**Types of graphs for Macroeconomics**

1. Explain how actual growth is attained with increase in AD / increase in

As seen from the diagram, the rise in aggregate demand from Ado to AD1 and a rise in aggregate supply from AS0 to As1 leads to an increase in real GDP and a fall in GPL.

**Why Singapore cannot completely focus on economic growth despite its benefit**

**Consider the benefits of economic growth to Singapore**

1) Will create structural unemployment as our economic growth is based on our dynamic comparative advantage – constant needs to adjust the economic structure to enhance competitiveness – therefore, structural unemployment arises (sectoral adjustment, technological unemployment.)

2) Rising inflation – Excessive economic activities – rise in demand for more resources – cost-push inflation. Secondly, asset-based inflation due to increase in income, fuelled by speculation. Thirdly, misallocation of resources if the economic development is inappropriately delayed. – inflation occurs.

3) Unequal distribution of income and wealth. Structural unemployment will undermine the lower income group and less-skilled workers while excessive appreciation of assets will benefit the higher income group – widening income gap.

4) Economic growth may not lead to structural unemployment if growth is concentrated with high-yield industry which may provide for employments due to high degree of capital intensity and high technological skill requirement.

## **Concept of Sustained Economic Growth?**

* Sustained growth refers to the expansion of the actual production capacity without incurring excessive rise in cost condition.
* This is made possible by the increase in production capacity with corresponding expansion of the resource capacity.

Y1=Yf₀

Y2

Yf2

AS0

AS1

P₀

P₁

GPL

Real GDP

AD1

Y0

ADo

To achieve sustained economic growth, there is a need or 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 sustained economic growth is attained.

**Explain how supply-side policies like manpower development will lead to both increase in AS and rightward shift of LRAS?**

Manpower development will provide more skilled labour and then expand the supply of resources in term of supply of labour which will contribute to the rightward shift of the LRAS. At the same time, the efficiency of the industries will be raised, and this will raise the productivity of work and lower average cost of production, contributing to the increase in AS.

## Other Economic conditions that will contribute to sustained economic growth

## Obstacles to Economic Growth

* + - **Lack of financing** – low collection of tax revenue and reserve built up from previous budgets will mean less funds for the government to use to finance their projects.
    - **Lack of capable and efficient government bodies** to develop and implement plans to achieve the aims – the absence of manpower due to low salaried and poor manpower development in the government agencies will mean that policies are badly developed and executed. This shortage of efficient and capable manpower is also the result of brain drain in the economy. Furthermore, some governments are corrupted and thus this undermines the development of sound strategy that will benefit the society.
    - **Restraint of the economy** – small economy with deprived resources may find it hard to achieve the aims as the policies are constrained by the nature of economy such as the lack of resources to implement their plans. (E.g. size of population will undermine the economy from having a skilful working population)
    - **Constraints of the policies** – the policies are faced with certain inadequacies as a result of the unfavourable conditions. For example, Singapore’s demand management policies are not effective as we have a small multiplier effect, thus demanding a large change in aggregate expenditure to achieve the aims.
    - **Inability to control systemic factors** – Certain international political and economic events that may affect the country is beyond the control of the economy and the nation can only adapt but are incapable to remove the causes that will affect the development of sound policies.

**Explanation on how slow growth will occur**

Meaning of slow growth

When slow growth occurs, it implies that the economy has attained small percentage rise in economic growth around the rate of zero to 2 percent. This happens when the economy is near full employment condition and the production capacity is limited, forbidding large increase in actual production. It can also be due to small percentage increase in aggregate demand as the economy is restricted by economic constraint like absence of affluence and high public debt.

For developed economy, the base year GDP is high and incremental increase in the year may be considered as small percentage of growth rate. These countries are also constrained by limited capacity of production and need for economic development as the economy has reached saturated pace of economic development.

**Diagram on slow growth**

Impact of slow growth

**Concept of inclusive growth**

**1 Meaning of inclusive growth (definition)**

Inclusive growth is economic growth that is distributed fairly across society and creates opportunities for all.

**2 Means to measure inclusive growth**

**2.1 Gini-coefficient ratio-meaning**

The Gini index or Gini coefficient is a statistical measure of distribution of economic inequality, measuring income distribution or, less commonly, wealth distribution among a population. The coefficient ranges from 0 (or 0%) to 1 (or 100%), with 0 representing perfect equality and 1 representing perfect inequality.

**2.2 Employment**

The unemployment rate is another measure of inclusive growth. Inclusive growth requires the maintenance of full employment as the economy expands. If the economy grows while maintaining a high unemployment rate, it means that there is a widening income distribution as the high-income workers are receiving higher wages while the poor remain unemployed. As such, inclusive growth involves a reduction of the unemployment rate.

**2.3 Degree of economic diversification and integration**

We can also measure inclusive growth by the degree of the spectrum of industries in an economy. Inclusive growth involves developing a broad spectrum of industries, reducing the country’s dependence on one sector of the economy. Developing different industries also diversifies the structure of employment, provides more job opportunities for workers in the economy who have various skills suited for different industries.

Inclusive growth also involves deepening the depth of industries. A deeper depth of industries can also lead to a lower level of unemployment due to more job opportunities created in a single industry. For example, China has very large depth industries which provide many jobs in each industry. Around 100 million workers are employed in China’s manufacturing industry while its financial industry provides 2.28 million jobs. Having a deeper depth of industries will also increase the competitiveness of that industry.

