

National Junior College Economics Department

Preliminary Examination 2014 Answer Booklet

Senior High 2 H1 Economics

(Syllabus 8819)

Examiners' Report for 2014 H1 Economics Prelims

Case Study Question 1

- (a) (i) **Compare the year-on- year growth of online sales of total e-retail with that of e-retail excluding mobile from Q1 2012 to Q2 2014.** [2]

Similarity: Both experienced positive year on year growth of online sales throughout the period. [1m]

OR

The year-on-year growth for both total e-retail and total e-retail excluding mobile have declined. [1m]

Difference: Year-on-year growth of online sales of e-retail excluding mobile has declined greater than the year-on-year growth of online sales of total e-retail. [1m]

- (ii) **Account for the difference that you have observed.** [1]

Year-on-year growth of online sales of e-retail excluding mobile has declined greater than the year-on-year growth of online sales of total e-retail because of a change in the taste and preference of consumers. According to extract 1, online shoppers migrate from desktops and laptop computers to mobile devices such as smartphones and tablet devices which provide them with greater accessibility, convenience and confidence.[1m]

- (b) **With the aid of a diagram and reference to the data in Extract 1, explain what has happened to prices of online retail products.** [6]

Prices of online retail products are likely to fall due to an increase in supply of online retail products exceeding the increase in demand.

According to Extract 1, demand of online retail products increases due to the increase in taste and preference towards the consumption of online products and services, because of the increasing tight working schedule, changing lifestyle, convenience and flexibility of shopping and option of free home delivery. Supply of online retail products increases due to the increase in the number of sellers. According to Extract 1, the online fashion retailing industry is burgeoning and numerous sites have cropped up in the past few years. [3m]

As mentioned in Extract 1, consumers are most likely to gain from the increasingly competitive prices. This suggests that the extent of the increase in supply is likely to be greater than the increase in the demand of online retail products, which results in the fall in price. [1m]

With reference to figure 1, the increase in demand will lead to a rightward shift in demand curve from D0 to D1, and the increase in supply will lead to a rightward shift in supply curve from S0 to S1. [1m for diagram and reference to diagram]

At the existing equilibrium price P0, quantity supplied is greater than quantity demanded which results in a surplus of Qs-Qd. The existence of surplus will cause a downward pressure on the price and hence price falls from P0 to P1. [1m]

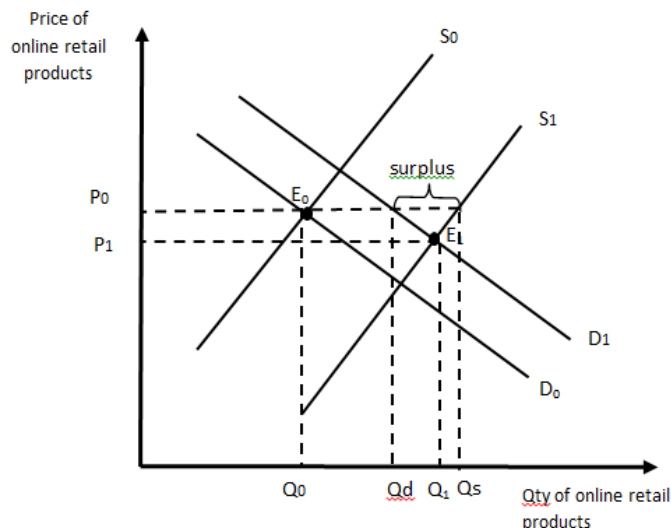


Figure 1: Online retail products market

- (c) (i) **What is meant by price elasticity of demand?** [2]

Definition: Price elasticity of demand measures the change of the quantity demanded of a good to a change in its price, ceteris paribus. [1m]

Measurement: $E_d = \% \text{ change in } Q_d / \% \text{ change in price of the good}$ [1m]

- (ii) **Explain how the concept of price elasticity of demand can explain the pricing strategy of the online retailers mentioned in Extract 2.** [3]

Determine the PED value of products sold online, likely to be price elastic due to the substitutes available in other online sites and traditional shops [1m]

With a given decrease in price, the quantity demanded of the products will increase more than proportionately. [1m]

As such the revenue gain from the increase in quantity demanded is more than the revenue loss due to the decrease in price. Therefore there is an increase in total revenue. [1m]

- (d) **Explain the case for the protectionist measures imposed by the Mexican government on clothes and shoes.** [4]

Identify the measure used: [1m]

The Mexican government imposed tariffs of up to 1000% on the clothes and shoes from China to protect domestic clothes makers.

Explain how the measure protect the domestic clothes makers: [2m]

With the high tariff imposed, the price of the imported goods from China will be less price competitive compared to the domestically produced clothes. As such, domestic demand will be more directed to home-produced goods. This reduces the amount of clothes imported from China.

For the domestic clothes makers, this increases the amount of clothes that the domestic market wants to purchase from them. It increases the production, thereby increasing local employment.

[1m] Either an illustration of how the tariff works using diagram or an explanation of the positive impact of this measure on any of the macroeconomic aims.

Foreign suppliers, in order to avoid paying tax, may decide to set up production facilities in the tariff imposing country; hence employment in these countries will increase.

Alternatively, accept other reasons for protectionism but an explanation of how the use of tariffs will affect the price and quality of imports is required.

(e) Explain two ways in which the decrease in the tariffs on imported clothes from China could benefit a country such as Mexico. [4]

Either two of the reasons below with good explanation which either uses good economic concepts to explain or use of evidence to support the analysis.

Increase in the quality of the clothes

Increase in the variety of choices for clothes

Decrease in the price of the clothes → an increase in consumer welfare

[2 m for each benefit]

(f) Discuss the view that “The West needs China to open up as a market that consumes goods rather than just making them.” [8]

Introduction:

- Identify the ‘traditional’ roles of the two economies – the West as the consumers and China as the manufacturers for most of the labour-intensive products produced in the world.
- However, in view of the global recession in the recent years, the western economies are still struggling to revive their economies while the Chinese economy is experiencing a year-on-year economic growth of 7.5% in the second quarter mentioned in Extract 2, a growth rate that is unattainable by the world’s most advanced economies.

Body:

Thesis: The West needs China to open up as a market that consumes goods rather than just making them.

- The Chinese consumers have the ability to stimulate the UK economy via their taste for luxury items from the UK market. “Around half of the international visitors who flock to Bicester retail village are Chinese nationals...” Chinese buyers like to purchase branded goods abroad due to the lack of trust in their domestically produced goods.
- Extract 5 also mentions that the Chinese currency, the yuan has appreciated. It means that with the same amount of yuan, the Chinese consumers are able to purchase more imported goods, assuming that there is no change in the price of the imported goods in foreign currencies.
- Therefore, when the Chinese buyers travel to London to purchase their luxury goods and spend on food and hotel accommodations in London, this improves both the visible and invisible trade components of the UK’s current account. This will lead to an increase in net exports, AD and real national income.
- With the unplanned fall in stocks in the western economies, this will stimulate the firms to increase production. Thus, more factors of production will be hired. This will lead to the reduction in the level of unemployment in the economy.
- Given an increase of injection (net exports) in the economy, nominal national income will increase via multiplier effect.
- As there is large spare capacity in the economy due to the recession, the increase in national income does not lead to huge increase in inflation rate. Thus, low level of inflation can be achieved.
- Illustrate the increase in AD, real national income and slight increase in GPL using an AD-AS diagram.

