

Essay Q 4

- (a) Explain the possible causes of an increase in the average standard of living in a country [10]
(b) Assess the desirability of aiming for high growth rates in Singapore [15]

SUGGESTED ANSWER MODEL

Part (a)

Introduction

Development 1: Increase in AD, increases national output, results in actual economic growth and increases in material well-being

Explain material well-being

List the components of AD

$AD = C_d + I + G + X$, an increase in any of the components of AD will result in actual economic growth, assuming spare capacity in the economy.

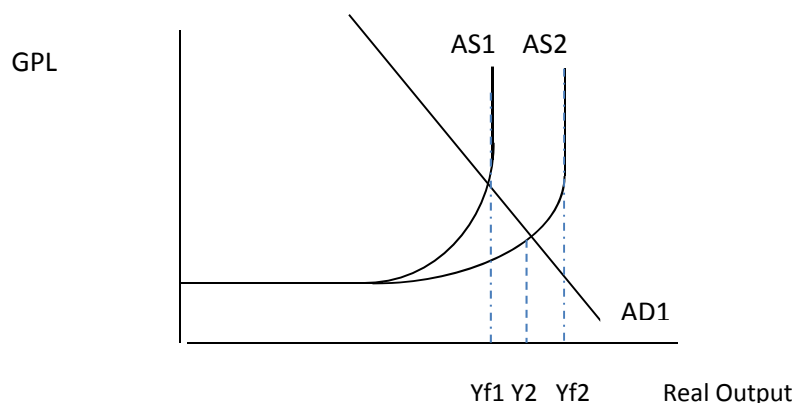
Fall in IR \rightarrow lower COB \rightarrow increase C_d + increase $I \rightarrow$ increase AD \rightarrow increase in real GDP.

Use AS/AD diagram to illustrate.

Assuming no change in population or that population growth rate is less than economic growth rate, there will be an increase in national income per head in the economy. This indicates a rise in purchasing power of the average individual which allows him to consume a greater quantity of goods and services thus improving the material well-being.

Development 2: Increase in AS, increases productive capacity, results in potential economic growth and increases in material well-being

An increase in AS is caused by an increase in quantity and quality of resources. E.g. an increase in AS can be due to an increase government spending on education in the economy \rightarrow raise the quality of labour \rightarrow increase capacity of economy to produce \rightarrow AS shifts right from AS1 to AS2. The full employment level of output increases from Y_{f1} to Y_{f2} . Education and training promotes potential growth. There is an increase in real GDP to Y_2 and hence increase in material SOL, c.p.



Evaluation : While AS increases in the long term – actual growth and hence SoL, this can only be realized with increasing and high levels of AD to utilize the productive capacity created by the rightward shift of AS. May also increase non-material well-being:

Development 3: Government policy is one factor that affect non-material standard of living.

Explain non-material well-being. Use example to show how govt policy can improve non-material well being.

Conclusion

An increase in either material or non-material well-being, or both can result in an increase in average SOL in a country.

[Conflict] However, in some economies, an improvement in material well-being has led to a worsening of the non-material well-being. For example, high economic growth in an economy as a result of greater production in the economy, may bring with it a higher level of pollution in the economy. This negatively impacts the health and well-being of people in the economy resulting in a fall in material-being. Overall, the improvement in average SOL may be reduced or average SOL may have fallen. **[link to part (b)]**

Knowledge, Application, Understanding and Analysis		
L3	Explanation of causes of an increase in average SOL that considers both material and non-material well-being. Two of the causes must be explained analytically.	7-10
L2	Underdeveloped explanation or an answer lacking in scope or rigour.	5-6
L1	For an answer which demonstrates some basic knowledge about SOL without any economic analysis	1-4

4 (b) Assess the desirability of aiming for high growth rates in a country. [15]

Thesis: High growth rates are desirable to an economy as (i) there are advantages of high growth including improvement in SOL and (ii) potential link to attainment other economic goals

[Explain Growth and impact on material SOL] High growth rates means that the economy is experiencing large actual growth which is one of the macroeconomic goals in the economy. As mentioned in part (a) of the essay, this means that there is an increase in the material well-being of an economy, *ceteris paribus*.

[Evaluation – encourage investment and additional impact on potential growth] High growth rates may result in an improvement in consumer confidence and optimistic expectations for the future. Consumers thus are more willing to spend, raising consumption. This impacts business confidence raising investment.

Increase in I fuel growth in the SR by raising AD. More importantly, in the LR, due to an increase in quantity of capital goods, will result in potential growth. Illustrate using AS/AD framework.

Anti-thesis: There are some instances whereby high growth rates may be undesirable because (i) there are disadvantages of high growth including worsening non-material well-being and hence SOL and (ii) potential conflicts with other macroeconomic goals.

Analyse conflicts with inflation and one of the 2 points (increase inequity and negative environmental impact)

[Conflicts - Inflation] Experiencing actual growth may impact an economy negatively through higher demand pull inflation. High growth rates are likely to be due to large increases in the AD in the economy. Large increases in AD at a point of excess spare capacity can result in high growth without changes in the GPL. However, if sustained over time with little or no change in productive capacity, it may eventually result in demand-pull inflation in the economy. Explain why inflation is undesirable.

[Worsen inequity] Higher growth rates may result in greater income inequality due to the more rapid structural changes. This means that a majority of the people have not experienced a rise in material SOL or worse, a fall in material SOL.

Evaluation : This problem can be mitigated by governments redistributing income through transfer payments or better subsidized facilities for the poor, and this policy option has varying outcome for different economies.

[Reduces non-material SOL] As mentioned in part (a), a rise in econ growth may lead to a fall in non-material SOL. Economic growth achieved at the expense of environment damage or negative externalities that are unaccounted for in the GDP figures. High growth rates may reduce non material SoL as people get to enjoy fewer leisure hours or experience a rise in stress levels which both negatively impacts their QOL and this reduces material SOL.

Address the question of ‘high’ rates of growth by considering the possibility that some fairly slow economic growth might be deemed to be preferable to either higher or zero/negative growth.

Reasoned Conclusion : Address the direction word ‘Assess’

High growth is 'desirable' due to the many positive impacts on the economy and SOL, but it is not always desirable as there are also some negative impacts.

Knowledge, Application, Understanding and Analysis		
L3	For an analytical and balanced discussion on whether high growth rates are desirable by referring to the benefits and costs.	9-11
L2	For an analysis of <u>either</u> the benefits <u>or</u> costs OR A description of both benefits and costs.	6-8
L1	An answer which shows some knowledge or merely lists the benefits and costs of high growth rates.	1-5

Knowledge, Application, Understanding and Analysis		
E2	For an evaluative discussion based on economic analysis	3-4
E1	For an unexplained judgement, or one that is not supported by economic analysis.	1-2