A broad spectrum and large depth of industries increases the degree of economic distribution and incentive for growth, creating more employment in the economy.

**3 Significance of inclusive growth**

**3.1 Equal distribution of income**

Inclusive growth ensures that the fruits of economic growth are enjoyed not only by high-income workers but also low-income workers. As such, all workers in the society will experience a rise in their incomes, ensuring an equal distribution of income.

**3.2 Price stability**

Inclusive growth involves an increase in the productive potential of the economy, through manpower development or technological improvements. As such, this ensures that the price level does not inflate even as aggregate demand rises, ensuring price stability and sustained economic growth.

**3.3 Low unemployment**

Sustained economic growth stimulates the demand for labour, leading to the creation of jobs and reducing unemployment in the economy.

**3.4 Creation of an affluent consumer base**

Inclusive growth creates a large and affluent consumer base. When higher incomes are generated, consumers purchasing power will increase, causing an increase in consumption spending. This leads to consumption-led growth for the economy.

**3.5 Sustain competitiveness**

Inclusive growth can also help a country to sustain competitiveness in the international market. Having a wide spectrum of industries will enable a country to compete in a variety of markets. This can help the country to sustain its competitiveness in a developing world and ensures that the country is not limited to one industry only.

**3.6 Improved SOL (material and non-material)**

Inclusive growth can also lead to improvements in the country’s standard of living in both material and non-material aspects. With higher incomes, consumers are able to spend more on goods and services to improve their material SOL. Governments are also able to collect higher tax revenues and use the revenue to improve public provision of merit goods such as education and healthcare, and also improve public infrastructure. This will improve the non-material SOL where people are able to enjoy a more comfortable lifestyle with better public facilities.

**4 Measures to achieve inclusive growth**

**4.1 progressive tax plus subsidies**

To achieve inclusive growth, the government can introduce a progressive tax and subsidies for the lower-income group. A progressive tax is a tax that imposes a lower tax rate on low-income earners compared to those with a higher income, making it based on the taxpayer's ability to pay. The government can then use this tax revenue earned to give as subsidies to the lower-income group. This will help to distribute the economic benefits from economic growth and tackle the unequal distribution of income.

**4.2 expansionary FP/MP to raise employment**

Expansionary fiscal policy and monetary policy can also be introduced to raise employment. Expansionary fiscal policy involves an increase in government expenditure to increase aggregate expenditure directly through infrastructure development and provision of public services. Expansionary fiscal policy can also involve a tax reduction which increases disposable income and purchasing power, thereby increasing consumption spending and AD. Tax reduction also increases return to investment as there is lower tax on corporate earnings, which prompts businesses to increase their investment spending and increase AD.

An expansionary monetary policy on the private sector can also be implemented. This involves cutting interest rates in the economy which makes it cheaper to borrow. This encourages firms to invest and consumers to spend, which increases the overall demand in the economy.

These increases in AD will lead to the creation of more jobs and an increase in employment in the economy.

**4.3 supply-side policies focusing on infrastructural development (non-material SOL) /manpower development**

Supply-side policies concerning infrastructure and manpower development can also be introduced to enable economic distribution of wealth. The government can introduce supply side policies such as skills retraining and education to help to cultivate a more knowledgeable and skilled workforce. Skills development of workers overcomes the skill incompatibility and displacement of workers which helps low-income workers to break out of the cycle of low-paying jobs.

Infrastructure development involves building up new facilities will attract more investment and raise the productivity of the economy. When infrastructure is developed, it can reduce the immobility of resources which will increase the efficiency of industries and lead to economic growth and higher incomes. With better infrastructure, there is also an improvement in the non-material SOL due to increased convenience of life.

4.4 trade diversification for SG → overcome limitations of market dd → policy to focus high-valued employment → high wage → increase SOL

The Singapore government can adopt trade diversification to overcome the problem of limited market demand.

**4.5 investment-driven policies → increase AD/AS**

Investment-driven policies can be adopted to achieve sustainable growth by increasing AD and AS.

**Other types of growth**

**1. Inclusive growth**

- meaning of inclusive growth

- how is inclusive growth achieved

🡪 taxation + income redistribution

🡪 manpower training [raise income level of low-skilled workers]

🡪 infrastructural development [raise quality of life]

- why it is economic growth important to Singapore

**2. Government-based growth**

- implementation of infrastructural development and social policies like manpower development

- helps to build the facilities and amenities to support trade and investment – raises efficiency to promote trade and investment – smoothen trading and production activities

- help to improve the amenities for the people to raise their standard of living – make their lives more comfortable and convenient

- may induce employment at this early phase of economic development – setting foundation of growth

**3. Export-driven economic growth**

- meaning of export-driven growth

- benefits of export-driven growth

- hindrances that undermine export-driven growth

**4. Consumption-driven growth**

Meaning of consumption-driven growth

(Link to Us and developed nation)

- how is consumption driven growth attained

- factors that will affect the effectiveness of consumption driven growth

-benefits of consumption driven growth

- benefits of consumption driven growth

**Question for discusssion**

Consider the significance of investment-driven growth. (10)