Anti-Thesis: The West also needs China to open up as a market that makes the goods due to their comparative advantage in the production of labour-intensive goods.

- China has the comparative advantage in the production of labour-intensive goods such as clothes and toys. It means that they can produce the goods at a lower opportunity cost than other countries. This is because of their relatively huge population size which allows them to have a lower opportunity cost of producing labour-intensive products.
- The UK economy can continue to import clothes and toys at a low price preserving the welfare of consumers in the UK.
- In short, according to the theory of comparative advantage, trade can benefit all countries if they specialise in (and export) the goods in which they have a comparative advantage.

Alternatively, students will be credited if they were to explain the reasons why the Western economies do not need China to open up as a market that makes the goods. This could be due to the use of expansionary AD policies. Students need to explain the limitations of the policies as well.

Synthesis:

Whether the West needs China to open up as a market that consumes goods rather than just making them depends on the:

- Prevailing economic conditions
- Differences in the opportunity cost in the production of the same goods in different economies
- Effectiveness of current measures to stimulate growth in the Western economies
- Significance of the Net Export to overall AD of the Western economies

Knowledge, Application, Understanding and Analysis		
L2	5-6	<ul style="list-style-type: none"> ✓ Excellent discussion of why the West needs China to open up as a market that consumes goods, well supported by analysis and reference to case materials ✓ There is some consideration of why the West needs China to produce the goods.
L2	3-4	<ul style="list-style-type: none"> ✓ Good discussion of why the West needs China to open up as a market that consumes goods, which may not be well developed. ✓ There is limited or no consideration of why the West needs China to produce the goods. ✓ May be one-sided ie only the thesis argument ✓ Some reference to case material and diagrammatic analysis
L1	1-2	<ul style="list-style-type: none"> ✓ The answer is largely irrelevant or may have some relevant points which are not well developed. There may be conceptual errors in the explanation or analysis.
E2	2	<ul style="list-style-type: none"> ✓ Excellent evaluation with good conclusion of why the West needs China to consume their goods
E1	1	<ul style="list-style-type: none"> ✓ Some evaluation of why the West needs China to consume their goods

Case Study Question 2

- (a) (i) **Define the balance of trade of a country.** [1]

The balance of trade is the value of a country's exports of goods and services (or export revenue) minus the value of its imports of goods and services (or import expenditure).

OR

The difference between a country's export revenue (value of exports) and import expenditure (value of imports).

Note: "BoT is the sum of visible trade and invisible trade balance" is not accepted, unless "visible and invisible trade balance" are also defined.

- (ii) **Compare the change in Japan's balance of trade with that of Spain between 2009 and 2012.** [2]

Japan's balance of trade position has worsened from a surplus to a deficit [1 mark], whereas Spain's balance of trade position has improved from a deficit to a surplus [1 mark] over the period 2009 to 2012.

OR

Japan's balance of trade has worsened while Spain's balance of trade has improved over the period 2009 to 2012. [1 mark]

Japan's balance of trade changed from a surplus to deficit, while Spain's balance of trade changed from deficit to surplus. [1 mark]

- (iii) **With reference to the information in Extract 6, explain one factor that could cause Japan's exports to fall.** [2]

Any of the points below:

- **The tsunami and earthquake** could have destroyed production facilities and infrastructure, resulting in a **fall in AS** and **rise in costs of production**. This makes Japan's exports **less competitive (or more expensive)**, resulting in a fall in quantity demanded of Japan's exports.
(Alternatively, there is a **fall in domestic supply** of goods and services, which reduces the quantity of goods available for exports ie Japanese producers need to reduce their exports in the short-run in order to meet the **shortage in the domestic market**.)
- The **appreciation (rise) of the yen** due to economic woes in other countries causing investors to shift their funds into the yen ("hot money" inflow) makes **Japanese exports more expensive in foreign currencies (or less competitive)**, resulting in a **fall in demand** for Japan's exports.
- **Uncertainty in Europe** caused Japan's exports to the EU to fall by 23% in the third quarter. This is because the uncertainty could have caused households and firms to be **cautious about spending** and to **save more** instead. The fall in spending **reduces their demand for imports**, hence reducing Japan's exports to the EU.
- **Eurozone's slide back in double-dip recession** means a **fall in their income** and hence purchasing power. This results in a **fall in consumption** and hence a **fall in their demand for imports**. This leads to a fall in Japan's exports to the EU.

- (b) **With reference to the data, explain how GDP growth might affect the government's budget balance.** [3]

Looking at the year-to-year changes for Japan, Spain and US, an increase in GDP growth generally corresponds with an improvement in the government budget balance (reduction in deficit as % of GDP) and vice versa. [1 mark]

Note for students' understanding (Not required in answer): For example, Japan's increase in GDP growth from -5.5% in 2009 to 4.7% in 2010 corresponds with a fall in its government budget deficit from 7.6% to 6.7% of GDP, whereas the fall in Spain's GDP growth from 0.1% in 2011 to -1.6% in 2012 corresponds with an increase in the government budget deficit from 3.6% to 9.0% of GDP.

One possible reason is that an increase in GDP growth means that generally incomes are rising at a faster rate. This results in an increase in government tax revenue from income taxes. Also, the increase in income leads to higher consumption spending which increases government revenue from indirect taxes on goods and services.

AND

With the rising income, there is less need for social security and welfare aid. At the same time, and the increase in output leads to a fall in unemployment. Hence this causes a fall in government expenditure on unemployment benefits and social welfare.

(c) Explain 1 reason why the size of a country's multiplier could become larger. [2]

The size of a country's multiplier is determined by its marginal propensity to save (mps), marginal propensity to tax (mpt) and marginal propensity to import (mpm).

$$K = 1 / (mps + mpt + mpm)$$

The multiplier could become larger if there is a fall in mps, mpt or mpm.

Any one of the reasons below:

Mps – a fall in mps could be due to consumer expectations. For example, if consumers expect prices to increase in future, they may increase their purchase of goods and services before their prices increase. Alternatively, mps may fall if consumers are optimistic about the future and expect their incomes to rise. They will thus have a greater tendency to spend. Hence, households may save a smaller proportion of an increase in their income.

Mpt – a fall in mpt could be caused by a fall in tax rates. This could be due to the government's expansionary fiscal policy, reducing tax rates so as to increase consumption spending. The fall in tax rates means a fall in the amount of taxes withdrawn from a given change in income.

Mpm – a fall in mpm could be due to the government imposing import restrictions or a change in consumers' taste and preferences in favour of domestic products. This results in a fall in demand for imports and hence a fall in the proportion of any increase in income spent on imports.

