

Raffles Institution

ECONOMICS **Higher 2** ***(Syllabus 9732)***

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



Case Study Question 1: Tourism and Hospitality Industry

- (a) (i) Compare the trends 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. [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]

- (b) Using Extract 1, comment on the possible relationships between air travel and the cruise industry. [4]

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)

However, 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) To what extent would a hotel owner in Singapore benefit from developments in Singapore's travel and tourism sector? [8]

Assuming the traditional aim of firms to profit maximise, the hotel owner would seek to produce at the output where $MC=MR$. In this case, the impact of the developments in the tourism sector can affect both the demand and cost curves for a typical hotel owner.

Thesis: Profits may rise

Development 1: Average revenue may rise due to higher demand as the number of hotel guests are expected to increase as mentioned in Extract 1 & Table 1

"STB's target of 17m annual visitors by 2015 implies an increase of 6.6% per annum."

Tourism receipts & room revenue increasing since 2010 and projected to increase further

Average revenue may rise due to higher demand from changing tastes and preferences as the push towards medical and education tourism continues as mentioned in Extract 1.

→ Increase in AR and MR

Development 2: Costs may fall due to productivity gains as the economic restructuring raises the productivity of workers (Extract 1: Singapore pushes to restructure its economy by raising productivity and reducing its reliance on foreign workers). *Impact on productivity gains on profits will possibly only be seen in the very long run.*

→ AR/AC diagram

Thus the above factors would lead to a rise in profits.

Anti-thesis: Profits may fall

Development 3: AR may fall as an individual hotel owner may face more competitors as number of hotels increases (Table 1 highlights an increase of 21% in hotels between 2010-2013). With the increase in the number of hotels in the industry → implies that the hotel owner would possibly capture a smaller share of the market, thus, his AR and MR could fall and also become more price elastic.

AR may fall or increase at a decreasing rate as the hotel owner face a slowing down / fall in the rate of increase in the number visitors to Sg (mainland Chinese tourists) due to the depreciation of the yuan relative to the SGD in Extract 1 → fall in the purchasing power of Chinese citizens to travel to Sg → fall in demand (or slowdown in the increase in demand) for travel to Sg.

Table 1 shows standard average room rate (S\$) fall from 2012 to 2012

→ Fall or little increase in AR and MR

Development 4: Costs may increase → increase in AC and MC (due to higher foreign worker levies, rising rentals and wages in Extract 1)

→ AR/AC diagram

In this case, the impact on profits is like to be negative or less positive (especially if the higher cost pressures outweigh the slowdown in revenue)

Conclusion:

The impact on profits is ambiguous (depends on the relative extent of shift in AR and MC/AC) and the impact of profits may also differ in the SR vs LR. Eg. The impact on profits are likely to be more positive in the LR if the successful structural reforms leading to higher labour productivity leads to cost savings for the hotel owner and the strategies adopted by STB to promote SG as an attractive destination as well as a niche tourist market (medical and education tourism) takes off.

Mark Scheme:

Knowledge, Application, Understanding, Analysis		
L1	Serious conceptual errors and/or lack of economic framework using firm's analysis. No reference to case material Use of demand and supply framework in answer [max 3] One sided answer (either TR /TC or both) that considers how profits can rise <u>or</u> fall [max 3].	1 – 3
L2	Applies economic concepts with <u>some errors</u> . Balanced answer that considers BOTH the revenue and cost to the firm. Balanced answer but lacking in scope or depth in analysis.	4 - 6
L3	Well explained and balanced answer that considers BOTH the revenue and costs to the firms Good scope and depth of analysis with good application to the case material (at least 3 well explained factors)	7-8

- (d) (i) With reference to Table 2, explain why all the 'own price elasticities' are negative. [2]

Own price elasticities refer to PED. Correct definition of PED [1mark]
%change in P of gd itself

State negative relationship between price and quantity demanded, c.p due to the

Law of demand. [1 mark]

Negative PED is due to the income and substitution effect and explain briefly both effects [1 mark]

Award 2m for any of the 3 answer options above. Definitions must be precise.

- (ii) Explain one possible reason why the demand for South Korea as a holiday destination is less price elastic than that for Macau. [2]

Any of the factors affecting PED: number of substitutes, % of income spent, habit & time period. Correct identification of 1 determinant of PED [1 mark].

Eg. Number of substitutes: To a typical tourist, there are relatively more travel destination substitutes for Macau relative to that of South Korea. Thus, a given change in the price of a holiday in South Korea will give rise to a less than proportionate change in the quantity demanded of holidays there.

Eg. The proportion of income that South Korea as a travel destination takes up of total income for a typical tourist is smaller relative to Macau.

Correct explanation of factor of PED with respect to demand for S Korea and Macau [1 mark].

- (e) Using Table 3, explain the values shown in the table for the cross price elasticities for Hong Kong and South Korea. [2]

Definition of CED (definition) and identifying that CED positive and less than 1 implies they are not close substitutes. [1 mark]

Explanation of the significance between the 2 values: [1 mark]

A 10% fall in SK's price result in 5.6% fall in demand for HK whereas a 10% fall in HK's price results only in a 2.79% fall in demand for SK. Thus, to the tourists, HK is a weaker substitute for SK than vice versa. [1 mark]

- (f) Discuss the view that Hong Kong should 'avoid low-quality, low yield mass tourism and focus on medical and eco-tourism'. [10]

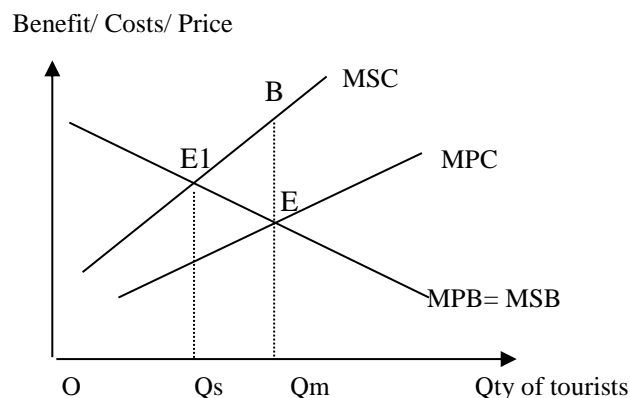
The move towards niche tourism sector such as medical and eco-tourism away from mass tourism would incur both cost and yield benefits to the Hong Kong economy. Analysis should be explained with respect to the 4 macroeconomic and 2 microeconomic goals of the economy.

Thesis: Hong Kong should avoid low-quality, low yield mass tourism and move towards medical / eco-tourism.

Problems / Costs associated with low quality, mass tourism

1. Negative Externalities → need to reduce congestion and pollution due to problem of negative externalities associated with them: need to explain market failure framework with respect to congestion etc. using number of tourists as variable looked at. (Extract 4: tourism incurs cost such as traffic congestion and pollution)
- Negative externalities, such as pollution or congestion, impose a cost on third parties which is not reflected in the market outcome where the price is too low and quantity too great. As the free market sets an equilibrium that only accounts for the marginal private costs and not the marginal external cost → $MSC > MSB$ (assuming no positive externalities) therefore the socially desirable outcome will not be achieved → current qty of no. of tourist is not allocative efficient.

- Negative externalities result in overproduction and sale at too low a price
- For eg, a private tourist only cares about his own private costs (e.g. cost of the travel destination or hotel) and the private benefit (satisfaction derived from travelling) of travel, but ignores the adverse 3rd parties effects such as increased industrial pollution due to increased production of goods and services from higher demand which can result in the degradation of air quality etc.



2. Rising inflationary pressures (for domestic citizens) → A flourishing tourism industry will place great pressure on the limited resources such as food, land, transport, electricity and water supply from Extract 2. An increasing demand on these resources and facilities by tourist → increase in C → increase in AD → increased cop for domestic firms in the economy due to limited resource → rise in GPL (demand pull inflation) → thus causing negative effects on local residents from a higher cost of living such as higher housing / food prices → fall in the material SOL. (Extract 4: prices of services, accommodation and property are being driven up)

If student argues with respect to high opportunity cost of focusing on mass tourism, credit can be given. Eg. The tradeoffs on SOL when less land are being geared for leisure purposes.

Benefits associated with moving towards medical tourism / eco tourism

1. Shift to Medical tourism (niche tourism that target a specific tourist segment) → move to a higher value added sector → given that medical and eco tourism caters to tourist with high spending power → demand for such services are highly income elastic → an increase in income of foreigners, especially in the case of rising Chinese incomes (Extract 3) → more than proportionate increase in X (tourism receipts) → increase in AD → higher GDP growth and decrease in unemployment. (AD-AS analysis can be used as framework)

Anti-thesis: Hong Kong should not move towards medical / eco-tourism.

Benefits of retaining mass tourism in HK

1. It is the sheer number of tourists that bring in the employment in the subsidiary industries linked to tourists and without the mass number of tourists, unemployment will be quite substantial → eg. With a fall in mass tourism → fall in X receipts for the HK tourism industry → fall in AD → via k and assuming spare capacity → > fall in real NY and increase in unemployment.