1. Explain why recession and deflation occurs because of the fall in Aggregate Demand and decrease in supply (decrease in AD is greater than AS
2. Explain how the human capital affect the actual and potential growth.
3. **Explain how actual growth and potential growth are affected by growth in the youth employment**
   1. – how youth employment leads to increase in aggregate supply
   2. – how youth employment leads to increase in aggregate demand (and other AD components)
   3. Draw diagram
   4. Description of diagram
   5. Analysis of the impact
4. Explain how the elderly retirement of population would affect actual and potential growth (6)
5. Explain how accelerated growth be attained in an export-oriented economy

Questions for discussion

CSQ 1

**Table 2: Gross Domestic Product (GDP) data of selected economies in 2017**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | GDP per capita using market exchange rate (US$) | GDP per capita using PPP1 (US$) | Household consumption expenditure  (% of GDP) | Government expenditure  (% of GDP) | Gross Fixed Capital Formation2  (% of GDP) |
| China | 8,759 | 14,150 | 37.7 | 15.9 | 42.9 |
| India | 1,950 | 6,149 | 58.8 | 10.8 | 28.4 |
| Singapore | 60,297 | 93,981 | 35.9 | 10.5 | 26.4 |
| Thailand | 6,729 | 17,781 | 47.7 | 16.0 | 22.7 |
| United Kingdom | 40,424 | 45,988 | 65.0 | 18.7 | 17.2 |

1PPP refers to Purchasing Power Parity

2Gross Fixed Capital Formation refers to Gross Investment Expenditure

Source: World Bank, Purchasing Power Parities & the Size of World Economies, 2020

**Extract 4: China consumers squeezed in 2018 as income gains slow, living costs rise**

Growth in disposable income slowed in China last year while living costs rose, highlighting the increasing strains Chinese households are facing as the economy cools. Beijing is counting on the nation’s vast consumer base to cushion the broader slowdown, but as the outlook grows more clouded, Chinese are tightening their belts, buying fewer cars, electronics and home appliances.

Disposable income per capita rose 6.5% last year, slowing significantly from the 7.3% for 2017, according to data published by the National Bureau of Statistics. At the same time, consumption expenditure rose 6.2% with the jump largely coming from higher healthcare and living expenditure while the spending on food and clothes decreased.

Source: [*www.reuters.com,*](http://www.reuters.com/) *28 February 2019*

**Extract 5: Why slower growth makes sense for China**

The slowdown in China has been the main culprit for the recent market panic, but against the backdrop of economic challenges and ongoing trade conflicts, China’s circumstances are manageable. Its transition away from exports toward a service-oriented, consumer economy to leverage on the growth of its rising middle class is creating concerns due to the resulting growth deceleration, but it is a necessary step for achieving sustainable levels of growth.

Without rebalancing, overcapacity in industry would only get more severe, worsening issues of pollution and the environment. At last, there are glimmers of hope. Export growth has halved in recent years but consumption growth has held steady. In future, as China’s growth slows further, consumption should contribute a bigger share of it. Still more important is a change in economic structure. Services took over from industry a couple of years ago as the biggest part of China’s economy and just last year, services accounted for 48.2% of output. Services are more labour- intensive, which brings about two benefits. First, China is now able to generate many more jobs at lower levels of growth and though growth dipped to its slowest in more than two decades last year, China created 13.2 million new urban jobs, an all-time high. Second, the strong jobs market has allowed wages to keep on rising at a steady rate, a prerequisite for getting people to consume more.

But even at a slower 5% economic growth pace over the long term, China will still account for 30% to 40% of global GDP growth, making it the world’s single largest growth engine behind the United States.

Source: *adapted from The Economist, 18 April 2015 and* [*www.forbes.com,*](http://www.forbes.com/) *1 April 2019*

**Extract 6: Public debt in emerging Asia creeps past 50% of GDP**

Government debt in emerging Asian economies hit 50% of gross domestic product in the third quarter of last year, according to estimates by the Institute of International Finance, in a trend that suggests a regional shift away from fiscal conservatism. Further increases in public debt, however, point to potential problems if the global economy takes a sudden turn for the worse. The next two years could be precarious, with some economists predicting slower growth.

"Entering a financial crisis with a weak fiscal position worsens the depth and duration of the ensuing recession, particularly in emerging-market economies," said Vitor Gaspar, director of the International Monetary Fund's (IMF) Fiscal Affairs Department.

While government debt in emerging Asia is creeping up, it remains low compared with Japan's 223.1% of GDP and 100.8% in the U.S. "The relatively low public debt gives the region more buffer against a potential global downturn, enabling policymakers to use expansionary fiscal policy to support demand," said Frederic Neumann, co-head of Asian economic research at HSBC. "In China, for example, the central government is increasingly stepping up its fiscal easing, with selected tax cuts for households and companies, something it can afford given the relatively low level of public debt," Neumann said.

"The East Asian region has typically been prudent when it comes to the management of public finances," Hoe Ee Khor, chief economist at the Singapore-based ASEAN+3 Macroeconomic Research Office said. "As with any form of debt, high levels beyond sustainable thresholds could create vulnerabilities, and regional policymakers appear mindful of the risks." Concerns about China's rising debt levels are mirrored by worries elsewhere in Asia.