(d) Using data from Table 2, account for the trend in Spain's central government debt. [2]

Table 2 shows that Spain's central government debt as a percentage of GDP has increased from 2009 to 2012. [1 mark]

This is due to the government's budget balance being in deficit over the period. [1 mark]

(Explanation not required but included below for clarity)

The government budget deficit means that the government would need to borrow to finance its spending. Hence this leads to an increase in the government debt.

(e) It is mentioned in Extract 7 that Spain has the capacity to suck in and destroy all around it. Discuss how the economic conditions in Spain could impact other countries in the eurozone. [8]

Introduction:

The statement "Spain has the capacity to suck in and destroy all around it" suggests that the economic conditions in Spain can have an adverse impact on other countries in the region. This is especially so because of the "interconnected nature of modern economies" as mentioned in Extract 4.

Body

- Loss of confidence → capital outflow and fall in C and I
One major problem facing Spain is the financial crisis arising from bad bank loans which threaten the survival of some of its banks. According to Extract 4, “poorly performing bank loans will need to be indemnified by the government or be allowed to fail”. Either course of action will have impact on the eurozone. In order to bail out the affected banks, the Spanish government will need to borrow additional funds from the EU. This would increase the government debt which is already high at 67.6% of GDP. The concern whether the Spanish government could service its debt may trigger a loss of confidence in the eurozone as it could cause a financial crisis in the eurozone if Spain defaults on the debt it owes to the EU. On the other hand, if Spain allows its banks to fail, there will also be a financial crisis and loss of confidence in the region as the collapse of these banks could result in losses suffered by banks, people and governments of other countries in the region which had lent to or deposited money in the affected banks. The **loss of confidence** by investors will lead to **capital outflow from the eurozone**, causing a **worsening of the Capital and Financial Account** and hence the balance of payments in these countries. The loss of confidence could also result in a **fall in consumption and investment** spending (both domestic I and FDI), which leads to a fall in AD and hence **fall in national income and economic growth**.

Diagram to show fall in AD in eurozone (due to fall in C and I arising from loss of confidence) → fall in real output and economic growth → fall in dd for labour → **increase in cyclical unemployment**

- Recession in Spain → fall in demand for exports from eurozone
The **negative outlook** for Spain as well as government's **austerity measures** to cut spending will result in a fall in AD, causing a **recession in Spain**. This is shown by the negative GDP growth in 2012 in Table 2. Due to the falling income in Spain, there will be a **fall in consumption and hence demand for imports**. This reduces Spain's demand for exports from other countries in the eurozone. The **fall in exports in the eurozone countries** will cause a **worsening of their balance of trade** position, and hence their balance of payments, ceteris paribus. In addition, the **fall in (X-M)** causes a fall in AD and leads to a **fall in the economic growth** and **increase in unemployment**.

(Note: Arguments that the failure of banks could lead to a shortage of liquidity/ fall in SS of loanable funds/ credit crunch thus causing rise in i/r and fall in I and C can also be accepted, altho this assumes that the banks are allowed to fail.)

Mitigating factors due to Spain's economic conditions:

- However, the negative impact on the eurozone could be mitigated by the likely depreciation of the euro.
- Fall in exchange rate of euro → increase in international competitiveness
Due to the **capital outflow** and **decline in exports** in the eurozone as explained above, there will be less demand for the euro, causing the **exchange rate of the euro to fall**. The depreciation of the euro makes exports from eurozone countries cheaper in foreign currencies, thus making their exports more competitive in the rest of the world. This could help to boost exports (including tourism) in the eurozone countries, thus **increasing (X-M)** and hence AD, which will help to **increase economic growth** and **reduce cyclical unemployment**.

At the same time, the **depreciation of the euro** makes it **relatively cheaper for foreign investors to invest in the eurozone**. As the exchange rate of the euro declines, foreign investors may be attracted to invest in the eurozone again, leading to an **increase in capital inflow** and **improving the Capital and Financial Account** of the BOP. An **increase in FDI inflow** will also help to increase AD as well as productive capacity and hence LRAS. This results in an **increase in actual and potential growth**.

Synthesis and Conclusion

On the whole, it is more likely that the economic conditions of poor economic outlook, high government debt and banking crisis in Spain will have a detrimental impact on the eurozone. The interconnectedness of Spain to the eurozone countries means that the eurozone will also be affected by a loss of confidence which could trigger capital outflow and fall in spending, causing their economic growth to decline as well. In addition, their close trade links also mean that exports of the eurozone countries to Spain will also decline, worsening their balance of trade and economic growth.

However, it is likely that the impact could be different for different countries in the eurozone depending on their links to Spain. Countries that export more to Spain or have lent to Spain or put their money in the affected banks in Spain will be more adversely affected. Those which have less linkages to Spain may in fact benefit as the possible depreciation of the euro will help to make their exports more competitive in the world market as well as make investments in their country more attractive.

(Evaluative comments that the impact depends on the state of the economy can also be accepted. Some may argue that countries already at full employment and experiencing DD-pull inflation may benefit from the decrease in I and $(X-M)$. But this is less likely in the context of the case as it is mentioned that the eurozone is sliding back into recession. This will earn at most 1 evaluation mark.)

Mark Scheme

L3	5-6	Excellent discussion of how economic conditions in Spain can impact countries in the eurozone, well supported by analysis and reference to case materials. There is balance of negative effects and mitigating factors.
L2	3-4	Good discussion of how economic conditions in Spain can impact countries in the eurozone, which may not be well developed. May be one-sided ie only negative effects.
L1	1-2	The answer is largely irrelevant or may have some relevant points which are not well developed. There may be conceptual errors in the explanation or analysis.

E2	2	Excellent evaluation of the likely impact of Spain's economic conditions on the eurozone countries, identifying factors that could affect the impact.
E1	1	Some evaluation of the impact of Spain's economic conditions on the eurozone countries but may not be well explained.

- (f) **With reference to the countries mentioned in the data, discuss whether domestic factors or external factors have the greater impact on a government's choice of macroeconomic policies.** [10]

Introduction:

In general, the government of a country can adopt demand-management policies such as fiscal and monetary policies and/or supply-side policy to achieve its macroeconomic aims. The choice of which policy to adopt may, however, be determined by various factors, both domestic or external.

Thesis: Domestic factors have the greater impact on the choice of economic policies than external factors.

(Any 1 or 2 domestic factors as explained below. The policy choice should be explained)

- The **government's debt** can affect **the choice between fiscal and monetary policy**. For example, both UK and US have incurred a high government debt. US government debt is over 90% of GDP, and is reaching the government's debt limit. The government is therefore required to cut its spending and raise taxes to reduce its budget deficit. This limits the government's ability to adopt expansionary fiscal

policy to achieve economic growth.

Expansionary fiscal policy refers to the discretionary increase in government spending and/or cut in taxes to increase AD and hence the level of economic activity. This will tend to worsen the government budget balance and result in a budget deficit. As mentioned in Extract 1, fiscal expansion will result in “a burgeoning public debt that would drive interest rates up” and discourage investment and consumption spending. Hence, the government will have to rely more on monetary policy to stimulate economic growth, which means that “monetary policy will continue to take most of the strain in the UK, as it will in the US and the eurozone”, as mentioned in Extract 1.

