**JC Economics Essays 2018 – Economic Growth and Standard of Living (SOL)**

**Essay Question 1**

“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

Assess the view that a higher rate of economic growth is always beneficial for an economy. [15]

**Essay Question 2**

(a) Analyse the possible causes of economic growth. [10]

(b) Discuss the extent to which the pursuit of economic growth could be in conflict with achieving price competitiveness in Singapore. [15]

**Essay Question 3**

Explain the relative importance of factors that enhance economic growth in Singapore. [12]

**Essay Question 4**

"With the opening of Resorts World Sentosa and Marina Bay Sands in early 2010, the Ministry of Trade and Industry projects that each of the Integrated Resorts (IRs) would add $2.7 billion to Singapore's Gross Domestic Product (GDP)."

Source: Economic Survey of Singapore 2010

Explain possible factors that may limit the effectiveness of the integrated resorts in generating short-term economic growth in Singapore. [10]

**Essay Question 5**

“There are several potential risks to Asia’s outlook: Unrest in the Middle East has caused oil prices to soar and the weaker growth in advanced economies could potentially affect Asia through the trade channel.”

Explain how the events mentioned may have an impact on Singapore’s economy. [10]

**Essay Question 1**

**“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**

**Assess the view that a higher rate of economic growth is always beneficial for an economy. [15]**

Introduction

Define economic growth

* + - Economic growth refers to the growth of the production in term of actual or potential production capacity.
		- Actual economic growth refers to the actualization of resources into monetized products and services which is commonly measured in term of the percentage change in real GDP
		- Potential growth refers to the expansion of the availability of resources for production which is measured in term of rightward shift of the long run supply curve and outwards shift of the production possibility curve (PPC)
		- Higher rate of growth – growth in high-valued production

Main Body

**1. Explain why higher economic growth is beneficial?**

### Higher Standard of Living )the notion of inclusive growth – sharing of the growth to whole population – need to have sustained growth and equal distribution of income

* + - The main benefit of growth is the increase in amount of goods and service which becomes available for the country’s citizens to enjoy.
		- Economic growth also increases the income of the country allowing citizens to enjoy more of both local and foreign goods. (Raise GDP – Increase in real GDP as long as percentage increase in GDP is greater than percentage increase in price level and population growth)
		- Provides more tax revenue for the government to improve the infrastructures that will raise the convenience and comfort of the citizens

### Redistribution of Income is Easier

* + - With more overall income available, government will have the resources to redistribute wealth the poor. Progressive tax system, better social subsidy

### Encourages Investment

* + - A stable level of economic growth increases firms and consumer confidence which will induce an accelerator effect on the economy. This will encourage more investment which, in turn, induces positive cycle of economic growth.

### Provide a higher degree of employment

### Higher level of economic growth will mean a higher level of production, demanding for labour. This is especially significant for a country with large population where growth in the labour intensive industries will produce more employment opportunities for the massive population. (E.g. China, India)

### Care More for the Environment

* + - As people grow richer, they satisfy their basic needs in life and have attained a certain material standard of living.
		- They move on to achieve more the qualitative side of life, becoming concerned about living in a clean environment.
		- Growth also allows more resources to be used for the correction or regulation to reduce external costs.

**2. Explain why higher economic growth is not beneficial?**

### Current Opportunity Costs of Growth

* + - To achieve faster growth, firms will probably need to invest more and require financing. The finance can come from higher savings or higher taxes. Either way, there must be a cut in consumption. In the short run, therefore, higher rate of growth must mean less consumption which will lower the standard of living in the short run

### May lead to structural unemployment

### The need to accelerate economic growth will mean a need to focus on high-valued industries to raise competitiveness of the economy and this will induce the need for technological advancement and sectoral adjustment to adjust the industries towards capital intensive development. Consequently, there will be skills incompatibility and displacement of workers as industries rely more on machinery.

### May induce inflationary condition

### As economic growth is accelerated, there is a higher degree of demand for resources which will induce increase in cost of resources, contributing to cost-push inflation. Economic growth will also contribute to higher level of disposable income or rise in real GDP per capital and thus, this will induce higher level of composition which will contribute to demand-pull inflation

### Inequality in Income Distribution

* + - Growth often involves changing pattern of demand and supply conditions. Given that resources are not perfectly mobile, there will be individuals who are unable to adapt to the rapid changes. Those who are able to adapt well will benefit significantly. Income may be redistributed in favour of certain economic groups, undermining other groups.
		- With greater income disparity, the social framework of the country becomes less stable; more social problems would occur.