Rising public debt in Malaysia prompted Prime Minister Mahathir Mohamad to put the brakes on Chinese-backed port and rail projects while Sri Lanka handed control of the Chinese-funded Hambantota port to Beijing after it was unable to repay debts incurred in its construction and Pakistan was forced in October last year to approach the IMF for a bailout, in part due to debts taken on under the initiative.

1. Explain how consumption expenditure has risen in China despite a fall in spending on food and clothes as described in Extract 4.[2]
2. Explain **two** reasons in Extract 5 that might have fueled China’s transition from an export-led to a consumption-led economy.[4]
3. Discuss the impact of slower growth on a country’s standard of living of its people. [8]
4. Discuss the extent to which the level of debt in Asian economies will limit the effectiveness of their use of expansionary fiscal policy in tackling the ensuing recession. (10)

CSQ Q2

**Extract 6: Central banks in Asia are cutting rates to prop up their economies**

As the global economy threatens to slow down, central banks around the world have been slashing interest rates. But that alone may not be enough to boost growth, especially in some of Asia’s emerging markets. Instead, more government spending is needed to lift economic activity. Greater government spending, alongside lower interest rates, could more effectively spark growth at a time when business sentiments has been badly hit by the ongoing US-China trade fight.

**Extract 7: Policymakers in several East Asian countries are utilizing available fiscal space to address medium-term issues**

In the event of an external shock, most countries in the region have some degree of fiscal space to support domestic economic activity. Compared to other developing regions, fiscal positions in East Asia are relatively stronger. Over the past five years, fiscal deficits in the region averaged only 1.8 per cent, while the region’s public debt-to-GDP ratio is relatively low, amounting to 46 percent of GDP in 2017.

Source: World Economic Situation And Prospects, 1 July 2018

**Extract 8: Fiscal policy to rescue**

A growing number of countries in Asia are engaging in ambitious fiscal plans**.** India announced surprise headline corporate tax cuts from 30% to 22%. Indonesia is planning to cut corporate tax gradually from the current 25% to 22% in 2021 and 20% in 2023. Thailand announced a USD 10 billion stimulus package in 2019 aiming at spurring consumption among mid- to low- income earners.

With diminishing returns from cutting interest rates particularly as rates move deeper into negative territory, fiscal policy will be more effective in reviving growth. Implementing fiscal measures during a monetary easing cycle is also “less expensive” as borrowing costs as well as impact of fiscal expansion on debt sustainability are lowered.

Source: JP Morgan, BNP Paribas WM, 15 October 2019

Discuss the merits of fiscal stimulus as a complement to interest rate cuts to “spark growth” (Extract 6) in Asia’s emerging markets [8]

**CSQ 3**

**Extract 7: Eastern Economic Corridor**

A key component of Thailand 4.0 is the Eastern Economic Corridor (EEC), an area of more than 13,000 square kilometres straddling the three provinces of Chonburi, Rayong and Chachoengsao. The government has earmarked US$45 billion to build extensive road, rail, aviation and shipping infrastructure and assist in developing smart cities, which provide an efficient, self-contained environment for fostering production and innovation.

Thailand’s eastern coast enjoys strong connectivity to neighbouring countries and established trade routes. The existing Laem Chabang seaport, which is the largest in Thailand, will be expanded, so that Laem Chabang can be transformed into a marine hub. The connectivity by air will be enhanced once the U-Tapao airport in Rayong completes its expansion. With a new passenger terminal and runaway, the U-Tapao airport will be able to handle an increase in passenger capacity up to 3 million. This expansion will facilitate an increase in tourist arrivals as well as transforming the U-Tapao into a hub for air cargo and logistics.

In addition, the government has announced a major 50 per cent cut in corporate tax to investors in the three provinces over a period of five years, beginning in 2017. With the various improvement to the infrastructures and tax incentives, the government is adamant in attracting both domestic and foreign investments to boost development for Thailand.

Source: *ASEAN Briefing*, 10 May 2018

**Extract 8: Thailand ranked top 20 for FDI attractiveness**

Thailand has been improving the efficiency and transparency of government regulations, reducing corporate tax rates and providing further government incentives. Thailand's cabinet has approved 36 public infrastructure projects valued at around US$25 billion, all of which are open to bid by foreign investors as the government hopes to engage in public-private partnerships to fund these projects. In addition, the government has pledged about US$790 million of technological investment over the next five years in the areas of commerce, entrepreneurship, innovation and content.

High tech industries in any future Thailand 4.0 will be driven by highly skilled workers with degrees in engineering, computer science and the sciences. There has been a boom in the number of PhD programmes and students recently in Thailand, but the quality in these PhD programmes has suffered because there are not enough qualified instructors. Thailand has been plagued by labour shortages due to its overall greying society. Thai universities also often lack the skilled teachers to teach future skilled employees.