- The country's **current interest rate** and **financial market conditions** can affect the **choice of monetary policy**. Monetary policy (MP) refers to the discretionary control of money supply or interest rate to influence the level of AD. To tackle recession, the government may want to implement expansionary MP by lowering interest rate. This reduces the cost of borrowing and thus encourages more investment and consumption spending, leading to an increase in AD and hence economic growth. However, if the interest rate in the country is already very low, “there may be a limit to what further easing of monetary policy can do to stimulate activity”, as mentioned in Extract 1. For example, the extremely low interest rate could mean that the economy is at the liquidity trap, where demand for money is infinitely elastic. Any increase in money supply will simply be held as idle cash balances with no effect on interest rate and borrowing. Hence, monetary policy may not be effective, and the government **may have to choose to adopt fiscal policy or exchange rate policy instead**.
- The **state of the economy** can affect the government's **choice between demand management policies and supply-side policies**. Both the UK and US economies are experiencing weak growth, and are struggling to recover from the recession in 2009. For example, Extract 2 mentions that the US “fiscal cliff would threaten the recovery of the US economy”. Hence their governments have chosen to adopt expansionary monetary policy to stimulate economic activity. As mentioned in Extract 1, “monetary policy will continue to take most of the strain in the UK, as it will in the US and the eurozone”. Likewise, the deflation and weak growth experienced by Japan means that expansionary fiscal and monetary policies are needed to stimulate demand in the economy. However, if the economy is near or at full employment (ie Classical range of the AS curve), then expansionary fiscal policy would be less appropriate as it would lead to DD-pull inflation, and the government would need to adopt supply-side policies instead.

Anti-thesis: External factors have the greater impact on the choice of economic policies than domestic factors

(Any 1 or 2 external factors as explained below. The policy choice should be explained)

- **Trade and political relations with other countries** affect a country's economic performance and hence the government's choice of economic policies to address the problem. For example, Japan's political dispute with China over the sovereignty of islands in the East China Sea resulted in a boycott of Japanese products in China, hence causing a slump in Japan's exports. This would lead to the government having to implement **expansionary AD policies** such as interest rate cut (monetary policy) or increase in government spending (fiscal policy) to stimulate domestic demand to counter the fall in exports, and increase economic growth. Alternatively, the Japanese government may choose to adopt **trade policy** such as signing more Free Trade Agreements with other countries to diversify its markets in response to the boycott by China.
- **Rising exchange rate** can influence the choice of economic policies. As explained in Extract 2, the economic woes in other countries caused foreign investors to put their funds into the yen. This has resulted in an appreciation of the yen which causes a rise in the price of Japan's exports in foreign currencies and makes investing in Japan more expensive. This causes a fall in demand for Japan's exports and hence a fall in export revenue. At the same time, imports become cheaper in yen, resulting in an increase in quantity demanded of imports. The rising

yen would thus cause a fall in $(X-M)$, assuming Marshall-Lerner condition ($PED_X + PED_M > 1$) holds. At the same time, the stronger yen makes it more expensive for foreign investors to invest in Japan, and this could cause a fall in FDI inflow into Japan. The fall in $(X-M)$ and fall in FDI leads to a fall in AD which causes a fall in economic growth and increase in unemployment. Hence the government would need to adopt **expansionary demand-management policies** such as fiscal and monetary policies to **tackle the fall in AD** or **SS-side policies** to improve export competitiveness to counter the effect of the yen's appreciation. Examples of SS-side policies include promoting skills training, R&D and innovation through subsidies and infrastructure development.

- **Uncertainty and weak economic growth in other countries** can affect the type of policies adopted by a government. For example, the uncertainty and weak growth in Europe means that people and firms are more cautious about spending. If there is an actual fall in income as the eurozone slides into a double-dip recession, consumption spending will decrease. This leads to a fall in demand for imports in EU and hence a fall in Japan's exports to the EU, which plunged 23% as mentioned in Extract 3. The magnitude of the fall in imports in the EU depends on the marginal propensity to import (mpm). The higher the mpm, the greater will be the fall in imports as income falls in the EU, hence resulting in a greater fall in Japan's exports. This can cause the government to adopt **expansionary AD policies, exchange rate depreciation or sign FTAs** with other countries to diversify its export markets.
- **Economic or financial crisis in a neighbouring country** can also have an impact on a country and hence affect its choice of economic policies. For example, the financial crisis in Spain arising from the need to bail out certain banks could cause a loss of investor confidence in the eurozone countries. This could trigger an outflow of capital from the eurozone as well as fall in consumption and investment spending due to negative expectations. Governments in the eurozone would then have to adopt **expansionary AD policies** (such as fiscal and monetary policies) to stimulate their economies.
- A country's **economic integration with other economies** can affect the policy options available to the government. For example, as a member of the eurozone, Spain uses the euro as a common currency together with the other eurozone members. This means that Spain has **no control over its exchange rate and money supply**, as the exchange rate and the supply of the euro would be controlled by the European Central Bank. The ECB also sets the interest rate for the eurozone as a whole. Spain therefore has no control over its monetary policy. Hence, the Spanish government would have to **choose fiscal policy** to manage its country's aggregate demand.

Synthesis and Conclusion:

From the above discussion, it can be seen that a government's choice of macroeconomic policies can be influenced by both domestic and external factors. It may not be possible to say with certainty whether external or domestic factors have the greater impact on policy choice, as the extent of the impact of these factors is likely to differ for different countries due to the different nature of their economies.

In general, whether domestic factors or external factors have the greater impact on a government's choice of macroeconomic policies could depend on:

- Size and openness of the economy – For a large country like the US with a large domestic market and less reliance on imports, domestic factors could play a bigger role in influencing the choice of macroeconomic policies. For a small and open economy like Singapore which is highly dependent on trade and foreign investments, external factors are likely to have the greater impact on the choice of policies.
- Degree of integration or connectedness with other countries – If a country is more closely integrated with other countries eg. the eurozone, its choice of macroeconomic policies will be subjected to the policies of the economic grouping, and hence external factors will have a greater impact on its policy choice.

- Level of government debt – A country with a large government debt may not be able to implement expansionary fiscal policy, and will have to choose other demand management policies. Hence its policy choice is more affected by the domestic factor of high government debt.
- Priority of the government – A country may be experiencing both domestic and external macroeconomic problems such as high unemployment, severe balance of trade deficit and rising costs of imports causing cost-push inflation. It may face a conflict in its macroeconomic aims in choosing certain macroeconomic policies. Eg. adopting exchange rate appreciation may help to reduce prices of imports and tackle cost-push inflation, but could worsen the trade deficit and unemployment. In this case, whether the external or domestic factors have a greater impact on the government's macroeconomic decision could depend on the government's priority with respect to which macroeconomic aim they want to address.

