**Essay Question 1**

**(a) Explain the possible problems of economic growth. [10]**

**Introduction**

The economic growth of a country can be seen in term actual and potential production capacity. While the actual production capacity refers to the actualization of resources into monetized products and services which is measured in term of the percentage change in GDP, the potential production capacity refers to the expansion of the availability of resources for production which is measured in term of the production possibility curve. \he economic benefits of economic growth are higher income, higher quantitative standard of living and the ability to enjoy more consumption. However, there are many problems that arise with economic growth that must be noted so that the economy will not engage extensively into the development.

**Main Body**

**a) Discuss the problems of growth from the perspective of government aims**

1. Inflationary pressures associated with growth
   1. As the economy reaches the level of full employment, increase in AD will cause an inflationary condition which means that the growth of the economy is nominal term and not in cost term.
   2. Government have to control for inflation before it creates detrimental effects to the economy and the growth of the economy will not be sustainable
2. Structural unemployment may occur

* When the economy attained growth through greater specialization and trade, it may need to adjust the economy to the comparative advantage which will lead to structural changes in the economy and, sectoral unemployment will occur.
* Furthermore, the emphasis on efficiency may mean that the economy may attempt to engage in greater utilization of machinery, creating the problem of skill incompatibility and displacement of workers that will surface due to technological unemployment.
* Economic growth may still create unemployment if the economy experiences jobless growth which is due to the extensive emphasis on high-valued production that utilizes more machinery and less manpower.

1. Current opportunity costs of growth
   1. 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 in the short run.
   2. Forgoing of consumption leads to lesser welfare.
2. Depletion of resource capacity
   1. 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.
   2. Government has to spend reserves to look for alternative sources of resources
3. Increase in negative externalities, undermining the society from attaining social optimization of resource allocation
   1. Increased output and consumption levels tend consume more resources, putting more and more pressure on the environment.
   2. This leads to pollution, more emission of green house gas and, in turn, global warming, etc.
   3. Pollution lowers the SOL of citizens. Government has to intervene (tax) to correct for the negative externality.
   4. In doing so, the government risks distorting the market mechanisms
4. Inequality in income distribution
   1. 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.
   2. With greater income disparity, the social framework of the country becomes less stable; more social problems would occur.
5. Qualitative SOL of citizens in the country
   1. 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.
   2. E.g. Japan, where GDP per capital is among the highest in the world yet citizens rank low on happiness.

**Q1(b) Discuss the policies that the Singapore government has adopted to promote economic growth. [15]**

**Introduction**

Singapore is a small country therefore she is dependent mostly on export demand and FDIs to achieve economic growth. Firstly, there must be supply side management and exchange rate policies to increase and maintain foreign export demand and foreign direct investment. To attract more FDI, the government must improve the infrastructure and labour productivity using more supply side policies. Finally, to sustain growth, the government must be able to control the cost condition to prevent rising cost condition from impeding growth.

**Main Body**

1. Explain how the government can use to the managed float exchange rate system to enhance growth

* Exchange Rate Regulation – attempts to regulate the exchange rate at a favourable level that will help to increase the export demand and decrease the cost of import. When the export price is competitive enough due to exchange rate regulation, there will be an increase in export demand, which will lead to the growth of the national income through the multiplying effects. As for the imports, it enables the economy to increase its resource capacity by lowering the cost of import through the appreciation of local Sing dollar.
* Evaluation
* The stabilization of the exchange will mean greater stability of the trading price which will induce trading and investment activities that will promote the growth of export demand and foreign direct investment. This is critical for Singapore as we greatly rely on the external demand for economic growth due to our small size of local market demand.
* Furthermore, our lack of resources means that we have to import extensively for local consumption and production. Thus, the use of exchange rate to lower down the cost of resources and aid the dampening of wage increment is vital for the control of cost condition.
* It is a form of trade protectionism which world organisations (e.g. WTO) are against
* effectiveness greatly depends on the Marshall-Lerner condition
* High opportunity cost of keeping large reserve to manage the exchange rate, which will undermine the economy from using the fund for other aspects of economic development.

1. Explain how the government adopt the supply-management policy to raise economic growth - It involves the use of development strategy that attempts to expand the source of resource capacity or raise the efficiency of production to grow the economy.

* Infrastructure development

– build up facilities to improve the mobility of the resources in the economy to smoothen the production and distribution process. This will allow the industry to reap economies of scale which will lower down the cost of production, increasing the profitability in the industry. This will induce a higher level of investment. The level of infrastructural development will also expand the resource capacity in the economy, inducing potential growth.

* + - Evaluation of Infrastructure development
      * source of funding – may lead to budget strain (Govt expenditure > taxation)
      * problem of white elephant and rise of corruption

1. Manpower Development – raise the productivity of the workers with skills development through a constructive and efficient training system. A skilful pool of manpower will enable the investor to achieve efficiency in this production which will lower the cost of production and thus enable the firms to raise profitability. This will induce the flow of foreign direct investment. Furthermore, the presence of a productive labour with diverse skill development will expand the scope of the economic growth, providing the economy with more dynamic growth.
2. Evaluation of manpower Development
   * + - educational level of the workers must be at a certain level and workers may not have the attitude to undergo training and development
       - cost of training and availability of facilities and trainers
       - difficult for the firm to retain training benefits
     + Technological Development – raise the technological level of the economy through training and research and development. The government will provide the industries more funding and manpower, institutional support and the nurturing of a R&D culture to engage more in R&D. This will provide the economy more innovative products to improve the quality of the goods and services and thus raising the competitive edge. Technological advancement will raise the productivity of the economy, and thus increasing more efficient utilization of resources to raise the actual and potential growth.

* Evaluation
  + - * Difficulties in the cultivation a pool of R&D personnel
      * problems of funding – source of fund for R&D investment is difficult to canvass as the return on investment takes a long time to actualize
      * source of technological transfer – foreign MNC may not be willing to part their knowledge in certain field which will make it difficult to embark on the development

3. Explain how Trade Development Policy can be used to raise actual and potential growth

* + - The development of international air and sea routes with air and sea ports acquired by the national-linked PSA and CAAS along with the national airlines and shipping firms to help to provide trading facilities to improve the efficiency of trade to raise export demand and expand the source of import supply which will then facilitate the flow of foreign direct investment and this will help to promote trade and investment. This is vital to Singapore as she enhance her position as a global city.
* Evaluation
* An efficient trade network system will help to solve our lack of resource and constraint of a small market as it enables the economy to expand the source of export and import.
* Integration of the different trade routes will enable the local industries to widen their scope of business and also enable Singapore to expand the scope of economic growth
* Difficult to attain such development as it is difficult to seal FTAs and complexity of the international systemic environment will undermine our efforts to achieve this development.

4. Explain how Singapore can use direct regulation to lower down cost of production

The establishment of National Wage Council will enable the government to keep the wage increment at a reasonable level to prevent excessive wage increment to prevent rising cost condition which will make growth unsustainable. Singapore government also introduce cost control measures through its statutory board like JTC and HDB like tax rebates on rent to lower cost of production.

* Evaluation

The wage control has been quite successful as Singapore government has strong influence over the trade unions but the government measures will be less effective as there is a high degree of privatization in the economy, making it difficult for the government to influence the cost of business and production.

**Conclusion**

The constraint of a mall economy with little resources and lack a of sizeable market demand to support the economy makes it difficult for the economy to attain economic growth. Therefore, it is critical for the government to be more precise and dimensional in the development of policies for economic growth. It has to take into consideration of the various constraints and limitations of the policies it need to achieve growth.