

Raffles Institution

ECONOMICS **Higher 1** ***(Syllabus 8819)***

*Suggested Answer Outlines and
Examiner's Comments for the
Year 6 Preliminary Examinations 2014*



Overall Comments:

Most candidates were not able to complete either the case study section or the essay section. Candidates are reminded to manage their time well.

Case Study Question 1: Tourism and Hospitality Industry

- (a) (i) **With reference to Table 1, compare the changes in the number of visitors from the different regions to Singapore between 2010 and 2013.** [2]

Similarities:

Total visitors have increased by 33.7% as has all the other regions between 2010 and 2013. [1 mark]

Differences:

- However, China has increased the most (93%) while Europe has increased the least (15.9%). [1 mark] or
- China is consistently the highest in terms of visitor arrivals to Singapore relative to America and Europe and vice versa. [1 mark]

- (ii) **According to Extract 1, “visitors from China have dropped 27 percent in the five months through May 2013 from a year earlier”. Explain why “the continuing strengthening of the S\$ exchange rate against the yuan” has reduced the number of Chinese visitors to Singapore.** [1]

A stronger S\$ against the yuan means that one unit of yuan can only buy fewer units of S\$. This increases the price of Singapore's exports in terms of yuan which will reduce the quantity demanded for Singapore's exports (law of demand). In other words, visitors from China will find it more expensive to travel to Singapore.

- (b) **Identify and explain one possible relationships between cruise travel and air travel.** [2]

They are complements for each other.

→ 'Extract 1: provide seamless travel' → via the promotion of the Fly-Cruise segment by STB.

For example, for a given fall in air travel prices / tickets (from partnering air carriers in CAG) → increase in demand for cruise to other destinations in Asia. [2 marks] or

An increase in the demand for air travel to Asia → increase in the demand for cruise travel (no need to emphasize the changes in price → focus is on complementary relationship)

OR

They can also be seen as substitutes for each other.

→ For a given change in price of air travel, there is a change in demand for cruise travel. This is in the case of regional travelers on a tighter budget → an increase in the price of air fares will lead to an increase in the demand for cruise. (Extract 1: 'support regional cruises which are well received among South East Asian travellers who dislike long haul flights or have tighter budgets' [2 marks])

- (c) (i) **Explain the concept of price elasticity of demand.** [2]

Define PED [1 mark]

Provide the formula for PED [1 mark]

OR Interpret the coefficient of PED [1 mark]

- $0 < |PED| < 1$
- $|PED| > 1$

- (ii) **Explain how the information in Table 2 will affect a Singapore travel agency's pricing policy for the different destinations.** [4]

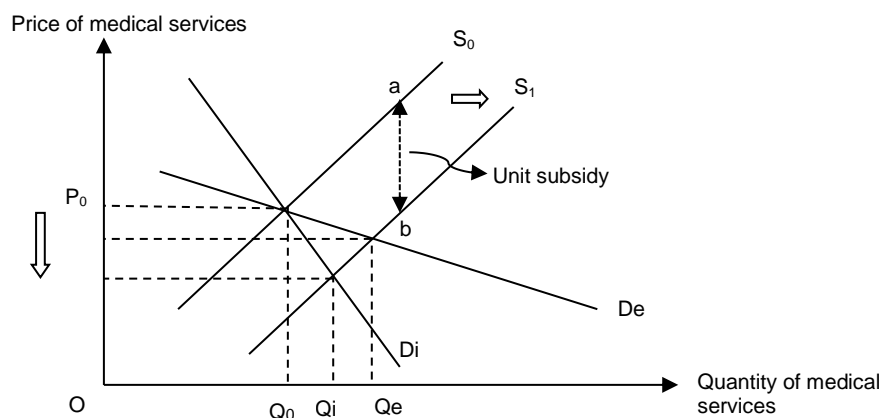
- Clarify aim of travel agent – maximise profits (Profits = Total revenue – Total costs)
- Clarify usefulness of PED
 - Helps firms decide on its pricing policy which will affect TR and assuming ceteris paribus, profits

- Negative sign of PED – inverse relationship between price and quantity demanded for travel
- Absolute value of PED will determine the responsiveness of Qd to a change in its own price, ceteris paribus. Based on the absolute value of PED, firms can reduce price (if $|PED| > 1$) or increase price (if $|PED| < 1$) to increase TR.
 - Since the absolute value of PED for Hong Kong and Macau is greater than 1, the travel agent should reduce price of travel packages to HK and Macau to increase its TR since a reduction in its price will lead to a more than proportionate increase in quantity demanded to these two destinations. This then implies that the loss in revenue from the lowered price is more than offset by the gain in revenue from the increase in quantity demanded. There is a net gain in TR.
 - Vice versa for Singapore and South Korea since their absolute value of PED is less than 1, the travel agent should raise price of travel packages to these 2 countries instead. The gain in revenue from the increase in its price will more than offset the loss in revenue from the fall in its quantity demanded, Overall, TR increases.

(d) (i) Using a demand and supply diagram, explain how subsidized medical services impose a greater burden on the government the more price elastic its demand.

[3]