Extract 4: "Tourism is not an industry per se but a collection of interrelated industries, which sell products and services to tourists as well as to a range of other customers: hotels, tour operators and travel agents, airlines, etc". Link to how related industries may suffer if tourism numbers fall. E.g. F&B industries.

Costs associated with moving towards medical tourism / eco-tourism

1. Increased vulnerability to economic shocks: Demand for medical or eco-tourism are relatively more income elastic and so more vulnerable to income changes in other countries → a fall in income of foreigners / recession faced in countries abroad → sharp fall in X services → fall in AD → more than proportionate fall in real GDP (Actual growth falls); Fall in X, $cp \rightarrow$ fall in the BOT position → worsening of the BOP position.
2. Increase in structural unemployment if the demand for low skilled worker falls due to the shift away from mass tourism sector eg. retail / F&B industry as the Hong Kong economy restructures towards higher valued added services such as medical tourism where there is an increase in the demand for skilled labour services → hence, mismatch of skills set required and offered.
3. Worsens income inequality → unequal distribution of benefits from tourism as everyone in the country will benefit equally when the shift towards medical tourism sector largely rewards labour directly employed in that sector (eg. higher demand for medical tourism → higher demand for healthcare workers → leading to higher wages while resources are shifted away from the other sectors of the economy) .
4. C.A in shifting towards medical tourism may not be fully developed in the SR especially if there is direct competition from neighbouring countries offering compatible services at more competitive prices eg. Singapore and Thailand → hence, if Hong Kong is operating with relatively higher opportunity cost in the provision of medical tourism → higher $cop \rightarrow$ higher prices of services → fall in demand for X services of medical tourism

Conclusion

Whether the move to mass vs medical / eco-tourism would require the use of detailed cost-benefit analysis in tourism planning.

In addition, it would also depend on the net contribution of each type of tourism sector to the Hong Kong economy. For eg. Extract 4 highlights the contribution of mass tourism to the Hong Kong economy is relatively small at about 5 per cent of gross domestic product → possibly supports the move towards medical tourism in the LR.

Mark Scheme

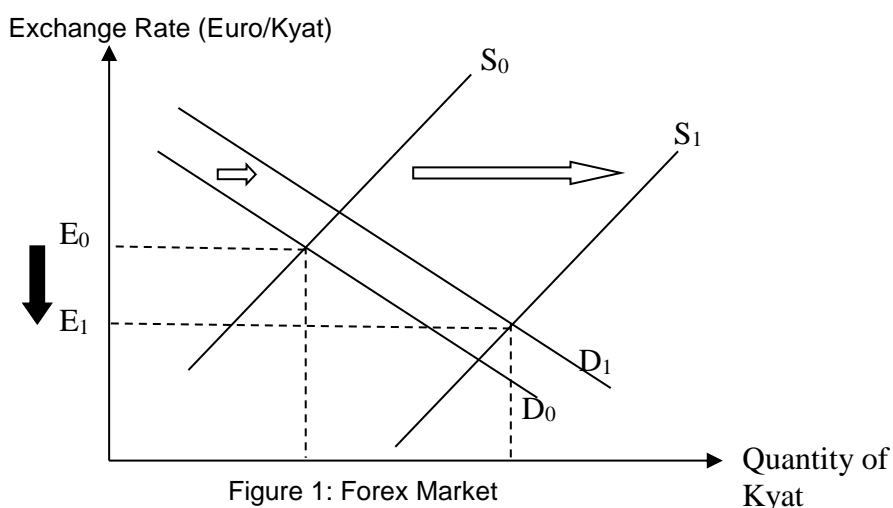
L1	Little or non-existent use of economic theory or appropriate economic framework (e.g. no use of AD/AS model and no use of externality framework) Did not use case material One sided answer [max 3m]	1-3
L2	Use of economic theory <u>with some errors</u> . Some utilization of case material in answering the question. Balanced answer But lacks rigour or scope eg. Only mentioned the case for and against mass tourism without highlight the switch towards medical /eco tourism [max 5m]	4-5
L3	Strong use of economic theory with few errors. Excellent use of case material to answer the question. Well explained and balanced answer	6-8
E1	An unexplained judgment	1
E2	Judgment supported by economic analysis	2

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 suffers an increasing [1] balance of trade deficit [1] with the world 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 value 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 S_0 to S_1 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 D_0 to D_1 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]

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 will mutually benefit from trade and exchange if they were to specialize in the production of goods and services that they incur a lower opportunity costs in (greater relative efficiency in) and trade for goods and services 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 access to 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) Compare on the likely size of multiplier in the two economies as shown in Table 6. [2]

Identify the 3 leakages that contribute to the size of the multiplier.

- Most appropriate available data that can be used to comment on size of multiplier would be import expenditure as a proportion of GDP (Table 6)

- Expect Singapore to have higher degree of import leakage than Myanmar given her highly open economy and lack of natural resources; data from table shows proportion of import expenditure out of GDP to be >1 , hence very little will be passed on circular flow given any increase in autonomous expenditure. Size of multiplier is smaller in Singapore than Myanmar.

Full credit for identification of appropriate data and did the comparison in terms of the countries' size of multiplier. It is important that the definition/formula/idea of multiplier is expressed in candidates' answer.

- 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, proportion of private C/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.

3 points across thesis and antithesis – max 8m.

<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. [10]
Effects of Myanmar's opening on other countries (positive/negative):

Positive effects

Extract 6, Para 1 "Thai companies have also moved into property development and service industries there...benefitting from Myanmar's opening."

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."

Negative effects

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."

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."

Extract 6 Para 7 "If I could put all my money into Myanmar, I would." (possible FDI diversion)

Policy recommendations (TAS structure):

Positive effects

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.

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').

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.

Political issues e.g. clashes between political parties; hidden agendas with pushing for certain policies.

Contagion effects.

Negative effects

Find new growth areas (shifts in CA)

SR – Exchange rate adjustments to make its exports more competitive; Protectionism

SR – Countries with independent MP, can attempt to cut interest rates to retain local I or prevent excessive outflow of I

Competitive corporate tax structure → prevent excessive FDI diversion

Limitations of policies

Finding new growth areas may in the SR lead to structural unemployment.

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

Limitations of protectionism

Beggars-thy-neighbour

Against free trade theory

Limitations of an interest rate cut (exp MP)

E.g. demand for investment may be interest inelastic.

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.

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 - 6
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 	7 - 8
Evaluation		
E	For an evaluative conclusion on the policy effects on respective countries which depends on the state and nature of each economies.	1 - 2

[Total:30]

Essay Questions

Question 1

Against a backdrop of steadily rising household incomes, the Malaysian government has decided to reduce government subsidies on fossil fuels in Malaysia. Assess the impact of these changes on total expenditure in the market for fossil fuels and related markets. [25]

General Approach:

1. Students only need to analyse 3 markets (inclusive of fossil fuels) to gain full credit
2. Application of elasticity concepts are a requirement for this question.
3. Suggested elasticity values might differ from student to student. Variations are accepted as long as they are supported with sound economic reasoning.

Introduction

-Two changes in Malaysia: Household incomes have increased and the government has decided to cut government subsidies on fossil fuels

-Define subsidy: A payment made to producers by the government and is equivalent to a decrease in the cost of production.

-Define total expenditure: Total expenditure in each market given by $E_{qm} \text{ Price} \times E_{qm} \text{ Quantity}$

-Markets to be analysed: The market for fossil fuels and 2 related product markets. Some possible related markets are complements, substitutes and products which use fossil fuels as a factor of production.

Market for Fossil Fuels

-Demand for fossil fuels is likely to be **price inelastic** as there are **few close substitutes**.

-When government reduces subsidy, the supply curve shifts to the left from $S + \text{Subsidy}(\text{old})$ to $S + \text{Subsidy}(\text{new})$.

-Ceteris paribus, holding demand constant a **rise in equilibrium price** would lead to a **less than proportionate fall in quantity demanded**

-Therefore, there would be a **rise in total consumer expenditure** from P_1Q_1 to P_2Q_2 .

-Demand for fossil fuels is likely to be **income inelastic** since it is a **necessity** that has a wide variety of uses

-Demand for fossil fuels could come from:

1. Producers of other goods and services that use fossil fuels as a factor of production
2. Consumers who use fossil fuels as gas for cooking as well as to power their vehicles

-When incomes increase, consumers use more gas for cooking and transport (direct increase in D_d for fossil fuels) and buy more goods and services (indirect increase in D_d for fossil fuels)

-Thus when incomes increases, there will be a **less than proportionate increase in the demand** for fossil fuels from D_1 to D_2

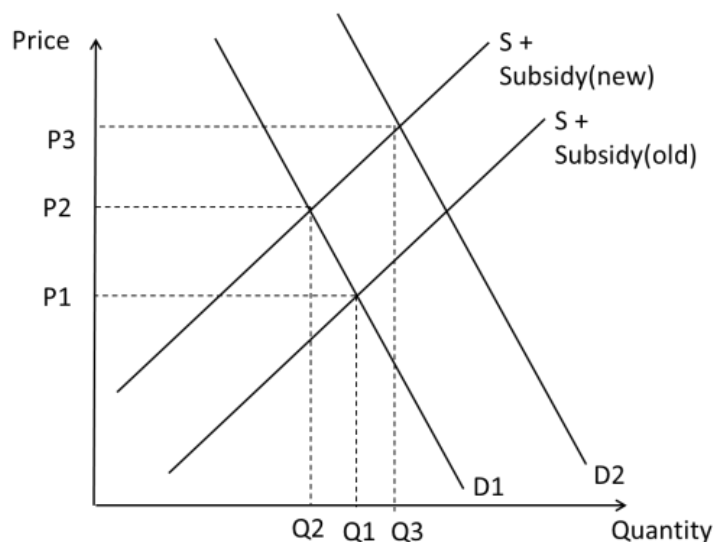
-Holding supply constant, there will be an increase in equilibrium price and equilibrium quantity

-Therefore, there will be a **rise in total consumer expenditure** from P_2Q_2 to P_3Q_3 .