### Depletion of Non-Renewable Resources

* + - Increased production often involves using a greater amount of resources. This means that certain non-renewable resources (e.g. coal, oil, natural gas) will run out more rapidly.

### Increase in Negative Externalities

* + - Increased output and consumption levels tend to consume more resources, putting more and more pressure on the environment.
		- This leads to pollution, more emission of green house gas and, in turn, global warming, etc.

### Non-Economic Costs

* + - Economic growth may bring increased stress and anxiety. Workers may have to learn new skills and have to change their lifestyles. Economic growth may also be accompanied by increased working hours and pressure to come up with new ideas and improvements. Some workers may find this difficult to cope and the level of stress related diseases, suicides, divorce and other social problems tend to rise.
		- E.g. Japan, where GDP per capital is among the highest in the world yet citizens rank low on happiness.

Conclusion

**Essay Question 2**

**(a) Analyse the possible causes of economic growth. [10]**

Introduction

* Define economic growth
* Economic growth refers to the growth of the production in term of actual or potential production capacity.
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* State that the causes of economic growth can be seen from the determinants of economic growth and that the extent of influence of these determinants vary for different economies

Demand side – determinants of AD components (C+I+G) + (X-M)

Supply side – resource capacity and the cost of production (ss-side policies)

Main Body

**1. Identify the determinants and explain how it would lead to economic growth**

1. **Availability of resources** - it will determine the resource capacity that will determine the level of production; the extent of availability of resources will affect the cost of production which affects the rate of real growth
* Evaluate the significance of availability of resources on the growth of the economy
* Have greater resources for production / lower the cost of production as resources will be cheaper – affect competitiveness and growth of ouput – determine economic growth
1. **Technological development** - the level of technological development will determine the productivity and types of industry the economy can engage in which will determine the rate and scope of economic growth
* Evaluate the significance of technological development that will determine the rate of growth – high-valued production – high-valued national income – accelerate economic growth
* High-valued production – high-valued employment – raise SOL
1. **Availability of skillful workers** - The availability of skilful workers will enable the economy to raise the efficiency of production and develop into new industries which will raise the growth and scope of growth
* Evaluate the significance of the availability of workers on economic growth
* Raise the efficiency of the production – lower cost of production – raise profit – induce more FDI as rate of return on investment is higher
* Highly skilled workers – attract high-valued FDI to raise high-valued production – accelerate economic growth
1. **Entrepreneurship** - The influence of entrepreneurship on the growth of the economy is seen in term of the capacity of entrepreneurs in indentifying the areas of growth for the economy and in the provision of organization of economic activities that will raise production and distribution of goods and services
* Evaluate the significance of the role of entrepreneurs in determining growth
* Induce innovation and creativity of the production, expand the scope of the eocnomy

Conclusion

**Essay Question 2**

**(b) Discuss the extent to which the pursuit of economic growth could be in conflict with achieving price competitiveness in Singapore. [15]**

**Focus on EG – rise in price level – yes /No**

Introduction

 The pursuit of economic growth is of great significance to most economies as there are extensive benefits seen in term of impact on the mains of the government. Although it is beneficial, it is also imperative to acknowledge its impact on other aspects like price competiveness of the economy.

Main Body

**1. Explain the various forms of benefits of economic growth can occur (Brief discussion)**

* **Higher level of standard of living**
* **Higher level of employment**
* **Raise their tax revenue – make distribution of income easier**
* **Finance their economic development and public project**

**2. Explain how economic growth may undermine price competitiveness**

 The pursuit of economic growth will induce rise in investment and provide higher income that will boost consumption levels. The need for greater infrastructural development will also induce a rise in government expenditure. As Singapore is likely to focus on external demand for growth, export demand will rise extensively. Consequently, there will be an extensive rise in aggregate demand which will give rise to inflationary condition, given that the economy is experiencing rising cost condition or at full employment level.

 Economic growth accelerates the demand for resources, leading to rising cost of resources which will increase the cost of production, contributing to the rise in price of goods and services. This will lead to a fall in price competitiveness

Draw diagram and describe how demand-pull inflation occurs

 This 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.**

Y1=Y2=YF

Real GDP

GPL

AS0

AD2

AD1

AD0

Y0

P1

P2

P0

 As seen from the diagram, the rise in AD from AD0 to AD2 will lead to inflation (rise in price level) when the economy is experiencing rising cost condition from Y0 to Y1 or it is at full employment at Y₂=YF.