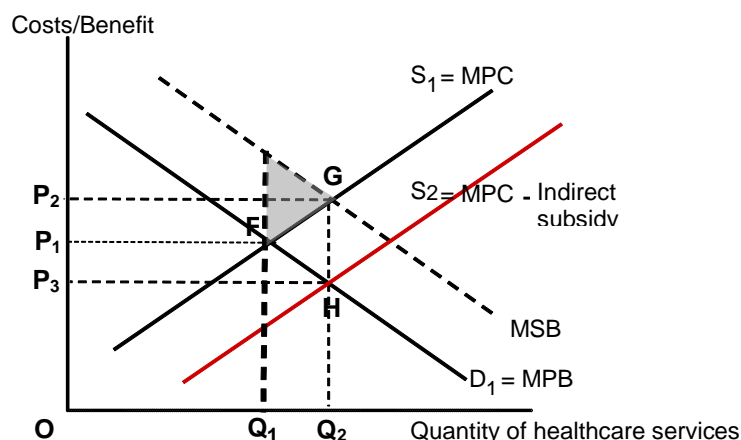
- Clarify subsidy and impact on supply curve for medical services
 - A subsidy is a payment made either to a firm (indirect subsidy) or to a consumer (direct subsidy). In the given context, the subsidy is an indirect subsidy.
 - A subsidy acts to reduce costs of production, hence causing the supply curve to shift downwards (or to the right) such that at each and every price, quantity of the good supplied increases.
- Explain how a subsidy works in the free market
 - Assuming a unit subsidy is given by the government. There will be a parallel shift of the SS curve downwards from S_0 to S_1 , the vertical distance $[ab]$ is the unit subsidy given.
 - Ceteris paribus, a downward pressure on price occurs as market forces seek to eliminate the surplus that arises. At the new equilibrium, price has fallen and quantity exchanged increased.
- Explain how PED affects the burden of the subsidy on the government
 - Depending on the PED of medical services, the fall in price of medical services will give rise to different increases in its Qd.
 - From the diagram below, should DD be price elastic, the new equilibrium quantity $[OQ_e]$ is greater than that for a DD that is price inelastic $[OQ_i]$.
 - The total spending by the government on subsidies is calculated by: unit subsidy \times new equilibrium quantity [i.e. $(ab) \times OQ$].
 - As the unit subsidy $[ab]$ is constant for both cases of demand and equilibrium quantity OQ_e is greater than OQ_i , the burden of subsidized medical services on the government is greater when demand is more price elastic.



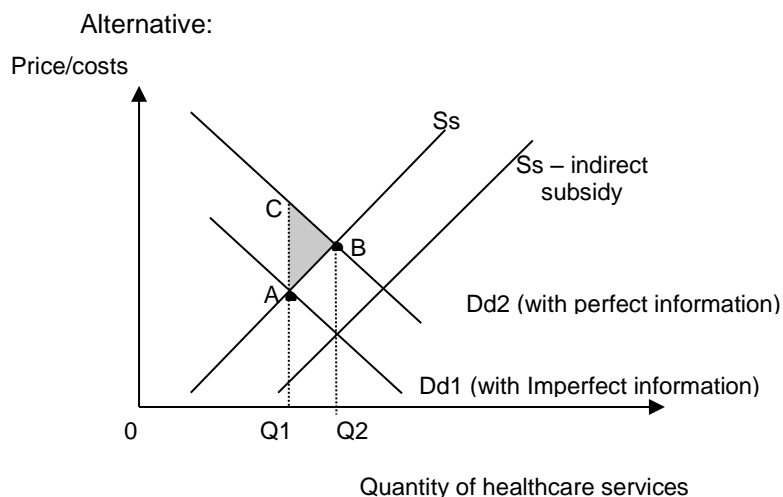
- (ii) The “Singapore health care delivery system is based on individual responsibility, [8] coupled with government subsidies to keep basic health care affordable.”

Discuss whether the government should subsidise healthcare services in Singapore.

- Clarify key term
 - Healthcare services: Merit good
Merit goods (healthcare services) are deemed to be socially desirable by the government. The government deems such goods to be under-valued because consumers lack perfect information regarding the private benefits from consuming these goods and consumers ignore the positive externalities generating from consuming these goods because of the pursuit of self-interest (consumers seek to maximize their own satisfaction)
- **Thesis: Yes, the government should subsidise healthcare services in Singapore**
 - Explain why the government should intervene in the market for healthcare services
 - (i) **Market failure in the allocation of resources** to healthcare services (explain using either one approach)
 - Imperfect information may be the reason why individuals tend to under consume healthcare services in the economy. The government deems that individuals are not aware of / underestimate their private benefits of engaging in healthcare practices. These benefits would include seeking early medical intervention for various health ailments, which would result in longer lifespan, higher life time income and non-material benefits of longevity. If left to free market forces, consumers Dd or MPB under imperfect information will be lower than Dd or MPB under perfect information. This results in a market equilibrium output (where Dd under imperfect information = Ss) that is lower than the socially optimum level of consumption and production (where Dd under perfect information equals Ss). **OR**
 - The consumption of healthcare services is deemed to generate positive externalities. Positive externalities are spillover benefits on 3rd parties who are not directly involved in the production or consumption of the good and which no compensation is received from them. The MPB curve is the Dd curve while the MPC curve is the supply curve.
Identify the MPB of consuming and MPC of producing healthcare services. MPB of consuming healthcare services includes the benefits to the individual such as a longer lifespan, higher life time income and the non-material benefits of longevity. MPC of producing healthcare services includes the private cost of producing the healthcare services itself. Identify MEB from consuming healthcare services. MEB would include benefit to the employers of these individuals in the form of fewer disruptions to the companies' workflow and hence improving the firms' profitability as well as healthier and more productive workforce in the economy.
Since the consumers ignore these positive externalities that arise from consuming various healthcare services in the pursuit of their self-interest, the MSB is higher than the MPB. If left to market forces, consumption and production of the good will be where MPB (or Dd) = MPC (or Ss) as the benefits of MEB will be ignored. This results in an equilibrium output that is below the socially optimum output level of MSB = MSC. There is a deadweight loss to society from such under-consumption and society's welfare is thus not maximized.
In either situation, there is a misallocation of resources leading to allocative inefficiency in the market. Hence the government should intervene.
 - Explain how government in providing subsidies for healthcare services work to achieve allocative efficiency (or correct market failure arising from positive externalities and/or imperfect information).
In the given context, the subsidy is an indirect subsidy from the government to the firm.



The indirect subsidy lowers the cost of providing healthcare services. This will shift the MPC curve downwards by the amount of the subsidy [refer to the above diagram]. Assuming that the subsidy given is equal to the MEB (GH) at the AE level OQ_2 , this lowers the MPC curve until it cuts the MPB curve at OQ_2 . The indirect subsidy lowers the price of the good from P_1 to P_3 , increasing the quantity demanded from OQ_1 to OQ_2 . Hence the positive externality is fully internalized and the production and consumption level would be socially optimal. The shaded area representing deadweight loss from under-consumption is thus eliminated.



