

Suggested answers:

Question 1:

(a)	(i)	<p>Compare the trends in the percentage of population aged 60 and over for the developed and developing countries from 1950 to 2050.</p> <ul style="list-style-type: none"> - There is a rising trend in the percentage of population aged 60 and over for both the developed and developing countries. (1) <p style="text-align: center;">AND</p> <ul style="list-style-type: none"> - The percentage of population aged 60 and over is higher for developed countries compared with developing countries for the period shown.(1) <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> - <i>developing countries are predicted to experience a faster rate of increase in percentage of those aged 60 and above of the total population over the forecasted period.</i> <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> - <i>Over the recorded period, developed countries experienced a faster rate of increase of those 60 and above than developing countries. (maybe give % figures)</i> 	[2]
	(ii)	<p>Account for the above demographic trends.</p> <p>2 factors [1 for identifying 1 for explaining] x 2: (4m)</p> <ul style="list-style-type: none"> - Longer life expectancy due to better healthcare services - Falling birth rates (fertility rates) due to higher opportunity costs in having children. - The percentage of population aged 60 and over for the developing countries is lower because of higher population growth rates. 	[4]
	(iii)	<p>With the use of a diagram, explain the likely effects of this demographic change on a product market.</p> <ul style="list-style-type: none"> - Increase in demand for hospital beds, walking sticks, healthcare etc. - Rightward shift in the demand, c.p, upward pressure on price due to a shortage at the existing price → increase in P and Q. - Demand factor identified (1m) - Brief explanation of price mechanism – impact on P& Q (1m) - Diagram (1m) 	[3]

(b)	(i)	<p>What is income inequality?</p> <ul style="list-style-type: none"> - Refers to a disparity of income between lower income and higher income groups - The unequal distribution of household or individual income across the various participants in an economy 	[1]
	(ii)	<p>With reference to extract 4, explain 2 measures that the government could implement to reduce income inequality.</p> <ul style="list-style-type: none"> - Government transfers money from its “coffers” (revenue collected from progressive taxes) to low income earners through transfer payments. Eg. Workfare income supplement, the Special Employment Credit, conservancy charge rebates. This increases the disposable income of the low income earners and hence narrows the income gap. - “Skills training programme” Allowing lesser skilled workers to upgrade themselves and be able to command a higher wage thus narrowing the income gap. <p>Identifying <u>each</u> 1 measure (1m) Explaining <u>each</u> measure – (1m)</p>	[4]
(d)		<p>Discuss whether building more hospitals by the government is the best way of addressing the healthcare needs of the aged.</p> <p>Based on extract 3, the rapidly ageing population will lead to an increasing demand for healthcare needs like hospitals, nursing homes, outpatient health services and social services. This increase in demand for hospitals will result in a shortage of hospitals and the healthcare needs of the aged are not taken care of. (diagram)</p> <p><u>Thesis : Building more hospitals by the government is an efficient method to meet the healthcare needs of the aged</u></p> <p>Government has to build more hospitals to cater to the needs of the aged because</p> <ol style="list-style-type: none"> 1. Merit Good and Imperfect Info: Healthcare underconsumed from society’s point of view due to imperfect information and external benefit not captured in the decision making process of the consumer thus leading to an inefficient allocation of resources (diagram). In reaction to underconsumption producers underproduce. Government intervenes to build more hospitals increasing supply and thus lowering price and encouraging consumption. 2. Income inequality. Lower income aged may not be able to afford healthcare. If left to the market,(aged) low income earners may not be able to afford hospitalization. Market may function to serve only those who are able to pay. – <i>“The retired, elderly poor, for example, will not benefit from higher wages - but will suffer the inflation that comes in tandem, he notes. This group, who are both old and poor, will continue to grow”</i> –Government to build more hospitals to cater to the needs of the low income earners. 	[8]

Anti-Thesis : Building more hospitals by the government **is not an efficient method to meet the healthcare needs of the aged**

Limitations

1. The supply of hospitals is price inelastic, hence the increase in supply may not meet the increase in demand.
2. There is also a shortage of healthcare workers to work in the hospitals.
3. Costly to build hospitals

Alternative measures

1. Improve the outpatient healthcare services for eg, provide home visits so that the aged can recuperate at home instead of staying in the hospital
2. Collaborate with the private hospitals and community hospitals in terms of the usage of resources like doctors, nurses and hospital beds. This will help to reduce the demand for government hospital services.
3. Extend healthcare subsidies to the private hospitals and clinics such that the demand for government hospitals would be reduced.
4. Preventive measures for them to stay healthy.....