However, it could also be argued that both domestic and external factors are interrelated and affect each other. For example, a high government debt may be considered a domestic factor, but it could cause a loss of confidence in the economy and result in capital outflow which becomes an external factor. A global recession which is an external factor could lead to a fall in exports of a country, causing its exporting industries to decline and resulting in high unemployment, which becomes a domestic factor. Hence it may not be possible to say whether domestic or external factors have the greater impact on the choice of macroeconomic policies.

Mark Scheme

L3	6-8 marks	Excellent discussion of the impact of both domestic and external factors on the choice of macroeconomic policies that is well developed with good rigour of analysis, supported by references to the case materials.
L2	4-5 marks	Impact of either domestic OR external factors on policy choice is well developed with rigour of analysis Or there is discussion of impact of BOTH domestic and external factors on the choice of policies, but may lack rigour in analysis. Lack of reference to case materials
L1	1-3 marks	Largely irrelevant with some relevant points that are not clearly explained. Major conceptual errors may be found.

E2	2 marks	Excellent evaluation with good conclusion of the relative impact of domestic factors and external factors on the choice of policies that is supported by analysis.
E1	1 mark	Some evaluation of the relative impact of domestic factors and external factors on the choice of policies

Section B:

3. The Singapore government plays an active role in managing road congestion and promoting education for Singapore citizens.

- (a) Using the concept of externalities, explain why the Singapore government intervenes in these two areas. [10]
- (b) Discuss the view that the best way for the Singapore government to respond to the market failure in education is to provide it for free at all levels. [15]

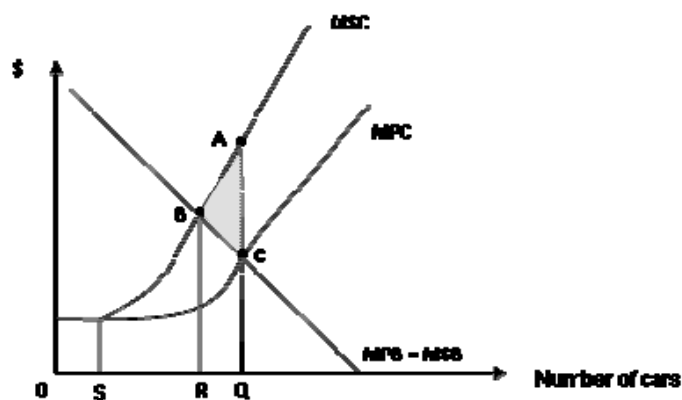
(a) Suggested Answer:-**Introduction:**

Define externality and indicate the presence of externality will lead to inefficient allocation of resources (ie: Market Failure). This calls for government intervention.

Firms and households make decisions based on their private costs and benefits. External costs/benefits are not factored in.

Body: Presence of negative externality

- At the free market equilibrium, producers and consumers will only equate private costs and benefits and produce at $MPB = MPC$.
 - Private costs (MPC): cost of paying for the fuel to drive the car, payment for carpark lot, cost of buying the car.
 - Private benefits (MPB): able to reach the workplace earlier, more convenient, high level of satisfaction derived from taking own private transport which is more comfortable than public transport.
- Establish that driving the car on the road results in an external cost (MEC) to society that is not internalised (e.g. air and noise pollution, costs of congestion imposed by drivers on others such as employers, logistics firms take a longer time to deliver the goods resulting in loss of business and this deters foreign investments) during the transaction between private households and firms; and hence this is a case of negative externality which causes market failure. This causes a divergence between private costs and social costs.
- With the aid of a diagram, explain how these factories in maximizing their profits ($MPC = MPB$) would result in external cost.
- Define (marginal) social cost and benefit, and explain the condition for a socially efficient level of output ($MSC = MSB$)
- Diagram that is well explained to show how the market failed in optimal resource allocation with clear identification of $MPB = MPC$ and $MSB = MSC$.

Negative Externality: Traffic Congestion

- Price system does not always register all the costs associated with production and consumption.
- With the existence of negative externality, it resulted in $MSC > MPC$. Assuming that $MSB = MPB$ (no positive externality), producing at $MPB = MPC$ will result in $MSC > MSB$ which is not socially optimal.
- Explain the presence of the dead-weight loss to society (Area ABC)

Presence of positive externality

- Define positive externalities: occur when private consumption/production creates an external benefit to society that affects third parties as a 'spill-over effect' that is not internalised by the private households and firms
 - Private costs (MPC): school fees, transportation cost to travel to school for lesson
 - Private benefits (MPB): literacy skills, job opportunities, higher wages
 - External Benefits (MEB): educated individuals develop into better citizens, lower crime rate, increase workforce productivity and hence economic growth
 - Presence of positive externality leads to a divergence between private and social benefits. The welfare loss to society resulting from positive externalities can be represented graphically, as shown in Figure 1.

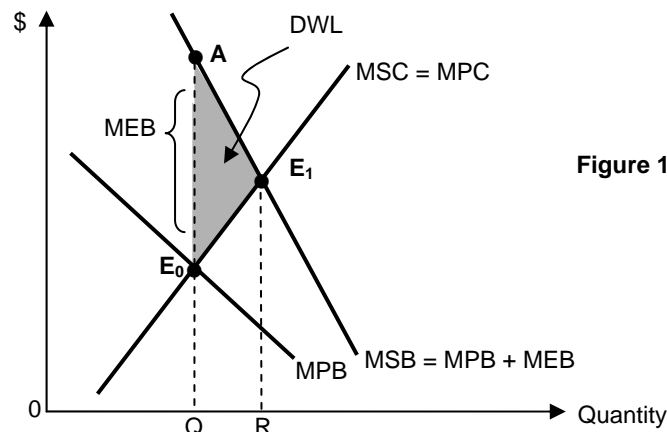


Figure 1: Positive Externality leading to allocative inefficiency

- From Figure 1, the free market equilibrium is at E_0 (where $MPB = MPC$) with output at OQ units. The cost of a vaccination is given by $MPC = MSC$ (assuming $MEC = 0$).
- As $MSB = MPB + MEB$, the presence of positive externalities means that MSB exceeds MPB by the amount of MEB .
- The social optimum level of output is OR units (where $MSB = MSC$).
- There is under-consumption of the good by QR units.
- Individuals fail to internalise the external benefits, hence leading to under-consumption causing a dead-weight loss to society (area AE_0E_1) due to an allocatively inefficient level of consumption.

Conclusion: The two markets failed to allocate resources efficiently which calls for government to intervene via different measures.

Level	Descriptors
Level 3	
9-10	<ul style="list-style-type: none"> Thorough and detailed explanation of how market fails when externalities are present and its impact on resource allocation. (indicate and explain the presence of deadweight loss) Analysis includes definition of allocative efficiency Excellent application of concepts to the context given in the question. Diagrams are accurately drawn and well labelled with excellent explanation No errors evident in elaboration.
7-8	<ul style="list-style-type: none"> Good explanation of how market fails when externalities are present and its impact on resource allocation (indicate the deadweight loss on the diagram but may not be explained) Good application of concepts to the context given in the question. Diagrams are accurately drawn and well labelled with good explanation Minimal errors evident in elaboration.