- (ii) to promote equity in the consumption of healthcare services
 - The free market could skew the market to provide for expensive healthcare services (eg medical facilities) serving only the rich. At the same time, healthcare costs in Singapore have also been rising over time. Access to adequate healthcare services can be denied to the lower income group in society because of unequal income distribution.
 - Through government subsidies, the price of such essential services will be lowered (OP_3 in the diagram) and thus makes it more affordable especially for the lower income group of consumers.

- **Anti-thesis: No, the government should not subsidise healthcare services in Singapore**

- Evaluate if provision of subsidy can help to achieve allocative efficiency.
 - It is difficult in practice, to assess the correct amount of subsidies to be awarded due to imperfect knowledge regarding the actual value of the marginal

external benefit. A wrong assessment will not result in the socially optimal output level being achieved. An overestimation will lead to over consumption of the good while an underestimation will lead to less than socially optimal consumption.

- On top of that, subsidies tend to be difficult to remove once it is implemented by creating a dependence mentality on the government. This imposes a financial strain on the government and taxpayers (the total subsidy in the diagram is area P2GHP3. Producers receive OP2 where consumers pay OP3 while P2P3 per unit comes from the government) and is not sustainable in the long run.
- Conclusion
 - Ageing population in Singapore will fuel demand for healthcare services. At the same time, it is important to keep our labour force healthy as that is our most precious resource since we lack other natural resources. However given the limitations of the free market, it cannot be relied upon completely because of the inherent nature of merit good and issues of inequality.
 - It is thus important for the government to intervene in the market especially in the area of basic healthcare services whilst medical services with aesthetics connotations like cosmetic surgeries, experimental treatments such as stem cell therapies (Extract 3 para 1) could be provided by the private sector, among other luxurious healthcare treatments for the higher income group in the society.
 - To alleviate the financial burden on the government, the Singapore government has put in place other measures, besides subsidies, such as Medisave, Medifund to emphasize the importance of individual responsibility as well.

<i>Knowledge, Application, Understanding, Analysis</i>		
L1	<ul style="list-style-type: none"> ▪ Explanation of subsidies lacking rigour in economic analysis or flaws in analysis. ▪ One sided answer regarding the policy of subsidies or the limitations behind the policy. 	1 - 3
L2	<ul style="list-style-type: none"> ▪ Attempt at a balanced answer. ▪ Some minor lapses in economic analysis of both the effectiveness and limitations regarding the policy of subsidies 	4 - 6
L3	<ul style="list-style-type: none"> ▪ Good structure and rigour – economics framework, basics (definitions), little gaps in analysis (step-by-step explanation) ▪ Adequate scope of coverage with respect to effectiveness and limitations of subsidies. Points are well-developed with strong use of case study material. ▪ Answer must have a reasoned conclusion to score max of 8m. 	7 - 8

- (e) According to Extract 3, “Medical tourism in Asia is booming... But the travel for cheaper treatments, including cosmetic, dental and transplantation surgery, has risks as well as benefits for the host countries.” [8]

Discuss whether the booming medical tourism industry brings about more benefits than risks for these host countries in Asia.

- The booming medical tourism industry would yield benefits as well as incur risks and cost to the host countries in Asia such as Singapore, Malaysia and Thailand to name a few. The analysis should be explained with respect to the 4 macroeconomic and 2 microeconomic goals of the economy.
- **Thesis: Host countries in Asia will benefit from the booming medical tourism industry.**
 - Medical tourism is a niche tourism that targets a specific tourist segment. Given that medical

tourism caters to tourists with high spending power, an increase in income of foreigners will bring about a significant increase in demand for such medical services in host countries in Asia. As a result, export revenue (tourism receipts) increases. *Ceteris paribus*, net exports also increase. As net $X [(X-M)]$ is a component of AD, AD increases *ceteris paribus*. The increase in AD sparks off the multiplier effect whereby real national income increases by a multiplied amount assuming spare capacity exists in the host countries. There is higher GDP growth (actual growth) and a decrease in unemployment as more healthcare workers are employed (demand for labour being a derived demand).

[AD-AS analysis used as framework]

- Host countries in Asia will also see improvements in their current accounts of their BOP. *Ceteris paribus*, their BOP position also improves.
 - In addition, the promise of higher returns in the healthcare industry will attract FDI into the industry in host countries. In the short run, the increase in FDI will also contribute to the increase in AD bringing about further GDP growth and employment (Extract 3 para 3: “help countries retain their existing health workforce”). In the long run, the foreign investors provide training opportunities for health workers as well as bring in the latest technological advances in the local health sector (Extract 3 para 3). These help to raise productivity of the health sector as well as overall productive capacity of the economy. Such improvements are illustrated by an outward shift of the AS curve indicating potential growth for the economy. Together with increases in AD, there is sustained economic growth for many of the host countries and a dampening of inflationary pressures that may come about with the rising AD.
 - The boom in medical tourism also brings about positive spillover effects on the rest of the economy. These include the construction industry where demand for “health sector infrastructure” as well as “roads and telecommunications” increased (Extract 3). More job opportunities and income are thus generated for a wider group in the economy.
 - In addition, hospitals can cross subsidise care for domestic patients while expensive capital investments made for medical tourists in mind can be also used by all patients in the health care system (Extract 3). As a result, local patients can enjoy the improvements in the quality of healthcare in their countries.
- **Anti-thesis: Problems / Costs faced by host countries as a result of the booming medical tourism industry**
- Increased vulnerability to economic shocks. As demand for medical tourism are by high income foreigners it is therefore more vulnerable to income changes in other countries. A fall in income of foreigners / recession faced in countries abroad will see a sharp fall in export revenue of such services bringing about a fall in AD and hence a more than proportionate fall in real GDP (actual growth falls); The fall in export revenue, *ceteris paribus* will cause a fall in the BOT position thus worsening of the BOP position. Unemployment in the health sector will also be adversely affected as demand for such export services fall.
 - Rising inflationary pressures (for domestic citizens). A flourishing tourism industry brought about by a booming medical tourism industry will place great pressure on the limited resources in host countries such as food, land and transport, to name a few. An increasing demand on these resources and facilities by medical tourists will increase AD and cause a rise in the costs of production for domestic firms in the economy as resources become more limited. GPL increases (demand pull inflation) thus causing negative effects on local residents from a higher cost of living such as higher food prices.
 - Worsens income inequality. Not everyone in a host country will benefit equally from a booming medical tourism sector. The shift towards the medical tourism sector largely rewards labour directly employed in that sector (eg. higher demand for medical tourism leads to a higher demand for healthcare workers which in turn leads to higher wages) while resources are shifted away from the other sectors of the economy causing workers in these sectors to experience falling demands and incomes. The country's resources are also be diverted to produce medical services for the upper income consumers (both foreign and local), away from “less profitable health needs” (Extract 3 para 4) of the majority of the local population. This could lead to rising health care costs and long waiting lines experienced at public healthcare clinics and hospitals, reducing the quality of healthcare for the lower and middle income group in the economy.