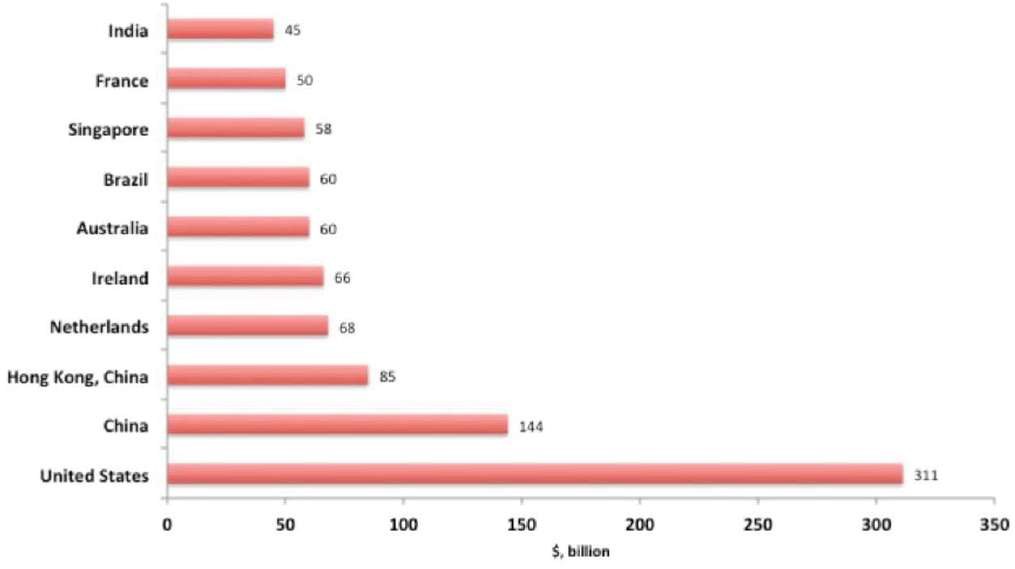
In contrast, the U.S. and other western countries have never had this problem because they have proactive immigration policies that attract the highest calibre of the high-tech world to their country. Singapore also attracts the best and brightest in high-tech from the world, including neighbouring ASEAN states such as Myanmar, to participate in its economy and become permanent residents. Thailand will never have such an opportunity because the country's immigration laws have never changed to attract world talent to the country.

Source: *Bangkokpost*, 19 April 2017

9757/01

**[Turn over**

**Figure 2: Top FDI destinations in 2017**



**a)**

**Discuss the extent to which the envisioned Eastern Economic Corridor will improve the balance of trade position for Thailand. [8]**

**b)**

**With reference to Extract 8, assess whether the lowering of corporate tax is the best policy to attract foreign direct investment to Thailand.[10]**

**CSQ 4**

**Extract 7: Japan’s Economic Growth Falls Sharply as Exports Slow**

Japan’s growth slowed to a crawl in the three months that ended in September, as a weakening global economy and trade conflicts threatened its fragile streak of economic expansion. Japan’s economy, the third largest after the United States and China grew at an annualized rate of 0.2 percent in the third quarter, according to data released on Thursday by the country’s Cabinet Office. The results were below the expectations of economists, who had predicted that growth would slow, but less quickly.

The performance was a sharp drop from the previous quarter, when the economy grew at a revised rate of 1.8 percent, a stronger-than-expected result that suggested the country’s economy was more resilient than many analysts had expected. But the numbers on Thursday suggest that Japan may not be able to fend off looming threats to its growth for much longer.

Exports are plummeting, consumption is slowing and Japanese companies are facing a weak US dollar, which erodes their profits and makes their products more expensive overseas. So far, none of that has managed to derail the country’s economy, which except for a quick dip into recession in 2014 has shown slow, albeit steady, growth since 2012.

That growth was largely the result of two factors: a package of economic measures — loose monetary policy, heavy public investment and structural reforms carried out by Prime Minister Shinzo Abe in 2012, and the meteoric rise of China’s economy. Now, however, the easy policy steps have been taken, and China’s growth is slowing dramatically. That leaves Japan with very few options for shoring up its flagging economy.

Exports from Japan have plummeted since last December, dropping more than 5 percent in September alone. Much of that pain has come from China. The country is a major purchaser of Japanese machinery and components, which it uses to assemble finished goods to sell to the rest of the world. But demand for Chinese-made products has fallen. That means a smaller market for Japan’s industrial goods, and also fewer Chinese consumers buying popular Japanese products like cars, a trend that has been reflected in weak corporate earnings for Japanese companies over the past year.

The uncertainty caused by the United States-China trade conflict has also strengthened the yen against the US dollar, making matters even worse for beleaguered Japanese firms, which have seen their profits shrink and the prices of their goods and services increase abroad.

Adding to the pain, a large number of South Korean consumers have boycotted Japan’s economy after Tokyo tightened controls on a wide array of exports to the country, citing national security concerns. The move which Seoul says was driven by disputes over the legacy of Japan’s imperial past had inflamed public anger in South Korea and drove

**Table 2: Composition of aggregate demand, Gross Savings and Gross Debt for Japan and South Korea**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Country | Components of Aggregate Demand (as % of GDP) in 2017 (estimated) | | | | | Gross savings (as a % of GDP) in 2017  (estimated) | Gross Debt (as a  % of GDP)  in 2017 (estimated) |
| Household Consumption Expenditure | Investment Expenditure | Government Current Expenditure | Exports | Imports |
| Japan | 55.5 | 24 | 19.6 | 17.7 | 16.8 | 24.94 | 237.6 |
| South Korea | 48 | 31 | 15 | 43 | 37 | 37 | 36.3 |

* 1. Explain whether the information in Table 2 is sufficient to compare the size of multiplier between Japan and South Korea. (8)
  2. Assess whether the policies to address the challenges for Japan and South Korea are likely to be successful. 910) Assess whether the policies to address the challenges for Japan and South Korea are likely to be successful.