 To accelerate the growth of the economy, there is a shift in the focus of the economy towards high-valued production, which will have a higher price level. Hence, the economy will experience the problem of reduced price competitiveness, since the economy will not focus on price competitiveness but rather the quality of product produced.

**3. Explain why the focus on economic growth will not lead to the problem of price competitiveness**

 By expanding the availability of resources and efficient utilization of resources, the economy will be able to attain potential growth and this will enable the economy to attain economic growth without compromising price competitiveness

1. Explain how sustained economic growth can be attained without experiencing rising cost condition due to the expansion of resources

Y1=Yf₀

Y2

Yf2

AS0

AS1

P₀

P₁

GPL

Real GDP

AD1

Y0

ADo

 To achieve sustainable economic growth, there is a need for the government to raise both potential and production capacity. This can be achieved with the use of demand management policies, trade development policies and supply-side management policies to raise both AD and AS respectively.

 As seen from the diagram, the increase in aggregate demand from AD0 to AD1 will raise Real GDP from Y0 to Y1 but price level will increase from P0 to P1. With corresponding supply will expand from AS0 to AS1, and thus, lowering cost condition to decrease price which will induce increase in AD on a quantity basis. Consequently, the real GDP will increase from Y1 to Y2 while price falls from P1 to P2 without incurring inflationary effect where sustainable economic growth is attained.

Elaborate one or two supply-side policies to raise potential growth

***Manpower development / trade development policies / infrastructural development***

Manpower policy – training and development – raise the AD – increase production – raise NY via k

Supply-side implication – more supply of skilled labour – raise the production capacity as there are more resources – shift the full employment to another level- achieving potential growth

Conclusion

**Essay Question 4**

**"With the opening of Resorts World Sentosa and Marina Bay Sands in early 2010, the Ministry of Trade and Industry projects that each of the Integrated Resorts (IRs) would add $2.7 billion to Singapore's Gross Domestic Product (GDP)."**

**Source: Economic Survey of Singapore 2010**

**Explain possible factors that may limit the effectiveness of the integrated resorts in generating short-term economic growth in Singapore. [10]**

**Definition of short-term economic growth and link the project stated**

**How this project leads to EG ) project – increase in the respective components of AD - increase in AD via the k - rise in real GDP**

**What are the factors will affect how this project leads to Economic growth**

Introduction

* Definition of short-term economic growth – Actual growth
* The factors that will generate short-term economic growth can be seen from the effect of the resorts in generating higher economic activities to raise real GDP

Main Body

**1. Explain how the opening of RWS and MBS will lead to the growth of real GDP through its impact on appropriate via the multiplier**

 Consumption will occur as there will be more visitors to the two integrated resorts as there are new leisure activities which include dining, shopping and gaming that will induce more consumption in an affluent society, like Singapore. In addition, there will be inflow of tourists who will raise demand for export services as they raise expenditures at these new resorts. Consequently, this will stimulate the economy as more hotels and other forms of investment are made in the service industry to support the demand for such services brought about by the opening of the Integrated Resorts (IRs). Besides, government expenditure will increase as there is a high degree of building of public infrastructure to support the development of IRs. Therefore, the increase in aggregate demand will induce an increase in the real Gross Domestic Product (GDP) via the multiplier effect, implying that there will be a short-term economic growth.

 In the multiplier process, the initial increase in aggregate expenditure expands the circular flow of income and then increases the income of factor earners, which will further expand the circular flow of income with new consumption activities. As long as more consumption activities are made, circular flow of income will continue to expand at the respective level of economic activities until the withdrawal effect is equal to the initial injection, which will cease the expansion of circular flow of income. Consequently, the national income will increase by several folds, depending on the value of the multiplier which is determined by the sum of the MPW (Marginal Propensity to withdraw - MPS + MPT +MPM).

Y1=Y2=YF

Real GDP

GPL

AS0

AD2

AD1

AD0

Y0

P1

P2

P0

 As seen from the diagram, the rise in aggregate demand will lead to a rise in real GDP from Y0 to Y1, indicating that there is short-term economic growth.

 However, there are certain factors that will impede this growth. Firstly, the extent of growth brought about by the IRs depends on their ability to increase aggregate demand compared to other industries. As Singapore’s main contribution comes from manufacturing, finance and pharmaceutical, the negative from these industries may undermine the contribution of the two industries to the short-term of economic growth.

