, 6 April 2019

**Extract 9: Reimagining rare earth elements in a sacrifice zone-free future**

The rare earth elements may not be rare, geologically speaking, but they are hard to get in large quantities, as they are difficult and costly to separate and purify. The industrial separation processes produce heaps of nasty byproducts, including concentrated acids and radioactive waste. As the Chinese government pursued a policy that led to the country’s dominance in world exports of rare earth, it knowingly accepted terrible costs to the health of the people around the region’s mines and grievous damage to the environment. Scholars call this approach the creation of a "sacrifice zone".

A more just way forward begins with the principles of green chemistry. Can we redesign processes and products to make rare earth production less toxic and impactful upon the environment? Research suggests some ways to do that. An acid-free technique for dissolving and recovering rare earths from shredded hard drives has emerged, developed by researchers at Ames Laboratory.

Businesses also can be an important player in pioneering new methods of recovering rare earth elements. Apple is experimenting with a robot named Daisy to disassemble returned products to more efficiently recover the various metals, including rare earths.

Source: Robert Turner, *GreenBiz* website, 6 Feb 2019

**Extract 10: Quality of life in the US**

The US performs very well in many measures of well-being, according to the Organisation for Economic Co-operation and Development (OECD). The average household income per capita is US$45,284 a year. But there is a considerable gap between the richest and poorest – the top 20% of the population earn nearly nine times as much as the bottom 20%.

In terms of employment, 70% of people aged 15 to 64 in the US have a paid job while some 11% of employees work very long hours. In terms of pollution level, the level of atmospheric PM2.5 – tiny air pollutant particles small enough to enter and cause damage to the lungs – is 10.1 micrograms per cubic meter.

Source: OECD Better Life Index, accessed 15 Aug 2019

(b) (i) Using Figure 1, compare the trends in employment data from 1998 to 2018. [2]

Answers

Manufacturing employment generally fell while non-manufacturing employment generally rose. [1]

Both non-manufacturing and manufacturing employment fell 2008 before rising in 2010. [1]

(ii) With reference to Extract 7, explain two causes of the general trend in manufacturing employment as identified in (b)(i). [6]

Answers

With automation (Ext 7) being more efficient [1], the demand for manual labour, a substitute, decreases. Because they lack the skills to perform jobs linked to automation, such skills mismatch will result in structural unemployment. [1]

With an appreciation (Ext 7) [1], assuming Marshal-Lerner condition holds where PEDx + PEDm > 1, (X-M) will fall. [1] AD falls, therefore causing derived demand for labour to fall, causing demand-deficient unemployment. [1] OR

With consumers increasingly buying imported goods (Ext 7) [1], M increases. Ceteris paribus, X-M falls. [1] AD falls, therefore causing derived demand for labour to fall, causing demand-deficient unemployment. [1] OR

Consumers consume imported manufactured goods instead of local goods (Ext 7) [1]. C falls [1], AD falls, therefore causing derived demand for labour to fall, causing demand-deficient unemployment. [1]

Max 5 for an answer that provides 2 examples of demand-deficient unemployment.

For each cause, evidence/identify [1] + explanation [2].

(iii) Assess the policies the US can adopt to boost manufacturing employment. [8]

Answers

Since one of the causes was due to appreciation (Ext 7), the US could **depreciate its currency**. This will result in a fall in the foreign price of exports and a rise in the domestic price of imports. Assuming MLC holds where PEDx + PEDm > 1, this will lead to an increase in (X-M). This translates to an increase in AD, causing firms to step up production and to employ more factors of production including labour. This will therefore reduce demand-deficient unemployment and boost employment. This policy is also supported by Bivens call to manage “exchange rates to minimise damage to the economy” (Ext 7).

However, in the very short run, it is likely that the MLC may not hold, since contractual obligations may reduce the availability of substitutes to exports and imports, thereby causing the demand for exports and imports to be very price inelastic. This may mean that depreciation may first worsen the employment before improving it, so the US has to be mentally prepared to bear with it. Using such a policy also begs the question about the nature of the US economy, i.e., how significant (X - M) is as a proportion of AD. If this

proportion is small, then the effect on employment may be rather limited. Finally, a depreciation of the currency may be taken as a sign of impending weakness in the economy. If not well-communicated, this depreciation may trigger a loss of confidence among consumers and businesses, thereby causing a further fall in AD and a fall in employment.

