6. Discuss the extent to which economic growth of countries depend more on government policies than the amount of natural resources they possess. [25]

Outline

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Introduction

Economic growth is defined as the expansion or increase in an economy's level of output or GDP over time. The pace or rate of growth is usually expressed as a % change in real output or GDP over time. When we talk about economic growth, we can look at actual and potential growth.

Actual economic growth is the annual percentage increase in national output, i.e. the rate of growth in output which the economy produces.
Potential economic growth is the annual percentage increase in the economy's capacity, i.e. the speed at which the economy could grow. It refers to the rate of growth of potential output.

This essay will explore whether government's policies or endowment of resources play a more important role in achieving EG.
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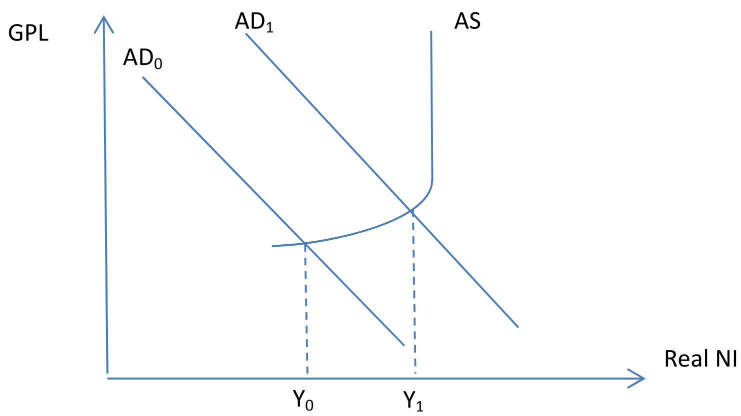
<tr><td>1. Having vast amounts of resources helps economic growth</td><td>
• Having large amount of resources can help the country to achieve actual growth.

Due to the abundance of resources, the country may have the comparative advantage in the production of goods which requires such resources eg. countries endowed with large population will be able to produce goods which are labour intensive and export these goods. This will help to increase export revenue and hence achieve growth. Use AD/AS diagram to illustrate (AD_0 to AD_1).


• Quantity of FOP in country determines how much the country can produce

The natural endowment of the country determines the maximum capacity of the country. Countries endowed with huge amounts of FOP will imply that AD can increase and there is still excess capacity for growth. Countries lacking in FOP will see AD increases reaching the full
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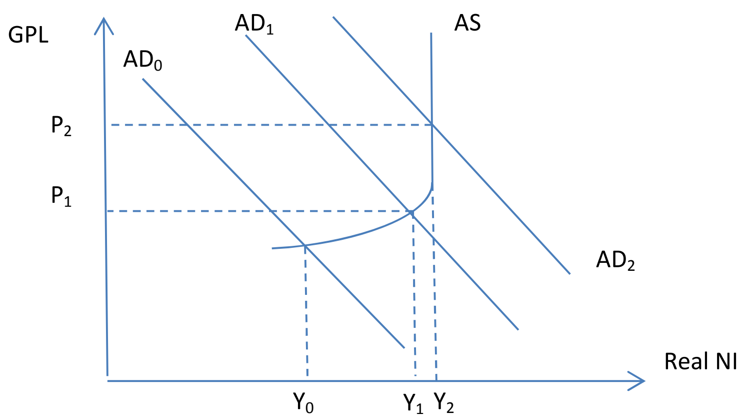
	employment level faster and any further increases in AD will only result in inflationary growth. Use AD/AS diagram to illustrate (AD_1 to AD_2). 
	Exemplify using case of China. The large population size allowed China to produce goods at a very low cost. China became the manufacturer of the world and were able to achieve double digits economic growth due to strong growth in export revenue. The large population also gives her huge potential to grow and also contributes to growth through C. China was able to achieve high rates of EG.
2. Having vast amounts of resources may not help achieve high EG	However, natural endowment may not ensure export competitiveness. There are other factors which affects export eg. quality of exports. In addition, actual growth is also determined by other components such as Investment expenditure, government expenditure, consumption expenditure and import expenditure, which in turn may be influenced by a myriad of factors. Hence, countries will not be able to ensure high economic growth simply by possessing vast amounts of resources. Even if AD continues to increase, countries may not be able to continue achieving high EG. Once full employment level is reached any further increases in EG needs an accompanying increase in the productive capacity. Hence, quantity of resources only helps with determining the maximum productive capacity but does not guarantee a continuous growth in the capacity. Without the constant increase in capacity even if large countries achieve high EG now, it cannot be sustained (as illustrated previously inflationary growth).

