1. With six public universities in Singapore, students now have a diverse range of degrees to choose from. To attract the best students, the universities are striving to be different in their programmes, tuition fees, student and faculty mix, accommodation options, financial help and overseas opportunities.

    (a) Distinguish between merit goods and public goods and explain which category public universities should be placed in. [10]

    (b) Discuss the view that direct provision is the only form of government intervention in the markets of public and merit goods. [15]

Source: *The Straits Times*, 03 March 2015

(a)	*Approach:* - The command word distinguish requires students to make comparison between public and merit goods in terms of characteristics. - Students are also expected to explain using the characteristics of merit goods on why public universities are considered merit goods.
	Introduction: - Public good and merit good, being a private good differ in terms of their characteristics.
	Excludability - Public goods are **non-excludable** in nature. Suppliers of such goods will find it difficult or impossible to exclude non-payers from benefiting from the good once the good is provided. - On the other hand, merit goods are **excludable** in nature. This means that suppliers has the ability to exclude non-payers from benefiting from the good.
	Rivalry - Public goods are **non-rivalry** in nature since an additional user does not deplete supply of a public good. - However, merit goods are **rivalrous** in nature because they are limited in supply. There is an opportunity cost involved on every additional unit consumed.
	Public universities Universities are provided by both the market as well as government due to the presence of positive externalities when consumed such as having a more productive labour force in achieving high and sustained economic growth. Therefore, the public universities exhibiting the presence of various source of market failures such as positive externalities, imperfect information and inequity are classified as a merit good.
	Mark scheme:

Levels	Descriptors

High L3
9-10
	• For an answer that exhibits:
	  ➢ **Very good** depth in analysis.
	  ➢ **Very good** breadth in analysis: Contains
	    ✓ **Very good** consideration of why public universities are considered merit goods.
	•

Low L3
7-8
	• For an answer that exhibits:
	  ➢ **Good** depth in analysis.
	  ➢ **Good** breadth in analysis: Contains
	    ✓ **Good** consideration of why public universities are considered merit goods.

L2
5-6
	• For an answer that exhibits:
	  ➢ **Sufficient** depth in analysis.
	  ➢ **Sufficient** breadth in analysis: Contains
	    ✓ **Some** consideration of why public universities are considered merit goods.

High L1
3-4
	• For an answer that exhibits:
	  ➢ Insufficient depth in analysis.
	  ➢ **Insufficient** breadth in analysis.
	  ➢ Conceptual errors in analysis.

Low L1
1-2
	• For an answer that:
	  ➢ Is largely irrelevant.
	  ➢ Contains **fundamental** conceptual errors in analysis.

(b)	*Approach:* - *Students are expected to discuss* government intervention in the provision of public goods and merit goods.
	State the objective for government intervention: - Government intervenes to reallocate resources so as to reduce or minimise welfare loss due to market failure and achieve efficiency in resource allocation.
	Body 1: Direct provision for free in the market of Public Good - Due to the characteristics of non-rivalry and non-excludability, we find the government supplying many public goods including street lights. Without government intervention, public goods simply would not be provided.

	Body 2: Direct provision in the market of Merit Goods
	  - Merit goods are goods and services that usually generate positive externalities when consumed by the economy.
	  - **Positive externalities** are spill over benefits associated with the production and/or consumption of the good to third parties who are not directly involved in the production and/or consumption of the good and no compensation is involved
	  - Education are often under-consumed and/or produced resulting in deadweight losses because the external benefit is not internalised by the consumers and/or producers who are assumed to care only about their private benefits.
	  - The government should therefore directly provide for merit goods such as Education to eradicate the deadweight loss and achieve allocative efficiency.