-In conclusion, there will be an **unambiguous rise in total consumer expenditure** in the **market for fossil fuels**.

See appendix for an alternate approach to this segment.

Market for Fossil Fuels



Note to students: Diagrams are also required for the other markets

Market for Cars (Complement)

- Cars and fossil fuels are **close complements** as fossil fuels are needed to power car engines.
- Therefore the **cross elasticity of demand (CED)** for cars with respect to fossil fuels is likely to be **negative and have a magnitude greater than 1**.
- Since the equilibrium **price of fossil fuels has risen** (mentioned in analysis of previous market), there would be a **more than proportionate decrease in the demand for cars** ceteris paribus.
- Equilibrium price and quantity of cars would thus be lower
- There will be a **fall in total expenditure** on cars.

- Cars are likely to have a **high degree of necessity** for the majority of Malaysians due to the large size of the country and its underdeveloped public transport system
- Therefore the **demand for cars** is likely to be **income inelastic**
- Ceteris paribus**, a rise in household incomes would lead to a less than proportionate increase in demand for cars
- Equilibrium price and quantity of cars would thus be higher
- There will be a **rise in total expenditure** for cars.

-Overall, whether **total expenditure** for cars rises or falls is **indeterminate** in the absence of more information

-However, if **fossil fuel prices and household incomes increase by the same proportion**, then there would be a **net increase in demand** for cars and hence **total expenditure would rise**.

Market for Bio Fuels (Substitutes)

- Bio fuels** made from crops like palm oil are **substitutes for fossil fuels**
- However, they are **unlikely to be close** substitutes as fossil fuels are still able to generate more energy per unit mass
- Therefore the **cross elasticity of demand (CED)** is likely to be negative but with a magnitude of less than 1
- Ceteris paribus, when the **price of fossil fuels increases** (explained previously), there will be a **less than proportionate increase in demand** for bio fuels.
- Equilibrium price and quantity** for bio fuels would have **risen**.
- There will be an **increase in total expenditure** for bio fuels

-Bio fuels might be regarded as a luxury for most Malaysians. Traditional fossil fuels are widely available and a far lower price and only certain upmarket products (for example eco-friendly cars) are able to run on bio fuels. Therefore the **demand for bio fuels** is likely to be **income elastic**.

-With a rise in household incomes, there would be a more than proportionate increase in demand for bio

fuels

- Equilibrium price and quantity** for bio fuels would **rise**
- There will be an **increase in total expenditure** for bio fuels

-In conclusion, there will be an **unambiguous rise in total expenditure** in the **market for bio fuels**.

Market for Electricity (Final Good, Necessity)

- Fossil fuels are an important **factor of production** used in generating electricity
- Electricity is a necessity** and thus has a **PED value of less than 1** (inelastic)
- With the **increase in the price of fossil fuels**, **cost of producing** electricity **increases** causing a **fall in supply** for electricity
- Ceteris paribus, when equilibrium price increases there will be a less than proportionate decrease in quantity demanded.
- This will lead to an **increase in total expenditure** on electricity

- Since electricity is a necessity, its **YED value** is likely to be **less than 1**
- When **household incomes increase**, there will be a **less than proportionate increase in demand** for electricity
- This will lead to an **increase in total expenditure** on electricity

-There will thus be an **unambiguous rise in total expenditure** in the **market for electricity**.

Market for Restaurant Food (Final Good, Luxury)

- Fossil fuels are a factor of production used in production of restaurant food (electricity for the restaurant as well as gas to cook food)
- Restaurant food is not a necessity. Therefore its **PED value is likely to be greater than 1**
- With the **increase in the price of fossil fuels**, **cost of producing** electricity **increases** causing a **fall in supply** for restaurant food
- Ceteris paribus, when equilibrium price increases there will be a more than proportionate decrease in quantity demanded.
- This will lead to a **fall in total expenditure** on restaurant food

- Since restaurant food is a luxury, its **YED value** is likely to be **greater than 1**
- When **household incomes increase**, there will be a **more than proportionate increase in demand** for restaurant food
- This will lead to a **rise in total expenditure** on restaurant food

- Cost of electricity and gas** likely to make up only a **small portion of a restaurant's cost of production** (COP). The bulk of a restaurant's COP should be attributable to wages, rental and raw food.
- Therefore, **fall in supply** due to higher fossil fuel prices is **unlikely to be substantial**
- Thus, there will likely be a **rise in total expenditure** in the **market for restaurant food**.

Conclusion

- Since fossil fuels have a wide variety of uses, changes in the market for fossil fuels are likely to have an impact on total expenditure in a wide range of product markets
- Whether or not total expenditure increases in each market depends on some of the following factors:
 1. PED
 2. CED
 3. YED
 4. Magnitude of increase in income
 5. Extent of reduction in government subsidy
 6. Energy costs as a percentage of overall cost of production

Knowledge, Application, Understanding, Analysis		
L1	Descriptive answer which contains little use of any economics Serious conceptual errors Only one market considered	1-9
L2	Some use of economic theory (Demand and supply concepts) Use of elasticity concepts	10-14

	Depth lacking in some areas and some conceptual errors At least two markets considered No reference made to total expenditure – Max 12 No use of elasticity concepts – Max 12 Considers only either subsidy change OR income increase – Max 12 Did not consider market for fossil fuels – Max 10	
L3	Excellent use of economic theory Solid application of elasticity concepts to examine changes in total expenditure Able to give solid justification for elasticity values in different product markets Sufficient depth with few conceptual errors 2 markets considered in depth – Max 16 3 markets considered for full range of marks	15-25
Evaluation		
E1	For an unexplained evaluation States impact on total expenditure with little justification	1-2
E2	For an evaluative assessment well substantiated with economic reasoning Gives well substantiated reasons to justify impact on total expenditure	3-4

Appendix (alternative approach)

-PED for fossil fuels is less than 1 (explanation same as above).

-Total expenditure = expenditure by consumers + expenditure by government on subsidies

-When government reduces subsidy, the supply curve shifts to the left from $S + \text{Subsidy}(\text{old})$ to $S + \text{Subsidy}(\text{low})$.

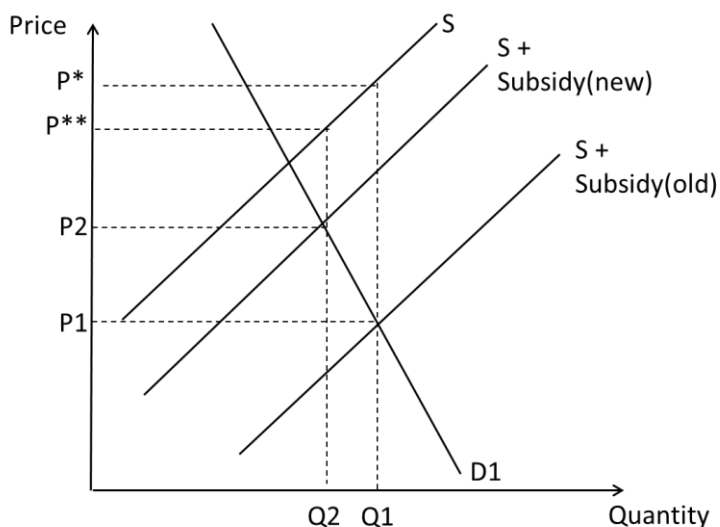
-Consumption expenditure increases from P_1Q_1 to P_2Q_2 (explained above)

-However, **Government expenditure on subsidies has fallen** from $P^*P_1 \times Q_1$ to $P^{**}P_2 \times Q_2$.

-Based on the above definition, overall total expenditure would have fallen from P^*Q_1 to $P^{**}Q_2$.

-Even though consumption expenditure increases, there will be an overall **reduction in total expenditure** as **government expenditure on subsidies would have fallen by a larger extent**.

Market for Fossil Fuels



-Rising household incomes lead to rising demand for fossil fuels and an **increase in total expenditure** (explained above)

-Thus, whether total expenditure rises or falls is indeterminate and depends on the magnitude of the increase in income, the reduction in subsidy as well as the PED and YED values.

Question 2

- (a) Using appropriate examples, explain how small and large firms can coexist in the food and beverage industry. [10]
 (b) Discuss whether the strategies of these two groups of firms will differ when faced with a recession and rising labour costs. [15]

Mark Scheme:

- (a) Using appropriate examples, explain how small and large firms can coexist in the food and beverage industry. [10]

Introduction

- Due to its broad categorization, the food and beverage industry consists of many different types of firms.
- There exist a range of firms of varying sizes in the industry. From large fast food chains like McDonalds and KFC, chain restaurants like Swensen's and Thai Express to small restaurants and hawkers which operate out of a single location.
- A convenient way to measure the size of a firm is in terms of the quantity of output sold.