Another policy that the US can adopt is the **training and retraining of workers**, a proposal echoed by Houseman (Ext 7). This will help to improve the skills of workers and the quality of labour. Not only does this potentially allow the structurally unemployed to be equipped with the relevant skills to complement the drive to automation, it may also prepare workers to move to a new (sunrise) industry. Also, with the quality of labour falling, this may translate into lowered costs of production across the economy, allowing for SRAS to increase, causing actual growth and allowing for derived demand for labour to increase.

However, such training programmes typically takes a long time. Skills are not learnt overnight, and time is also needed for workers to become accustomed to those new skills. In the short run therefore, this policy on its own may not significantly boost employment.

*Other policies:*

The US could also impose a tariff on manufactured products. This raises the cost of importing and thus supply will fall, causing the price of imported products to increase. This will then increase the demand for locally manufactured products, which in turn leads to an increase in the derived demand for labour, boosting manufacturing employment.

However, Extract 8 has shown how China is contemplating to reduce the shipment of rare earths to US, in response to tariffs being imposed. Imposing tariffs on other manufactured products may likewise cause the same issue to US, causing higher costs of imported factors of production, which may lead to imported inflation.

Additionally, should the tariffs be on factors of production like steel, this will translate into higher costs of production for companies requiring steel like the automobile industry, adversely impacting their profits.

**Evaluation:** In conclusion, given how there are two causes of unemployment seen in Extract 7, in order to ensure that the decline of manufacturing unemployment is fully addressed, the US can pursue both the monetary policy to boost employment in the short run, and couple it with supply-side policy to start the shift towards a longer-term and more sustainable pattern of employment.

6. CJC H1 Prelim 2019 Question 2

**Macroeconomic Issues in the U.S and Singapore**

**Extract 5: Unemployment in the U.S.**

U.S. job growth slowed in May and employment gains in the prior two months were not as strong as previously reported, suggesting the labour market was losing momentum despite the unemployment rate falling to a 16-year low of 4.3 percent. Non-farm payrolls only increased 138,000 last month as the manufacturing, government and retail sectors lost jobs, the Labour Department said on Friday. The economy created 66,000 fewer jobs than previously reported in March and April.

Employment outlook is bleak in the U.S. The unemployment rate fell slightly and that was because 429,000 people dropped out of the labour force. Job growth has decelerated from the 181,000 jobs monthly average over the past 12 months as the labour market nears full employment. There is growing anecdotal evidence of companies struggling to find qualified workers. With the reality of Trump providing fiscal stimulus almost gone and the Federal Reserve (Fed) raising interest rate, the job market will be held back.

Source: *Reuters*, 2 June 2017

**Extract 7: Unemployment in Singapore**

Should Singapore be hit by higher unemployment, it will be because of a shortage of skills — as a result of the widening jobs-skills mismatch — and not a lack of jobs. But the Government is determined not to let it come to pass, Manpower Minister Lim Swee Say said yesterday. “We are not going to allow this to happen to us,” he said.

The prospect of unemployment creeping up as the economy matures has made the headlines in recent weeks, with both Prime Minister Lee Hsien Loong and Manpower Minister Lim previously weighing in on the issue.

To succeed in this journey, the Government will have to help businesses transform faster, and Singaporeans adapt better. Otherwise, “the mismatch between jobs and skills will widen as we run faster,” he said. Mr Lee said the unemployment rate has climbed to 2.3 percent because of economic restructuring, but the figure is low compared with other developed countries. To keep Singapore prospering, the Government will help businesses create new jobs, get displaced workers re-employed and train employees to deepen and broaden their skills in their current roles.

Singapore has in place major national programmes such as the SkillsFuture movement and the Adapt & Grow initiative, which help those without work adapt to changing job demands and acquire the necessary skills to find new jobs. Mr Lim also noted a growing fear around the world that technology may eventually take over more jobs, making many more workers redundant. While intelligent technology will progressively take over many “jobs of today” that can be done cheaper, better and faster with technology, Mr Lim pointed out that technology will concurrently create many “jobs of tomorrow” — ranging from data analytics and cyber security to robotisation engineering, revenue management and innovation development. Some economies will see net job gains, while others will see net job losses.

 Source: Today Online, 2 May 2017

(b) Using Extract 5, account for the change in unemployment rate in the U.S. [5]

**Answers**

**- Identify the change**: The unemployment rate fell to a 16-year low (Ext 5). [1]

**- Evidence**: This was due to new jobs being created (“Non-farm payrolls increased 138,000 last month”)

**- Explanation:** With more jobs created, more people would have been able to find a job, leading to a fall in unemployment rate. **OR**

**- Evidence**: This was because “429,000 people dropped out of the labour force”

**- Explanation**: Since unemployment rate is calculated as a % of labour force, with a smaller labour force due to some unemployed dropping out, the unemployment rate would decrease.

