**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*

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

(b) Assess the view that a higher rate of economic growth is always beneficial for an economy. [15] (ACJC Q4)

**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] (MJC Q4)

**Essay Question 3**

*Domestic factors are likely to play a bigger role in driving inflation higher and this has led some analysts to question the effectiveness of the Monetary Authority of Singapore’s (MAS) use of exchange rate policy to manage inflation.*

*Adapted from the Business Times, 22/03/2012*

(a) Explain how inflation can be caused by domestic factors. [10]

(b) Discuss whether monetary policy is the most effective policy to manage inflation in Singapore. [15] (NJC Q1)

**Essay Question 4**

The price of oil jumped and hit a new high of US$135 a barrel on 26 May 2008 and it is likely that global food and oil prices would remain high in 2008. In addition, the jobless rate in the USA was at a 26-year high on 5 Dec 2008.

*Sources: Asiaonenews, 26 May 2008 and The Straits Times, 5 Dec 2008*

(a) Explain the causes of stagflation in the USA. [8] (AJC Prelim 2010 Q5)

**Essay Question 5**

(a) Explain the relative importance of factors that enhance economic growth in Singapore. [12] (JJC Prelim 2010 Q4a)

**Essay Question 6**

'The people in United States are weathering the economic storms of stagflation, fueled by rising oil and food prices, and intensifying housing and credit problems.'

*Adapted from Worries grow for worse stagflation', Associated Press, 26 Feb 2008*

(a) Explain the economic problems faced by the United States. [10] (NYJC Prelim 2010 Q4a)

**Essay Question 7**

"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*

(a) Explain possible factors that may limit the effectiveness of the integrated resorts in generating short-term economic growth in Singapore. [10] (TPJC Prelim 2011 Q4a)

**Essay Question 8**

Singapore government supply-side policies have created a more dynamic and flexible labour market. Between 2003 and 2010, unemployment fell from 4.0% to 2.1% but inflation rate rose to 2.8 %.

(b) Discuss whether the Singapore government should ever be concerned about the economic consequences of falling unemployment. [15] (MJC Prelim 2011 Q4b)

**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***

**(a) Explain the impact of hosting a major world sporting event on the different types of employment in an economy. [10] (ACJC Q4)**

hosting of a major world sporting event – an economic activity that will affect the various ad components and thus affect real GDP – impact on the types of unemployment

economic activity – affect AD – via k – affect real GDP – affect production – increase in demand for labour – solve unemployment (demand deficient unemployment)

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 terms 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.**

how the events affect the various ad components – affecting production then employment

draw diagram / description of diagram

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 skills 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.

As seen from the diagram, the increase in aggregate demand from Ad0 to AD1 will raise the real GDP from Yo to Y1 and the rise in GPL from Po to P1. This will imply that there is an increase in production which will demand for more labour and thus, solving the demand-deficient unemployment.

**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***

**(b) Assess the view that a higher rate of economic growth is always beneficial for an economy. [15] (ACJC Q4)**

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)

Main Body

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

### Higher Standard of Living

* + - 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.

### Encourages Investment

* + - A stable level of economic growth increases firms and consumers 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]**

analyse – make analysis based on significance of the causes of economic growth

* how important is the cause in determining economic growth.

Introduction

* Define economic growth
* Economic growth refers to the growth of the production in terms 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)
* 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

Main Body

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

1. **Availability of resources** - it will determine the resource and production 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

significant – determines the country’s cost competitiveness, the advantage in producing the products within specified time periods

* china – presence of rare earth and willingness to extract them – have a control in the semi-conductor industry – very competitive – use this industry as a base for economic growth
* determine the areas of 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
* raise the efficiency of the production- help to accelerate the economic growth
* can promote high-valued industries – benefit – high economic growth rate, high valued employment , increase comparative advantage (raise competitiveness)

1. **Availability of skillful workers** - The availability of skillful 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
* ensure that the production is of certain quality, determine cost competitiveness
* high-valued employment – high wage rate – raise the consumption components – raise Real GDP – promote economic growth and SOL

