**Essay Question 1**

**Singapore is experiencing sluggish economic conditions. In addition, foreign worker levies will go up across the board from July 2014 and it will affect some businesses more than others.**

**Discuss how a rise in foreign worker levy and sluggish economic conditions will impact the various markets for goods and services in Singapore. [25]**

Analysis - For this question, students need to identify:

* Low income growth in Singapore - Demand-side factor (Income), Normal and Inferior good
* Increase in costs of production for companies employing foreign labour - Supply-side factor (COP, Govt policies)
* Need to classify the various types of goods and services based on normal and inferior good
* Analyse the extent of impact on total revenue

Introduction

Both the sluggish economic conditions and the increase in levies can affect the markets of consumer and producer goods in Singapore. This is because the two events which will change the demand and supply of the goods in the various markets. This will be explained by the demand and supply analysis and the concepts of PED and YED.

Main Body

1. Define demand and supply, and the price mechanism, by using a diagram to illustrate
2. Explain how the various types of markets are classified based on normal and inferior good, and how they will determine the price elasticity of demand for both types of goods

decline in income – decrease in demand for normal good / increase in demand for inferior

value of PED

– proportion of income spent on the good is large – PED is price elastic

* + proportion of income spent on the good is small – PED is price inelastic

1. Explain the impact of sluggish economic conditions on demand of goods and services in Singapore (decline in income – impact on price and qty)

* When good is normal, there is decrease in demand, this will lead to decrease in price and output of the market, and total revenue will decrease
* When good is inferior, there is increase in demand, which will lead to increase in price and output, hence total revenue increase

3a) Draw and describe diagram for normal good

3b) Draw and describe diagram for inferior good

4) Explain the impact of increase in foreign worker levies on the supply of goods and services in Singapore - higher levies may decrease the supply (supply-side factor due to higher costs of production – increase in price of the good

4a) The impact on good when the demand is price elastic, hence total revenue decrease when price increases and output decrease less than proportional to increase in price of the good

4b) The impact on good when the demand is price inelastic, hence total revenue decrease when price increases and output decrease more than proportional to increase in price of the good

5) Draw and describe diagram when the demand is price elastic

6) Draw and describe diagram when the demand is price inelastic

7) Evaluate the extent of impact on price and quantity of the various markets in Singapore that is due to the differing elasticities of demand

Conclusion

The impact of the various markets in Singapore can be affected from the sluggish economic growth and rise in worker levies. However, the extent of increase in price and reduce in quantity is dependent on the elasticities of the demand for the types of goods.