

Question 1 Soaring Commodity Prices: A Cause for Nutritional ‘Inequity’?
Extract 1: Sugar prices defy rising supply surplus

Sugar prices are defying mounting surpluses on the back of large crops in Brazil, Thailand and China, keeping the commodity stuck at a historically elevated range of 19–22 cents a pound.

The mood in the industry has remained cautious as it gathered in London for its biennial Sugar Week, due to the uncertainty over the effects of the Brazilian weather as well as the country’s biofuel policy, which in effect puts a floor under the market.

Apart from the weather, the so-called “ethanol parity” – the price level at which it becomes more profitable for Brazilian processors to turn their sugarcane into ethanol – is providing support.

The short term uncertainty comes amid a bullish long term backdrop, with demand for sugar in developing countries forecast to rise as their economies grow. McGraw-Hill’s price reporting agency Platts forecast world sugar consumption to grow by 32m tonnes by 2020, an increase of 2.2% a year.

Source: The Financial Times, <http://www.ft.com>, accessed 18 October 2012

Table 1: Sugar production, kilo tonnes (for biofuels)

	2008	2009	2010	2011	2012
Brazil	34318	40878	38127	35195	40300
China	13585	11650	11365	12520	14600
Thailand	7478	7131	10061	10670	9500

Source: OECD-FAO Agricultural Outlook 2013-2022

Extract 2: Is this the end of the soft-drink era?

Coca-Cola Co., PepsiCo Inc. and Dr Pepper Snapple Group Inc., the three biggest soda companies in the US, have struggled to reverse the decline in soda consumption in the US, where shoppers increasingly reach for water, coffee, and other drinks.

Now they have a bigger worry: soda revenue.

As US consumption steadily slipped over the past eight years, the beverage giants typically were able to raise prices enough to keep soda revenues from America’s favourite drink growing. But soda sales at US stores declined in the second half of last year – including during the holidays, when partygoers normally pay up to gulp more.

Now industry analysts wonder if the downturn in sales is here to stay.

"The question from here is if that is the new norm," Steve Powers, a beverage analyst at Sanford C. Bernstein, said of the latest store sales numbers.

Soda companies raised prices aggressively in 2011 after commodity costs surged. Prices were increased a bit in late 2012, but volumes fell even more sharply.

Sugary bubbles have become a lightning rod in the US for consumer health concerns, such as diabetes and obesity.

Meanwhile, baby boomers are aging, and soda's traditional target market – youth – is often turning to water, energy drinks and coffee instead.

Coke, Pepsi, and Dr Pepper Snapple have all aggressively expanded their portfolios to include faster growing products like sports drinks and fruit juices. PepsiCo is also investing hundreds of millions of dollars in marketing to turn around its US soda business after losing market share to Coke. In 2010, Diet Coke unseated Pepsi as the No. 2 domestic soda by volume, behind Coca-Cola.

The soda companies also are working to develop zero- or low-calorie natural sweeteners that better mimic the taste of full-calorie sodas. But the going has been slow, keeping diet soda's share of the overall soda market at around 30%. One candidate, based on the stevia plant, can leave a bitter aftertaste in some sodas, particularly cola.

But such efforts have yet to turn soda's fortunes. Pepsi Next and Dr Pepper 10 each have less than a 1% market share and Coke's last big diet cola launch, Coke Zero, was in 2005. Some industry observers think soda companies haven't done enough on other fronts to win back drinkers.

"They're so focused on a sweetener event that they've neglected more traditional innovation like flavors and functions," said Mark Swartzberg, a beverage analyst at Stifel Nicolaus.

Source: The Wall Street Journal, <http://online.wsj.com>, accessed 13 January 2013

Extract 3: UK's food poverty revealed – nutrition falls as fruit and vegetable prices rise

The UK's poorest households are being disproportionately hit by the impact of soaring food prices, according to new government figures that also show the consumption of every major nutrient has fallen in the last four years.