Body**Supply-side Factors****1. Saucer-shaped LRAC**

- It can be argued that due to the relatively low fixed costs for the F & B industry (rental, kitchen equipment like ovens, stoves and refrigerators), technical economies of scale are quickly exhausted
- This is then followed by constant economies which prevail over a large range of output between Q0 and Q1 as seen in the diagram below
- The LRAC is thus saucer shaped
- Firms choosing to produce a low level of output (small firms, eg. the hawker stalls) or a high level of output (large firms, eg. the fast food chains) face the same unit cost of production
- This therefore accounts for the existence of both small and large firms in the same industry

2. Banding

- Large restaurant chains like Swensen's are able to reap commercial economies of scale by purchasing cooking ingredients in bulk
- This helps to lower the per unit cost of raw food thus lowering their average cost
- However, small firms eg, the hawker stalls have the ability to band together and purchase ingredients in bulk
- This enables them to enjoy lower average costs without sacrificing their autonomy
- Thus, small firms are able to enjoy similar cost-advantages as large firms explaining the co-existence of both types of firms in the F & B industry

Demand-side Factors**3. Different Market Size for Different Types of Food**

- Large firms and small firms can co-exist as there are different market sizes for different types of food.

Large Market Size

- The fast food segment of the fast food industry is dominated by a few large players. Examples of the bigger players are McDonalds, Burger King and KFC. Smaller chains include Mos Burger and Long John Silvers.
- Due to fast food's wide spread appeal to all ethnicities, demand is high and the market size is large enough to support the existence of a few large firms
- Being large enables these fast food chains to have a huge share of the market which confers significant market power. Each firm thus has a downward sloping demand curve that is relatively price inelastic.
- At the profit maximizing output level where $MC = MR$, these firms are able to charge a price that is much higher than MC.
- This enables them to have higher total revenue and hence profits, ceteris paribus.

Small Market Size (Niche Markets)

- Unlike fast food, the demand for certain types of food could be too low to support a larger firm size
- Prestige Market: Most high end restaurants (at least \$100 per person) only operate out of a single as only a small segment of the population is able to afford a meal at such places
- Culture: Certain restaurants cater to the unique tastes & preferences of specific ethnic groups in Singapore. Some examples are restaurants which serve Burmese food.

Other Possible Reasons

- Alternative objectives of small firms

Conclusion

- Due to the broad categorization of the "Food and Beverages" industry, there are different submarkets which are populated by different types of firms. For example, the fast food industry tends to be dominated by a few large firms while the hawker food industry is populated by many small firms.
- The different sizes probably arise due to the different cost and revenue conditions in the different submarkets.

Knowledge, Application, Understanding, Analysis		
L1	<ul style="list-style-type: none"> - Little / non-existent use of economic theory - Serious conceptual errors - No examples given - An answer that does not show that meaning of question is understood 	1-4
L2	<ul style="list-style-type: none"> - Use of economic theory - Depth lacking in some areas and some conceptual errors - Reference made to examples - Explains only existence of small firms or large firms – Max 5m - Only considers either supply-side or demand-side reasons – Max 5m 	5-6
L3	<ul style="list-style-type: none"> - Excellent use of economic theory - Sufficient depth with few conceptual errors - Solid use of examples to aid explanations - Accounts for existence of both types of firms - Considers both supply-side and demand-side reasons (3 sufficient for full range) - Points made are clearly linked back to the question asked 	7-10

(b) Discuss whether the strategies of these two groups of firms will differ when faced with a recession and rising labour costs. [15]

1. Explain the problems faced by the firms in F&B industry are recession and rising labour costs.

- Recession: implying a fall in households' incomes, resulting in lower ability to eat out. The total revenue of the F&B firms will fall due to falling demand.
- Rising labour costs due to imposition of rising foreign workers levy will lead to a significant increase in total costs of production since this is really a labour intensive industry ranging from the chefs to helpers in kitchen to front line customer service waiters and waitresses. Large firms for example the restaurants may face a fall in their supernormal profits in face of those problems, while small firms like the hawkers may make losses since they may only earn normal profit to begin with.

2. Suggested Approach of this question:

Thesis: The strategies that the large and small firms need to implement to increase TR and reduce TC in order to regain the profits or even to survive.

Anti-thesis: How the strategies may differ in their feasibility in the large and small firms.

3. Strategies to increase revenue in small and large firms and how they differ.

Thesis:

- Change in menu towards serving food whereby demand is more income inelastic
- menu of the restaurants can modify from 'abalone dinner set for 4' (demand is highly income elastic) to 'garupa dinner set for 4' (demand is income inelastic) which will attract new group of diners.

Anti-thesis: However, small hawker stalls are already selling income inelastic. Thus they may have limited flexibility in changing the menu. But small hawker stalls may have a greater flexibility to adapt to changing economic conditions compared to large ones. They can choose to use the cheapest type of vegetables/ fish of the day while large restaurants are limited by their menu.

Thesis:

- Advertisement through various media such as newspapers, radio and TV to inform the customers about their change in menus, specialities or special promotions that the firms are running.

Anti-thesis: As such advertisements are often costly, large restaurants have greater ability than the hawker stalls to adopt this strategy as they can tap on their past supernormal profits. In addition, the proportion of the advertising costs to the revenue may be more insignificant for the restaurants than the hawker stalls. For the smaller eateries or hawker stalls with limited normal profits, it is usually by word of mouth or banners outside the shop to reach out to the customers.

Thesis:

- Collaboration with banks to give attractive discounts to diners since credit cards may be seen to complement restaurant dining. Eg, 15% discount using UOB credit card with minimum \$100 spent in Swensen.

This lowers the cost for the diners if the discount is sufficiently significant. If the demand for the type of food is highly price elastic, the quantity demanded will increase by more than proportionately, leading to an increase in revenue.

Anti-thesis: Usually large restaurants will be able to get such collaborations with banks as compared to the small hawker stalls. This is because diners pay by credit cards most of the time while dining in restaurants whereas small hawker stalls only accept cash as the mode of payment. The cost of maintaining the credit card swapping machine may also deter the small firms from using them.

Thesis:

- The large and small restaurants may diversify by venturing into catering, take-away and not just rely on dining in as the only source of income.

Anti-thesis: Large restaurants have enough manpower to venture into these different forms of business. For small hawker stalls which are mainly one or two man show, it is impossible to venture into such businesses.

4. Strategies to decrease TC for large and small firms and how they differ.

Thesis:

- Automation
To replace the rising labour cost, automation can be considered. For eg, the washing and cutting of ingredients may be replaced by machines

Anti-thesis: For large firms, they can either tap on their supernormal profits or apply for government grants to switch to this automation process. It may, however, be difficult for small firms because they have limited normal profits and do not meet the requirements set by the government.

Thesis:

- Firms can retrench or lay off some workers and widen the scope of the existing workers, for eg, expand the role of the waitress to include cashier too.

Anti-thesis: Since the workers' duties are more specialized in large firms, they can take up more new duties. Paying them more for the extra duties may be still be more cost effective than to employ an additional worker. In small firms like hawker stalls, the workers may already be covering all duties and there would not be such flexibility.

5. **Conclusion:** There are certainly differences in the type of strategies that large and small firms can implement. Such differences are determined by their profits level, flexibility and the nature/type of products sold. Regardless of the firm's size, it may sometimes be better off to leave the industry entirely if such strategies do not work.

Knowledge, Application, Understanding, Analysis		
L1	<ul style="list-style-type: none"> - Able to give strategies - No comparison between strategies of the small and large firms - Glaring conceptual errors - An answer that does not show that meaning of question is understood 	1-5
L2	<ul style="list-style-type: none"> - Able to provide 2 strategies (1 revenue & 1 cost) and compare the differences in strategies adopted by small and large firms. - May have lapses in the explanation. 	6-8
L3	<ul style="list-style-type: none"> - Able to analyse the 2 strategies (1 revenue & 1 cost) in depth - Consistent comparison of the differences in strategies adopted by small and large firms. - Provide good economics framework in the explanation, for example, the use of income elasticity of demand concept to explain how the strategy of changing menu will work during recession. - Points made are clearly linked back to the question asked 	9-11
E1	An unexplained judgement → an unexplained evaluative conclusion/ comment	1-2
E2	Evaluative assessment supported by economic analysis → substantiation of an evaluative comment/ conclusion	3-4

Question 3

(a) Explain using examples, how factor immobility and market dominance exacerbate income inequality. [10]

(b) Evaluate the policies a government can adopt to tackle factor immobility and market dominance. [15]

Mark Scheme

(a) Explain using examples, how factor immobility and market dominance exacerbate income inequality. [10]

1. Definitions:

- Factor immobility refers to resources slow to respond to changes in demand or supply conditions. Eg, labour may be highly immobile across different industries (occupational immobility) or across different geographical locations (geographical immobility).
- Market dominance refers to lack of competition in the goods or resource markets. Eg, monopoly in the goods market or monopsony in the labour market.