(e) Extract 7 states that “should Singapore be hit by higher unemployment, it will be because of a shortage of skills.” To what extent do you agree with the above statement? [8]

**Answers**

**Identify** the unemployment in Extract 7: Structural unemployment which arises because of a mismatch of skills (the skills demanded by employers do not match the skills of those unemployed)

**Thesis:** Agree that structural unemployment is caused by shortage of skills

**Case evidence:** “Should Singapore be hit by higher unemployment, it will be because of a shortage of skills — as a result of the widening jobs-skills mismatch”

This leads to **occupational immobility** which refers to the situation where people are unable to take up jobs in another industry or occupation because they lack relevant skills or education. Such mismatch of skills is caused by market failure in the training market. Employers are often reluctant to provide training for fear of workers moving to another firm. Workers may also be reluctant to take up training because they are unable to afford the direct training costs and also the opportunity costs incurred due to the income forgone while they are being trained.

**Possible Thesis**

Shortage of skills can also arise because of economic restructuring.

Case evidence: “unemployment rate has climbed to 2.3 per cent because of economic restructuring”

With the growth of international competition, this has become an important cause of unemployment in Singapore which has seen industries shifting production bases to countries where theproduction costs are lower. Workers become unemployed as there are no jobs at all or they lack the skills required by other industries. The outsourcing of factories and jobs to developing countries in the region is another cause of structural unemployment in Singapore.

**Another Possible Thesis**

Technological unemployment is a type of structural unemployment resulting from the successful growth of new industries using labour-saving technology e.g. automation. Advances in automation have been blamed for rising structural unemployment.

*Case evidence:*

“Growing fear around the world that technology may eventually take over more jobs, making many more workers redundant.”

**Anti-thesis:** On the other hand, other reasons such as poor economic growth can also account for higher unemployment (cyclical unemployment) in Singapore.

Case evidence: Extract 8: “Singapore's economic growth sagged in 2014 to its weakest in five years.”

As the economy slows down, aggregate demand falls due to a fall in consumption and investment. Firms find that they are unable to sell their current level of output at the current general price level. They will have to cut back on production and the amount of labour they employ (since labour is a derived demand). This results in cyclical unemployment, Cyclical unemployment can also be due to spill over effects if US economic growth falls. Singapore’s exports will be indirectly affected resulting in a fall in export revenue → fall in AD → higher cyclical unemployment.

Conclusion

**Stand:** Overall, I do not agree with the statement.

**Substantiation:** While structural unemployment may be caused by mismatch of skills, there are other causes of structural unemployment. Furthermore, if Singapore experiences slow economic growth or a recession, cyclical unemployment may also result. Furthermore, the Singapore government has already put in place measures to address structural unemployment, for example, the SkillsFuture movement and the Adapt & Grow initiative which help those without work adapt to changing job demands and acquire the necessary skills to find new jobs.

Essay Outline 1

As much as one-third of the United States workforce could be out of a job by 2030 thanks to automation, according to new research from McKinsey. Meanwhile in Samoa, a small developing country, the tourism industry is badly hit with poor outlook globally.

Source: CNBC, 29 Nov 2017 & Samoa Observer, 26 May 2017

(a)Explain the various causes of unemployment across different countries. [10]

(b) Discuss the extent to which the nature of an economy affects a government’s choice of macroeconomic policies in addressing unemployment. [15]

**Essay Outline 2**

Economic growth in Gulf economies weakened in 2019, real GDP growth was at 0.8 percent, while consumer prices fell into deflation. The main export, oil, prices were muted with the ongoing slowdown in global trade. Fiscal and external balances deteriorated, debt levels continued to trend upwards across the Gulf economies. Governments have made substantial progress in implementing structural reform, especially in domestic business and foreign investment environments.

Source: World Bank, Dec 2019

* 1. Explain the internal and external factors that are likely to have contributed to deflation in an economy.[10]
	2. Given the size and openness of an economy, governments implement different policies to address deflation.

Assess the economic case for the different policy approaches. [15]

### **Essay Outline 3**

|  |  |
| --- | --- |
| US Indicators | 2018 Data |
| Real GDP growth rate | 3.2% |
| Inflation rate | 2.4% |
| Unemployment rate | 3.9% |
| Trade balance as % of GDP | -2.3% |
| Budget balance as % of GDP | -107% |

1. Explain why an economist would conclude that the US economy performed well in 2018.

[10]

1. Twin deficits, defined by a country experiencing trade deficit and budget deficit, are causes of concern.

Discuss whether the US government would be more con concerned with a trade deficit or budget deficit. (15)