	Include a diagram
	- Education also causes market to fail because of **inequity** reasons meaning that the unequal distribution of wealth may lead to over allocation of resources to the production of goods and services for the rich and under allocation of resources to that for the poor. - The demand of a good is both reflective of the willingness and ability of consumers to consume. If left to the free market, low income families may not have the ability to afford good quality education since the market price is largely reflective of the demand of those who can afford.
	Body 3: Providing Subsidy in the market of Merit Goods - Instead, the use of subsidies might be more appropriate to internalise the positive externalities in the case of merit goods. - In addition, the use of subsidies would involve lower government expenditure.
	Body 4: Raise awareness through information providing - Merit goods are also often under consumed due to **imperfect information** e.g. consumers might not be fully aware of the existence or the magnitude of the private benefits and thus under-value the private benefits.
	Include a diagram
	- To correct market failure due to imperfect information, a government can provide the necessary information (e.g. fund exhibitions, posters, television advertisements, etc) to help consumers make rational decisions.
	Overall conclusion: - In conclusion, different policies are required to deal with different causes of market failure given that some policies are more appropriate than others.

Mark Scheme:

Levels	Descriptors

High L3
 	
11
	• For an answer that exhibits:
	  ➢ Excellent depth in analysis.
	  ➢ Excellent breadth in analysis: Contains
	    ✓ **At least 3 causes** of market failure.

Low L3
 	
9-10
	• For an answer that exhibits:
	  ➢ Very good depth in analysis.
	  ➢ Very good breadth in analysis: Contains
	    ✓ **At least 2 causes** of market failure.
	  ➢

High L2
 	
7-8
	• For an answer that exhibits:
	  ➢ Good depth in analysis.
	  ➢ Good breadth in analysis: Contains
	    ✓ **At least 2 causes** of market failure.

Low L2 6	• For an answer that exhibits:
	  ➢ Sufficient depth in analysis.
	  ➢ Sufficient breadth in analysis: Contains
	    ✓ **At least 1 cause** of market failure

L1 1-5	• For an answer that:
	  ➢ Is largely irrelevant.
	  ➢ Contains **fundamental** conceptual error(s) in analysis.

Levels	**Descriptors**
E2 3-4	• For a **well-reasoned criteria-based judgement.**
E1 1-2	• For an **unexplained criteria-based judgement.**

2. Singapore, which has previously topped the 2009 Ernst & Young Globalisation index is currently second in its 2012 Index, behind Hong Kong. The Index is based on a comprehensive understanding of the underlying drivers for globalization across five main pillars: openness to trade, capital flows, exchange of technology and ideas, labour movements, and cultural integration.

    (a) Explain how the Singapore government ensures price stability through the management of the exchange rate. [10]

    (b) Discuss the relative significance of price stability in determining global competitiveness. [15]

(a)	Approach:
	- Candidates are expected to explain how the management of SGD exchange rate mitigate the risk of demand pull and cost push inflation.
	Introduction: Price stability in Singapore - Price stability in Singapore is primarily achieved using exchange rate policy due to the small and open nature of the Singapore economy.
	Singapore's exchange rate policy - Over the long term, MAS's exchange rate policy is to allow a <u>gradual appreciation</u> of the Singapore dollar by allowing the band to "**crawl**" upwards.
	Demand-pull inflation: - Demand-pull inflation may originate with an **autonomous** increase in exports. - Changes in the general price level have been attributed to an excess of aggregate demand in a period close to or at full employment.
	Include a diagram
	- If (X-M) increases, aggregate demand increases. At full employment Y_F, additional spending tends to be purely inflationary.
	Import price push Inflation: - Singapore's small size and lack of natural resources means that we have to import even the most basic of our daily requirements. An increase in the cost of imported inputs (raw materials or intermediary products) due to inflation in foreign countries would increase our cost of production.
	Include a diagram
	- **APPRECIATION** is the increase in the external value of a currency in terms of other currencies in the FOREX market.
	- An appreciation of the exchange rate will lower import prices in terms of the domestic currency. By appreciating the currency, it will make imports cheaper in Singapore dollars then helps to lower the rate of inflation in Singapore.
	- The appreciation of the currency also makes Singapore's exports more expensive in foreign currencies. This may help to moderate the growth in exports and thus control demand-pull inflation.
	Mark Scheme:
	Levels **Descriptors**

	High L3 9-10	• For an answer that exhibits:
		  ➢ **Very good** depth in analysis.
		  ➢ **Very good** breadth in analysis: Contains
		    ✓ Explanation of how appreciation of SGD ensure price stability.
		    ✓ **Very good** consideration of how cost-push and demand pull inflation are caused by high imported prices and strong external demand.