1. **Entrepreneurship** - The influence of entrepreneurship on the growth of the economy is seen in terms of the capacity of entrepreneurs in identifying 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
* determine the innovation of industries
* determine the efficiency of the organization of the production
* both will determine the rate of economic growth

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] (MJC Mid Year 2012 Q4)**

**- How focus on economic growth will lead to inflation (increase in ad – demand pull inflation)**

**- why it will not be (sustainable Economic growth)**

Introduction

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

Main Body

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

* greater production to lower unemployment
* higher current and future SOL
* more tax revenue – to finance the operation of the economy
* to help the lower income group and dampen the negative effects of unequal distribution of income and wealth

**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. (overheating of the economy – excessive rise in AD – rising cost condition /full employment)

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

Poo0

As seen from the diagram, the rise in AD from AD0 to AD1 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 sustainable 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 policy*

*infrastructural development policy*

Conclusion

**Essay Question 3**

***Domestic factors are likely to play a bigger role in driving inflation higher and this has led some analysts to question the effectiveness of the Monetary Authority of Singapore’s (MAS) use of exchange rate policy to manage inflation.***

***Adapted from the Business Times, 22/03/2012***

**(a) Explain how inflation can be caused by domestic factors. [10] (NJC Q1)**

Introduction

* Definition of inflation
* Meaning of domestic factors that will contribute to inflationary condition
* Implies that these factors have their influence from the domestic aspect but will also contribute to excessive increase in aggregate or reduction in aggregate supply, creating and excess demand condition that will lead to inflation

Main Body

**1. Explain how the domestic factors will lead to demand-pull inflation**

-Explain how demand-pull inflation occurs (Economic causation/diagram/description of diagram)

### Demand-Pull Inflation

* + - This occurred 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.**

Y2=Y3=YF

Real GDP

GPL

AS0

AD3

AD2

AD1

AD0

Y1

Y0

P2

P3

P1=P0

* + - As seen from the diagram, the rise in AD from AD₀ to AD₃ will lead to inflation (rise in price level) when the economy is experiencing rising cost condition from Y₁ to Y₂ or it is at full employment at Y₂=YF
    - Rise in AD is mainly contributed by excessive ↑ in Xd/FDI or rise in local consumption and government expenditure

-Identify the domestic factors that will lead to demand-pull inflation

→Raise income

→Decrease interest rate

→Population growth

**2. Explain how the domestic factors will lead to cost-push inflation**

-Explain how cost-push inflation occurs (Economic Causation/diagram/description of diagram)

Cost-Push Inflation

* + - Caused by a rise in cost of production, which can be due to an increase in unit labour cost or an increase in cost of raw materials. The increase in cost of production will lead to a reduction aggregate supply, contributing to a shortage or excess demand condition leading to increase in price level.
    - There are two ways which cost-push inflation can develop, namely the wage-price spiral and price-wage spiral
    - **Wage-price spiral** happens when powerful union demands for higher wages but is not matched by a corresponding higher increase in productivity. It leads to higher prices and inflationary pressures. Higher prices then lead the unions to again demand higher wages, and the spiral continues.
    - **Price-wage spiral** happens when big business corporations increase price to increase their profit margin. Cost of living rises and unions may ask for higher wages to make up for loss of living standards. Cost of production and prices eventually will rise.

AS₀

GPL

Real GGGDP

P₁

P₀

Y₁

Y0=YF

AD₀

AS₀

AS1

🞹 As seen from the diagram, the rise in cost of production will lead to a fall in aggregate supply from AS0 to AS1 which will create an excess demand condition at P0 which will prompt the rise in price from P0 to P1

This diagram is used to explain how cost-push inflation can be affected by structural rigidities, asset-based inflation, imported inflation and tax-based inflation

* + - The rise in cost of production due to rise in wages or cost of resources (all other reasons that affect COP will lead to rise in COP like imported inflation) will cause a leftward shift of the AS from AS₀ to AS₁, which means that there is an excess demand condition at P₀ and thus inducing rise in price level from P₀ to P₁. While the real GDP falls from Y₀ to Y₁ (no change in potential capacity – YF remains the same)