In order to cut costs since 2007, UK households have spent less on fresh produce but more on bacon.

The government's annual Family Food survey, which provides the most detailed annual snapshot of food and drink spending and consumption, found that weekly spending per person on all household food in 2011 was £27.99, an increase of 1.5% on the previous year. But because of price rises, that bought less food – 4.2% less in 2011 than in 2007.

The survey also showed how households saved 6.8% by "trading down" to cheaper – and in many cases, less healthy – products, hitting consumption of fresh fruit and vegetables.

The poorest have been hit hardest by price rises. One pound in every six of household expenditure for the poorest 20% went on food, compared with one in nine for all UK households. Among the poorest members of society, consumption of every major nutrient has fallen between 2007 and 2011. By contrast, among the richest tenth of the population, the intake of nine of the 20 nutrients has risen or stayed roughly the same.

The report finds further evidence for a "nutritional recession", with rising food prices and shrinking incomes driving up consumption of fatty foods and reducing the amount of fruit and vegetables we buy.

A Defra spokesperson said: "We take rising food prices very seriously and understand the pressure it puts on families' budgets. The government is helping the most vulnerable in society afford and have access to nutritious food."

"We give school pupils free fruit and vegetables, and help pregnant women and new mums on the lowest incomes buy essential foods. We are working to keep the global food market stable, helping families get their food at the best price."

But consumer groups said the government should be doing much more to help the most hard-pressed social groups eat more healthily. Malcolm Clark, coordinator of the Children's Food Campaign, said: "With nutrition trends continuing to go the wrong way, especially amongst lower income households, how much longer will the government rely on half-measures and a failing leave-it-to-industry approach?"

"We have little confidence that the latest pledges on increasing fruit and vegetable consumption will have much impact, especially whilst retailers and manufacturers continue to heavily promote junk food and sugary drinks."

Source: The Guardian, <http://www.theguardian.com>, accessed 13 December 2012

Suggested Answers

(a) Compare the change in production levels of sugar for the three countries in Table 1. [2]

- Similarity: Production by all 3 countries rose.
- Difference: The rise in production by Thailand is the fastest (27%) followed by Brazil (17%) and lastly by China (7%).

(b) Explain why 'sugar prices defy rising supply surplus' (Extract 1). [3]

- Theoretically with rising supply surplus, prices in the free market should fall.
- However, according to the data, sugar prices remained "at a historically elevated range" as seen in Extract 1 despite this surplus. This supply surplus resulted from the "mounting surpluses on the back of large crops" whereby there is a rise in supply of sugar crops.
- This is likely due to the fact that there is a rise in demand which exceeds / offset the rise in supply.
- Any one DD determinant elaboration:
 - Case: 'more profitable for Brazilian processors to turn their sugarcane into ethanol' Ext 1 para 3.
 - Analysis: Higher profitability provided a greater incentive for producers to increase ethanol biofuel production → since sugar is a raw material in the production of ethanol → rise in derived demand for sugar → price of sugar rose

(c) In view of the market structure that the US soda companies are operating in, explain why there is a need for them to raise price in 2011. [4]

- Case: 'three biggest soda companies' suggests that this is an oligopoly market structure.
- Analysis:
 - Traditionally, price rigidity is observed in oligopoly due to mutual interdependence of few dominant firms.
 - Using the non-collusive theory of the kinked demand curve, the demand curve has a kink whereby the upper segment is price elastic, lower segment is price inelastic. Thus the MR curve has a vertical segment.
 - Due to mutual interdependence, no firms will follow if a firm raises prices so its quantity demanded will fall by more and total revenue falls therefore firms do not initiate price rises. Thus the rise in prices must be due to significant rise in MC.

(d) Using Extract 2, comment on one strategy that the soda companies use to increase market share. [3]

Increase market share means sales (can be value or volume) of a firm as proportion of the total industry sale rises. For simplicity, sale is taken to be revenue obtained by price multiply by quantity. Ceteris paribus, rise in TR means rise in market share.

