

- 4 (a) Explain how countries can benefit from trade. [10]
- (b) Discuss the extent to which trade is the most important factor that determines the external value of Singapore dollar. [15]

(a)

**Introduction:**

- [Define key terms] Define exchange (international trade)
- [State approach] The basis of trade is founded on Ricardo's law of comparative advantage, which states that trade can bring benefits in the form of higher consumption levels to the economy if they specialise in the production of goods that they have a comparative advantage in, and exchange for the goods that they do not a comparative advantage in producing.

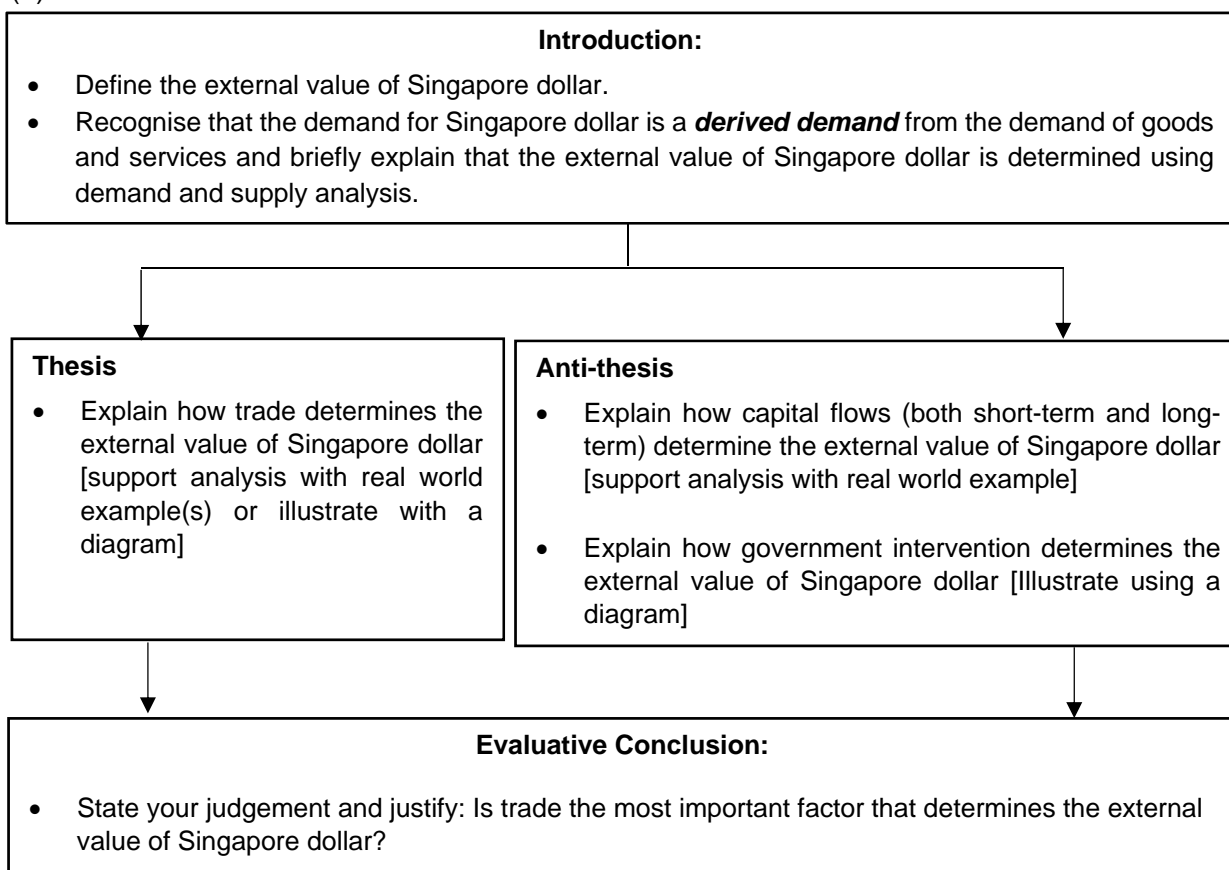
**Body:**

1. Explain the theory of comparative advantage with rigour
  - Assumptions of theory.
  - Explain how total output increases from complete specialisation and
  - Explain how, with an appropriate terms of trade, consumption possibilities will increase.
2. Explain an alternative benefit of trade, using relevant real-world examples
  - E.g. greater product variety, quality and lower prices, trade as an engine of growth etc.

**Conclusion:**

- [Summarise main ideas] Specialisation can generate higher output levels, and exchange allows higher consumption levels, and serves as an engine of growth to economies.

(b)



Level	Knowledge, Comprehension, Analysis and Application	Marks
L3	For answers that exhibit <u>rigorous</u> explanation of the theory of comparative advantage that analyses higher output levels as a benefit of specialisation, higher consumption possibilities from exchange, and analyses at least one alternative benefit of trade showing application to real-world context	8 - 10
L2	Answers which did not fully explain the theory of comparative advantage with rigour (lacks diagrammatic or numerical examples) and/or are mainly theoretical.	4 - 7
L1	Descriptive and superficial answers that mainly lists the benefits of trade without explaining <b>how</b> the benefits came about.	1 - 3

Level	Knowledge, Comprehension, Analysis and Application	Marks
L3	For an answer that explains <u>rigorously</u> how trade and 2 other factors determine the external value of Singapore dollar, with the use of appropriate supply and demand analysis with correctly drawn and well-labelled diagrams. Answer is <u>well organised</u> . Analyses and examples are applied to the Singapore context.	9 - 11

L2	For an answer that is lop-sided, concentrating solely or mostly on how trade can determine the external value of a currency, or on factors that influence demand for/supply of a currency only. OR An answer that explains how trade and other factors determine the external value of a currency, with inadequate application to Singapore context.	5 - 8
L1	For a descriptive and superficial answer that briefly explains how the external value of a currency is determined.	1 - 4
<b>Level</b>	<b>Evaluation, Synthesis</b>	<b>Marks</b>
E2	Insightful, evaluative comments supported by economic or contextual analysis.	3 - 4
E1	Statements not based on economic or contextual analysis.	1 - 2