Identify the domestic factors that will lead to cost-push inflation

→Rise in wages/core items in cost of living index

→limited resources

→infrastructural rigidities

Conclusion

**Essay Question 3**

***Domestic factors are likely to play a bigger role in driving inflation higher and this has led some analysts to question the effectiveness of the Monetary Authority of Singapore’s (MAS) use of exchange rate policy to manage inflation.***

***Adapted from the Business Times, 22/03/2012 (using money supply to influence interest rate\_***

**(b) Discuss whether monetary policy is the most effective policy to manage inflation in Singapore. [15] (NJC Q1)**

If the question asks for **Singapore exchange rate monetary policy** – it refers to exchange rate policy (using money supply to influence exchange rate)

Introduction

To control inflation with monetary policy, a contractionary monetary policy is adopted involving the reduction of money supply and the raising of interest rate to reduce aggregate demand so to clear the excess demand condition so to dampen inflation.

Main Body

* + 1. **Explain how contractionary monetary policy is used to curb inflationary condition**

(reduce MS – raise interest rate – increase cost of borrowing – decrease C & I – decrease AD – reverse multiplying effect – decrease price)

diagram- only needs to show the AD – AS diagram

* + 1. **Explain the limitations of the contractionary monetary policy**
* The inability of the central bank to control money supply – liberalization of the banking sector undermining the use of monetary tools
* The presence of inelastic MEI and interest inelastic consumption

increase in interest rate -small percentage reduction in I and C

(inelastic MEI for SG – Investment in SG is dominated by FDI which is not influenced by local interest rate)

* The small value of k

Due to the inadequacy of the contractionary monetary policy, other policies may be used to curb inflation

* + 1. **Explain how Fiscal Policy is used to curb inflation**

Decrease G – decrease AD via K – decrease nominal NY and P

Increase taxes – decrease disposable income – decrease consumption – decrease AD

Increase corporate tax – decrease profitability – discourage investment – decrease AD

- both via K – decrease in nominal NY and price level

* + 1. **Examine the effectiveness of the Fiscal Policy**
* Contractionary fiscal policy is effective in controlling inflation as it can dampen consumption by lowering the purchasing power effectively and discourage excessive investment by raising tax to make it less profitable. At the same time, the reduction in government expenditure will help to prevent the excessive demand for the resource when the government cuts down the building of infrastructures. Such an approach is more effective than contractionary monetary policy as it is more direct and impactful.

**Why government will not use FP?**

cannot cut government expenditure – cannot stop public projects and public expenditure

**5) Explain the use of price and wage control**

To set price ceiling and prevent the wage cost and cost of living from rising to lead a cost-push inflation. For SG, NWC will help to recommend wage increment to contain the cost competitiveness while other measures like stock-piling, appreciation of S$ is used to contain imported inflation which will affect cost of production)

Effectiveness

It depends on whether the inflationary condition is due to cost-push factors and the ability to government to impose control (ability to work with the trade union) but the use of price and wage control can help to prevent a wage and price spiral.

**6) Explain how the government can use SS-side management to increase AS**

The government can introduce policies to increase production capacity by increasing productivity (Increase AS (lower COP), better utilization of resources and inducement for greater investment. (expansion of resource or production capacity – rightward shift of AS)

Manpower Policy

Infrastructural development

Research and Development

Effectiveness

Depends on the effectiveness of the public administrative system and the availability of resources and financing to implement the programmes but the effective planning will help to expand the resource capacity to ease the condition of rising cost condition which will prevent inflationary condition.

**7)Explain how the exchange rate policy is used to curb imported inflation**

Appreciation of the exchange rate will allow the government to decrease the price of imports (Appn – reduce the PM in local value) but this policy depends whether there is extensive capital inflow.

Very effective for countries which depend on foreign sources of supply of resources as in the case of Singapore we are import dependent due to our lack of resources and small size of economy. Although it is often criticized that it will raise the price of export of Singapore, undermining our export competitiveness.

