



Case Study Question 2

Suggested Answer

(a)		With reference to Table 2, describe the trend of China's real GDP from 2011 to 2014 China's real GDP generally rising (1m) at decreasing rate (1m) •	[2]
(b)		Extract 5 suggests that the Chinese are concerned over the formation of real estate bubbles.	
	(i)	Use the concept of circular flow of income to explain how, if "burst of real estate bubbles" (Extract 5) occurs, will affect China's equilibrium national income. 1. If the real estate bubbles were to burst, prices of housing would fall. (1m) 2. Consumers would feel less wealthy OR consumers would have to cut down on expenditure to pay their debts, thus cutting autonomous consumption (1m) 3. Explain how fall in autonomous consumption (a form of injections) result in $J < W$ (disequilibrium) + Adjustment from disequilibrium to equilibrium (3m) 1m – show understanding that there is $J < W$ 1m – Change in Y and hence impact on expenditure and employment 1m – Fall in withdrawals increase until $J = W$ •	[5]
	(ii)	Explain and comment on a policy that China can implement to mitigate the 'downward risk' on its economy (Extract 5) Students need to recognise that the 'downward' risk is the effects of burst of real estate bubble as explained in b(i). Explain one expansionary demand management policy or housing cooling measure (3m) – must link to <u>how</u> it mitigate fall in NY Comment on the policy (relevant evaluation) (2m)	[5]
(c)	(i)	Explain what is meant by the term 'youth unemployment' of country such as Greece. Youth employment refers to a situation where youth (those above legal working age and under 25) in the labour force (1m) who are willing and able to work but are unable to find employment (1m). •	[2]
	(ii)	Compare the trend of unemployment rate and youth unemployment rate in Eurozone from 2011 to 2014. Similarity – Both unemployment rate and youth unemployment rate generally	[2]

		<p>increase from 2011 to 2014.</p> <p>Difference – youth unemployment rate is consistently higher than that of unemployment rate over the period.</p>	
	(iii)	<p>Using AD/AS analysis, discuss the extent to which youth unemployment in the Eurozone will adversely affect its current and future economic growth.</p> <p>1. <u>Explain how youth unemployment in Eurozone may affect its actual economic growth</u></p> <p>Loss in production and Income: Loss of jobs brings about reduction in production and income. Scarring effect (where young people may not have a full time stable job and earn lower wages and at greater possibility of unemployment) → reduces purchasing power → low consumer confidence among the youths (expectations) → fall in (autonomous) consumption → fall in AD</p> <p>Excess labour means the economy is not producing on the boundary of PPC and thus actual growth is affected. The longer youths remain unemployed, the more it will hamper the Eurozone's recovery.</p> <p>Loss in tax revenue which may affect future govt spending: Lack of income of greater proportion of labour force who are unemployed leads to less tax revenue, compounded over a longer period of working life. Leading to less resources for the government to allocate to expenditure. If the government, especially in Eurozone is already running a budget deficit, the loss in tax revenue could possibly lead to a cut in budget spending which in turn exert a further contractionary effect on the economy's actual growth</p> <p>Loss of social stability Unemployment appears to be linked to greater incidence of crime and violence as seen in some Southern Eurozone nations where jobless youth 'lash out violently'. This in turn lowers investors' confidence in the economy and may reduce FDI in eurozone.</p> <p>2. <u>Explain how youth unemployment in Eurozone may affect its Potential Economic Growth</u></p> <p>Loss in human capital With a long productive worklife ahead of youths, the lack of opportunities when young will hamper future work life and lead to loss of skills and even dropping out of the labour force – quality and quantity of labour will be adversely affected thus - lower potential growth</p> <p>Lack of tax revenues can also affect the ability of governments to invest in infrastructure etc Since FDI and domestic investment may decline → lower potential growth</p> <p>3. <u>Evaluate the extent of adverse effects of youth unemployment on Eurozone</u></p>	[6]