Conclusion

There is a limit in which government can increase the number of hospitals due to high costs involved and shortage of healthcare workers. The long term solution is to improve the health of the aged and to collaborate & pool resources with the private healthcare sectors.

L2	<ul style="list-style-type: none"> • A well-developed 2-sided answer, supported by case evidence and theoretical framework, that describes how building more hospitals achieves efficiency and addresses the healthcare needs of the aged AND goes on to highlight that an attempt to build more hospitals may not necessarily achieve an efficient outcome and meet the needs of the aged. • Limited use of data (max 5) 	4-6
L1	<ul style="list-style-type: none"> • A well-developed 1-sided answer that describes how building more hospitals achieves efficiency and addresses the healthcare needs of the aged using a cost/benefit analysis framework. • An undeveloped 2-sided answer (and/or with some concept errors/issues or limited use of case evidence) that also highlights the possibility that building more hospitals may not necessarily achieve an efficient outcome and also meet the needs of the aged. • An answer with some reference to data 	1-3
E	Evaluative comments with justification	1-2

(c)	<p>Discuss the impact of an ageing population on an economy.</p> <p><u>Negative impacts</u></p> <ol style="list-style-type: none"> 1. Slow down economic growth 2. Fall in labour force participation rate → fall in labour supply, c.p., → increase in wage → increase in costs of production. 3. Fall in income of the older workers → fall in purchasing power → fall in consumption → fall in AD → fall in real NY 4. Increase in government expenditure on healthcare needs, transfer payments for the aged & pensions → government may run a budget deficit. There is opportunity costs in this financing expenditure → impede economic growth 5. Ageing population may worsen income inequality (extract 4) 6. Fall in productivity of the aged <p>However, the negative impacts of the aged on economy may not be so serious if the</p> <ol style="list-style-type: none"> 1. Aged workers are highly educated. 2. There is improvement in technology which can enable the aged to continue working <p><u>Positive impacts</u></p> <ol style="list-style-type: none"> 1. Benefited the pharmaceutical companies (extract 1). A new source of income from discovery of new drugs for the aged. This will cover the loss of their income due to expiry of patents. 2. Development of silver industry like tourism, healthcare, etc <p><u>Judgement/Synthesis</u></p> <ul style="list-style-type: none"> - How significant the impact will depend on the government taking preemptive policy measures - Possible measures the government could undertake to mitigate long term negative effects - Restructure economy to better cater to the needs of the aged <table border="1" data-bbox="288 1435 1214 2054"> <tr> <td data-bbox="288 1435 360 1890">L2</td><td data-bbox="360 1435 1142 1890"> <ul style="list-style-type: none"> • A well-developed 2-sided answer, supported by case evidence and theoretical framework, that discusses the positive AND negative effects of an ageing population on the economy • A well-developed 1-sided answer (positive or negative effects) using an economic framework discussing the impact of an ageing population on an economy (max 4) • An undeveloped 2-sided answer that discusses both positive and negative impacts of ageing on an economy with limited use of an economic framework • An answer with some reference to data Limited use of data (max 5) </td><td data-bbox="1142 1435 1214 1890">4-6</td></tr> <tr> <td data-bbox="288 1890 360 1991">L1</td><td data-bbox="360 1890 1142 1991">Brief and/or superficial answer that merely lists information with no or limited explanation</td><td data-bbox="1142 1890 1214 1991">1-3</td></tr> <tr> <td data-bbox="288 1991 360 2054">1</td><td data-bbox="360 1991 1142 2054">Evaluative comments with little or no justification.</td><td data-bbox="1142 1991 1214 2054">1-2</td></tr> </table>	L2	<ul style="list-style-type: none"> • A well-developed 2-sided answer, supported by case evidence and theoretical framework, that discusses the positive AND negative effects of an ageing population on the economy • A well-developed 1-sided answer (positive or negative effects) using an economic framework discussing the impact of an ageing population on an economy (max 4) • An undeveloped 2-sided answer that discusses both positive and negative impacts of ageing on an economy with limited use of an economic framework • An answer with some reference to data Limited use of data (max 5) 	4-6	L1	Brief and/or superficial answer that merely lists information with no or limited explanation	1-3	1	Evaluative comments with little or no justification.	1-2	[8]
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1	Evaluative comments with little or no justification.	1-2									