	Therefore, government policies to help raise AD and also to improve the quality and quantity of resources are necessary to continue to raise the productive capacity.
3. Achieve high economic growth with government's policies	Government policies can target actual growth
	Demand management policies - Expansionary FP/MP Fiscal policy is defined as the use of government spending and / or taxation to influence the level of economic activity through the aggregate demand. Or Monetary policy is the deliberate attempt by the Central Bank to regulate the money supply or manipulate the interest rate to influence the level of economic activity so as to achieve economic objective such as maintaining full employment, curbing inflation, attaining economic growth and a satisfactory balance of payments position. Demand management policy will help increase C/I/G or all 3 components leading to increase in AD and hence achieve EG.
	Government policies can target potential growth
	Eg. SSP which increases quality of resources Policies to improve human capital: Human capital refers to the accumulated skill and knowledge of workers. It is regarded as the most fundamental source of economic growth. It can be acquired through education, training and work experiences. If knowledge is lacking, other resources may not be used efficiently. For example, a country may be endowed with fertile land, but farmers may lack the knowledge of irrigation and fertilization techniques. In the case of Singapore, the 2-year (2008 – 2010) Skills Programme for Upgrading and Resilience (SPUR) was set up to scale up training efforts in order to build up stronger capabilities. The government also spends on improving the quality education in Singapore in order to ensure a workforce that is equipped with knowledge and skills and is constantly able to upgrade and re-skill to adapt to the demands in the future. Policies to improve technology: Technology plays an increasingly crucial role in bringing about potential growth in an economy. Technological improvements have made tremendous contributions to our increased productivity. Such improvements have assisted in finding new ways of getting more out of our resources. The productivity of the country's resources increases

	when technology improves. It is now possible to obtain more output from the same amount of inputs than before. There are 2 ways to achieve improvements in technology: 1. Importing technology – adopting technology developed by others. This is commonly used in many less developed or developing economies. 2. Research and development (R&D) – encourage R&D efforts domestically. For example, Singapore aims to increase the R&D spending to 3.5% of its GDP by 2015. To achieve this, a Productivity and Innovation Credit scheme is introduced to encourage R&D efforts of the private sector by giving generous tax deductions on R&D expenditures.
	Eg. SSP which increases quantity of resources Policies to increase capital goods: Investment in new capital increases the amount of capital each worker can work with, hence contributing to increases in productivity. 1. This implies that the level of output would have the potential to increase, leading to economic growth. The funds needed for capital formation can be obtained from savings and foreign direct investment (FDI). In the case of Singapore, FDI was encouraged by granting foreign firms tax holidays for the initial period of about 10 to 15 years after they set up operations. 2. There is also a shift in dependence on direct tax to indirect tax. In 1994, Singapore first introduced the Goods & Services Tax at 3% and has increased to its current 7%. Corporate tax on the other hand decreased to its current 17% from 40%. Similarly, income tax rates were also reduced. The shift in tax regime helps to encourage investment and work efforts enabling potential growth in the economy. Policies which target the increase in workforce include: 1. Relaxing immigration law to increase the population size. This policy will result in a larger population which means an increase in potential workforce. 2. Relaxing foreign worker policy to increase the size of the workforce. This is a policy which increases the pool of workers immediately. 3. Increasing the retirement age. 4. Encourage greater female participation in workforce by giving tax rebates for working mothers, ensuring quality childcare facilities are accessible and affordable, and allowing more flexible working arrangements e.g. working from home.
4. Government policies may	Government policies may worsen EG

hinder economic growth	Eg. Overly restrictive policies which hinders investments or trade
	Eg. Time lags There is often a serious time lag between the identification of the problem to be dealt with and the time when the fiscal measures begin to take effect. This may mean that fiscal policy takes effect at the wrong time. Hence fiscal policy could even be destabilising when such time lags are considerable. Expansionary FP taking effect only after economy recovers causing inflation instead
Synthesis and conclusion Possessing large amounts of resources definitely helps countries grow more easily with resources easily and cheaply available. However, no matter how well a country is endowed with resources, it will reach it's maximum productive capacity and the country will only face inflationary growth. Hence government policies are important to ensure growth of the productive capacity. It is also evident in the case of Singapore where natural resources are clearly lacking but with sound policies, she was able to achieve high economic growth.	

L3	Excellent ability in explaining the 2 context given with exemplifications Good attempt in explaining the 2 context given Note: there is no need to include all policies to achieve L3.	19-21 16-18
L2	Some attempt to answer the question with some attempt to use economic analysis Some attempt to answer the question but points are not adequately developed	13-15 10-12
L1	Listing of points and doesn't demonstrate grasp of question's requirement Mere listing of points or major conceptual errors present	6-9 1-5
E2	Substantiated judgement	3-4
E1	Unsubstantiated judgement	1-2