

Suggested answer for 2014 H1 Prelim Case Study Q2

(a) Using Table 1, compare the GDP growth in Singapore and China between 2007 and 2012. [2]

Both GDP growth for China and Singapore was positive with the exception of 2009 where it turned negative for Singapore. OR

The GDP growth for China is persistently higher than Singapore's with the exception of 2010.

(b) (i) Explain how 'government-influenced' spending (Extract 5) can impact the Chinese economy. [4]

Clarify term 'govt-influenced' spending

e.g Increase in C due to reduction in PIT

Explain impact:

Increase in C_d → increase in AD → increase in output and GPL. Illustrate with AD/AS diagram

Production of a larger quantity of goods and services and requires more workers → increase in employment.

[Cite evidence]

Extract 5 mentions that "government-influenced" spending is required to increase domestic consumption (C_d) so as to reduce the dependence on external demand to drive economic growth. Hence government induced spending can negate part of the fall in AD due to a fall in external demand (export) and helps to slow down the fall in economic growth.

(ii) With reference to Table 1, explain how far the data might show that China has made progress in rebalancing the economy away from exports. [4]

'Rebalancing the economy' refers to attempts by the Chinese government to increase domestic consumption (C_d) so as to reduce the dependence on external demand to drive economic growth.

From Table 1, overall China's export-to-GDP ratio has fallen with the exception of 2010 where it increased. With the exception of the huge dip in China's GDP growth between 2007 – 2008 which is likely due to the global financial crisis and in 2012, GDP growth has remained relatively stable across the years. This implies that China's growth could be driven by domestic demand instead of exports.

However, there is insufficient data from the case material as to whether there is indeed an increase in domestic consumption as there could have been increases foreign investment.

(c) (i) Define a minimum wage. [2]

A minimum wage is the lowest legally permissible wage. For it to be effective, it must be set above the equilibrium wage rate.

(ii) Explain how a minimum wage is part of the solution to inclusive growth (Extract 9). [4]

Economic growth is measured by the increase in **real** GDP.

Meaning of inclusive growth:

Inclusive growth refers to growth that benefits the majority of the labour force and where an increase in income is experienced by all.

Explain how growth can result in widening income gap

Link MW to inclusive growth [2m]

In order to ensure inclusive growth for all, the government may impose a minimum wage that is above the equilibrium wage for the low-skilled workers. This will ensure that all workers will experience an increase in income, hence being part of the solution to inclusive growth.

(d) Explain the types of unemployment that the Singapore economy is likely to face. [6]

The Singapore economy is likely to face both demand-deficient unemployment and structural unemployment.

The unemployed refers to people in the working age population who are available for work and are actively looking for a job but cannot find a job.

Demand-deficient unemployment is due to a fall in the demand for labour caused by an economic recession, and wages being sticky downward. As mentioned in extract 6, with the US Federal Reserve tapering its quantitative easing measures, US economic recovery could possibly falter. With an increase in interest rates, consumption in US will fall and therefore Singapore's exports to US will fall as evident in the 2.9% fall from a year ago. Also, Singapore's exports to the EU has also fallen 3.9%. This will mean that net exports for Singapore would have fallen. Ceteris paribus, this will lead to a fall in AD. Given that labour is a derived demand, this will lead to a fall in demand for labour. Since wage, is sticky downwards, a surplus of labour ensues leading to Singapore facing demand-deficient unemployment.

Evaluation: However, this effect is partially negated by rises in Singapore's exports to other parts of the world. Extract 6 mentions shipments to China having rose 5.3%. This could possibly dampen the effects of the fall in AD and therefore demand-deficient unemployment.

At the same time, extract 6 suggests that Singapore suffers from structural unemployment. Structural unemployment is caused by the changing pattern of demand and supply in the economy. This occurs when there is a long term decline in demand for labour in particular industries, workers lose their jobs and are unable to get new jobs due to mismatch between their skills and the requirements of the new job opportunities.

Extract 7 mentions that Singapore's long-term unemployment is increasing with available labour not having the skills that employers want. This will mean that the increase in demand for skilled labour such as accountants, legal counsels and sales administrators is not met. So while job vacancies are available as mentioned in extract 7, electronics workers who lose their jobs are unable to fill existing jobs due to the lack of relevant skills. Hence labour is prevented from transiting between industries and Singapore faces structural unemployment.

Knowledge, Application, Understanding and Analysis		
L2	For an answer that explains both structural and demand-deficient unemployment with close reference to the case material and contains developed analysis.	4-6 m
L1	For an answer with only one form of unemployment making some reference to case material but inadequate economic analysis.	1-3 m

(e) Extract 6 mentions the various challenges faced by the Singapore economy. Discuss the likely effectiveness of the policy of economic restructuring outlined in Extract 8 to address these challenges. [8]

Introduction : Clarify the challenges

Loss in competitiveness → slower economic growth, unemployment and greater income inequality.

Extract 8 suggests a three-pronged approach to economic restructuring in Singapore namely PIC, Lifelong Learning Endowment Fund and broad shifts in societal values.

Development : PIC → Incentive for investment → increase in quality and quantity of resources.

Training:

- Increases skills → increase mobility → reduces structural unemployment.
- Increase skills → Increase labour productivity → Increase output per worker → demand for workers → increases wages
- Increase skills → Increase labour productivity → Increase output per worker → Increase quality of labour → raise AS.

Broad shift in societal values:

Through a broad shift in societal values such as to have seniors keep working and to accept self-service as the norm, will dampen the effects of a shrinking labour force by an increase in labour force and through diverting labour to other expanding industries from the former low-value service industry.

These measures can help Singapore regain comparative advantage in certain industries → increase in productivity and therefore fall in opportunity cost of production. These measures will enable the AS to increase. Given that the Singapore economy is near full employment, the increase in AS will lead to actualised growth causing real output to increase. As mentioned in extract 8, if successful, this policy will be effective in accounting for two-thirds of growth compared to one-fifth previously.

Evaluation:

However, the policy of economic restructuring does not solve the cyclical issues that the Singapore economy faces. The Singapore economy also faces falling AD due to the weaknesses in the recovery of the western economies. Singapore may wish to adopt demand management policies to address these issues.

Conclusion:

In conclusion, while economic restructuring takes a long time to take effect and is dependent on the receptivity of the workers undergoing training and on the firms' willingness to invest, the policy is the most appropriate as it targets aggregate supply.

Knowledge, Application, Understanding and Analysis		
L3	For an answer that provides a thorough discussion of the policies with close reference to the case material and contains rigorous analysis.	6-8 m
L2	For an answer that attempts to discuss the policies available and make some/close reference to case material but inadequate economic analysis.	3-5 m
L1	For an answer that is one-sided or lacking in economic analysis.	1-2 m