'Expanded their portfolios' such as sports drinks and fruit juices
By entering into new drinks, the firm reaches out to a larger consumer base and cannibalise the juices producers' share. This $\uparrow Q_{\text{d}} \rightarrow \text{TR}$ of soda firms assuming price is the same.
OR: Firms can enjoy economies of scope by spreading overhead costs of advertising and thus lower unit cost of production. They can then offer discount when DD is price elastic, $Q_{\text{d}} \uparrow$ more than proportionately, thus $\text{TR} \uparrow$.
Case: youths.....turning to energy drinks suggest that this strategy to <u>suited changing taste and preferences</u> will raise market share.
In addition, fruit juices are traditional sweet beverages with little innovation required and low financial risk of failure.

- (e) Using relevant elasticity of demand concepts, discuss the impact of rising food prices and shrinking incomes on expenditure on food items such as fresh produce and bacon. [8]

- The concepts of elasticity of demand can explain the impact of the above factors under ceteris paribus assumption.

PED	YED
Ext 3 para3 'weekly spending (£€\$) increase by 1.5%....because of price rises, that bought less food (Qty), thus DD is price inelastic because food is a necessity.	"Shrinking incomes driving up consumption of fatty foods & reducing the amount of fruit.." \Rightarrow fatty food is inferior while fruit is a normal good. Assume fruits and veg are normal luxury good.
A rise in price of food (trigger) will result in a less than proportionate fall in quantity demanded of food, ceteris paribus.	Fresh produce YED is positive and greater than 1 while bacon (fatty food) has a negative YED value. This is because the people do not see fresh produce as an essential while bacon is a necessity and it provides energy for survival.
Since the rise in spending from the rise in price is greater than the fall in spending from the reduced quantity demanded, TE rises.	When incomes fall (trigger), demand for fresh produce will fall more than proportionately, ceteris paribus and TE falls. On the other hand, demand for bacon will rise as incomes fall and thus TE rises.

- Evaluation/critique of Elasticity of Demand:
 - However in reality, more than one factor is changing hence the ceteris paribus assumption does not hold. The extract states that the combined effect is 'driving up consumption of fatty foods and reducing the amount of fruit and vegetables', thus the concepts have to be used together to explain the final impact.

L3	Thorough analysis of 2 elasticity concepts and well-developed discussion of any elasticity concept. Demonstrate clear understanding of use of ceteris paribus assumption.
L2	Thorough analysis of any 2 concepts. Sufficiently developed analysis of 2 concepts but with some evaluation of concepts. Thorough analysis and discussion of one elasticity concept for the lower band.
L1	Smattering of ideas due to merging the concepts without the use of ceteris paribus assumption.

(f) 'The government should be doing much more to help the most hard-pressed social groups eat more healthily.' As a consultant economist, discuss the various ways the government can adopt to achieve the microeconomic goals. [10]

- The government should manage both demand and supply of healthy food to address the root causes of underconsumption of healthy food (OR overconsumption of unhealthy food) amongst the poor namely rising food prices, falling incomes and aggressive promotions of junk food so as to achieve the goals of income equity and efficiency in allocation of scarce resources.
- Free food for the poor is equivalent to 100% subsidy. The government will give the subsidy to the food producers based on estimated quantity and type of free food required. This subsidy will provide an incentive to the producers as it lowers the cost of production and thus supply increases. In this instance, price for the target social groups will fall to zero and quantity demanded maximised. In the short term, such subsidies lower inequity as food costs is a rising proportion of a poor's income.

EV1: This method of subsidising only the poor is less taxing on government budget and effective if the root cause of underconsumption is due to unaffordable food prices. But nevertheless the rise in food prices means rising expenditure on subsidy and an opportunity cost will incur in terms of the next best alternative foregone which could be lower subsidy on education for the poor. Such form of subsidy is also a short term measure and does not address the long term problems of low income or continuous rise in food prices.