[Total: 30]

Question 2:

(a) (i) Explain what is meant by labour productivity. [1]

- Labour productivity refers to the output produced per worker [1]

(ii) Describe the trend in Singapore's labour productivity growth from 2010 to 2012. [2]

- General trend: Singapore's labour productivity growth showed a generally falling trend between 2010 and 2012. [1]
- Refinement: There was a negative change in labour productivity of -1.4% in 2012, suggesting that labour productivity fell during the year. [1]

(b) Using Table 1, compare the internal and external economic performance of Singapore and Vietnam over the given period. [5]

Internal economic performance [3]

- **Economic growth:** Following the spike in real GDP growth to 15.2% in 2010, the Singapore economy has seen a sharp slowdown in growth to 2.5% in 2012. In comparison, the pace of growth is more even in Vietnam. Although the increase in GDP growth in 2010 was not as pronounced, they experienced a less significant slowdown in economic growth thereafter.
- **Inflation rates:** Inflation rates in both countries have generally been rising but the rates in Vietnam is significantly higher across the given period → potential threat to LT growth.
- **Unemployment rates:** Both economies experience declining unemployment rates but the rates for Singapore is higher than Vietnam.

External economic performance [1]

- **Current account:** Based on current account balance as a percentage of GDP, Singapore is more reliant on the external economy for growth compared to Vietnam:
 - Singapore experiences a current account surplus (positive current account balance as a percentage of GDP) throughout the given period while Vietnam's current account position as a percentage of GDP improved from a deficit in 2009 and 2010 but to a surplus from 2011 onwards.
 - Singapore's current account balance as a percentage of GDP is significantly higher than that of Vietnam.

Conclusion [1]

- Vietnam seems to have a stronger internal economy although strong inflationary pressures may threaten longer-term growth.
- External economy more critical in driving growth in Singapore compared to Vietnam.

(c) (i) Explain the causes of inflation in Vietnam [4]

Demand-pull inflation [2]

- Push for stronger growth → currency devaluation (Extract 8) → exports relatively cheaper in foreign currency and imports relatively more expensive in domestic currency → $\uparrow (X-M)$ → $\uparrow AD$ → if $\uparrow AD$ not matched by AS → demand-pull inflation.

Cost-push inflation [2]

- Increase in power, fuel and coal prices (Extract 8) → ↑ cost of production → cost-push inflation
- Currency devaluation (Extract 8) → imports relatively more expensive in domestic currency → ↑ cost of imported raw material → ↑ cost of production → cost-push inflation.

(ii) Discuss whether the Vietnamese government's approach is appropriate in battling inflation. [8]

Introduction: Vietnamese government's approach to battling inflation: raise interest rates / tighten money and credit; and cut budget deficit → to address demand-pull and cost-push inflation as detailed in (c)(i).

Thesis: Vietnamese government's approach can be used in battling inflation

- Raise interest rates to 14% in a flurry of increases; tighten money and credit (Extract 8) → contractionary MP
 - ↑ interest rates → ↑ cost of borrowing → ↓ incentive to consume and invest; also rising opportunity cost of consumption → ↓ C and I → ↓ AD → curbs demand-pull inflation.
- Cut budget deficit → contractionary FP
 - Cut budget deficit (Extract 8) → ↓ government expenditure by pruning inefficient public investment (↓G) and ↑ direct taxes (↓C,I) → ↓ AD → curbs demand-pull inflation.

Anti-Thesis: Vietnamese government's approach is not appropriate in battling inflation

- Policies do not address cost-push inflation.
- Policies work to mitigate the effect of rising AD on GPL but do not address the root causes (root cause is ↑X-M but FP and MP affects C, I and G).
- Limitation of policies adopted:
 - Raise interest rates – effectiveness depends on interest elasticity of investments; compromise short-term growth (Table 1: growth rates fell from 6.2% to 5.2% between 2011 and 2012) and employment in the SR and possibly potential growth due to ↓I in the LR.
 - Cut budget deficit –time lag, rigidity of government spending and political consideration of raising taxes.
- Judgement
 - Policies work to mitigate the effect of rising AD on GPL but does not solve cost-push inflation.
 - Suggest possible policies to address cost-push inflation (focused on ↓ COP)
 - Propose the need for a mix of policies to address both demand-pull and cost-push inflation.