Level 2 5-6	<ul style="list-style-type: none"> Adequate explanation of how market fails when externalities are present Elaboration lacks adequate rigour (e.g. did not explain how the market generated level/socially optimal level is determined.). Some attempt at using diagram for analysis. Explanation of the diagram is not well-developed. Some application of concepts by mentioning the context in the explanation. <p>Marking Tip: For answer that explains only the positive or negative externality - capped at 5.</p>
Level 1 1-4	<ul style="list-style-type: none"> Answer is mostly irrelevant Unclear explanation of externalities with limited explanation of how the presence of the externalities result in market failure There may be basic errors in theory and/or listing of points. Minimal or no diagrams included to aid explanation

(b) Suggested Answer:-

Introduction:

- Identify education is a merit good.
- Define merit goods.
- Providing education for free means the government provides full subsidy on the school fees. The students do not need to pay for education. It may be one of the ways to increase the consumption of education, but this may not be the best way for all levels of education.
- Other non-market based, e.g. legislation, nationalisation, education and campaigns can be implemented as well.

Body:

Thesis: To respond to the market failure in education, Singapore government can provide education for free.

- Explain how the full subsidy on education can increase the consumption of education.
- This may be a case of providing indirect subsidies to the schools to lower the school fees → this substantially lower the MPC until the MPC curve intersects with MPB curve at $P=0$.
- Illustrate the analysis using the cost-benefit diagram.
- Explain how this may lead to an efficient allocation of resources when MEB is substantially huge and the socially optimal level ($MSC=MSB$) is achieved at the level where $MPB=0$.
- This may be true for the case of primary education as it equips children with basic literacy and numeracy; possibly lead to an increase in productivity, employment and growth rates. This attracts foreign investors and drives economic competitiveness of Singapore in this knowledge-based economy where it relies heavily on knowledge, innovation and entrepreneurial abilities. The MEB for primary school education can be quite substantial.

Anti-Thesis: The Singapore government should not provide education for free at all levels.

- Limitations of providing education for free for all levels of education
 - Opportunity cost involved in funds used for subsidising the school fees.
 - Free education may not lead to an efficient allocation of resources as there might be overconsumption of education. Illustrate using diagram.
 - This is true for the higher education where MEB is not high. The MPB for post-secondary education is higher and MEB is smaller when compared with basic education,

Other measures can be used to increase consumption of education.

- Legislation (Compulsory Education Act): Education is made compulsory for children who are above the age of 6 years and who have not yet attained the age of 15 years.
 - In order to prevent ignorant parents who don't understand the true value of education from not sending their children to primary and secondary schools, the government has to set laws on compulsory education so that all children will receive at least ten years of general education
 - Evaluation: Students who are disinterested in studies are kept in school. This is a waste of

scarce resources. Hence, this may not be economically efficient as there is a misallocation of resources.

- **Direct Provision:** The government is the principal provider of education at primary, secondary and tertiary levels.
 - These schools are funded run according to policies and guidelines from the Ministry of Education (MOE) to ensure the availability of schools for the students to study.
 - Evaluation: There is a lack of market incentives. As principals and teachers in the government schools are not driven by market incentive, there is a compromise of quality and work effort. However, there is assessment and rewards system to provide the incentive to work.
- **Various pathways after secondary school education**
 - At the higher level of education, students are more aware of their passion, strengths and weaknesses. They will be at the crossroads of their learning journey. The government has provided a varied post –secondary educational systems (Junior Colleges, Centralised Institute, Polyclinics and Institute of Technical Education) for these students to identify where their strengths fits in. This will inevitably increases consumption of education at the higher educational level.
 - Since substantial MPB can be reaped by the private individual in terms of higher wages and faster promotion, the private individual should pay the market rate for education rather than depends on the government for subsidies.
 - Evaluation: Constant review of the courses provided in these institutions is essential to ensure the skills/knowledge learned is still relevant to the economy. This may be time-consuming and not effective as the economy restructures at a rapid rate due to globalisation. However, this allocates resources in a more efficient way as compared to providing higher level of education free to all.

Conclusion/Evaluation:

Whether it is the best way for Singapore government to provide education for free to all levels depends on:

- The amount of MEB of education at different levels – MEB is substantial at the primary level of education and smaller for post-secondary education.
- The income level of the families of the students – to address the income inequality issue. The lower income families should receive more subsidies on the school fees. It can be provided free to the students from these families
- The needs of the economy – if government is facing a budget deficit, it may not be feasible for them to provide free education for all levels.

Level	Descriptors
Level 3 9-11	<ul style="list-style-type: none"> • Detailed explanation of how complete subsidies (i.e. making education free) can be used to correct this market failure • Answer shows excellent explanation of at least 2 other policies to correct this market failure • The measures are thoroughly evaluated with reference to the various levels of education. • Diagrams may be included with excellent explanation. • Minimal errors in analysis. • Excellent reference to the Singapore context.
Level 2 8	<ul style="list-style-type: none"> • Good explanation of how complete subsidies (i.e. making education free) can be used to correct this market failure • Answer shows some explanation of at least 1 other policy to correct this market failure • Diagrams may be included with good explanations. • Some errors and inconsistencies are apparent in analysis. • Minimal or no reference to the Singapore context.
	<ul style="list-style-type: none"> • Adequate analysis of how complete subsidies (i.e. making education free) can be used to correct this market failure • Answer may recognise other policies to correct this market failure but may not be well explained

6-7	<ul style="list-style-type: none"> • The measures are not evaluated or superficial evaluative statements are provided. • Minimal or no diagrams included to aid explanation or diagram included but not explained. • Some errors and inconsistencies are apparent in analysis. • Minimal or no reference to the Singapore context. <p>Answer may be one-sided and may show an excellent analysis of how free education can be used to correct this market failure OR Answer may include regurgitation of policy solutions from lecture notes with little reference made to education.</p>
Level 1 1-5	<p>For an answer that is mostly irrelevant in answering the question</p> <ul style="list-style-type: none"> • There may be basic errors in theory and/or listing of points. • No diagrams included to aid explanation.
E2 (3-4)	<p>Well explained judgement as to whether it is the best way for Singapore government to provide education for free at all levels.</p> <p>Consider a few factors such as amount of MEB at different level of education, income level of the family and the needs of the government.</p>
E1 (1-2)	<p>Mainly unexplained judgement.</p>

4. Globalisation has increased the flow of goods and services, financial capital and labour across countries, making the world economy more integrated.

(a) Explain the possible macroeconomic problems that globalisation may bring about for the Singapore economy. [10]

(b) Discuss the measures that the Singapore government can use to curb these possible problems. [15]

(a) Suggested Answer:-

Introduction:

- Define globalisation - refers to the growing economic integration of national economies, in terms of financial flows, trade, movement of factors of production, ideas and changes in information technology.
- Globalisation is generally beneficial to Singapore since it is dependent on trade for its economic growth. With globalisation, we have gained higher productivity, wider consumer choice at lower prices, and better living standards.
- However, globalisation is not without risk.