The government has to intervene in the promotion of junk food to address allocative inefficiency as consumers have imperfect information on the health costs of fatty food in causing diabetes and heart problems.

Regulation can be in the form of sin tax on fatty food and bans prohibiting advertising high-calorie food.

- The right amount of tax $\rightarrow \uparrow$ cost of production \rightarrow producers have less incentive and thus \downarrow ss $\rightarrow \uparrow$ price of junk food $\rightarrow \downarrow$ Qd of junk food $\rightarrow \uparrow$ DD of substitutes i.e. healthy food. Thus this addresses overconsumption of junk food and underconsumption of healthy food.

By carrying out campaigns targeted at lower-income families through community groups to educate the youth about the importance of healthy eating habits. If successful, the poor's taste and preference will switch from fatty food towards substitutes like fresh produce, thus an increase in demand for such healthier options.

- This helps to address the root cause of the imperfect knowledge of consumers as they may underestimate the true private benefit of healthy food which is intrinsically good for them and overvaluing junk food which is intrinsically harmful to health.
- However, to influence and shift consumers' tastes and preferences takes time as ingrained habits require quite some time to break. Hence this measure is only likely to be effective in the long run.

Conclusion

- Government has to use both demand and supply strategies to achieve income equity and allocative efficiency in terms of healthy eating.
- Even though government failure exists whereby bureaucracy results in slow decision making and higher costs, some form of intervention still yields a better outcome as resources allocation by the market does not take into consideration on equity.

L3	Thorough analysis and discussion of both DD and SS methods to increase health eating and meeting microeconomic goals of equity and efficiency. Sufficient use of case materials to support analysis and evaluation.
L2	Sufficient analysis of DD & SS methods with some evaluation. No analysis or discussion on equity. Thorough analysis of methods.
L1	Descriptive answer or smattering of ideas.

Question 2 Taking the Pulse of Eurozone

Extract 4: What Germany offers the world

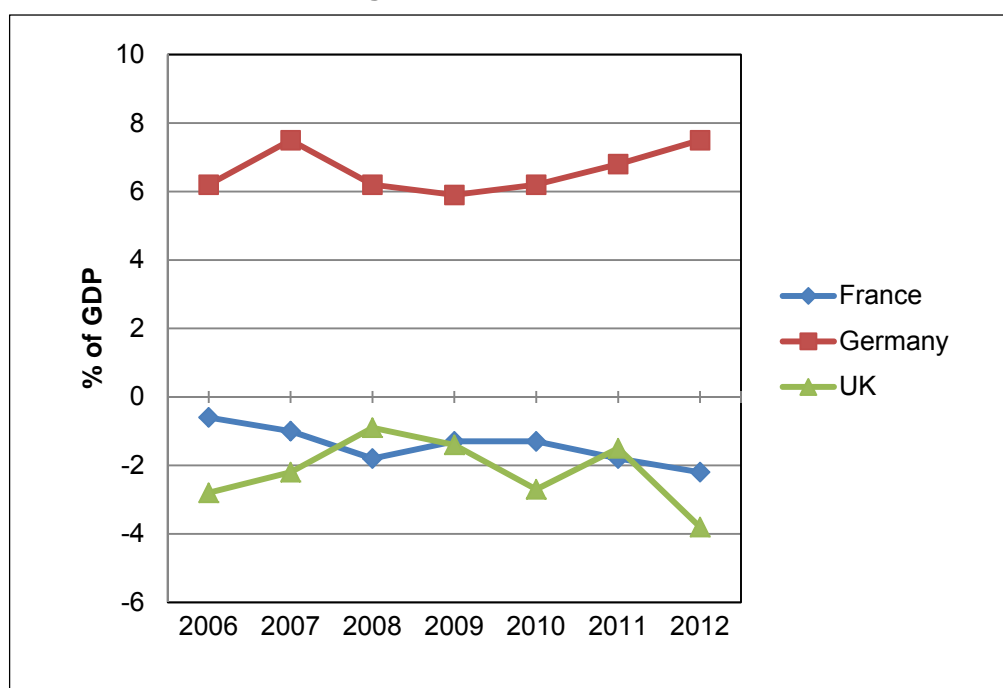
Beckhoff Automation, one of Germany's family owned businesses, is among thousands of "hidden champions" that account for much of Germany's prowess as a manufacturer and exporter. Its sales leapt 34% to €465m last year. It is aiming for €2 billion by 2020. Largely thanks to its Beckhoffs, Germany looks like a bright exception to the dispiriting rule among developed economies. True, its economy contracted more than those of most rich countries during the 2008-09 world recession, but the jobless rate rose by less than in all the others, peaking at 7.9%. And nobody talks about downgrading Germany's AAA credit rating; it can borrow money for practically nothing.