Levels	Description	Marks
L2	A balanced answer which recognises that while raising interest rates and cutting budget deficit can be used to solve demand-pull inflation, it does not address cost-push inflation. Evaluation of policies needed, with application to Vietnamese context. For a well-developed answer that focuses on either raising interest rates or cutting budget deficit, with evaluation → max 4m	4-6
L1	One-sided answer with limited or no evaluative comments on the approach taken OR sketchy two-sided answer that does not make reference to data provided.	1-3
E	Well-developed evaluative judgment on the effectiveness of the approach adopted by Vietnam to address inflation.	1-2

(d) To what extent do you agree with the view that “Singapore's nipping foreign labour inflow policy may warrant a review”? [10]

Students must talk about the pros & cons of the foreign labour inflow policy to comment on whether it needs adjustment in the light of the problems associated with the policy & give judgment base...

Intro: Singapore characteristics of being resource scarce & trade dependent → the need to depend on foreign worker & exports & FDI. However, it has also put strain on both the physical infrastructure and the social conditions of Singapore.

Explain the recent changes in the foreign labour inflow policy → Stricter policy to reduce the overdependence on foreign workers by imposing quotas & levies (**Extract 5**)

Thesis: Need for Singapore to review foreign labour inflow policy

- Explain how foreign labour inflow policy leads to inflationary effects → lower SS of foreign labour → COP ↑ → SRAS ↓ → GPL ↑ → Cost push Inflation. (Last para Ext 5 & also 3rd Para Ext 6). Also RNY ↓ → C.P Negative impact on economic growth. (Technical Recession – Ext 6). Must Draw diagram of SRAS shift.
- Impact on export and FDI competitiveness → Higher GPL will impact our cost competitiveness (**Extract 6**) as our exports become more expensive because of inflation & also because of higher costs of doing business (**Ext 6 high lab costs & compression of profit margins**)

Anti-thesis: Singapore should not change foreign labour inflow policy because the Govt is in the process of Economic restructuring

- Reducing the over reliance on foreign labour will force the firms to improve labour productivity that has been falling → long-term or “sustainable” growth (**Extract 7**).It will also encourage firms to be more innovative and efficient.
- Draw LRAS shift to show sustained growth with price stability in LR.

Anti-thesis: Singapore should not change foreign labour inflow policy because the problems may be because of other reasons and also because the Govt is already implementing other policies.

- The increase in GPL may not due to a tighter labour market but because of other reasons like imported inflation (**last para Ext 5**) , high COE premiums and rentals →thus changing the foreign labour policy will not address the root cause of the problem.
- Inflationary pressures contained in part by ER appreciation – Table
- Support given to SMEs already (**Ext 7**)

Evaluation:

- In conclusion, while tighter inflow of low wage foreign labour would have impact on overall growth and inflation in Singapore in the short term, the main focus should be on managing the pace of adjustment and not abandoning the process of weaning off cheap labour entirely.
- Other factors such as external demand, exchange rates, government policies would also matter because in recent years, they are clearly making a bigger impact on cost of doing business in Singapore. – For example being an export-oriented economy, the Singapore government acknowledges that cost competitiveness is important for our companies and had used policy tools such as rental rebates, utility charges and tax rates to enhance our competitiveness.
- Thus it is too early to comment on whether **“Singapore's nipping foreign labour inflow policy may warrant a review”** because the long term impact of the economic restructuring needs to be seen.