- Conclusion
 - The medical tourism industry is important for many of the host countries in Asia as they seek to diversify and restructure their economies due to increasing competition faced in their traditional industries from emerging economies.
 - The government can through its various policies mitigate the risks and costs that can arise from the booming medical tourism industry. The significant rise in export revenue bring rising incomes for many (both direct and indirect), thus raising tax revenue for the government. This can help the government to improve its public sector health care system so that the quality of healthcare services is maintained for its domestic population.

Knowledge, Application, Understanding, Analysis		
L1	<ul style="list-style-type: none"> ▪ Little or non-existent use of economic theory or appropriate economic framework (e.g. no use of AD/AS model) ▪ Did not use case material ▪ One sided answer 	1 - 3
L2	<ul style="list-style-type: none"> ▪ Balanced answer but lacks rigour or scope ▪ Use of economic theory <u>with some errors.</u> ▪ Some utilization of case material in answering the question 	4 - 6
L3	<ul style="list-style-type: none"> ▪ Strong use of economic theory with few errors. ▪ Excellent use of case material to answer the question. ▪ Well explained and balanced answer. ▪ Answer must have a reasoned conclusion to score max of 8m. 	7 - 8

Case Study Question 2: Myanmar, a New Emerging Economy

- (a) (i) Describe the trend of Myanmar's trade balance with the world from 2009 to 2012. [2]

Myanmar balance of trade with the world was in a deficit [1] and the deficit increased [1] from 2009-2012.

- (ii) Using a relevant diagram, explain how Myanmar's exchange rate is likely to be affected by its trade balance. [4]

Exchange rate is defined as the price of Myanmar's Kyat in terms of Euro. With reference to Table 4, there is an increase in import expenditure by Myanmar from 2009 - 2012, this suggests that there is an increase in supply of Myanmar's Kyat in the foreign exchange market from S0 to S1 in Figure 1 as the Burmese sell Kyat in the foreign exchange market to buy Euros in order to pay for its imports. [1]

At the same time, there is an increase in export revenue for Myanmar, this suggests that there is an increase in demand for Myanmar's Kyat in the foreign exchange market from D0 to D1 in Figure 1 as foreigners sell Euros in the foreign exchange market to buy Kyat in order to pay for its purchases from Myanmar. [1]

Since the rise in import expenditure exceeds the rise in export revenue, resulting in an increasing trade deficit, the increase in supply of kyat exceeds the increase in demand for Kyat as shown in Figure 1. [1]

The surplus of the Kyat created at the original exchange rate results in a downward pressure on the Kyat hence leading to a depreciation of the Kyat against the Euro. [1]

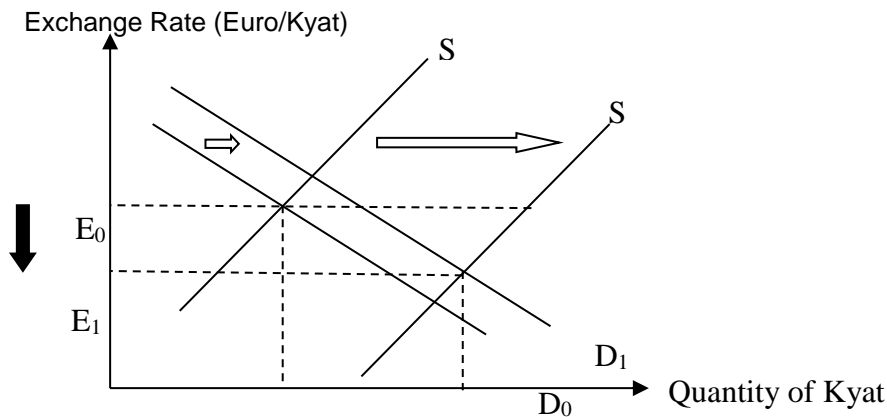


Figure 1: Forex Market

Only demand /supply factors explained with diagram – max 2m.

Both demand and supply factors well elaborated with no diagram / inaccuracies in labelling of diagram – max 3m.

Full credit for well explained and accurately drawn diagram.

- (b) Explain how the theory of comparative advantage is reflected in the trade flows between EU and Myanmar in Table 5. [4]

The theory of comparative advantage states that countries can mutually benefit from specialization and trade if they were to specialize in the production of goods that they incur a lower opportunity costs in (greater relative efficiency in) and trade for goods where they incur a higher opportunity costs in producing. [1]

According to Table 5, Myanmar exports footwear, hats and other headgears, while she imports optical, photographic instrument, etc from EU. This is because Myanmar incurs a lower opportunity cost compared to EU in the production of labour-intensive and relatively low-skilled production such as footwear, etc. This is associated with its factor endowments, as it is endowed with a relatively larger proportion of lower-skilled labour as compared to the EU. Hence, in accordance to the theory of CA, Myanmar specialises in the production of footwear etc and exports them to the EU.