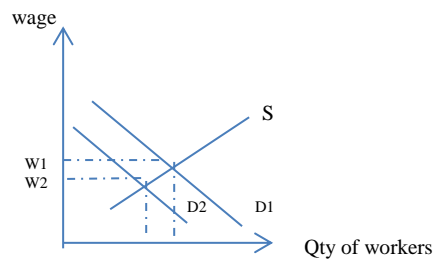
- Income inequality refers to excessive income gap between the low and high income groups. It ends up the high income group able to pay and obtain the good while the low income group is unable to pay and is denied access to the good. Gini coefficient measures the income inequality.

2. Explain how factor immobility worsen income inequality.

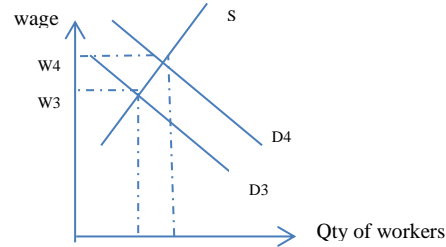
- Occupational immobility: Structural changes in the economy can occur due to changes in demand and/or supply. This would mean that the employment in some industries may expand while other people may be made redundant in another part of the economy. These resources which are made redundant cannot take up jobs in other industries immediately even though there are vacancies.

- For eg, Singapore economy moved from low value added industry (labour intensive) such as printing industry to higher value added industry (capital intensive) such as precision engineering industry due to loss of comparative advantage. The workers in the printing firms will lose their jobs as the printing firms close down. They are not equipped with the necessary skills to seek employment in the precision engineering industry. This is also known as structural unemployment.

- Using the dd/ss framework, the demand for workers in low value added industry will decrease, causing dd curve in this industry to shift to the left. While the demand for workers in high value added industry will increase, causing the dd curve to shift to the right. To start off, the wages of the low value added industry workers are lower than the high value added industry workers. The wage gap is $W1W3$.



Low value added industry



High value added industry

Since the low value added industry workers cannot move over to the higher demand industry such as the higher value added industry, the PES of workers in high value added industry being highly P inelastic, the increase in demand will drive up the wage more than proportionately. The opposite is also true in low value added industry with the PES of workers here being more price elastic. The fall in demand for them will result in more than proportionate fall in their wages. (Do not penalize students if they do not bring in this PES pt) The equilibrium wage for the workers in low value added industry decreases from W1 to W2, while the equilibrium wage for the workers in high value added industry increases from W3 to W4. The income gap has increased from $W1W3$ to $W2W4$. This shows the widening income inequality between the groups of workers arising from occupational immobility.

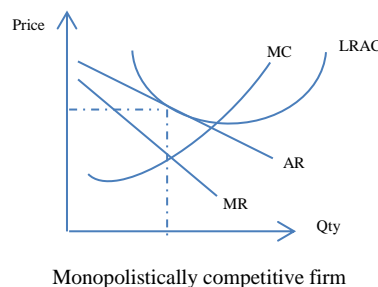
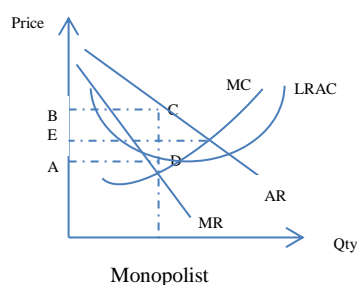
Note: The widening income inequality is really due to any reason that leads to increase in demand for high value added industry workers and the inability to increase the supply of such workers.

Geographical immobility: means that there are barriers to labour to move from one area to another to find work. This may be due to financial costs involved in moving across regions, cultural differences, and differences in cost of living. As labour is not willing to or is unable to move, they may not be employed in the most productive use, leading to lower wage. For example, in China where households are registered in the 'hukou' system in which healthcare, education and other welfare benefits are given out based on the person's hometown. This would discourage workers especially the workers staying in rural inner China from migrating to the urban cities or coastal area of China in search of higher pay jobs. Income gap thus exist between the rural and urban workers. With the rising growth in the coastal areas, workers there will definitely enjoy rising wages while the rural workers are not going to benefit from it. Thus, widening the income gap.

(Either one explanation on factor immobility will be sufficient)

3. Explain how market dominance worsens income inequality.

Goods market: for eg in monopoly where there are strong barriers to entry such as other firms have no access to the resources or technology, the monopolist makes supernormal profits ABCD at the profit maximizing equilibrium into the long run and this is higher than the rest of the society. Facing a highly price inelastic demand curve since there is no close substitute to his good, the monopolist is able to charge a high price for his good. This high price will contribute to his supernormal profits. Hence, the higher profits are at the expense of the consumers who end up paying a high price. This shows the income inequality. In contrast, in a perfect competitive industry, the consumers will only pay price OE and the firms will only make normal profits. This price is certainly lower than that in the monopolist market and the profit that PC firms make is also lower than the monopolist. This illustrates the income inequality. This worsens when the market becomes more imperfect.



We can also look at monopolist vs monopolistically competitive firm to explain income inequality. At the profit maximizing positions of the 2 firms, monopolist earns supernormal profits while the monopolistically competitive firm makes normal profits only. In an economy where we have the existence of both types of market structures such as PUB vs hawker stalls, they illustrate income inequality. For the worsening of income inequality, it must mean that the market is becoming more imperfect.

Knowledge, Application, Understanding, Analysis		
L1	Little / non-existent use of economic theory Serious conceptual errors No examples given	1-4
L2	Use of economic theory Depth lacking in some areas and some conceptual errors	5-6
L3	Excellent use of economic theory Sufficient depth with few conceptual errors Solid use of examples to aid explanations Explain in both situation how they lead to worsening income inequality	7-10

(b) Evaluate the policies a government can adopt to tackle factor immobility and market dominance. [15]

1. Explain and evaluate the policies govt can adopt to solve factor immobility.

- Occupational immobility:

- Explain: Govt can implement manpower policy through education and training. It helps to improve the skills and quality of the work force. Educational policies can be geared towards meeting the needs of the industries. Improved training opportunities, especially vocationally oriented education for those who lose their job in an old industry, can improve the occupational mobility of workers in the economy. This helps to reduce structural unemployment. For eg, Singapore govt has in place CET Masterplan to prepare the workforce for the future and maintain a competitive advantage for Singapore. CET seeks to ensure that the skills of workers remain

current and provide opportunities for training and upgrading in all types of jobs. This includes STEP for PMET as well as WTS Scheme for low wage workers. The new growth areas include aerospace, process manufacturing, allied healthcare, just to name a few.

Evaluate: However, its effectiveness depends highly on the receptiveness of the workers whether they are prepared to learn a new skill. Some of the older workforce may be reluctant to learn anything new and could remain structurally unemployed permanently and occupational immobility remains.

In addition, the gestation period of such policy can be rather long, there might be no effective result in the short term. Funds to sponsor such training courses may pose to be a problem for certain economies.

- Geographical immobility:

- Explain: Govt can develop a more reliable and efficient transport network within the country. Increasing the choices of transport, improving the efficiency and reliability of the transport system and etc will help to encourage people to travel a longer distance to work. Govt can also build more flats near the trains or bus stops to improve the accessibility to public transport.

Evaluate: However, the costs of this improvement in transport system may be extremely costly and workers may have other reasons for being immobile such as family and social ties.

- Govt support in the form of subsidies to defray the costs of relocation to a new location eg. The cost of new housing and schooling costs for the workers' children. However, workers may have other reasons for being immobile. In addition, these subsidies which are part of govt expenditure incur opportunity costs.

2. Explain and evaluate the policies govt can adopt to solve market dominance.

- Explain: Legislation through anti-trust laws or regulation that seek to maintain certain levels of competition in an industry. Anti-trust laws were introduced to curb collusive behavior and growing concentration of economic power. These laws set limits on firms' behavior by prohibiting certain kinds of anti-competitive or restrictive practice such as predatory pricing. Govt can also regulate for eg the telco industry, to ensure firms continue to compete among themselves.

Evaluate: However, it may be difficult for govt to prove that firms actually collude or engage in anti-competitive actions. Enforcement of laws and regulations may be expensive too. Constant checking is required and this can translate into high costs for the govt. Govt must also estimate accurately the impact of their regulations in order to achieve the socially ideal level of production. But govt failure may occur.

- Explain: Deregulation involves the dismantling of restrictive rules and regulations in order to promote greater freedom and competition in the private sector. Barriers to entry which had protected the private monopolist are removed in the process. Through this action, a contestable market can be created. Deregulation helps to move the market towards a more competitive environment. Eg, the deregulation of Telecoms allowed 2 private firms to compete in the provision of telco services such as mobile phone lines and internet services.

Evaluate: However, if the existing monopolist is a natural monopolist, deregulation may result in unnecessary duplication of service and will be wasteful, inefficient and not in the best interest of consumers. In addition, private firms do not take into account negative externalities, they are unlikely to base their output and pricing decisions on fairness and social justice.

3. Conclusion:

Govt may need to adopt a policy package to solve these market failures since each measure has its benefits and limitations. There can be govt failure too, there may not be improvement after the implementation of the policies due to wrong estimation on the govt's part.