Conclusion

**Essay Question 4**

**The price of oil jumped and hit a new high of US$135 a barrel on 26 May 2008 and it is likely that global food and oil prices would remain high in 2008. In addition, the jobless rate in the USA was at a 26-year high on 5 Dec 2008.**

***Sources: Asiaonenews, 26 May 2008 and The Straits Times, 5 Dec 2008***

**(stagflation – increase in GPl and a fall in real GDP -decrease in real output)**

**(a) Explain the causes of stagflation in the USA. [8] (AJC Prelim 2010 Q5)**

Introduction  
Definition of Stagflation - An inflationary condition contributed by rising cost of production, which contributes to stagnation or reduction in economic activities. Based on the pre-amble, it can be observed that USA is experiencing stagflation due to rising oil and food prices while there is reduction in economic activities seen in terms of rising unemployment

Main Body

1. **Explain how the rise in price of oil and rise in global food prices will lead to cost-push inflation**

Rise in price of oil will lead to rise in cost of production which will reduce the aggregate supply, creating an excess demand condition that will contribute to rise in price of goods and services. The rise in price of goods and services will raise the cost of living, prompting trade unions to raise their wage to curb the rising cost of production. This will bring about price-wage spiral. The inflationary condition will lead to reduction in output as well.

1. **Explain how the high jobless rate will lead to stagnation or reduction in economic activities**

High jobless rate would imply high level of unemployment, which will reduce the disposable income of the consumers. As such, this will lead to a fall in consumption. The decrease in consumer market will mean lower level of aggregate demand, which will reduce the injection of investment as there is a weaker market demand in the economy. Consequently, a fall in aggregate demand in the economy due to the pessimistic market condition will lead to stagnation or reduction in economic activities.

1. **Draw diagram and explain how stagflation will occur (AS-AD diagram)**

AS0

GPL

P1

P0

AS1

AD0

AS0

AD1

Real GDP

Y0=YF

Y1

Description of Diagram – (decrease in AS > decrease in AD)

As seen from the diagram, the decrease in aggregate supply from ASo to AS1 is greater than the decrease in aggregate demand from Ado to Ad1, contributing to a shortage condition at Po. Consequently, there will be an upward pressure which will cause a rise in GPL from Po to P1 and a fall in real GDP from Yo to Y1, indicating that the economy experiences stagflation.

1. **Evaluation**

**Economic stagnation is the result of the absence of market confidence**

**cost condition depends on the availability of resources / high wage cost**

Conclusion

**Essay Question 7**

**"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***

1. **Explain possible factors that may limit the effectiveness of the integrated resorts in generating short-term economic growth in Singapore. [10] (TPJC Prelim 2011 Q4a)**

**how the activities affect AD**

**how this will affect real GDP (via the k)**

**identify the factors that will affect the effectiveness**

introduction

definition of short-term economic growth – actual growth  
the EG can be seen from the concept of AS-AD

main body

1. explain how the project will raise AD -lead to short economic growth  
1.1 causation – how the ad will increase real GDP via k

1.2 diagram

1.3 description of diagram

2. Identify and evaluate the factors that will affect the actual growth

3. Analysis – what is the key factor

Conclusion

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 various AD components 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 n 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

AD 1 to AD2 – for evaluation – to show the full employment condition or the availability of resources is one factor that affect real GDP growth

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. First, 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 RETURN 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 term 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.

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.

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 10**

***“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.”***

1. **Explain how the events mentioned may have an impact on Singapore’s economy. [10]**
2. **explain how the above events affect the AD components (FDI and Xd) / how it affects the cost condition (stagflation)**
3. **how it affects the various aspects of the economy – aims of government**

**points to take note:**

* **impact on AD components**
* **impact on Real GDP (actual economic growth)**
* **Impact on growth of the economy – actual and potential**
* **Impact on Singapore economy – aims of government**

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 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 sum, 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.

**(b) Discuss whether fiscal policy is the most effective policy to achieve sustained economic growth in Singapore. [15] (NJC Q1)**