Levels	Descriptor	Marks
L3	A Well-developed balanced answer with economic analysis that thoroughly explains whether the stricter foreign worker policy needs review or not in the Singapore context.	7-8
L2	Able to explain how the stricter foreign worker policy creates potential problems that's needs some adjustment but may not have elaborated on all anti thesis issues OR may not have given enough case study evidence	4-6
L1	One-sided answer with limited or no link to the nipping of the foreign worker policy OR sketchy two-sided answer that does not make reference to data provided. OR Merely lifting evidence from the passage but no clear link to economic problems	1-3

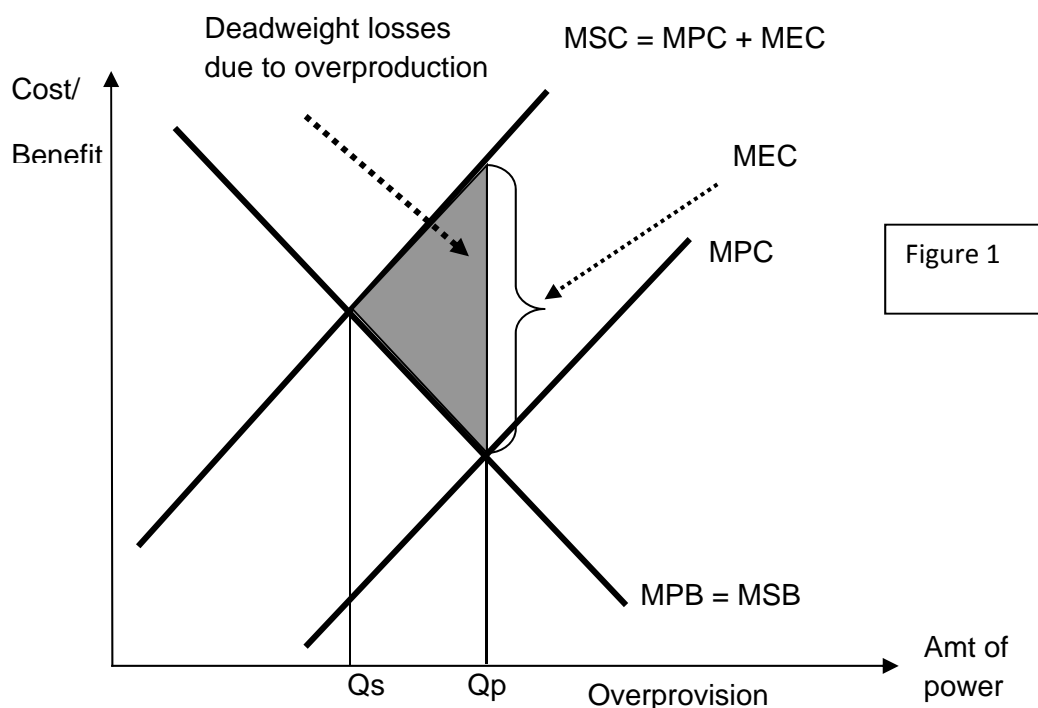
E	Judgment based on Economic restructuring →able to give evaluation based on short term losses Vs Long term gains	1-2
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Question 3:

"Climate change, once considered an issue for a distant future, has moved firmly into the present. The evidence is visible everywhere from the top of the atmosphere to the bottom of the ocean. Some changes are already having a measurable effect on food production and public health. The global warming of the past 50 years is primarily due to human activities, predominantly the burning of fossil fuels.

National Climate Assessment 2014, USA

- a. Explain why economists describe climate change as an example of market failure? [10]
 - b. Critically evaluate the measures countries can take to address the above market failure. [15]
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- a. Explain why economists describe climate change as an example of market failure? [10]
 1. Explain market failure (highlighting the essential components):
 - a. Workings of free market leads to undesirable outcomes from a societal viewpoint leads to:
 - Deadweight losses
 - Total (ie. consumers' plus producers') surpluses or societal welfare is not maximized
 - Leading to inefficient allocation of resources
 - b. Explain that fossil fuels refer to oil and coal
 - Activities that use fossil fuels lead to emission of carbon dioxide and other greenhouse gases. These activities result in negative externalities. Such activities include:
 - industrial production
 - Transport sector - cars, planes, ships
 - excessive use of electricity – power generation accounts for high fuel usage
 2. Explain how negative externalities cause market failure by changing the world climate
 - The externalities could be due to production and/or consumption activity
 - a. Choose a context of a particular market activity to illustrate a negative externality in production or consumption (application) – eg. negative externality arising from production using example (Power production from oil or coal)
 - b. Define negative externality in context – the actions of producing electricity by parties directly involved (1st parties) imposes an external cost (EC) on other members of society (3rd parties).
 - c. The free market perspective
 - Identify objective of the 1st party - to maximize net private benefits where the revenue that they would gain from the level of power production is more than the costs incurred in using/buying resources to produce that level of power (ie. TPB – TPC = max.)
 - Choosing to produce at output level where MPB=MPC, i.e. Q_p. (P_{te} equilibrium).
 - When the 1st party produces electricity, they generate negative externality (eg. air pollution & greenhouse gases all of which results in global warming) that imposes external costs for other members of society (3rd parties).
 - This external costs (EC) comes in terms of possible harsh weather as a result of global warming and through the harsh weather results in possible poor harvest or ill health which translates into financial or monetary losses for 3rd parties such as farmers.
 - The EC will cause a divergence between private costs and social costs causing the marginal private cost (MSC) curve to be higher than the marginal private benefit (MPC) curve. (See Figure 1)
 - It should be noted that as a result of the EC imposed, output Q_p results in MSC > MPC due to MEC.



