

Suggested Answer

- 4 (a) Explain how countries measure their economic performance. [10]
- (b) Discuss if strong economic performance necessarily lead to higher standard of living. [15]

(a) In order to access the full 10 marks, students should mention at least three indicators with economic growth rate as a compulsory indicator. What students should focus is not just on the explanation of the economic indicators but to explain how they are link to economic performance. In the conclusion, students should be aware that overall economic performance requires these indicators to show a more complete picture and that any individual indicator alone is insufficient to indicate economic performance.

Explanation of the economic indicator	Explanation of how each economic indicator measure economic performance
Economic growth rate (GDP or GNP % growth) <ul style="list-style-type: none">- define GDP or GNP- explain what a positive or negative value means in terms of national output	<ul style="list-style-type: none">- Explain how the values of GDP/GNP growth rate indicate the economic performance of an economy.- Recognise that economic growth rate is usually the most important indicator to measure economic performance.
BOP status (deficit or surplus, extent and duration of it) <ul style="list-style-type: none">- define BOP- briefly explain what makes up the BOP- explain what it meant when a country has a BOP surplus or a deficit	<ul style="list-style-type: none">- Explain how a BOP surplus or deficit can indicate economic performance, showing awareness that the extent and duration of the deficit and surplus matter more in terms of measuring economic performance.- Recognise that BOP measure external performance of a country and is particular important for small and open economies like Singapore and Hong Kong.
Unemployment rate (%) <ul style="list-style-type: none">- define unemployment rate- briefly explain that cyclical and structural unemployment are the more concerned sources of unemployment- explain what a high or low unemployment rate meant and its impact	<ul style="list-style-type: none">- Explain how unemployment rate (high or low %) can be used to measure economic performance.- Recognise that the source of unemployment rate may also affect economic performance (generally long term unemployment is more of a concern than short term unemployment such as frictional unemployment)
Inflation rate (%) <ul style="list-style-type: none">- define inflation- explain how inflation is measured- briefly explain that inflation can be demand pull or cost push- explain what a high or low inflation meant and it impact	<ul style="list-style-type: none">- Explain how low or high inflation rate can be used to measure economic performance

Gini-coefficient (value between 0 and 1) - define income inequality - briefly explain how the value of the Gini coefficient indicate income inequality (the higher the value, the higher the income inequality), - explain what high or low income inequality meant and its impact	- Explain how the value of Gini-coefficient can be used to measure economic performance.
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Comprehension, Knowledge, Application, Analysis		
L3	Well-developed explanation of the economic indicators and how they measure economic performance. <i>Max 8m – if only two indicators are explained (with economic growth rate being one of them)</i>	7-10
L2	Undeveloped explanation on the economic indicators to measure economic performance. <i>Max 5m – if answer is purely on economic objectives with some incidental mentioning of economic indicators.</i> <i>Max 6m – if only two or more indicators are explained (without economic growth rate)</i>	5-6
L1	Mere listing of the indicators, largely irrelevant answer such as talking about how economic performance affects SOL. <i>Max 4m – if answer is purely on economic objectives without any indicators being mentioned.</i> <i>Max 4m – if answer is purely on the definition/description of the indicators without any link to how they indicate or measure economic performance</i>	1-4

(b) Discuss if strong economic performance necessarily lead to higher standard of living. [15]

This questions requires students to recognize that while strong economic performance can potentially and often lead to higher standard of living in both material and non-material aspects, it may not always be true. This is because SOL depends on many factors in which a strong economic performance may not have an impact on. Sometimes, strong economic performance may even come at the expense of certain aspects of SOL such as longer working hours or environmental degradation. In addition, students should recognize that not everyone may experience higher SOL due to stronger economic performance.

Introduction:

- explain what SOL is and recognize that it includes both material and non-material aspects (There is no need to explain in details what is strong economic performance since it is covered in part (a) already).

Body:

Thesis: Explain how strong economic performance can lead to higher SOL in terms of both material and non-material aspects

Explain how stronger economic performance in terms of high real economic growth rate and low unemployment rate can lead to higher material SOL (quantitative aspect of SOL)

- high real EG (real GDP growth) → may translate to higher **real GDP per capita** assuming slower population growth rate → higher real household income → higher purchasing power → able to purchase more gds/svs → improve material well being
- lower unemployment rate → more household enjoying higher income → more people are able to purchase more gds/svs → higher material well-being

Explain how stronger economic performance in terms of high real economic growth rate can lead to higher non-material SOL (qualitative aspect of SOL)

- high real EG imply better business conditions → firms earn more profits and household earn higher wages → assuming constant corporate and personal income tax rates → govt collect higher tax revenue → more spending on infrastructure e.g. improve transport network, merit goods e.g. education and healthcare, public goods such as defense, police force → improve non-material well-being in terms of higher life expectancy and higher literacy rates.

Anti-thesis: Explain how stronger economic performance may come at the expense of certain aspects of SOL

Explain how stronger economic performance may leads to lower non-material well-being.

- strong economic performance may be contributed by longer working hours → less leisure time and time to spend with family and friends, higher level of stress from work → more cases of stress related illness → lower non-material well being
- higher economic growth may come at the expense of rapid industrialisation → rapid environmental degradation, increased level of air pollution and water pollution from industrial waste → these negative externalities can lower the quality of life of the residents living in those areas.

Evaluation: In countries like China where there is severe air pollution in cities like Beijing, the SOL may not have improve much even with the two decades of strong economic growth. However, in countries like Japan where there is strong government intervention to ensure quality of the environment, they may enjoy better non-material SOL even though the economy has not grown much over the last 2 decades.

Explain how stronger economic performance may not lead to higher material and non-material well-being for some groups of people

- if the higher economic growth comes at the expense of worsening income inequality → some groups of people (typically the low income group) does not experience an improvement in their SOL. High income inequality may result in the poor being deprived of services such as healthcare and higher education. It may also leads to social unrest or higher crime rates among lower income group as they are not benefitting from the economic performance of the country.

- high income inequality also leads to lower AD in the future as the rich generally save more as a proportion of their income as compared to the poor. Hence if the benefits from stronger economic performance are mainly concentrated in the rich, the expansionary effect from higher economic growth through consumption will be less compared to all benefitting from higher economic growth.

Evaluation: The issue on income inequality can be mitigated by income distribution policies by government. Higher income tax rates for higher income earners followed by transfer payments to the lower income group can lower the extent of income inequality and reduce the magnitude of the problem caused as mentioned earlier.

Synthesis/Conclusion

While strong economic performance tend to improve SOL, government need to note that some people may not benefit from it and hence need to design policies to help these groups of people and make economic growth more inclusive. At the same time, policies should be imposed to tackle negative externalities that may arise from economic activity. In doing so, government can help to ensure that their economy can reap the most benefits from strong economic performance or high economic growth.

Comprehension, Knowledge, Application, Analysis		
L3	Well-developed explanation of how stronger economic performance can benefit SOL quantitatively and qualitatively and yet may have certain adverse impact. <i>Max 9m – if a balanced answer only shows how stronger economic performance benefits SOL quantitative and not qualitatively.</i>	9-11
L2	Undeveloped explanation on how stronger economic performance affects SOL. <i>Max 6m – for a one-sided answer that is developed.</i>	6-8
L1	Mainly descriptive answer or largely irrelevant answer.	1-5
Evaluation		
E2	Judgment given based on economic analysis.	3-4
E1	Judgment not based on analysis.	1-2