Not all the news is good. The economy shrank in the final quarter of 2011; and even if first quarter figures do not reveal Germany itself to be in recession, its economy will continue to suffer the drag of recession elsewhere in the euro area and a slowdown in developing countries. But just 1% growth is enough to create jobs, according to Bert Rürup, a former chairman of the government's council of economic "wise men". In a book written with a journalist, Dirk Heilmann, "Fat Years: Why Germany has a Brilliant Future", he giddily predicts that by 2030 Germany will become the world's richest large country in terms of income per head.

Such success brings a great deal of admiration. Spain's education minister is looking into Germany's "dual system" of vocational training, which combines classroom instruction with work experience. John Cridland, director of the Confederation of British Industry, wants Britain to have its own version of firms like Beckhoff. Nicolas Sarkozy began his campaign for re-election as France's president sounding as if he would gladly swallow the model whole. Germany prioritised "jobs, jobs, jobs," he said. "If it worked for them, why wouldn't it work for us?"

Source: *The Economist*, 14 April 2012

Figure 1: Current account



Source: OECD

Table 2: Selected economic indicators of Germany

	2009	2010	2011	2012
Annual % growth rate (at constant prices)	-5.1	4	3.3	0.7
Consumer prices inflation (annual %)	0.3	1.1	2.1	2.0
Unemployment (% labour force)	7.7	7.1	5.9	5.4
Government debt (% GDP)	47.6	55.5	55.1	56.9
Gross capital formation (% GDP)	16	17	18	17

Source: World Bank

Extract 5: The eurozone crisis: growth problem

Europe's politicians are often berated for an excessive focus on austerity. And it seems likely that there is a huge problem with several countries pursuing austerity simultaneously. One cannot switch the economy from domestic consumption to exports, if all your neighbours are trying to do the same. Canada's success in the 1990s occurred during the great boom of its biggest trading partner, the US.

This is what makes the debt crisis so difficult. The best way to eliminate a debt problem is to grow the economy rapidly but Europe seems to have lost the knack. And the demography is not encouraging because the workforce is likely to stagnate or shrink. Indeed, there was something perverse about taking on so much debt in the first place; debt requires confidence, on the part of the lender or the borrower and ideally both, that the borrower's income is going to grow. But Europeans piled up the debt even as the growth rate slowed, rather like a 64-year old going on a spending spree before retirement.

It may well be that European economies would perform better collectively if austerity programmes were relaxed. But it is a stretch to believe that Europe can return to the growth rates seen in the 1960s or even the 1970s. And those rates might be needed to make the debt problem go painlessly away.

Source: *The Economist*, 17 December 2012**Extract 6: Eurozone needs a growth strategy, not more austerity**

The recession on the eurozone's periphery is deepening and moving to the core, namely France and Germany. Indeed, the recession will worsen throughout this year, for many reasons. First, fiscal austerity is accelerating the contraction, as higher taxes and lower government spending and transfer payments reduce disposable income and aggregate demand. Moreover, as the recession deepens, resulting in even wider fiscal deficits, another round of austerity will be needed. And now, thanks to the fiscal compact, even the eurozone's core will be forced into recessionary austerity.