d. The societal perspective

- Identify the objective of the society – to maximise societal welfare or net social benefit, (where $TSB - TSC = \max$.)
- Preferred output level is where $MSB = MSC$, ie. output Q_s .
- At output Q_p , with $MSC > MSB$, any production adds more to cost than benefits for the society – leading to a deadweight loss (vertical distance) for this unit of production.
- This deadweight loss cease to exist once the preferred output level is achieved (where $MSB = MSC$ ie. output Q_s).
- As long as pte/free market output levels (Q_p) is greater than optimum output levels (Q_s) there is an over-production of the power and an over-allocation of resources.
- The shaded region (Figure 1) represents the deadweight loss (or monetary measure of welfare loss) to society when 1st parties are maximising their net private benefits when externalities exist at Q_p resulting in over-production of power.
- Thus, market failure results as there is an over-production of power that emits negative externality and resources are inefficiently allocated as such.

Note that illustration using fossil fuel as the product is not acceptable. Examples should be based on activities such as production goods & services or consumption e.g car usage.

Knowledge, Application, Understanding and Analysis		
L3	A clear and developed explanation of how the market fails with a proper diagram. Both production and consumption activity should be mentioned with one in greater detail	7 – 10
L2	Limited explanation illustrating how negative externality lead to market failure. Limited use of relevant examples to support explanation.	5 – 6
L1	Weak or limited clarity of understanding of key concepts or ability to show how negative externality lead to market failure. Did not use or give relevant examples.	1 – 4

b. Critically evaluate the measures countries can take to address the above market failure. [15]

Possible measures include

1. Pollution Permits (tradable/non-tradable) – used in USA, Shenzhen
2. Tax / Carbon Tax – e.g. petrol tax /Canada, South Africa in 2016
3. Legislation – e.g. use of catalytic convertors, Euro 6 emission standards, recycling requirements
4. Supply Side – e.g. grants for R&D to reduce emission, switch to hydro, wind and solar power
5. Campaigns – less plastic bags, economy drive, Reduce, Re-use & Recycle

The measures are to be discussed with regard to the appropriate markets with relevant diagrams. Evaluation is to be based on appropriateness and difficulties for different countries and markets. Criteria that can be used are: monitoring costs, feasibility & cost of implementation, correct target group (consumer or producer), compliance cost and possible side-effects. One key issue would be compliance by all countries or any agreement may eventually breakdown as governments would see the solutions as an unfair burden.

Conclusion

Need to recognise that different markets/countries require different solutions. Although most solutions can be short term or just slow down climate change, long term solutions tend to converge towards technology and alternative energy sources.

Knowledge, Application, Understanding and Analysis		
L3	Able to provide clear explanation of a range of measures (min 3) that are currently adopted, with examples and assessed in terms of effectiveness / limitations.	9 - 11
L2	Able to provide explanations of some measures that are currently adopted in some countries with limited assessment of the measures (at least 2)	6 – 8
L1	Provide measures that are largely text book in nature without reference to any country..	1 - 5
E2	Holistic evaluation across countries.	3 - 4
E1	Evaluative statement that is based on economic analysis i.e student is able to justify and arrive at a conclusion.	1 – 2

Question 4:

- (a) **Explain how a fall in exchange rate would affect the components of aggregate demand of a country.** [10]
- (b) **In view of the uncertainties of the global economy due to the financial crisis and conflict in Middle East, discuss Monetary Authority of Singapore's (MAS) stance of maintaining a modest and gradual appreciation of Singapore dollar.** [15]