On the other hand, EU exports optical, photographic instruments because it incurs a lower opportunity costs in the production of more tech-intensive items due to the fact that it has relatively more advanced technology and is also endowed with a larger proportion of skilled labour needed in the production of such goods. Hence, in accordance to the theory of CA, the EU specialises in the production of such higher value-added products and exports these to Myanmar. [3]

- (c) (i) Identify an injection from Table 5. [1]

Possible answers:

Government consumption or gross fixed investment or exports of goods and services

- (ii) To what extent does Table 5 suggest that there is a difference in the size of the multiplier between Myanmar and Singapore? [3]

- State the formula for multiplier
 - $1/[1-MPC \text{ on locally produced goods and services}]$
 - Explain the formula
 - One man's spending is another man's income and income stimulates more spending (principle of multiplier). The lower the MPC, the lesser income

will be passed on within the circular flow for a given increase in autonomous expenditure → there will be fewer rounds of induced consumption → the extent of increase in real NY will be more limited, ceteris paribus.

- OR $1/[MPS+MPT+MPM]$
 - Explain the formula
 - One man's spending is another man's income and income stimulates more spending (principle of multiplier). The higher the leakages, the lesser income will be passed on within the circular flow for a given increase in autonomous expenditure → there will be fewer rounds of induced consumption → the extent of increase in real NY will be more limited, ceteris paribus.
- Most appropriate available data that can be used to comment on size of multiplier would be import expenditure as a proportion of GDP (Table 5)
 - Data from table shows proportion of import expenditure out of GDP of Singapore to be higher than Myanmar. Hence, ceteris paribus, size of multiplier is smaller in Singapore than Myanmar.
- Address the command word "To what extent"
 - However, the table does not provide information on MPS and MPT...
- Alternatively, students can also look at the proportion of consumption out of GDP shown in Table 6 and use the formula: $k = 1/(1-MPC)$ to comment on the likely size of the multiplier. As seen in Table 6, private C as a proportion of GDP is greater for Myanmar than for Singapore, hence, it is more likely that, for a given increase in autonomous expenditure, more will be passed on in the circular flow for Myanmar than for Singapore. This leads us to infer that the size of multiplier for Myanmar should be larger than that of Singapore.

(d) ***"...the opening up of Myanmar's economy has created many business opportunities, it has also generated myriad of economic and social problems."*** [8]

In light of the above, discuss whether opening up of her economy is beneficial to Myanmar.

Opening of the Burmese economy created both benefits as well as costs to Myanmar.

Thesis: Opening up is beneficial to Myanmar (pertaining to her macro-goals)

From Extract 5, Para 1 "... influx of FDI... stimulate the economy & improve the livelihood of the people..."

Extract 5, Para 2 "... lure FDI inflows totalling US\$100bn..."

Extract 5, Para 3 "... luring in conglomerates such as Ford Motor and Coca-Cola..."

From Table 4, Myanmar experienced an increase in X rev since 2009. This is corroborated with data from Extract 6, Para 1 "... Thailand relies on gas piped from its Western neighbour... Myanmar drawing a steady stream of tourists..."

From the above, Myanmar is seen to benefit from its opening up in the form of increases in X of both goods (electricity) & services (tourism), as well as increases in FDI inflows → increases in AD. With a rise in AD, there will be an increase in employment levels since labour is a derived demand. This will be beneficial to Myanmar due to its current high levels of unemployment at 37% as seen from Extract 5. The rise in AD also leads to a more than proportionate increase in real NY through the multiplier effect, which leads to actual growth experienced, employment opportunities & an "improvement in the livelihood of its people" hence raising material SOL. This is reflected in Extract 5 Para 2 that "Myanmar's gross domestic product could quadruple to about US\$200 billion (S\$250 billion) in 2030 from US\$45 billion in 2010 with an annual growth rate of 8 per cent."

Also, with likely greater inflows (e.g. inward FDIs and export revenue) than outflows (e.g. outward FDIs and import expenditure) into the BOP, there will be an improvement in Myanmar's BOP after opening up.

In the LR, increases in FDI will lead to increases in skills transfer as seen in Extract 5, Para 4, as well as increases in capital accumulation → increase in productivity levels → increases in productive capacity → LRAS shifts right → Potential growth & a lowering of inflationary pressures over time.

Anti-thesis: Opening up is disadvantageous to Myanmar

Extract 5, para 5 & 6, "... not everything that flows from FDI is good...serious problems stemming from FDI in mega projects... impact on dam construction... involving relocation of villagers without adequate compensation... exploitation stemming from FDI..."

From the above, inward FDI may cause some form of environmental destruction and exploitation of Myanmar's natural resources. These third parties costs if not compensated for, may result in economic inefficiencies and affects the non-material SOL of the villagers.

Extract 6 last para "On the other hand, inflation, projected at 4.2% for the 2011 financial year, is on the rise and is expected to pick up to 5.8% or higher given the likely increase in foreign investment and aid flows."

From the above, Myanmar may experience demand pull inflation when aggregate demand increases near or at full employment level. Given resource constraints, increase in investments may push up the general price level in the short run. This may affect Myanmar's export competitiveness and hence trade balance.

Extract 6 last para "As for Myanmar's own companies: "We're jittery," says one local executive with a pharmaceuticals importer. "Big foreign investors have economic scale and access to markets – they can easily overwhelm us ... We have had discussions with the government about this; we can't compete with multinationals."

From the above, local industries may face physical crowding out by large foreign firms given the large EOS which foreign companies have. And without government protecting its infant industries and giving them time to develop its comparative advantage, it is difficult for these local firms to grow and reap the benefits of an enlarged market. In the short run, the country may encounter structural unemployment as the local industries shut down and the unemployed may not have the relevant skills set to seek employment in the new foreign companies.

Synthesis/Conclusion:

Opening up is overall advantageous to Myanmar if government is able to implement appropriate policies to tackle the possible ill-effects of opening up.