	<p>The impact on economic growth is also not evenly spread out as it seems that Germany and Austria's youth unemployment rate is significantly lower compared to eurozone's youth unemployment.</p> <p>Mark Scheme</p> <table><tr><td>L3 (5-6)</td><td>Balanced and well developed economic analysis based on the case material and evident evaluation and judgment.</td></tr><tr><td>L2 (3-4)</td><td>Answers tend to be lopsided or insufficient use of economics analysis . Should students only explain effects of unemployment in general on economic growth or did not consider actual vs potential growth, consider max of 4m.</td></tr><tr><td>L1 (1-2)</td><td>Weak attempt in answering the question requirement i.e. did not address youth unemployment and its effects on economic growth of Eurozone. Major conceptual errors were evident.</td></tr></table>	L3 (5-6)	Balanced and well developed economic analysis based on the case material and evident evaluation and judgment.	L2 (3-4)	Answers tend to be lopsided or insufficient use of economics analysis . Should students only explain effects of unemployment in general on economic growth or did not consider actual vs potential growth, consider max of 4m.	L1 (1-2)	Weak attempt in answering the question requirement i.e. did not address youth unemployment and its effects on economic growth of Eurozone. Major conceptual errors were evident.	
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(d)	<p>A Eurozone recession would have a significant contagion impact on other economies such as Singapore and China through direct and indirect trade relationships. Extract 6 and 7 explain how Singapore and China attempt to restructure their economies.</p> <p>Using the data, comment on the effectiveness of China and Singapore's restructuring efforts in mitigating this impact on their economies.</p> <p>1. <u>Explain contagion impact</u></p> <p>Can impact Sg and China directly through direct trade relationships (Slow growth in Eurozone (see Table 3)) → poor consumer confidence → possible fall in dd for goods and services → fall in DDx from other countries including China and Sg). The extent of the contagion impact depends on the trade relationship between which can be seen in Table 5. It states that the Eurozone is the 2nd most important trading partner of China and the 3rd most important trading partner of Singapore. Ceteris paribus, this implies that China will be more adversely affected.</p> <p>There is also indirect impact on DDx from China and Sg by other countries as the contagion spreads to other parts of the world.</p> <p>2. <u>Identify and explain how Singapore and China restructure their economy</u></p> <p><u>Singapore</u> – Increase Productivity and to move towards Creative economy, from high skilled to even higher skilled industries. Manpower lean – leveraging capital goods for higher productivity and reducing reliance on foreign manpower. + The new competitive advantage thus lies in the ability to carve out new markets and create new markets through the fusion of business, technology and arts. Design, which serves to bring about such a fusion has emerged as the key differentiation strategy for businesses.</p> <p><u>China</u> – structuring to boost growth driven by consumption instead of trade → less affected by contagion effects of Eurozone recession</p> <p>3. <u>Discussion on the effectiveness of China's and Singapore's restructuring efforts in mitigating contagion effect on their economies</u></p>	[8]						

China:

Restructuring efforts are incomplete and still on-going. Despite the measures to improve health and pension coverage, and urbanisation, there are still significant obstacles e.g. finding its graduates suitable jobs. Exports (as % of GDP) has declined only gradually as seen in Table 2 and consumption (as % of GDP) only increased marginally from 2011 to 2014. However, C as %GDP in China is back to 36%.

Singapore:

Still very reliant on exports (176.5% of GDP in 2014). Eurozone recession can have global impact and impact Singapore directly and indirectly. Increased productivity from restructuring efforts can mitigate some of the impact.

Synthesis (can vary based on student's analysis):

Based on the overall direction of the restructuring efforts and nature of each economy, China may be better able to weather the storm as they leverage the might of their large national market should their measures mentioned above shows success overtime.

Students can also 'rank' whether Sg or China is more effective in mitigating the contagion impact of eurozone recession

L3 (5-6)	Balanced and well-developed economic analysis on the effectiveness of China's and Singapore's restructuring efforts in mitigating contagion effect on their economies , based on the case material.
L2 (3-4)	Lopsided or under-developed analysis with insufficient application of case evidence.
L1 (1-2)	Descriptive answer with minimum link to question.
E1	Attempts to synthesize
E2	Provide good synthesis and a reasoned conclusion.