 Besides this, the value of the multiplier will limit the short-term economic growth as there is a lower degree of expansion of the circular flow of income by the injection brought about due to a higher level of withdrawal, seen in terms

 of high marginal propensity to save (MPS) and marginal propensity to import (MPM). The value of MPS is high as there is compulsory CPF saving scheme while the value MPM is high as there is a high degree of reliance on import due to our lack of resources.

 Thirdly, the condition of high commodity prices and rising wage control will also impede the growth of real GDP as the rising cost condition will reduce the production, undermining the degree of production of services from these industries. (the amount of increase in real GDP is limited by the availability of resources when the economy is near full employment)

Furthermore, production is at full employment level, which will induce an increase an increase in nominal gross domestic product but no real increase in actual production level. The increase in aggregate demand from the two integrated resorts will only raise the price level without any increase in production due to a limited capacity of production. Under such circumstances, the growth of the real GDP will be limited in the short term.

Lastly, the exchange rate will also be a key factor that undermines the contribution of the two IRs towards attaining short-term economic growth as an appreciation of the exchange rate will raise the price of tours to Singapore. A fall in number of tourists visiting Singapore due to higher price of tour will reduce the demand for types of services from the service-related industry and thus, lowering the value of aggregate demand.

Conclusion

In sum, the various factors identified have shown that the short-term economic growth attained through the integrated resort industry may be hampered. Therefore, it is imperative that policies are introduced to ensure that these factors would not surface to undermine the beneficial contributions that can be reaped from the IRs.

**Essay Question 5**

**“There are several potential risks to Asia’s outlook: Unrest in the Middle East has caused oil prices to soar and the weaker growth in advanced economies could potentially affect Asia through the trade channel.”**

**Explain how the events mentioned may have an impact on Singapore’s economy. [10]**

**Introduction – state the likely areas of impact – 4 aims of the government**

**Main body**

1. **How it will affect trade balance**
2. **How it will affect the AD and As**
3. **How it will affect economic growth**
4. **How it will affect employment and price stability**
5. **Anlysis – key determinants of this impact**

**Conclsuion**

Introduction

 The explanation of the impact of the above events can be known the AS-AD analysis where there will be an impact on Singapore’s external equilibrium, price stability, economic growth and employment.

Main Body

**1) Explain how the above events will worsen our balance of trade / balance of payment**

 The rise in price of oil caused by unrest in Middle East will lead to imported inflation which will raise the total value of import expenditure, given that the demand for oil is price-inelastic. On the other hand, the export revenue will fall as there is a reduction in export demand since the economic downturn in advanced economies will lower their disposable income, cutting down on expenditure of foreign goods. The bleak economic condition will also mean that the foreign investment will decline as there is lesser profit from the MNCs to invest and there is lesser international demand.

**2) Explain how the events will lead to inflationary condition and a fall in real GDP**

 As stated, there is an increase in price of oil which will contribute to rising cost of production, reducing the aggregate supply to induce price of goods and services as there is an excess demand condition. Rising price of oil will also induce an increase in the cost of living which will influence trade unions to raise demand for higher wages, contributing to price-wage spiral.

**3) Explain how these events will lead to reduction in real GDP/employment**

 The reduction in export demand and subsequent reduction in foreign direct investment will have severe impact on the real GDP as it will lead to a fall in aggregate demand. This will lead to a fall in real GDP via the reverse multiplier process. In the reverse multiplier process, the initial reduction in the aggregate demand will contract the circular flow of income and at every stage of the reduction in income, there will be leakages or withdrawals which will further reduce the income for spending at the subsequent stage of transaction. This will continue until the initial reduction in aggregate demand is equal to the sum of withdrawal effect, which is determined by the marginal propensity to withdraw and thus, the value of real GDP will reduce several folds, depending on the value of the multiplier determined by the sum of MPS, MPT and MPM.

**4) Draw diagram and description of the diagram**

**(↓AD and ↓AS 🡪↓AD>↓AS)**

AS

GPL

P1

AD0

P0

AD1

Real GDP

Y­1

Y­0

 As seen from the diagram, the reduction in aggregate supply from AS0 to AS1 is greater than the reduction in aggregate demand from AD0 to AD1, contributing to a rise in price from P­0 to P1, leading to a fall in real GDP from Y0 to Y1, creating a condition of stagflation.

Conclusion

 In conclusion, it can be seen that the impact on Singapore’s economy is quite extensive, given our high reliance on external demand for production and consumption, where trade is 4.5 times of our GDP and there is high MPM and domination of FDI.