Moreover, while über-competitive Germany can withstand a strong euro, for the rest of the eurozone's periphery, where unit labour costs rose 30-40% during the last decade, the value of the exchange rate would have to fall to parity with the US dollar to restore competitiveness and external balance. After all, spending less and saving more to reduce debts depress domestic private and public demand and the only hope of restoring growth is an improvement in the trade balance, which requires a much weaker euro. Meanwhile, the credit crunch in the eurozone periphery is intensifying: thanks to the European Central Bank

(ECB) long-term cheap loans, banks there don't have a liquidity problem now, but they do have a massive capital shortage.

There are also signs of austerity and reform fatigue both in Spain and Italy, where demonstrations, strikes, and popular resentment against painful austerity are mounting with the rise in unemployment rates and a severe lack of jobs. The trouble is that the eurozone has an austerity strategy but no growth strategy. And, without that, all it has is a recession strategy that makes austerity and reform self-defeating, because, if output continues to contract, deficit and debt ratios will continue to rise to unsustainable levels. Moreover, the social and political backlash eventually will become overwhelming.

Structural reforms in areas such as education, innovation, competition and green growth is also essential but that which will eventually increase productivity growth can be recessionary in the short run. Increasing labour market flexibility by reducing the costs of shedding workers will lead to more layoffs in the public and private sector in the short run, exacerbating the fall in incomes and demand.

Without a much easier monetary policy and a less front-loaded mode of fiscal austerity, the euro will not weaken, external competitiveness will not be restored, and the recession will deepen. And, without resumption of growth – not years down the line, but in 2012 – the stock and flow imbalances will become even more unsustainable. More eurozone countries will be forced to restructure their debts, and eventually some will decide to exit the monetary union.

Source: *The Guardian*, 13 April 2012

Suggested Answers

(a) (i) Compare Germany's balance on current account with that of France's and Britain's over the period 2006 to 2012. [2]

- While Germany enjoyed a current account surplus over the period, France and Britain's current account was in deficit.
- Germany's current account surplus (as a % of GDP) was rising while France and Britain's current account deficit (as a % of GDP) was also increasing.

(ii) From Extract 4, explain one reason for the difference you observed. [2]

- Structural factor – Extract 4, para 3 states that Germany's has a "dual system" of vocational training, which combines classroom instruction with work experience (Extract 6, Para 3).
- This suggests that Germany has a comparative advantage in the production of high-tech value added goods due to their unique education system in Europe which leads to higher productivity, lower unit cost of production and causes exports to be more competitive. Net exports increases, which accounts for Germany's rising current account surplus.
- On the other hand, without such an infrastructure in France and Britain as stated in Extract 4, Para 3 "... wants Britain to have its own version of firms like Beckoff", their exports might have loss competitiveness, which accounts for the rise in current account deficit.

(b) How far can Figure 1 be used to infer about Germany's current account contribution to its economic growth between 2009 and 2012? [4]

- Germany's economic growth rose rapidly from 2009 to 2010 before slowing down till 2012 → real GDP was rising but at a slower rate.
- As Germany's current account surplus (as a % of GDP) continued to increase over the period. It contributed to the rise in real GDP as (X-M) rise → national output rises, leading to the rise in real GDP. Hence current account contributed largely to the economic growth.
- However, there are other factors contributing to economic growth besides (X-M) such as C, I and G which are not shown in Fig 1. Hence while (X-M) continued to rise at a constant rate, if C, I and G fell, it might result in a smaller increase in GDP → as explained by the fall in rate of economic growth shown in Table 2.