In addition, since factor immobility and market dominance may lead to worsening income inequality, govt may also need to implement policies to reduce income

inequality such as taxation policy. In the case of natural monopoly, govt may not be want to reduce the firm's market dominance.

Knowledge, Application, Understanding, Analysis		
L1	Explain policies in solving the 2 failures Conceptual errors.	1-5
L2	Effective use of economic framework. Explain and evaluate 2 policies to solve the 2 market failure. May not be so rigorous in explanation.	6-8
L3	Rigour in analysis in explanation and evaluation of 2 policies in solving the 2 problems.	9-11
E1	Judgment with unclear justification	1-2
E2	Judgment with clear justification	3-4

Question 4

Discuss the extent to which Singapore's growth is in her own hands.

[25]

- Clarify growth as actual and potential growth
- Growth is the result of economic policies or exogenous factors outside the control of economic agents

Thesis: Growth of SG is in her own hands (Any 3 policies)

Students can either discuss how policies can be formulated to either raise the rate of economic growth from a positive but low economic growth situation or counter a fall in economic growth. The discussion approach below considers the case of countering a fall in economic growth.

1. In context of economic recession: Explain the use of expansionary fiscal policy (EFP) to alleviate fall in actual growth.

Singapore government can attempt to cut direct taxes and/or raise government spending (G) to boost aggregate demand (AD) and achieve actual growth. With a cut in personal income tax, this has the effect of raising household's disposable income and stimulating consumption (C). With a cut in corporate tax, this has the effect of raising the after-tax profits of the firms thus stimulating investments (I). With the rise in C, I and G, AD is raised, (Explain the multiplier (k) effect), which results in a more than proportionate increase in real national output.

Increase in real national output → increase in resource utilisation → increase in actual growth in the short run (SR).

Increase in I → increase in capital stock accumulation → increase in productive capacity → achieves potential growth.

(Illustrate the effects on actual and potential growth with the AD-AS diagram)

2. In the context of a fall in external demand: Explain the use of exchange rate policy via a depreciation of the SGD to promote export competitiveness, increase AD and revive actual growth.

MAS can pursue a zero-appreciation of SGD exchange rate policy to allow a weakening of the strength of the SGD → fall in P_x in foreign currency terms, rise in P_m in domestic currency terms → assuming Marshall – Lerner condition (MLC) is satisfied such that $PED_x + PED_m > 1$ → improvement of BOT → increase X-M value → increase AD → k effect → more than proportionate increase in real national output → raises actual growth in SR.

3. Supply-side policies (SSP) to promote actual and potential growth and achieve non-inflationary sustained economic growth (LR):

Long-term SSP

- Industrial policies to develop dynamic CA

E.g. Singapore government disburses grants and provides tax rebates to attract FDI to promote the development of new growth industries and develop industries with potential CA. E.g. clean energy sector, bio-medical sector, etc.

In the LR, with the CA established in these sectors → promotes export growth → increase export revenue → increase AD → increase real NY more than proportionately through the k effect → raises actual growth.

With increase in FDI in these sectors → increase capital stock accumulation, technology transfer → increase productive capacity → achieves potential growth.

- Manpower policies to increase productivity

Manpower policies in the form of government spending on training of workers to enhance skill sets of workers (e.g. WTS) → raise labour productivity → i) lowers labour cost → increase SRAS, achieves actual growth; ii) increase quality of labour → raises productive capacity → achieves potential growth.

Short-term SSP

- Wage policies to reduce cost of production to firms

Through the tri-partite labour market system, under the NWC platform, annual wage recommendations takes into account the prevailing economic conditions facing Singapore and have been advocated such that wage increases granted have lagged behind productivity growth → reduce unit labour costs → increase SRAS → raises actual growth.

4. Trade Policy: Free trade agreements (FTAs) to promote exports growth, FDI inflows to increase AD and AS to sustain economic growth

FTA which is a legally binding agreement to lower or remove trade barriers between two or more countries has been employed by Singapore as a trade policy to promote Singapore's export growth. FTAs allow Singapore to overcome the constraints of her small domestic market and expand its markets for exports. E.g. removal of tariffs against Singapore's exports → lowers price of Singapore's exports → assuming $PED_x > 1$ → more than proportionate increase in Q_{dd} for X → increase in X revenue → increase AD → increase real NY by more than proportionate through the k effect → raises actual growth.

FTAs have also allowed Singapore to attract FDI as foreign MNCs see Singapore as an attractive destination for their investment given Singapore's preferential access to key markets. Increase in I → increase AD and AS → sustained economic growth as described above.

Anti-thesis: Growth of SG is not in her hands

1. Limitations of the policies above (any 3 policies):

- EFP: small k for Singapore due to high MPS due to compulsory saving scheme (CPF) and high MPM due lack of natural resources → limits the ability of EFP to increase real NY sufficiently to increase actual economic growth.
- Exchange rate policy: depreciation of SGD would worsen BOT due to the J-curve effect. In the SR, demand for X and M are likely to be price inelastic due to trade contracts as exporters and importers are not able to respond very much to changes in P_x and P_m given the exchange rate changes → fall in net X value → fall in AD → more than proportionate fall in NY due to reverse k effect → fall in actual growth.
- SSP: lack of receptiveness and uncertainty of results → low wage workers may not be receptive to training due to unwillingness to forgo paid employment for training as that would mean losing earned income especially for daily-rated workers. Training of workers may not automatically translate to transference and application of skills gained to the work setting, difficult to increase productivity. On the whole, supply-side policies are LR policies, does not work effectively as a short-run response to sudden and severe economic shocks.
- Trade policy (FTA): Just as FTAs enables Singapore to increase its X growth, it would also mean an increased degree of competition from low cost imports → fall in $(X-M)$ and AD and actual growth. However, this effect is unlikely to be significant in terms of curtailing economic growth due to Singapore's open nature of its economy, where in fact, low cost imports has been viewed positively in curbing imported inflation.

2. External factors (*Note: Some of the points below could also be seen as limitations of the policies undertaken by SG*)

- Demand-Side Shocks: Global Economic Slowdown (External demand is 3x more than domestic demand) → this would limit the ability of Singapore to use demand management policies to boost domestic demand and actual growth given its high degree of reliance on external demand for its economic growth.
- Supply-Side Shocks: Rising prices of imported raw materials → this would put a limit to Singapore's ability to continually appreciate SGD without severely compromising export price competitiveness.
- Competition from foreign countries for investments and exports (No control over rivals' policies). Just as Singapore can pursue economic policies to improve its export competitiveness, there is nothing to preclude other competing countries to engage in similar policies to compete with Singapore for FDI and exports. This is especially the case given the increasing integrated nature of the global economy.

Synthesis:

Growth can be controlled as long as policies result in international competitiveness and external conditions are favourable. For a small and open economy, growth is not within her control to the extent that globalisation has led to synchronisation and shortening of business cycles.

Level	Knowledge, Application, Understanding and Analysis	Marks
L3	Balanced arguments, strong analysis and valid application to SG economy Ability to apply at least 3 policies in the context of SG economy	15-21
L2	Balanced arguments, undeveloped explanation or analysis, weak application to SG economy Able to apply only one policy → lower L2 (max 11) No application to Singapore context → lower L2 (max 11) Focus only on endogenous and/ or exogenous factors → max 12	10 -14
L1	Descriptive, conceptual inaccuracies, one-sided or irrelevant responses No application to Singapore context	1-9
Evaluation		
E1	Unsubstantiated judgment	1-2
E2	Substantiated judgment	3-4

Question 5

Recent uncertainty about Eurozone growth, coupled with East Europeans' migration into the UK, has changed the UK's labour market; this includes adversely affected UK residents in manual occupations, who do not have the skills to move to other occupations.

- (a) Explain the causes and costs of unemployment to a country like the UK. [10]
 (b) Discuss if labour migration may help a country achieve its macroeconomic objectives. [15]

Mark Scheme:

- (a) Explain the causes and costs of unemployment to a country like the UK. [10]

Causes of unemployment in the UK (Explain any 2 causes below)

1. Cyclical or demand deficient unemployment

Uncertainty about Eurozone growth → fall in investor or consumer confidence → fall in C, I or X → fall in AD → fall in RNY → fall in derived demand of labour to produce output → increase in cyclical or demand deficient unemployment.

2. Structural unemployment

Displaced workers are occupationally immobile i.e. they do not have the skills that are required in other industries. Workers can be displaced for various reasons e.g. changes in the structure of the economy due to loss of CA or industrial policies or new immigrants that drive down the wages in the original industry such that the locals are forced to leave the industry.

3. Frictional unemployment

Caused by imperfect information on job opportunities. UK is a large and open economy so foreign

workers or residents living outside the city might take time searching for a suitable job.