CSQ 5

**Table 2: UK, selected economic indicators (2014 – 2018)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2014** | **2015** | **2016** | **2017** | **2018** |
| % change in Real Gross Domestic Product (GDP) | 2.61 | 2.36 | 1.92 | 1.89 | 1.39 |
| Inflation rate (% change in consumer price index per annum) | 1.45 | 0.37 | 1.01 | 2.56 | 2.29 |
| Fiscal position (% of government budget balance in relation to GDP) | -5.56 | -4.59 | -3.35 | -2.46 | -2.22 |

Source: *World Bank,* 2020

**Extract 6: No-deal Brexit – Study warns of severe short term impact on UK**

The short-term impact of a no-deal Brexit on Britain’s economy would be ‘chaotic and severe’, jeopardising jobs and disrupting trade links, warn experts from the organisation ‘UK in a Changing Europe’ in a 30-page report. The impact of UK leaving the European Union (EU) with a no deal agreement would mean ‘the disappearance without replacement of many of the rules underpinning the UK’s economic and regulatory structure’. For instance, food supplies could be temporarily disrupted – the beef trade could collapse, as Britain is heavily reliant on EU imports. There could also be an increased and uncertain processing times for goods at the UK-Europe border, risking queues at shipping ports and forcing firms to rethink their supply chains.

Facing customs and other border checks would be severely disruptive, the analysis says, particularly for firms whose supply chains operate across the EU. Manufacturing, retail and logistic sectors currently operating pan-European ‘just-in-time’ production, operations and logistics systems are most exposed. The most obvious cases here are aerospace firms such as Airbus, major automobile manufacturing firms such as Nissan, Toyota, Jaguar Land Rover, BMW, Ford and Vauxhall, and automotive supply firms such as GKN public limited company.

With the UK currently unable to supply many of the imported components, and stockpiling imported parts too wasteful, the authors argue that in some cases, ‘relocations could be very swift’, if these intricate arrangements are disrupted – putting thousands of jobs at risk.

“In the automotive industry in particular, there is still plenty of spare capacity available in countries such as Spain, Slovakia, Poland and Romania, and spare capacity in the European aerospace sector also exists in Spain and Germany,” the report adds.

Source: *The Guardian*, 2 September 2018

**Extract 9: Creating quality jobs crucial to boost productivity, growth in Indonesia**

Indonesia must create good and quality jobs to help increase the country’s productivity and competitiveness for sustained and inclusive growth, says a new Asian Development Bank (ADB) study.

The study takes an in-depth look at the challenges in creating better jobs and raising the country’s labour productivity, as well as the necessary skills needed for a youthful and increasingly better educated workforce to meet the demands of the digital age. “Indonesia has a tremendous potential to capitalise on its youthful workforce by addressing the country’s long- term challenges to job creation and inclusive growth,” said Rudy Salahuddin, Deputy Minister for Creative Economy, Entrepreneurship, and SME Competitiveness, Coordinating Ministry for Economic Affairs.

“Not only does the country need to create a more skilled workforce, but it also needs to adjust to new global patterns of technology and the demand for new skills,” said Bambang Susantono, ADB Vice-President for Knowledge Management and Sustainable Development. The study provides three key messages on how to create good and quality jobs for Indonesia’s large workforce. First, improved education and skills development are necessary to create enough quality jobs to raise productivity. Second, as urban jobs are expanding faster, supportive public policies for sustainable cities are fundamental in generating quality jobs. Lastly, there should be continued efforts to improve labour market institutions and regulations that promote a wider range of employment options and better income security for workers.

The study identifies policy initiatives focused on creating better jobs in the labour market, raising labour productivity, and facilitating worker adjustment to the challenges of the digital age. These issues are addressed both from the supply side and from the demand side of the

labour market. Policymakers should ensure that initiatives aimed at increasing productivity also target the poor, women, older people, and other disadvantaged groups.

Labour market institutions like private businesses, small-scale enterprises, and community groups also play a critical role in helping improve the employability of Indonesians. Combining new work opportunities with new technology, ideas, and organisation will raise productivity and contribute to improved living standards.

Source: *Asian Development Bank*, 20 September 2018

1. **(i)** Explain how Indonesia’s balance of trade will be affected by Europe’s ban on palm oil in biofuel. [2]

**(ii)** Suggest a possible retaliatory action that Indonesia might take in response to the ban on palm oil in biofuels. [2]

1. ‘Replacing palm oil with other oil crops such as corn would require up to nine times as much land to produce than palm’ (Extract 7).

Using a demand and supply diagram, explain the likely impact of Europe’s ban on palm oil int biofuels on corn oil prices in Indonesian [4]

1. Discuss the impact of Brexit on UK and her trading partners. [8]
2. Discuss whether supply side policies are likely to address the challenges faced by Indonesia and UK. [10]

CSQ 7

1. With reference to Extract 6 and the use of a diagram, explain the extent of the impact of the US-China dispute on the Asian economies. [4]
2. (i) Explain what the values for the Gini coefficient mean. [1]

(ii) With reference to Extract 7 and Table 4, explain how automation can affect China’s Gini coefficient from 2015 to 2017. [4]

1. Using economic analysis and based on the evidence provided, assess whether citizens in China have a higher standard of living than those in the US. [8]The US has enjoyed the longest economic expansion in history since the Great Recession. However, persistent inequalities has led to economic instability and social unrest.