(a)

Introduction:

- Define AD
- Determine framework (DD/SS in foreign exchange market)
- Change in ER: can be appreciation or depreciation (student to choose either context)

Body:

- **Brief explanation of ER determination (interaction of DD and SS of S\$)**
- **Explain how € depreciation affect C and X:**

€ depreciation --- fall in prices of exports in foreign currency --- assuming PED of X is price elastic --- quantity demanded of X will increase more than proportionately --- increase in X revenue

€ depreciation --- increase in prices of imports in € --- domestic goods (import substitute) become relatively cheaper --- increase demand for domestic goods --- increase in C

- **Explain how € depreciation might affect I:**

€ depreciation --- lower cost of investment for foreign investors (less foreign currency needed to invest the same amount in €) --- increase investments returns --- increase in FDI

€ depreciation --- lower returns for € profits denominated in foreign currency --- lower returns on investment --- fall in FDI

- **Explain how € depreciation might affect G:**

€ depreciation --- increase in foreign debt (denominated in US\$) --- government would have to pay more in domestic currency (€) for the same amount of US\$ debt --- might lead to fall in G on domestic projects (opportunity costs), such as infrastructure development, if the government is due to make debt payment and reserves is low

Conclusion:

- Effect of ER changes on the AD depends on other factors as well, such as investors' confidence and amount of foreign debt a country possess. Impact on the economy would depend on the current state of the economy.

L1	<ul style="list-style-type: none"> • Able to identify the components of AD • Weak explanation of how ER can affect some components of AD 	1-4
L2	<ul style="list-style-type: none"> • Adequate explanation of at least 2 components of AD • Provided brief explanation on ER determination 	5-6
L3	<ul style="list-style-type: none"> • Good explanation on how ER affect 2 components of AD with contextual discussion Or • Good explanation on how ER affect 3 components of AD • Good explanation on how ER affect 3 components of AD with context discussion 	7-8 9-10

(b)

Introduction:

- Singapore ER system – Managed Float
- Global economy uncertainties – US and Euro crisis and rising oil prices

Body:

- Singapore's ER system – Managed Float --- explain how gradual appreciation can be achieved via purchase of S\$ in foreign exchange market
- Explain how US and Euro crisis affect Singapore economy in terms of X and FDI --- fall in AD --- link to macro goals
- Explain how rising oil prices affect Singapore economy --- increase in COP --- fall in SRAS
- Explain how gradual appreciation can mitigate the impact of imported inflation
- Explain how in the LR, cheaper imports of raw materials will improve Singapore's export competitiveness
- Evaluate the measure of gradual appreciation --- conflicting objectives --- compromising SR export competitiveness and making investment in Singapore more expensive for foreign firms --- fall in actual growth and potential growth --- unfavourable BOP position --- detrimental in view of current economic slowdown of global economy
- External shock (financial crisis) can never be solved by Singapore government
- Suggest alternative solutions to mitigate impact of financial crisis:
- Short run supply side measures, such as subsidies to households (transfer payments) to raise domestic consumption; subsidies to firms to reduce cost of production
- Other policies in place (expansionary FP) to encourage domestic consumption and boost government expenditure on infrastructure development to mitigate the impacts

Conclusion:

- ERP is used to tackle imported inflation which is crucial in ensuring Singapore remain cost competitive in terms of both export and investment
- Good scripts will discuss the importance of maintaining a gradual appreciation to avoid erosion of export competitiveness.

L1	<ul style="list-style-type: none">• Weak 2-sided discussion on the effects of strong S\$ on the Singapore economy• Adequate one sided discussion• Brief explanation on Singapore's ER system (managed-float)	1-5
L2	<ul style="list-style-type: none">• Good one-sided discussion on effect of strong S\$• Adequate 2-sided discussion	6-8
L3	<ul style="list-style-type: none">• Good 2-sided discussion on ERP taking into consideration of the contexts• Good application of Singapore context	9 10-11
E1	<ul style="list-style-type: none">• Stand on the effects of ERP on Singapore in view of the financial crisis and rising oil prices• Explain the stand	1-2
E2	<ul style="list-style-type: none">• Understand the limitations of ERP and hence the recommend other complementary policies	3-4