**Question 2: What happened in the Eurozone and Singapore?**

**Figure 1: Average exchange rate of Singapore Dollar (SGD) to Euro (€), 2015 to 2018**

Source: www.statista.com, accessed on 30 July 2019

**Table 3: Selected statistics for the Eurozone1, 2015 to 2018**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2015** | **2016** | **2017** | **2018** |
| GDP growth (annual per cent) | 2.1 | 1.9 | 2.5 | 1.9 |
| Inflation rate (annual per cent) | 0.19 | 0.24 | 1.54 | 1.76 |
| Unemployment rate ( per cent of total labour force) | 10.8 | 10.0 | 9.0 | 8.2 |
| Budget balance ( per cent of GDP) | -2.0 | -1.6 | -1.0 | -0.5 |
| Gini Coefficient | 0.308 | 0.307 | 0.305 | - |

1The Eurozone consists of 19 members who are EU members and use the euro. They are Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

Source: Various

**Table 4: Selected statistics for Singapore, 2015 to 2018**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2015** | **2016** | **2017** | **2018** |
| GDP growth (annual per cent) | 2.9 | 3.0 | 3.7 | 3.1 |
| Inflation rate (annual per cent) | -0.52 | -0.53 | 0.58 | 0.44 |
| Unemployment rate ( per cent of total labour force) | 3.8 | 4.1 | 3.9 | 3.8 |
| Budget balance ( per cent of GDP) | -0.6 | -0.5 | 0.5 | -1.1 |
| Gini Coefficient | 0.435 | 0.458 | 0.459 | 0.458 |

Source: Various

**Extract 5: Eurozone grows at fastest pace for 10 years**

The Eurozone grew by 2.5 per cent in 2017, the fastest growth rate since a 3 per cent rise in 2007. Investec economist Ryan Djajasaputra said much of the growth had been driven by the Eurozone's core four economies: Germany, France, Italy and Spain. He attributed the strength of the Eurozone to the European Central Bank's (ECB) stimulus policies. The quantitative easing (QE) programme cut interest rates in the Eurozone to zero by expanding its money printing programme to revive the economy and fend off deflation. Also, he said confidence had been hitting record levels since the crisis years in the Eurozone and unemployment was down to pre-crisis levels.

Sarah Hewin, chief economist at Standard Chartered, said: "Activity is being supported by strong global growth, which is helping European exporters. In terms of domestic factors, rising wages, low inflation and record-level employment are driving consumer spending; meanwhile, investment is rising, helped by strong profitability and buoyant confidence." However, while she expected Eurozone economic growth to stay strong, “higher energy prices and a stronger euro may be headwinds to growth this year”.

Source: www.bbc.com, 14 February 2018

**Extract 6: Eurozone unemployment rate falls but youth unemployment rate remains high in some member countries**

The unemployment rate in the Eurozone has fallen to its lowest since February 2009. Last month, Greece has the highest rate of unemployment in the Eurozone at 21.7 per cent, and also the highest rate of youth unemployment at 45.5 per cent. The second highest unemployment rate was 17.1 per cent in Spain, which was down from 19.9 per cent a year earlier. Spain also had the second highest level of youth unemployment among 15-24 year olds at 39.2 per cent. Across the region, youth unemployment rates are higher for those who have less education. “The longer that somebody is unemployed, the more likely they are to become discouraged, miss out on opportunities to develop skills and drop out of the labour force,” said Jessica Hinds, European economist at Capital Economics.

Sources: www.bbc.com, 31 July 2017,

and Business Insider Singapore, 9 November 2017

**Extract 7: European labour market reforms: A two-handed approach**

In 1985, European unemployment was double-digit, youth unemployment was high in many countries, and long-term unemployment was increasing. At that time, a group of distinguished economists advocated that policies to lower unemployment must be two-handed – they “must act on supply (on structure) at least as much as on demand; otherwise, gains will be temporary at best and may in fact worsen structural problems”.

Thirty years later, aggregate unemployment remains high (though lower than two years ago). Youth unemployment and long-term unemployment are alarmingly high in some countries. Is it time to revive the two-handed approach? And will it work in a world of economic and monetary union and greater global capital and labour integration?

Source: Centre for Economic Policy Research, 5 December 2016

**Extract 8: Technological disruption may push up unemployment rate**

Singapore's labour market faces challenging times ahead, and not just because of the slowing economy. The lacklustre sentiment has stunted job creation and prompted a wave of layoffs in the hardest-hit sectors. Also, the Monetary Authority of Singapore (MAS) said skills mismatches in the labour market are rising due to the unrelenting technological changes that leave old skills outmoded. The Singapore economy is increasingly moving towards higher value-added, niche sectors – such as medical technology and data analytics – in a bid to maintain its competitive edge. These provide good jobs, but require specialised skills that most retrenched PMETs (professional, managers, executives and technicians) do not have and may take a while to acquire.

More than just a loss of financial security, retrenchment can have a knock-on effect on mental health and well-being too. Middle-aged to older adults tend to be more susceptible to job-related anxiety as they worry that it is too late to start over or re-train themselves. To adapt, workers can keep a lookout for opportunities to deepen and extend their own skills, said SIM University economist Walter Theseira. “It is going to be very hard for the Government or employers to force workers down a particular skills pathway, because everyone has different abilities.” He also suggested that policymakers aim to ease this "adjustment burden" to the firms by subsidising wage costs.

Source: *The Straits Times*, 28 October 2016

**Extract 9: Singapore well-placed to weather uncertainties but government ready to step up support**

With a strong fiscal position and restructuring of the economy, Singapore is well-placed in the weakened global economy, said Trade and Industry Minister Chan Chun Sing. Nevertheless, the Government is closely monitoring all economic developments and stands ready to step up support for companies here, he said. Noting that the global economy has weakened, the minister pointed to the US-China trade dispute and Brexit as key uncertainties. Singapore’s open and trade-reliant economy logged its slowest growth in nearly a decade during the first quarter.

Given the external challenges, MAS said the Singapore economy will turn towards domestic drivers for growth such as higher government spending on research and technology. The country must constantly refresh its offerings to businesses and investors so as to seize new opportunities such as additive manufacturing which is being created in the field of advanced manufacturing. In addition, the Government tries to provide a skilled workforce that continues to take up training. As digital trade is also a key driver of Singapore’s future economic growth, Mr Chan said Singapore will keep advocating for an integrated and global digital economy by co-developing international trade rules in this area.

Source: www.channelnewsasia.com, 8 July 2019

**Questions**

**(a) (i)** With reference to Figure 1, state what happened to the average exchange rate of the Singapore Dollar between 2015 and 2018. [1]

**(ii)** With the aid of a demand and supply diagram, explain one possible reason for the change observed in (a)(i). [3]

**(b)** To what extent can it be concluded from Table 3 that the standard of living in the Eurozone in 2018 is better than in 2015? [7]

**(c)** With reference to Extract 5 and using AD/AS analysis, explain and comment on how “higher energy prices and a stronger euro may be headwinds to growth this year”. [8]

**(d)** With reference to Extract 8, identify and explain the main types of unemployment in Singapore. [6]

**(e)** Explain the impact of higher unemployment on employees, the government and the economy. [8]

**(f)** Discuss the extent to which a government from the Eurozone should adopt the policies implemented by the Singapore government to achieve both economic growth and a low rate of unemployment. [12]

[Total: 45]