In view of the above, discuss whether there is a need for the US to change its economic policies in order to achieve inclusive growth. (10)

**[Total: 30 marks]**

Inflation and unemployment

1. How does demand deficient unemployment occurs from AD-AS analysis?

2. Why unemployment is of greater importance to Singapore than other aims?

3. Accounts for reasons why youth unemployment is higher than general unemployment in European countries.

### Monetary Policy (credit crunch – tightening of money supply)

* + - The policy involves the variation of money supply and interest rates by the central bank to affect the level of economic activity in an economy to achieve certain macro-economic objectives.
    - quantitative easing – increase in money supply – lower interest rate
    - lower the interest rate like FED rate (banking lending rate to the commercial bank- not used in SG)

### Fiscal policy (change in government expenditure and taxation)

* + - The policy involves the variation of government expenditure and taxes to affect the level of economic activity in an economy to achieve certain macro-economic objectives.
    - fiscal stimulus – only increase in government expenditure
    - fiscal policy in LR – implications as a supply side management policy
    - austerity measures – reduction in government expenditure and raise taxes to cut down budget deficit – repay public debt (has the effect of contractionary fiscal policy - prudent fiscal policy

### Exchange Rate Policy

* + - The foreign exchange system attempts to adjust the foreign reserves of the country to influence the exchange rate which will affect the trading and investment activities that affect FDI, imports and exports to achieve macro-objectives.
    - When exchange rate is managed with the adjustment of interest rate by influencing the local money supply, it is known as the **monetary exchange rate policy.**

As long as money supply is adjusted🡪affect i/r🡪capital inflow🡪dd/ss of currency (local $ in forex) 🡪affect exchange rate

**SG Monetary exchange rate policy –** direct intervention in the forex market to influence exchange rate – direct buying and selling

lower exchange rate – sell Sing $

raise exchange rate – buy S$ - need forex to buy S$ (must have forex reserve)

### Supply Side Policy

* + - A set of government economic policies which aims to change the underlying structure of the economy and improve both the production capacity of markets and efficiency of the industries, and also that of individual firms and workers within markets so as to aim to achieve the aims of the economy.
    - The policy will either raise the efficiency of production which will decrease cost of production, contributing to change in the aggregate supply or the expansion of resources or production capacity which will lead to outward shift of LRAS.
* de-regulation (market -oriented) (liberalization) or intervention
* capital accumulation, infrastructural development, technological development, manpower development
* liberalization of labour market – reduce the regulation by the trade union – improve the mobility of workers – greater production capacity

### Free Trade Agreements (Trade-network policy) – the reduction of trade barriers to facilitate trading activities and promotion of investment among countries

* + - Deals struck, usually between 2 nations, or sometimes with a grouping of nations to increase bilateral trade through measures such as cutting tariffs on most goods.
    - The main aim is to spur trade and investment between the 2 sides

**Differences between policies and measures**

**Explain how manpower development affects Standard of Living. (Increase in AD and AS)**

**introduction**

**meaning of manpower development**

**meaning of SOL**

**Main body**

1. **Explain how manpower raises AD to increase real GDP and therefor raises SOL (real GDP per capita)**

* **how manpower raises Real GDP (increase XD and FDI)**
* **how real GDP raise real GDP per capita**

1. **Explain how manpower raise potential growth to raise future SOL**
2. **draw diagram to show real GDP and potential growth can occur to rise SOL**
3. **can manpower raise non-material SOL**
4. **limitations of manpower in raising SOL (time comparison)**

**Conclusion  
🞹Process on how to explain and evaluate the mechanism of policies**

a) Definition and characteristics of the policy

b) Process of the policy – how the policy is conducted to solve the problems or achieve the aims

c) Evaluation - theoretical factors / contextual factors (based on the economy)

Contextual Example: increase interest rate under a condition of market optimism – investment may continue as rate of return will be greater than the rise in interest rate, undermining the contractionary effect of monetary policy

d) Basis of evaluation

🞹In the analysis of the effectiveness of policy, it is important to consider the aims of the policy.

Eg. Effectiveness of FP in curbing inflation or the use of Exchange Rate Management Policy to solve unemployment

🞹Protectionism-whether protectionism is justifiable under the context of globalization

## Definition

### Economic Growth

* + - Economic growth refers to the growth of the actual or potential production capacity.

### Full Employment

* + - Full employment would refer to the full utilization of resources for the production capacity w
    - hich is measured in terms of employment rate.

### Price Stability

* + - Price stability is measured by the consumer price index which will indicate whether there is inflation or deflation.
    - With price stability, the economy is able to maintain the cost of living and cost of production and thus avoid the detrimental impact of deflation and inflation

### BOP Equilibrium

* + - At BOP equilibrium, there is no excessive deficit and surplus of the balance of payment and trade which will affect the flow of the currency and thus affect the exchange rate.