(c) In view of rising labour cost, explain whether allowing the exchange rate 'to fall to parity with the US dollar will restore competitiveness and external balance'. [4]

- Allowing the Euro 'to fall to parity with the US dollar' suggest a depreciation of the exchange rate.
- This is necessary because Extract 6, para 2 suggests that "unit labour costs rose 30-40%". This raises cost of production due to wage cost push inflation → AS ↓ in the short run → firms will pass on the rising cost to consumers in the form of higher domestic and export prices → ↑ Px.
- As export prices increases, Euro's exports might lose competitiveness → Assume $PED_x > 1$ → more than proportionate fall in quantity demanded for exports → ↓ TRx. Assume imports are relatively cheaper → DD for imports rises → TEM ↑ → (X-M) ↓ → Worsening current account upsets the external current account balance the Eurozone.
- However, allowing the Euro "to fall to parity with the US dollar will restore competitiveness and external balance" if the fall in value of the Euro is greater than the rise in COP → help to offset the rise in COP leading to an overall ↓ Px in foreign currency. On the other hand, Pm ↑ in domestic currency. Assume ML condition holds, where sum of PED_x and PED_m is more than 1, (X-M) ↑ and this restores the external balance in the Eurozone.

Evaluation

- However, if there was only a weak depreciation which is insufficient to offset the rise in the COP given that "unit labour cost rose 30-40%" → overall the price of exports will still rise and there will not be an improvement on the current account.

(d) The data elaborates on the effects of fiscal austerity (Extract 6) on the eurozone. Discuss how such a measure will affect its standard of living. [8]

Introduction

- Material SOL is measured by the quantity of goods and services consumed by an individual while non-material SOL is measured by factors such as happiness, crime rates, socio-economic factors ie. life expectancy, infant mortality rates, quantity of leisure, etc
- Fiscal austerity refers to a fall in government expenditure and a rise in tax revenue in order to reverse the budget deficit situation in the country.
- While fiscal austerity can reduce material and non-material SOL in the short run, when the budget deficit is corrected, it can lead to an improvement in the SOL in the long run.

Fiscal austerity measures have negative effects on the country's material SOL in the SR

- Extract 6, Para 1 states that 'fiscal austerity is accelerating the contraction, as higher taxes and lower government spending and transfer payments reduce disposable income and aggregate demand.'
- When a country adopts fiscal austerity measures, there will be a fall in G and higher personal and corporate income tax. The rise in personal income tax will cause a fall in disposable income and consumption (C). In addition, a rise in corporate tax will also decrease post-tax profits, so the level of investments will fall. When C and I fall, AD and NY fall. This triggers the reverse multiplier effect which causes a multiple fall in national income and employment. As the amount of goods and services produced in the economy falls, there is also less for consumption, hence material SOL falls in the short run.

Fiscal austerity measures can improve the country's material SOL in the LR

- The objective of the fiscal austerity measure is to reduce the government spending and increase the government tax revenue with the intention of reversing the government budget deficit and debt in the EU.
- In the LR, this reduction of debt will boost investors' confidence in the EU and investors will start to increase their FDI into the region again. With an increase in FDI, AD and AS can rise again in the Eurozone, leading to an improvement in future SOL.

However, fiscal austerity can also cause non-material SOL to suffer in the SR.

- The austerity measures especially the rise in income taxes and the reduction in transfer payments (ie. Unemployment benefits) would have caused a high level of unhappiness in the economy especially. In addition, a fall in government expenditure on public projects could also cause a rise in unemployment rates, stress levels, unhappiness and crime rates can increase leading to a fall in non-material SOL.

Conclusion

The fiscal austerity measures will likely cause material and non-material SOL to fall in the short run. However, if the measures work to achieve its objective which is to reduce debt in the LR, material and non-material SOL can then increase.

Levels	Levels Descriptor
L3	<ul style="list-style-type: none"> • Thorough explanation of the effects of the austerity measures in both the SR and LR. • Good reference to how austerity affects both material and non-material SOL. • Effective application of case material. • Insightful conclusion that rounds up the discussion.
L2	<ul style="list-style-type: none"> • Good explanation of austerity measures but lacking in reference to both the SR and LR. • Some discussion on material AND non-material SOL but with some gaps in analysis. • Inconsistent application of case material.
L1	<ul style="list-style-type: none"> • Weak understanding of austerity measures with limited explanation and many gaps in analysis and/or evaluation • Answers may contain conceptual errors. • Weak application of case material.