	Low L3 7-8	• For an answer that exhibits:
		  ➢ **Good** depth in analysis.
		  ➢ **Good** breadth in analysis: Contains
		    ✓ Explanation of how appreciation of SGD ensure price stability.
		    ✓ **Good** consideration of how cost-push and demand pull inflation are caused by high imported prices and strong external demand.

	L2 5-6	• For an answer that exhibits:
		  ➢ **Sufficient** depth in analysis.
		  ➢ **Sufficient** breadth in analysis: Contains
		    ✓ Explanation of how appreciation of SGD ensure price stability.
		    ✓ **Some** consideration of how cost-push and demand pull inflation are caused by high imported prices and strong external demand.

	High L1 3-4	• For an answer that exhibits:
		  ➢ Insufficient depth in analysis.
		  ➢ **Insufficient** breadth in analysis.
		  ➢ **Insufficient** consideration of how cost-push and demand pull inflation are caused by high imported prices and strong external demand.
		  ➢ Conceptual errors in analysis.

	Low L1 1-2	• For an answer that:
		  ➢ Is largely irrelevant.
		  ➢ Contains **fundamental** conceptual errors in analysis.

(b)	Approach:	
	- Candidates are expected to discuss the relative significance of price stability as well as other factors.	
	Introduction:	
	- Global competitiveness is based on the drivers for globalisation and it could be in terms of ranking of a country's ability to attract FDI, labour and also the ability to produce competitive goods and services for exports.	
	Effects on FDI	
	- Price stability such as mild inflation stimulates foreign direct investment as the rates of returns to investments increases. - If there are large and inordinate increases in the general price level, it will add to uncertainty in the investment climate and adversely affect investment decisions.	
	Effects on export revenue:	
	- Countries with relatively higher rates of inflation compared to their trading partners will experience a fall in net exports and may result in a trade deficit, leading to a balance of payment deficit, ceteris paribus.	

	Effects on labour inflow: - Inflation erodes the purchasing power of money, thereby reducing the economic welfare of residents.
	Other factors that will affect FDI, labour inflow and export earnings. (
	1a. Effects on FDI due to government policies - The fundamental tenet of Singapore's tax policy is to keep tax rates competitive both for corporations as well as individuals. This will entice new foreign investors to invest and existing investors to use existing supernormal profits to invest further. **1b. Effects on FDI due to government policies** - Policies to promote workforce training help to achieve a better matching of workers to jobs, thereby reducing labour market imbalances or bottlenecks. This has the effect of attracting FDI of these related industries due to the availability of skilled labour. **2. Effects on Labour inflow due to government policies** - Government can implement policies to allow for foreign workers. The Singapore government allows employers to hire foreign workers in industries such as construction, healthcare and cleaning, where local manpower supply is lacking. **3a. Effects on export earnings due to government policies** - Governments can implement wage controls to help firms reduce their operating costs. This has the effect of ensuring cost competitiveness of exports especially during times of global recession.
	Mark Scheme:

Levels	Descriptors

High L3
 	
 11
	• For an answer that exhibits:
	  ➢ Excellent depth in analysis.
	  ➢ Excellent breadth in analysis: Contains
	    ✓ **At least 3 explanations of how price stability leads to global competitiveness**.

Low L3
 	
 9-10
	• For an answer that exhibits:
	  ➢ Very good depth in analysis.
	  ➢ Very good breadth in analysis: Contains
	    ✓ **At least 2 explanations of how price stability leads to global competitiveness**.

High L2
 	
 7-8
	• For an answer that exhibits:
	  ➢ Good depth in analysis.
	  ➢ Good breadth in analysis: Contains
	    ✓ **At least 2 explanations of how price stability leads to global competitiveness**.

Levels	Descriptors
Low L2 **6**	• For an answer that exhibits: ➢ Sufficient depth in analysis. ➢ Sufficient breadth in analysis: Contains ✓ **At least 1 explanation of how price stability leads to global competitiveness.**
L1 **1-5**	• For an answer that: ➢ Is largely irrelevant. ➢ Contains **fundamental** conceptual error(s) in analysis.
Levels	**Descriptors**
E2 **3-4**	• For a **well-reasoned criteria-based judgement.**
E1 **1-2**	• For an **unexplained criteria-based judgement.**