### Equal Income Distribution

* + - Income distribution is measured by the Gini coefficient and Wage to GDP ratio.
    - The lower the Gini co-efficient and higher wage to GDP ratio, the less income disparity.

### Jobless Growth

* + - Situation where there is economic growth without the increasing labour to increase production
    - This can happen with the improvement of technology and factors of production.

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2.1.4 Assess the extent of the effectiveness of the fiscal policy in Singapore

* Effective as a policy to help to reduce unemployment as it can create direct and indirect impact on the issue of employment

1. Productions induce employment with direct provision of goods and service by government (more teaching staff)
2. can train the workers to help them adapt to structural changes and imperfect market information (solve skill incompatibility)
3. The increase in employment will have significant benefits to a large economy – more labour intensive forms of jobs

* Can help to generate growth as it will expand production capacity with infrastructural development to reduce immobility of resources like expressways and MRT transit link (↑FDI🡪↑production🡪↑N+)
* Fiscal policy can also be used to raise the efficiency of industries through manpower development and infrastructural development
* Use as a policy eliminate disparity of income as subsidies are to lower income group and infrastructural development will raise the standard of living as it provides convenience and comfort to the people

**Evaluation**

* Government expenditure is inadequate to compensate the loss from external demand (17% Govt exp of GDP compared to 250% XD to GDP)
* Time lag
* Efficiency and Effectiveness depends on the public administrative body
* Small k effect in Singapore – high MPS/MPM
* high cost of financing – need to raise tax burden for future generation / may need to raise in public debt (need to tax more in the future)

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

**Introduction**

In addressing the problem of unemployment, there is a need to consider the nature of the economy to select the right type of policies to solve unemployment. The nature of the economy would be the influencing factor as they contribute to different types of unemployment which requires the appropriate policies to be adopted. However, there are other factors that would affect the decision of policies used.

Main body

The types of policies the government can adopt are fiscal policy, monetary policy, exchange rate policy and supply-side management policy. Fiscal policy involves the use of taxation and government expenditures to influence economic activities so that real GDP and product can increase to increase the demand for labour, solving unemployment. As for monetary policy, the government will lower interest rate and raise economic activities to increase production, increasing demand for labour and solving unemployment. The supply-side management policies would help the workers improve their skills of the workers and expand the economic structure to avoid structural unemployment and technological unemployment. Lastly, the government can also use exchange rate policy to lower exchange rate to increase export demand so that real GDP and output is increased, increasing greater demand for labour, and solving cyclical unemployment.

It is important to know what the features of nature of the economy to understand how they can be significant factors that would affect the choice of policies to address unemployment. Features like the size of population would affect the decision as they would affect the size of market demand that would affect the aggregate demand and real GDP, thus affecting the production level and employment rate. If the size of the population is small, there is a need to rely of external demand for growth of real GDP and output, this would mean that the price competitiveness of export must be raised and thus, the exchange rate policy is needed to help the economy raise export demand by lowering or sustaining exchange rate to maintain export demand. In Singapore, the government would use zero appreciation of exchange rate or gradual modest appreciation to maintain export competitiveness, and this proves that small economy’s choice of policy to solve unemployment can be affected by the size of the population.

Another feature of nature of the economy that would affect the choice of policy is the level of technological development that determines the composition of production, affecting the type of employment in the economy. For an economy that focus on high technological advancement for accelerating growth, the economy is likely to experience structural unemployment which is **the result of displacement of workers and skill mismatc**h and the use of manpower development policy which involves training and job placement with training programmes from SGSkillsFuture. Based on this nature of the economy, the manpower policy based on supply-side management policy will be the choice to be used to solve unemployment.

Lastly, if the stage of the economy is still at an infant level and there is a need for the economy to raise investment to raise mass production to match rising demand, the use of low interest rate policy or expansionary monetary policy would be most appropriate. At the stage when the economy needs further development, the use of interest policy is most appropriate as the government needs a market-based solution to induce permanent economic development which is built by the private firms. As firms seek for growth and they will compete for development and growth, the employment is more permanent and stable with this focus on market mechanism

However, there are other situations where other reasons will determine the choice of policy. One factor is the severity of unemployment where the best policy is the use of fiscal policy and it would be better for the government to use fiscal policy to directly involve in solving the severity of unemployment. At this circumstance, the economy lacks confidence and the impact recession would affect the market’s ability to solve unemployment. Thus, this circumstance would be the influential factor to determine the reason for the use of fiscal policy and not due to the nature of the economy.

In view of this discussion, it is observed that the nature of the economy is influential in the decision of the choice of policy to be used. However, the other factors are helpful in determining the choice of policy too. The time factor and complexity of unemployment can be dealt better to solve unemployment when the right type of policy is used.

**In sum, the issue of unemployment is of great significance to the economy and a good understanding of the factors that affect how the government solve unemployment is equally significant. To achieve this, zthe understanding of the factors affecting the choice of the policy is a good way to solve unemployment effectively.**

**Discuss the limitations on how various policies are applied to curb inflation.**

1. **Meaning of inflation and state that we need to clear excess demand to curb inflation**
2. **Explain how the various policies work**
3. **Evaluate the limitations based on the respective policies.**
4. **Analyze the limitations – which is most severe**

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

**Factors affecting the choice of policy to solve economic problems**