Costs of unemployment (Explain any 2 below)

- Personal costs: e.g. loss of income and depression → fall in SOL;
- Productive inefficiency → Production is not on the frontier but inside the PPC → Labour resources are not fully utilized → Average cost of production could be reduced further if available labour is fully utilized.
- Opportunity cost in terms of forgone economic growth. Unemployment implies production is inside the PPC → Had labour resources been fully utilized, production would be at the frontier. The economy could have experienced economic growth.
- Cost to taxpayers: Unemployed workers qualify for social assistance in the form of healthcare subsidies and other unemployment benefits. This means that government spending on welfare is higher and there is a strain on taxpayers who will finance the spending.
- Loss in skills (hysteresis): Workers who are unemployed for prolonged periods of time could lose their skills. This loss in productivity could adversely affect the productive capacity by decreasing the AS in the long-run.
- Discouraged worker effect: Workers who have been structurally unemployed for a long-time may become discouraged and leave the labour force. This results in a fall in productive capacity and possible inflationary pressure in the long run.

Level	Description	Marks
L3	Clear explanation of causes and costs of unemployment <ul style="list-style-type: none"> • Some application to the context is required for the top range 	7-10
L2	Undeveloped explanation of causes and costs of unemployment <ul style="list-style-type: none"> • Either causes or costs only (up to 5m) 	4-6
L1	Conceptual inaccuracies or largely irrelevant responses	1-3

(b) Discuss if labour migration may help a country achieve its macroeconomic objectives.
[15]

Introduction

- Migration may either positively or negatively impact a country's ability to achieve its 4 macro-goals which are sustained economic growth, low unemployment, low inflation and a healthy BOP

Net inflow of labour from the perspective of the recipient country (Inward migration > outward migration)

(Note: Students might argue the case of a net-outflow from the perspective of the source country which is a valid approach and is opposite to the answer below)

Thesis: (Net Inflow of labour helps an economy achieve its macro-goals)

1. Growth

Net Inflow of labour → increase labour force → increase AS → potential growth.

Higher consumption from new immigrants → increase AD → actual growth.

2. Lower Unemployment

As a result of the actual growth, there will be an increase in demand for labour to produce output → fall in demand deficient unemployment.

3. Lower Inflation (accept either case)

Increase labor supply → lower wages (accept wage equalization model if used) → lower cost of

production → lower GPL → lower cost push inflation.

Or

Net inflow of labour → increase labor force → increase productive capacity → increase in AS → lower GPL (reduced demand-pull inflationary pressure).

4. BOP (accept either case)

Current Account

Lower relative inflation → increase in export competitiveness → Improvement in CA balance.

Or

Financial Account (Secondary effect – not penalized/no credit given)

Inflow of FDI due to lower cost of production from lower wages or availability of skilled labour/foreign talent.

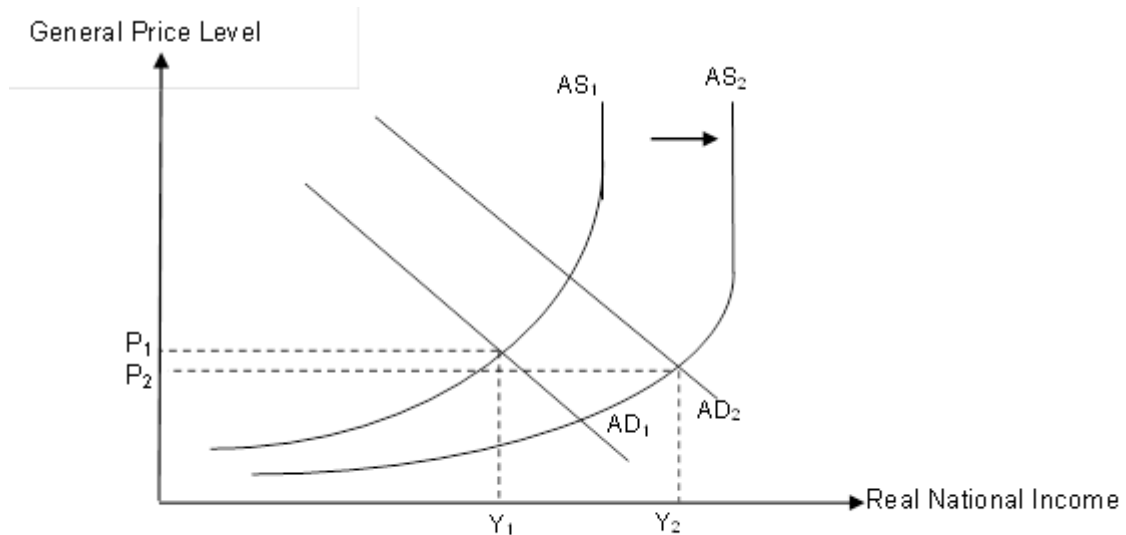


Figure 1: Effects of net inflow of labour

Anti-thesis: (Net inflow of labour does not help an economy achieve its macro-goals)

1. Possible demand-pull inflation

The increase in consumption from the new immigrants would have shifted AD to the right. If this increase in AD is greater than the increase in AS, the economy could overheat if near full employment (AD increases along the intermediate or classical range of the AS).

2. Unemployment (accept any one of the cases)

If there are rigidities in the labour market e.g. minimum wages, an increase in labour supply from inward migration might result in demand deficient unemployment assuming labour demand is unchanged.

Or

Structural unemployment: New immigrants who are willing to work for lower wages displace local workers who have now to look elsewhere for higher paying jobs although they do not have the required skills to move to other industries.

Or

Frictional unemployment: New immigrants might have imperfect information on job openings in the economy and take a longer time to search for jobs.

3. Slower growth from low productivity

If immigrants are unskilled, firms might be inclined to use low wage unskilled foreign workers instead of higher wage domestic workers or capital to reduce their cost of

production. This increased reliance on cheap labour will stifle productivity growth (as in the case of Singapore) and hence potential growth in the economy.

4. Balance of payments

Current account: In the long-run new immigrants may remit income back to their source country worsening CA balance.

Synthesis/Possible evaluative comments:

Whether effects are beneficial depends on

- Whether there is a net inflow or outflow of labour → Net inflows generally lead to improved macro performance.
- Quality of labour (inflow of foreign talent vs unskilled labour) entering or leaving the country.
- Government policies to manage benefits or costs of labour flows.
- Social issues that might affect social stability and macroeconomic performance indirectly.
- Rigidities in the labour market (labour unions, minimum wages) which prevent the labour market from achieving efficiency.
- Size of the economy (small economies like Singapore may stand to benefit more given their limited endowment of labour)
- State of the economy (availability of spare capacity) which affects the likelihood of inflation.

Level	Description	Marks
L3	Balanced and well-explained arguments with sufficient scope (any 2 thesis and 2 anti-thesis points)	9-11
L2	Undeveloped explanation or lacking in scope	5-8
L1	Conceptual inaccuracies, one-sided, descriptive or largely irrelevant responses	1-4
E1	Unexplained or vague evaluative comments	1-2
E2	Well-explained or insightful evaluative comments	3-4

Question 6

Traditional trade theory explains that differences in relative opportunity cost result in countries specialising and trading according to their comparative advantages. In recent years countries are also increasingly trading in goods within the same industry, and at the same time experiencing the phenomenon of off-shoring, where firms have relocated parts of their production process overseas.

(a) Explain how Singapore has benefitted from opening its door to trade and capital flows.

[10]

(b) To what extent are recent changes in global trade and capital flows attributed to differences in opportunity cost?

[15]

Mark Scheme:

(a) Explain how Singapore has benefitted from opening its doors to trade and capital flows (10)

Introduction:

- Clarify the meaning of “opening its doors to trade and capital flows”
- Singapore adopting a pro-trade stance with no barriers to trade as reflected in its total trade value (X+M) being about 3xGDP
- Singapore being open to capital flows with minimal restrictions to capital flows both in terms of FDI and hot \$ flows

- Benefits can be assessed in terms of attainment of macroeconomic and microeconomic goals. Singapore has adopted an open approach to trade and capital flows in view of it being a small economy, lacking in natural resources, with a small domestic market and a price and interest taker in the global commodity and financial market.

Body:

- Explain the benefits for Singapore in terms of increase in trade flows

1) Increase in X revenue via FTAs

- Define FTA: Legally binding agreement between two or more countries that seeks to reduce or eliminate trade barriers.
- Explain that Singapore has pursued an openness to trade with its signing of FTAs (both bilateral and multi-lateral) which has enabled Singapore to expand its exports markets.
- With the lowering of trade barriers against Singapore's X, Singapore is able to leverage and trade according to its comparative advantage and increase both its export volume and value, overcoming its constraints of a small domestic market.
- Increase in X value → Increase AD → more than proportionate increase in NY (briefly explain the k effect) → increase real GDP → increase real national output → increase utilisation of existing resources → actual growth (Illustrate with rightward shift of AD curve)
- With firms increasing production → increase demand for labour, with labour being a derived demand → increase employment.
- Increase in X revenue improves current account of BOP (ceteris paribus)

2) Increase in M expenditure

- By being open to trade, Singapore has also benefited from its ability to M essential raw materials and food stuff more cheaply than resorting to produce such goods herself where the opportunity cost of doing so would be high given its lack of natural resources.
- Lower prices on imported inputs → lower COP → Increase SRAS → Increase actual growth, lower GPL, dampening cost-push inflation. (Illustrate with downward shift of SRAS curve)
- Lower COP also increases Singapore's X price competitiveness, assuming $PED_X > 1$ → Increase in X revenue and similar effects on raising AD, actual growth and employment.
- By being open to trade, competition from foreign M lowers barriers to entry and forces firm to be cost-efficient and adopt product and process innovation → movement towards productive and dynamic efficiency,

Overall effect of increase in both export revenue and import expenditure has been an improvement of Singapore's BOT and current account of BOP. This is due to Singapore's high M content of exports. Cheaper imported inputs has largely been beneficial in promoting exports growth.