<i>Knowledge, Application, Understanding, Analysis</i>		
L1	<ul style="list-style-type: none"> A theoretical regurgitation of macro-goals with no reference to case study at all. Answer that is one-sided EITHER on benefits OR costs. 	1 – 3
L2	<ul style="list-style-type: none"> Answer shows balance and sufficient breadth in the discussion of how Myanmar will be affected. Points are somewhat developed with reference to case study evidence. 	4 - 6
L3	<ul style="list-style-type: none"> Points are well-developed with strong use of case study material. Answer must include both benefits and costs to Myanmar. Answer must have a reasoned conclusion to score max of 8m. 	7 - 8

(e) **With reference to the data where relevant, evaluate appropriate policies you would recommend to the policy makers of the countries affected by the opening up of the Myanmar economy.** [8]

- Clarify that Myanmar's opening can have both negative and positive effects on other countries:

- Possible negative effects and policy recommendations. E.g.
 - Extract 6 Para 2 “Myanmar is drawing away a steady stream of tourists, one of Thailand’s mainstay service industries, and is targeting close to 1m visitors in 2014, up from about 300,000 in 2011.”
 - Supply-side policies: Find new growth areas (shifts in CA)
 - Limitations of policies: Finding new growth areas may in the SR lead to structural unemployment.
 - Extract 6 Para 3 “it could compete with many of the other neighbouring low-cost manufacturing destinations, such as Vietnam and Thailand. Increasingly, garment factories in these two neighbouring countries have been scaling down their operations in the face of such stiff competition.”
 - Exchange rate:
 - In the short run, exchange rate adjustments to make its exports more competitive (explain how devaluing the ER works to boost export competitiveness and improve balance of trade, current account and balance of payments via MLC)
 - Limitations of currency depreciation:
 - Higher import prices of raw materials (E.g. Singapore’s case)→ may lead to imported cost-push inflation
 - Higher import prices of higher value finished goods which Vietnam and Thailand are likely to import → may lead to inflation
 - Or Protectionism.
 - Explain how imposing tariffs on Myanmar’s exports will help to slowdown the increase in unemployment in the protected industry in Thailand in the short run
 - Limitations of protectionism
 - Beggar-thy-neighbour (retaliation)
 - Against the theory of comparative advantage (in the long run, all countries will lose out)
 - Extract 6 Para 7 “If I could put all my money into Myanmar, I would.” (possible FDI diversion)
 - Monetary policy in the SR
 - Countries with independent MP, can attempt to cut interest rates to retain local I or prevent excessive outflow of I
 - Limitations of an interest rate cut (exp MP)
 - E.g. demand for investment may be interest inelastic.
 - Or Competitive corporate tax structure
 - Reduce corporate tax rates to prevent excessive FDI diversion
 - Limitation of having a competitive corporate tax structure
 - Implications of fall in tax revenue. Or if there is an increase in indirect taxes given a competitive corporate tax structure, may result in a regressive tax structure → income inequality issue.
- Possible positive effects and policy recommendations. E.g.
 - Extract 6 para 4 “Myanmar have recently raised its growth estimate to close to 7% in the current fiscal year, which could potentially be a silver lining for its neighbouring countries.”
 - Supply-side policies: Countries can ride on Myanmar’s opening →can prepare themselves for Myanmar’s demand for its exports and investments into its property market →embark on supply-side policies (structural adjustments to cater to the types of exports demanded for and the flow of investments inwards, increase productivity to make exports more price competitive, etc); ‘macro-prudential policies’ to prevent overheating in the property markets. Extract 6, Para 1 “Thai companies have also moved into property development and service industries there...benefitting from Myanmar’s opening.”
 - Limitations of policies
 - Availability of funds for building of infrastructure to cater to increased exports and FDIs.
 - Possibility of over-heating in the SR given capacity constraints

- with increased government spending to cater to Myanmar's demands – may be producing at vertical portion of AS.
- Poor governance over the property/financial markets (or underdeveloped financial markets) that limits 'macro-prudential policies' to be carried out effectively, especially in Thailand.
- FTAs: Countries can ride on Myanmar's opening → sign trade agreements with Myanmar → reap greater benefits from Myanmar's opening → further reductions in trade barriers, enhanced trade relations, promoting better growth rates for themselves ('Myanmar grows, we grow').
 - Political issues e.g. clashes between political parties; hidden agendas with pushing for certain policies.

Synthesis/Conclusion:

Opening up of Myanmar will inevitably affect the rest of the world. The rest of the world must be prepared to take on any challenges posed by Myanmar's opening up or seize the opportunities provided by Myanmar's opening up with appropriate policies. The affected countries should be forward-looking and plan ahead. These require good governance and policy decision makers.

Knowledge, Application, Understanding, Analysis		
L1	<ul style="list-style-type: none"> ▪ Answer contains no economic framework. ▪ An answer that does not address the question asked 	1 – 3
L2	<ul style="list-style-type: none"> ▪ Answer is lacking in some aspect: <ul style="list-style-type: none"> ▪ Discusses only one policy to address positive / negative effects ▪ Makes no reference to case material(with respect to the effects) ▪ Addresses the question but has tendency to be superficial and lacks depth 	4 - 5
L3	There is both scope and depth in the answer: <ul style="list-style-type: none"> • Answer is balanced • Discusses at least two policy options to address positive/negative effects • Uses relevant economic framework and diagrams • Rigorous development of economic framework • Good reference to case data in identification of the effects 	6 - 7
Evaluation		
E	For an evaluative conclusion on the policy effects on respective countries which depends on the state and nature of each economies.	1

[Total:30]

Essays:

- 3 Car certificate of entitlement (COE) prices are likely to rise as the Land Transport Authority (LTA) continued to shrink supply to a record low.**

Source: <http://transport.asiaone.com>. Jan 14, 2014.

- (a) Distinguish between a public good and a demerit good. [10]**
- (b) Discuss whether shrinking the supply of COE is the most desirable policy to curb traffic congestion in Singapore. [15]**

Part (a):

Paragraph	Yardsticks ("In terms of")	Public goods	Demerit goods
1	Definitions		
2	Non-excludable	Non-excludable (cannot prevent a non-payer from consuming the good once it is provided). Explain using examples like street lighting and military defence.	Excludable. Explain using examples like alcohol and tobacco.