Body:

Problems due to freer flow of trade in goods and services:

- Removal of barriers on imports increases in the quantity demand for imports. This will lead to competition for import substitution industries due to loss in CA in these industries e.g. labour-intensive production → fall in DD for domestically produced goods. This will lead to rise in import expenditure and fall in NX. This worsens BOT and BOP. Economic growth may be compromised due to the fall in NX.
- More vulnerable to external shock especially the economy is dependent on exports for growth and imports for raw materials. For eg: When there is a worldwide recession, this will decrease other countries' demand for imports, which will reduce the demand for our exports. This worsens BOT and BOP. If other countries are experiencing high inflation rates, this will increase the price of raw materials imported leading to import price push inflation within the economy.
- Local firms will find themselves competing with bigger and more established foreign companies, and may not be able to survive the competition, resulting in decline of the domestic industries. This could lead to loss of jobs and possible economic decline.
- Another adverse effect is the loss of jobs. In particular, labour-intensive and low-value added industries in Singapore are relocated to lower production cost locations in emerging countries like China, India and Vietnam given their abundant and hence cheaper labour. This relocation has resulted in job losses in Singapore and increased unemployment → fall in income and material standards of living. (Eg. closure of Seagate Ang Mo Kio plant in 2009). Although it is argued that based on the principle of comparative advantage, Singapore should restructure its economy and specialise in more knowledge-intensive or technology-intensive (which also means higher value-added) industries. In reality, the displaced labour is not able to find employment in these new industries due to the lack of skills and qualifications, i.e. there is occupational immobility of labour.
- If NX increases overall, may lead to demand-pull inflation in the SR if economy is near full employment.

Problems due to freer capital flow:

- May lead to structural unemployment as domestic firms outsource the production process. (as explained above)
- If net inflow of FDI → over-heating in the SR → DD-pull inflation. (as explained above)
- Crowding out of domestic investments → over-reliance on FDI for economic growth → more susceptible to international shocks. For example, a major recession in US could cause other major economies in the world to experience economic slowdown as well ("when US sneezes, the rest of the world catches a cold"). Globalisation and the free movement of capital, in particular hot money, have led to very destabilizing effects on many countries including Singapore. Financial crises since the 1990s (Asian Financial Crisis in 1997; Dot.com burst in 2001; Credit crisis in 2008) have happened more frequently, spread across countries more rapidly and their effects more

devastating. Hot money, and the speculative behaviour of hedge fund managers have been blamed for this, along with human greed and unsound banking practices. The global financial crisis in 2008 is an example of how integration of financial markets in the world could result in a chain reaction of collapse of financial institutions and economic downturn across countries.

- Worsening of current account in the LR due to repatriation of profits.

Problems due to freer labour movement:

Freer movement of labour will lead to brain drain, where local talents chose to work overseas. → fall in labour supply → fall in AS → limits potential growth.

Inflow of labour into Singapore

- Dampens wages especially for the lower-skilled workers. As Singapore restructures its economy, more investments are put into higher technology, higher value added industries such as bio-medical, pharmaceuticals and aerospace, which require higher skills. Professionals employed in the financial and business services sector also experience higher income growth. However, the majority of workers which are in lower skill jobs find their wages rising more slowly, resulting in a greater income disparity in the country. → Rising income inequality.
- Worsens current account due to repatriation of profits.
- Another feature of globalization is increased migration flows, especially from developing to developed countries. Over the years, an increasing number of Singaporeans have pursued their higher education overseas, and many eventually decided to settle in the foreign country. Such brain drain is a loss of talent and skills, and could lead to a decline in the quality of the local workforce.

Conclusion:

- Given the size and openness of the Singapore economy, Singapore has no choice but to embrace globalisation. The government should employ the right policies to minimise the costs of globalisation on Singapore economy.

Level	Descriptors
Level 3 9-10	For answers that shows detailed explanation of the problems of globalisation on Singapore economy <ul style="list-style-type: none"> • Excellent depth of analysis • Good scope of coverage • Diagrams may be included with excellent explanation. • Excellent reference to the Singapore context. • Minimal errors in analysis.
7-8	For an answer that shows good explanation of the problems of globalisation on Singapore economy <ul style="list-style-type: none"> • Good depth of analysis • Sufficient scope of coverage • Diagrams included with good explanation. • Good reference to the Singapore context. • Some errors and inconsistencies are apparent in analysis.
Level 2 5-6	For an answer that shows some explanation of the problems of globalisation on Singapore economy <ul style="list-style-type: none"> • Sufficient depth of analysis • May be limited in scope of coverage (ie: only explain the impact of freer trade or capital flow, or explain the impact on only 2 macroeconomic aims or other aims such as efficiency and equity) • Minimal or no diagrams included to aid explanation or diagram included but not explained. • Minimal or no reference to the Singapore context. • Some errors and inconsistencies are apparent in analysis.
Level 1 1-4	For an answer that is mostly irrelevant in answering the question <ul style="list-style-type: none"> • There may be basic errors in theory and/or listing of points. • No diagrams included to aid explanation.

(b) Discuss the measures that the Singapore government can use to curb these possible problems. [15]

Suggested Answer:-

Body:

Objective 1: To prevent the loss of jobs and lower structural unemployment

- **Skills training and conversion** – the government provides funding to subsidise the costs of retraining workers or the unemployed to help them acquire new skills to enter into growth industries. Example: There was an announcement of top up \$500m to the Lifelong Learning Endowment Fund to \$4.6b, in National Budget 2014, to keep in line with the Singapore government's commitment to Continuing Education and Training (CET).
- The upgrade of labour skills may also help to reduce structural unemployment in the Singapore economy. There is also improvement to quality of labour force in Singapore, enhancing on Singapore's productive capacity, leading to potential economic growth. Coupled with actual economy growth, sustained economic growth is achieved with improvement to labour productivity.

Evaluation:

Skills training takes time especially for higher level skills, and people cannot afford to remain unemployed for too long, while undergoing training. They may take up lower skill jobs or freelance work instead and become "underemployed".

There could be "training wastage" if workers get trained in the wrong skills which do not help them to get jobs (due to imperfect knowledge)

- **Attract FDI** – the government continues to attract FDI (eg. reduce corporate tax rates and provide tax incentives) and develop new industries with potential for growth so as to create new job opportunities eg. Integrated Resorts has created about 35,000 jobs.

Evaluation:

The policy of "picking winners" has been subject to some criticism. As the world is increasingly dynamic, it becomes more difficult to determine what industries will be successful in the long term. Attracting investments in the wrong industries could result in greater instability and wastage of resources if these industries fail in future. Moreover, as comparative advantage shifts with globalization, the foreign companies may also move out in future to other countries which have gained comparative advantage. Moreover, profits from the foreign investments may be repatriated back to the home country, causing income outflow. It may be better to develop domestic industries to create more jobs for the local population in the long run.

