**Essay Question 6**

**"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**

**Explain possible factors that may limit the effectiveness of the integrated resorts in generating short-term economic growth in Singapore. [10]**

**Definition of short-term economic growth and link the project stated**

**How this project leads to EG ) project – increase in the respective components of AD - increase in AD via the k - rise in real GDP**

**What are the factors will affect how this project leads to Economic growth**

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 appropriate 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 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

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. Firstly, 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 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 terms

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. (the amount of increase in real GDP is limited by the availability of resources when the economy is near full employment)

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.

Conclusion

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.