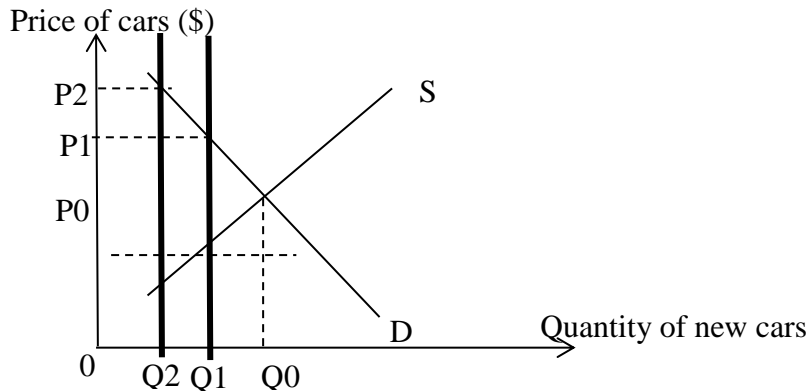
3	Non-rivalrous	Non-rivalrous (consumption of the good by one person does not reduce the quantity or quality available to the next person. Hence, the marginal cost of providing the good to the additional user once it is produced is zero).	Rivalrous.
4	Free-rider problem	The free market will not produce these goods because of the two features.	No. The free market will produce these goods.
5.	Resource allocation and allocative efficiency and the role of the government	If left to free market forces, allocative inefficiency arises because no resources will be allocated to the production of the good due to the two features. Hence, the government is justified in intervening in the market for public goods and to provide them.	If left to free market forces, allocative inefficiency arises because too much resources will be allocated to the production and consumption of the good because of the following two sources of market failure in the market for demerit goods – firstly, such goods are not good for the consumers themselves but due to imperfect information, they consume too much of these goods. Secondly, consuming such goods are bad for others but in the pursuit of self-interests, these negative consumption externalities are ignored. Hence, the government is justified in intervening in the market for demerit goods.
6	Economics goods, and not free goods	Scarce resources are used in the production of both public and demerit goods. Hence the opportunity costs of production for these goods are not zero. Hence, both public and demerit goods are subset of economic goods.	

Part b: (A similar writeup can be found in your lecture notes)

- Paragraph 1: Introduction: Clarify the source of the market failure in the given context:
 - Negative externalities in car usage or in the production of car journey
 - If left to the free market, the number of car journeys produced/usage of cars will be higher than the socially desired level of usage. This is because the number of car journeys produced/car usage generates significant negative externalities. However, in the pursuit of self-interest, producers of car journeys ignore the negative externalities that are generated. For instance, when people use their cars, not only do they incur private costs like the cost of petrol, oil, wear and tear and so on, they also incur third party effects. These negative externalities include non-car producers (like pedestrians) suffering from their exhaust fumes, the added traffic congestion, the noise etc. These third party effects translate into third party costs like higher medical costs for public transport commuters. **In Singapore, due to her limited land space, rising income and increased population, traffic congestion is a growing problem.**
- Paragraph 2: Reducing the supply of COEs
 - Classify the policy – Quota/output control/legislation to manage car ownership
 - Limits car ownership and the number of cars on the road. In order to purchase a car, buyers have to purchase a COE from the government. The number of COEs released each year is determined by the targeted vehicle growth rate. This is aimed at reducing traffic congestion and air pollution (negative externalities).
 - Reducing the supply of COEs will reduce the number of new cars on the road. [The price of COEs will also increase (price adjustment process).]

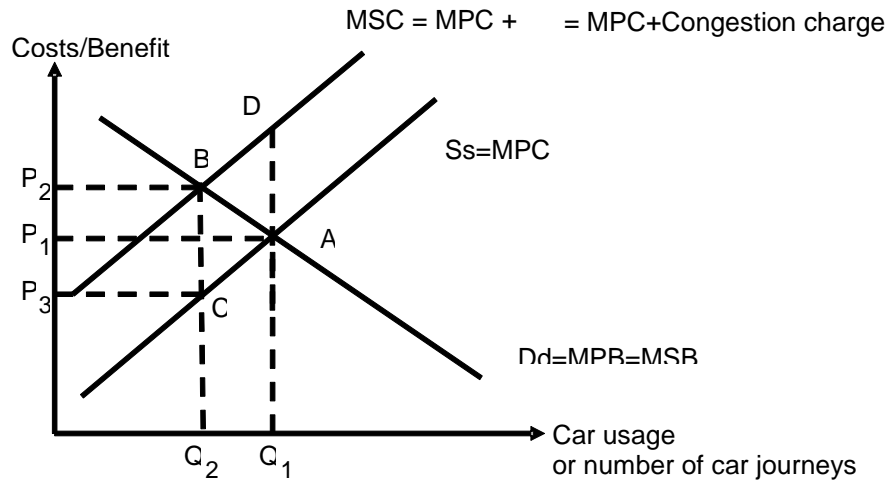
- According to Figure 1, the free market equilibrium output level is OQ_0 . However, assuming that the allocative efficient number of cars is OQ_1 , there is an overproduction and consumption of cars by Q_1Q_0 . The COE (or the quota) can limit the maximum number of cars traded to OQ_1 . This can help to mitigate traffic congestion to some extent.

Figure1 : Imposition of a COE (Quota) in the Car Industry



- Paragraph 3: Evaluation of advantages and disadvantages for COE policy:
 - Advantages:
 - Limiting car ownership and hence number of cars on the roads can lead to reduction in air pollution and more efficient (less congested) transport network.
 - From Figure 1, reducing the supply of COE will further limit the number of new cars sold from OQ_1 to OQ_2 .
 - Imposing the COE (quota) also increases the price of cars. Producer surplus increases at the expense of consumer surplus. However, since the producer of COEs is the government, the COE premiums collected goes to the government who uses the **revenue collected for financing land transport and public transport development that benefit society at large.**
 - Disadvantages:
 - Congestion is due to car usage and not the mere possession of cars. Thus ownership measures are a **blunt instrument**. Ownership controls cannot manage localized congestion unless car ownership is curbed to a very large extent. Beyond a certain level, heavy ownership costs are an inefficient way of managing traffic congestion.
 - **High car ownership costs may have the reverse effect of increasing car usage.** Once a car is bought, it is used very intensively. Having paid heavily upfront for a car with a limited period for use before it has to be scrapped (COE allows a car to be used for 10 years), car owners tend to drive as much as they can. A more efficient approach would be to control car usage directly through usage pricing.
 - The COE (or quota) causes the price of cars to increase, leading to high price of car ownership. This can be a **politically unpopular move.**
- Paragraph 4: Increasing electronic road pricing (ERP) rates to manage car usage
 - Figure 2 shows the demand and supply curve of consuming and producing car journeys. The demand curve is the MPB of consuming a car journey while the supply curve is the MPC of producing a car journey.