- Explain the benefits for Singapore in terms of increase in capital flows in the form of FDI (Students may also consider the effects of hot \$ inflow)
- Inward investment via FDI → increase in I component of AD → similar effects on raising AD, actual growth and employment.
- Increase in FDI → helps to build up capital stock and deepen Singapore's capital intensity. This has been particularly beneficial in accelerating Singapore's industrialisation process. Increases economy's productive capacity and increases potential growth. (Illustrate with rightward shift of LRAS curve)
- Increase in FDI → demonstration and competition effect → encourages innovation, R&D → increases potential growth.
- FDI inflows improves capital account in SR, ceteris paribus improves overall BOP.

Conclusion: Singapore has largely benefited from its openness to both trade and capital flows. This has been aided by the government's conducive economic policies to support and promote trade and FDI.

Knowledge, Application, Understanding and Analysis		Marks
L3	<ul style="list-style-type: none"> ✓ Excellent ability to apply to the given context of Singapore ✓ Clear grasp of the important issues involved and the context (small open economy implications) ✓ Good scope to answer (at least 3 points covering the benefits of both trade and capital flows) ✓ Clear reasoned structure to whole analysis ✓ Rigour in economic analysis <ul style="list-style-type: none"> ○ Provides definition(s) to key terms in preamble/question ○ Effective use of analytical economic framework (with diagrams) ○ Examples used are explained ○ Did not address issue of “opening doors to trade and capital flows” : Max 9 ○ Did not address M/ no CA theory: Max 7 	7 – 10
L2	<ul style="list-style-type: none"> ✓ Answer shows an ability to identify facts, some ability at graphical illustration, fair ability to apply AD-AS analysis or relevant economic theory to explain the effects of trade or capital flows on the macroeconomic and/or microeconomic objectives. ✓ Accurate though undeveloped explanation of the benefits of being open to trade/capital flows on the macroeconomic and/or microeconomic objectives. ✓ No/Weak application to Singapore economy context 	5 – 6
L1	<ul style="list-style-type: none"> ✓ Weak and incomplete understanding of the question and context: <ul style="list-style-type: none"> - Mainly irrelevancies OR substantial glaring conceptual errors - Does not go beyond listing 	1 – 4

(b) To what extent are recent changes in global trade and capital flows attributed to differences in opportunity cost? (15)

Introduction:

Clarify the meaning of “recent changes in global trade and capital flows”.

- Increase in trade flows with reference to the rise of intra-industry trade.
- Increase in inward FDI with the trend towards off-shoring

State that differences in opportunity cost results in countries trading according to their comparative advantage.

- State the theory of comparative advantage.

Body

- **Thesis: Recent changes in trade and capital flows can be attributed to the differences in opportunity cost as explained by the theory of comparative advantage.**

- ❖ Using the theory of comparative advantage, explain how opportunity costs differences between countries account for the rise in intra industry trade in a specific context.

- For trade in goods at different stages of production within the same industry.

Eg. China’s intra-industry trade in electronics.

China's has a relative factor abundance in low cost, low skilled labour and land, it is able to assemble and produce finished consumer electronics targeted at the mass market at a lower opportunity cost than a country like the South Korea, i.e China forgoes relatively lower amounts of other goods that would have been sacrificed to produce finished consumer electronic products. Eg. Household appliances, iPhone etc.

South Korea has a relative factor abundance in high cost but high skilled labour, higher degree of capital intensity, it is able to produce high-end electronic components at a lower opportunity cost than a country like China.

According to the theory of comparative advantage, China has CA in producing mass market finished consumer electronic products, it specializes in producing and exports such goods to countries like South Korea.

For the case of South Korea, it has a CA in producing high-end electronic components, it specializes in producing and exports such intermediate goods to countries like China.

Thus, the theory of comparative advantage and the differences in opportunity costs in production between countries explains the phenomenon of intra-industry trade.

- ❖ Explain how differences in opportunity cost also accounts for the phenomenon of off-shoring where firms relocate part of their production process overseas.

- Explain the rationale for off-shoring: firms seek to reduce COP and focus on core business. For a global MNC, it can seek to relocate part of its production process away from its home country to other countries where the cost of production is lower.

Eg. Global MNCs has taken advantage of the low cost labour and abundant land in countries like China to off-shore its manufacturing and assembly facilities. This has resulted in greater flows of FDI to China and also promoted the exports of goods such as finished consumer electronics which is in line with the theory of CA due to the differences in opportunity costs as explained earlier → more cost efficient to specialise and engage in such production activities.

Eg. Global MNCs has taken advantage of the low cost, abundant higher skilled labour in countries like India to off-shore its IT operations. Eg. global firms like HP IBM, Intel, AMD, Microsoft, Oracle Corporation and Cisco have off-shored their IT services. This is in line with the theory of CA. India with its relative abundant skilled labour would have a lower opportunity cost in providing IT related services → more cost efficient to specialise and engage in such activities

- **Anti-Thesis: Other factors can also account for the recent changes in trade and capital flows.**

- For trade in goods at same stage of production within the same industry.

- Demand side factors: Changes income, taste and preferences.

With the rapid growth and development of emerging economies like China, rising affluence has spurred greater intra-industry trade. Eg. Chinese consumers with their rising disposable income have a new found appetite and ability to afford better quality branded imported goods like apparel, bags and cars. Although China do manufacture and exports such categories of goods, it also imports them at the same time, resulting in a greater product variety for the domestic market.

In the agriculture industry, India, traditionally an exporter of corn is in the process of moving towards a net importer of feed grains due to the greater demand for poultry with India's changing taste and preference for meat.

➤ For FDI flows due to off-shoring

- Ability to respond to more quickly to changing local demand

Global MNCs may value proximity to the local market. They want to be in, or close to markets where the consumer base is large, making customised products and responding quickly to changing local demand.

Eg. Bombardier, a Canadian maker of airplanes and trains, used to focus on cost savings made by off-shoring jobs abroad; now Bombardier is in China for the large Chinese market.

Lenovo, which has its own factories in China is moving some production to America is so it will be able to customise its computers for U.S consumers and respond quickly to them.

➤ For trade and FDI flows due to off-shoring

- Diversification argument
To reduce the vulnerability to economic shocks stemming from a too narrow a specialization, countries have increasingly sought to diversify their economy by pursuing industrial policies to also develop the sectors for exports which they traditionally have been a net importer.
- Role of FTAs: With the signing of FTAs, along with the lowering of trade barriers, the easing of investment rules has facilitated the shifting of production facilities overseas between the partner countries, eg. From U.S to Mexico with NAFTA → promotes off-shoring
- Economies of scale to produce a specific good within the broad product category. Intra-industry trade allows countries to specialise in a limited variety of production and thus reap the advantages of increasing returns (i.e., economies of scale), but without reducing the variety of goods available for consumption.
- (Optional: Seasonal variations impacting demand/supply conditions
Eg. Broccoli imported to U.S from Mexico in the winter and exported from U.S to Mexico in the summer.)

Reasoned conclusion:

- For goods within the same industry but at different stages of production, intra-industry trade can be better explained due to the differences in opportunity cost and hence comparative advantage.
- For goods within the same industry but at the same stage of production, the effect of opportunity cost and comparative advantage differences become less important as a determinant of intra-industry trade and off-shoring.

Level	Knowledge, Application, Understanding and Analysis	Marks
L3	<ul style="list-style-type: none"> • Good use of appropriate framework/concepts in analysis <ul style="list-style-type: none"> ◦ Sound application of theory of comparative advantage • In-depth discussion of question <ul style="list-style-type: none"> ◦ Appropriate scope, well-structured thesis and antithesis • Good depth of analysis <ul style="list-style-type: none"> ◦ Good application using appropriate contextual eggs to illustrate intra-industry trade and off-shoring 	9-11
L2	<ul style="list-style-type: none"> • Use of appropriate framework/concepts in analysis <ul style="list-style-type: none"> - Some ability to apply the theory of comparative advantage and other relevant concepts with appropriate examples. • Sufficient scope of coverage <ul style="list-style-type: none"> - Thesis and anti-thesis structure - Max 7m if only discussed reasons for trade flows/capital flows - Max 6 if only covers inter-industry trade no/weak off-shoring 	6-8

	explanation but good attempt at explaining CA theory. <ul style="list-style-type: none"> • Lacks consistent rigour in analysis • Some errors in analysis 	
L1	<ul style="list-style-type: none"> • A demonstration of the inability to interpret or grasp the requirements of the question eg. Irrelevant answers that does not address the issue of intra-industry trade correctly • Lacks use of economic framework/concepts in analysis • Lacks scope of coverage- one sided answer (Max 5) Glaring conceptual errors	1-5
Evaluation		
E2	For an evaluative assessment based on economic analysis.	3-4
E1	For an unexplained assessment, or one that is not supported by analysis.	1-2