Objective 2: To reduce the vulnerability to external factors

- **Diversification of markets** – one way of reducing the vulnerability to external forces is to diversify the country's products as well as export markets. Over the years, Singapore has diversified its economy to cover a broader spectrum of products and services, including building the Integrated Resorts recently. To reduce Singapore's dependence on the US and Europe, the government has increased its trade relations and investments with China, India and Middle Eastern countries, as well as other emerging economies. The government has also signed free trade agreements (FTA) with various countries (eg. ASEAN, US, China, Australia) to expand Singapore's trade network.

Evaluation:

Too much diversification may work against the principle of specialization and comparative advantage and result in lower efficiency and welfare loss. While diversification may help in managing the risks of decline in specific industries or markets, it will not be able to help in the case of a world-wide recession. FTAs come with rules attached, which may result in higher production costs.

- **Prudent fiscal policy and financial regulation** – To ensure that there are sufficient reserves to weather any economic crisis caused by external shocks, the government adopts a prudent fiscal policy of maintaining a budget surplus during normal economic conditions. Over the years, Singapore has built up a substantial pool of reserves accumulated from years of government budget surpluses. This has provided the government with the resources to implement a fiscal stimulus package to deal with the recent economic crisis in 2008/09. In addition, the government adopts prudent financial regulation to ensure that the financial institutions in Singapore have healthy balance sheets and are not taking excessive risks that could threaten the financial stability of the economy.

Evaluation:

Too much budget surplus could have a deflationary effect on the economy as it results in a net withdrawal from the circular flow of income. However, given that Singapore's economy is close to full employment and growing steadily, the withdrawal effect of a budget surplus is not a concern. The fact that Singapore has recovered well from the global economic crisis shows that its prudent fiscal policy and financial regulation have been effective in helping the country to weather the economic storms caused by globalisation.

- **International Cooperation** – another way of managing external vulnerabilities is through coordinated efforts with other countries to deal with problems that have international impact. Singapore participates in various international and regional forums and associations such as Association of South East Asian Nations (ASEAN), (Asia Pacific Economic Cooperation (APEC), Asia-Europe Meeting (ASEM) and World Trade Organisation (WTO), to promote free trade and deal with global issues to help maintain stability in the external environment.

Objective 3: To prevent the decline of domestic firms

- **Supply-side policies** have been used to increase export competitiveness. These are policies designed to increase aggregate supply by decreasing costs and increasing productivity. Basically our supply-side policies are market-oriented, designed to encourage private enterprise or provide incentives and reward initiatives that improve market efficiency. For example, tax incentives and funding are provided to encourage domestic firms to engage in research and development as well as for foreign investors to bring in new technologies and managerial practices that would increase local level of technology. The government also aims to improve the productivity and competitiveness of the workforce through continuing education and training (CET).

Evaluation:

R&D involves high risk and requires high funding → opportunity cost of funds and resources used. The returns are uncertain and such policies may take a long time before their effects can be seen. It may take years before significant breakthroughs in products and technology are achieved.

Objective 4: To reduce income inequality

- **Redistributive role of the government:** The government can redistribute income through the progressive tax structure in the economy. When the higher income earners move to the next tax bracket, they will contribute more tax for government to redistribute to the lower income earners via various subsidy schemes available.

Evaluation:

The self-employed business owners and odd-job labourers may not provide perfect information to the government agencies for the collection of tax and distribution of subsidies.

Business owners, especially those who are owners of the non-listed companies may report a lesser than actual profit made, such that the government will not collect more tax from them. In this case, it does not help to resolve the income inequality issue.

The manual workers who work on an ad-hoc basis may not be honest in the reporting of their income and may request for financial assistance from the government. This does not allow the government to allocate the subsidies efficiently.

- The training programme available can help the lowly skilled labour to be more productive and efficient such that they can bargain for a higher wage in future. [same evaluation as the training programme in Objective #1]

Objective 5: To prevent "Brain drain"

- **Attracting foreign talent** – the government makes direct effort to attract foreign talent such as renowned scientists and researchers to work in Singapore. The government also introduced a Personalised Employment Pass (PEP) scheme to attract foreign professionals to work in Singapore by giving them more flexibility to change jobs while working in Singapore. Maintaining low income tax rates also helps to attract foreign talent to Singapore.

Evaluation:

While having more foreign talent helps to augment the local workforce, it may have social implications such as erosion of traditional values and changing the racial and cultural mix of the population. The increasing number of foreign talent may also lead to rising social discontent as foreigners are perceived to take away the jobs from locals. Also, such foreign talent may not adjust well to the local culture and environment and eventually decide to leave after a while.

Conclusion/Synthesis:

On the whole, the policies adopted by the government in minimising the negative impact of globalisation have to be generally sound, both in the short and long term. Supply-side policies to train the workers are essential as they are the main resources in this small economy. However, a major concern is to equip the workers with the correct mindset (ie: life-long learning) such that they are receptive to learning and retraining courses will be highly effective in the long run. While trying to attract more foreign talent into the economy, the government has to take note that the local workers are not short-changed and the social issues (ie: losing of national identity or overcrowding issues at the train platform) are taken care of. It is important to develop the infrastructure of the economy (eg: transport system) so as to ensure that it is able to support the increase in population due to globalisation.

Level	Descriptors
Level 3 9 - 11	<ul style="list-style-type: none"> For an answer that shows excellent knowledge in explaining the most appropriate policy that a government can use to curb the possible problems of globalisation Excellent explanation of at least 3 policies to correct at least 3 possible problems of globalisation Policies should be discussed in-depth with excellent analysis, i.e. effectiveness and limitations of each policy Excellent development and rigour in economic analysis. Good application to the context of the question Diagrams included with excellent explanation Minimal errors in analysis
Level 2 8	<ul style="list-style-type: none"> For an answer that shows good knowledge in explaining the most appropriate policy that a government can use to curb the possible problems of globalisation Good explanation of at least 3 policies to correct to correct at least 2 problems of globalisation Policies should be discussed in-depth with good analysis, i.e. effectiveness and ineffectiveness of each policy Good development and rigour in economic analysis Good application to the context of the question Diagram included with some explanation. Some errors in analysis
6 – 7	<ul style="list-style-type: none"> For an answer that shows fair knowledge in explaining the most appropriate policy that a government can use to curb the possible problems of globalisation Fair explanation of at least 2 policies to correct at least 2 problems of globalisation. Policies should be discussed in-depth with some analysis, i.e. effectiveness and/or ineffectiveness of each policy Some development and rigour in economic analysis Some errors and inconsistencies are apparent in analysis. Minimal or no diagrams included to aid explanation or diagram included but not explained.
Level 1 1 – 5	<ul style="list-style-type: none"> For an answer that is mostly irrelevant in answering the question OR the answer is rather skeletal, with little development or lacking in breadth (eg. Only 1 policy is discussed) Conceptual errors in the explanation of policies There may be basic errors in theory and/or listing of points. Minimal or no diagrams included to aid explanation
E2 (3-4)	Well explained judgement of the policy measures that the government can use to curb the possible problems of globalisation
E1 (1-2)	Mainly unexplained judgement