Figure 2: Negative externality in producing a car journey or car usage



- According to Figure 2, equilibrium number of car journeys produced (or car usage) under free market forces will be at OQ_1 where $MPB=MPC$. On the other hand, the allocatively efficient number of car journeys produced or car usage level is OQ_2 where $MSB=MSC$. A deadweight loss of ABD is generated in the production of car journeys/usage of cars if left to free market forces. Hence, there is a need for the government to intervene through the use of policies like Electronic Road Pricing (ERP).
- Congestion charges work by requiring motorists to take into account the cost of congestion borne by others as a result of their driving. The Electronic Road Pricing (ERP) system works like a tax. Under the ERP system, a congestion charge (P_2P_3) equivalent to the MEC (BC) as seen in the figure below is deducted electronically whenever a vehicle uses a priced road. Motorists are encouraged to decide whether to drive, when to drive and where to drive. They may choose a different route, mode of transport, time of travel, or not travel at all. Those who choose to pay and stay on the road will enjoy a smoother ride. As a result of the ERP, the external costs would be internalized. The market is now allocatively efficient and the allocatively efficient level of OQ_2 is achieved.
- Paragraph 5: Increasing electronic road pricing (ERP) rates to manage car usage
 - Advantages of ERP:
 - Congestion charging is the most direct way of tackling congestion as it tackles car usage. ERP enables congestion to be managed in a more targeted way. Charges vary by time and location, based on traffic speeds on the roads. Through regular rate reviews, ERP charges are adjusted upwards or downwards to keep traffic flowing smoothly, while not underutilizing the roads.
 - It is fair as charges are based on usage so those who contribute more to the congestion pay more. Those who use the roads less frequently or who travel during non-ERP hours will pay less or not need to pay at all.
 - Demerits/ Problems with ERP:
 - Public acceptance is a key stumbling block to its widespread adoption internationally. This is because congestion pricing entails the pricing of a service – travel on urban roads – that was previously provided ‘free’.
- Paragraph 6: Improving and providing a quality public transport system – improving its efficiency and making it more affordable
 - The government aims to provide an attractive public transport system to encourage people not to use their cars for work trips but to travel by public transport. By providing a public transport system that is fast, efficient, comfortable, affordable and convenient, this will help to improve the substitutability between public transport and cars and reduce the demand for cars. To achieve this, the government has to continue to expand Singapore’s rail and bus

network system, ensuring greater affordability, higher travel speed and greater predictability of arrival and departure times for the rail and bus network.

- Or provide more subsidies for public transport system as this will increase the relative price of private transportation by cars and lead to a fall in the demand for private transportation by cars
 - Paragraph 7: Evaluation of Public Transport Policy
 - Merits
 - Minimise road congestion and pollution
 - Demerits
 - Heavy burden on government budget
 - Long time lag between building the infrastructure and realising the fruits of policy
 - Paragraph 8: Synthesis
 - Make a stand and explain your stand
 - Evaluate using same yardsticks (either in conclusion or body)
- 4 (a) **With the aid of examples, explain the factors influencing the pattern of trade between Singapore and her trading partners.** [10]
- (b) **Due to uncertainties in the global economy, Singapore economy recorded slower growth in the first quarter of 2014. However, unemployment rate remained low at 2.0%. Inflation rate is expected to stay elevated at 2 to 3% as domestic cost pressures are likely to remain strong. The rapid pace of globalisation has also contributed to increasing income inequality in Singapore.** [15]

Source: <http://www.mas.gov.sg>

In view of the above report regarding Singapore's current economic performance, discuss which goal should be the priority of the Singapore government.

Part a:

- Paragraph 1: Introduction
 - Clarify what is meant by pattern of trade between Singapore and her trading partners
 - The composition of Singapore's exports and imports
 - Who Singapore's main trading partners are
 - Which countries does Singapore export to and import from mainly
- Paragraph 2: Factor 1 - Theory of Comparative Advantage
 - The first factor influencing the pattern of trade between Singapore and her trading partners is the differences in opportunity costs in producing goods between Singapore and her trading partners in accordance to the theory of comparative advantage. Explain with examples specific to Singapore.
- Paragraph 3 and 4: Factors 2 and 3
 - Any 2 factors
 - Other supply-side factors e.g.
 - Transport costs;
 - Barriers to trade;
 - Internal economies of scale
 - Demand-side factor
 - Product differentiation – preference for variety
 - Explain with examples specific to Singapore

Part b:

- Paragraph 1: Introduction
 - Clarify what the goals of Singapore are
 - Macro goals:
 - Internal goals

- Sustained economic growth rate;
 - Low unemployment rate;
 - Low and stable inflation rate
 - External stability (not in the preamble)
 - Stable exchange rates;
 - “Healthy” balance of payments
 - Micro goals:
 - Efficiency (not in the preamble)
 - Equity
- Paragraph 2+: Explain why sustained economic growth is important to Singapore and evaluate whether given the current context/preamble, it should be the priority of the Singapore government. Will there be any possible tradeoffs between objectives and if yes, which should be the priority.
- Paragraph X+: Do likewise for low and stable inflation
- Paragraph +: Do likewise for low unemployment
- Paragraph +: Do likewise for income inequality
- Paragraph +: Conclusion
 - E.g. Evaluate which should be the priority given Singapore’s unique characteristics and her current situation and why.