- (e) Nicholas Sarkozy claimed that Germany prioritised 'jobs, jobs, jobs'. To what extent do you agree that 'jobs, jobs, jobs' should continue to be Germany's top priority in 2012? [10]

Introduction

- Prioritising 'jobs, jobs, jobs' refers to placing low unemployment as the top economic goal and where the government implements policies in order to achieve the goal.

Body

Thesis: Unemployment should continue to be Germany's top priority goal in 2012

Even though unemployment has been falling, Germany should continue to place emphasis on low unemployment as a high degree of unemployment brings about serious consequences

- In 2012, unemployment stands at 5.4% (Table 2) of the labour force. As the unemployment rate has been falling since 2009, which is a positive sign, it also suggests that Germany should continue to press on in terms of lowering unemployment to avoid the consequences of high unemployment.
- The problem of high unemployment → wastage of scarce resources and a loss of potential output → represented by a point inside the PPC → unemployed could have produced something of value for society but they cannot → Society is thus deprived of a higher output and standard of living.

Anti-Thesis: Germany should prioritize other economic goals besides unemployment in 2012

Considering the severity of the other economic problems and the economic conditions within the Germany economy, Germany should consider prioritizing reducing government debt and boosting economic growth as its top priority

- In 2012, the most severe economic problem in Germany is its government debt which stands at 56.9% of the GDP as per Table 2. In order to finance the deficit, Germany will have to dig into their reserves or borrow from international authorities such as IMF which will cause them to incur interest.
- In addition, with such a high government debt, there will be opportunity cost in terms of being unable to utilise government funds to develop the economy further. The existence of a significant debt may also generate fears about the future stability of economy, which discourages potential investments.

In addition, the root cause of unemployment in Germany seems to be cyclical in nature rather than structural, hence Germany will have to wait until the recession is over for the unemployment to recover fully

- Extract 5 states that '... it seems likely that there is a huge problem with several countries pursuing austerity simultaneously. One cannot switch the economy from domestic consumption to exports, if all your neighbours are trying to do the same.' As Germany's trading partners suffer a fall in economic growth due to the Eurozone crisis, this causes a fall in purchasing power and demand for Germany's exports to fall → When (X-M) falls → AD falls → NY falls → since labour is a derived demand, employment also falls.
- Since the root cause of unemployment is largely due to cyclical fall in the demand for its exports, besides depreciating the Euro to increase the export

competitiveness, it might have to wait for the crisis to be over before it can make a full recovery from the recession.

- In addition, Extract 4 suggest that reforms have been made in the labour force of Germany with the 'dual system of vocational training', so this will reduce the occurrence of structural unemployment which could reflect fundamental weaknesses in the economy.
- Therefore, besides waiting for the economy to recover from the recession to witness a further fall in AD or to boost economic growth, there is little the German can do to reduce unemployment further, so it should not be a priority.

Conclusion

- High unemployment brings about consequences for a developed economy such as Germany and thus should be a cause for concern. However with more pressing issues, there might be a need to place other economic problems such as the high debt and slow growth as the top priority.

Levels	Levels Descriptor
L3	<ul style="list-style-type: none"> • Explanation of both thesis and anti-thesis on why unemployment should and should not be the main priority goal in Germany. • Effective application of case material which shows understanding of economic issues such as high unemployment, debt and slow growth. • Insightful conclusion that rounds up the discussion.
L2	<ul style="list-style-type: none"> • Some discussion on the thesis and anti-thesis but with gaps in analysis. • Answers show weak understanding of economic issues such as high unemployment, debt and slow growth. • Weak application of case material.
L1	<ul style="list-style-type: none"> • One sided discussion on thesis OR anti-thesis. • Answers contain many gaps in analysis and/or conceptual errors. • Limited explanation which reflects weak understanding of economic issues. • Weak/no application of case material.