

CSQ 2

(a)	From Table 3, identify how China differs from the other economies.	[2]
<ul style="list-style-type: none"> • In 2014, among the 3 large economies, China's economy is much less dependent on domestic consumption (close to 40% of GDP) compared to USA (almost 70%) and Japan (over 60%). It is however, similar to Singapore instead. [1] • While China's economy is much more dependent on the external demand compared to the two other big economies USA and Japan, it is significantly less dependent on exports compared to Singapore. [1] 		
(b)	What conclusion would you draw from Table 2 about the overall economic performance of China in 2014 compared with 2009?	[4]
<p>Economic performance can be measured in terms of the four macroeconomic goals.</p> <p>China's GDP growth remained positive in <i>both</i> 2009 and 2014, however the increase in GDP is decreasing. The quantity of goods and services produced in the economy still increases and material standard of living per person improves and this is supported by the increase in GDP per capita. [1]</p> <p>China's unemployment rate <i>increased slightly</i> from 4.3% to 4.7%. This suggests more are unemployed with loss of income and hence facing a lower material standard of living with less quantity of goods and services for consumption. Moreover, with rural-urban migration, a bigger labour force could suggest a bigger number unemployed. Nonetheless, for such a huge country to sustain a low unemployment rate of less than 5% might not indicate that the economy is performing worse. [1]</p> <p>Inflation rate have <i>increased</i> from a state of deflation to a positive figure is a healthy sign of a moving economy though the rate still falls below a healthy level of 2-3%. The sluggish economy may fail to encourage sufficient investment to sustain economic growth in the long run. [1]</p> <p>China's current account surplus <i>increased</i> by more than 45%. Despite a likely fall in export revenue with a weak global economy and an appreciating RMB, the fall in import expenditure is likely greater as the Chinese experienced falling economic growth. [1]</p> <p>Overall, China's economic performance improved from 2009 to 2014 though the economy is not considered as healthy according to most of the given macro-economic indicators. [1]</p> <p>Limitation: lack of BOP data as Balance of payments also includes capital and financial account and such information is not available in table 1 & potential information failure about accuracy of given data. [1]</p>		
(c)	Government's tackling of an immediate problem could lead to a challenge in the long term. Explain with <u>two</u> examples.	[4]
<p><i>2m for each reasonable example with correct explanation - a government policy/measure to tackle a current economic issue and a consequent problem/challenge in the future.</i></p> <p>A government in pursuit of economic growth for full employment adopts export-driven growth and promote free trade:</p> <ul style="list-style-type: none"> • could mean economic instability such as 'in the face of slower global growth' when 		

export demand fall which cannot be easily increased while increase in domestic demand is relatively easy is insufficient (to make up for the lack of aggregate demand) for full employment. (Extract 5 Para 1) (E6 P1&3; E7 P3-4) . [2]

- may face a **loss of comparative advantage** giving rise to ‘structural unemployment’ as the unemployed may not have or take time to pick up the right skills for the sunrise industries (new areas of comparative advantage) (E5 P1) [2]

Government **practicing protectionism** e.g. tariff barriers to protect domestic industries to save jobs could lead to **greater inefficiency and wastage** of resources in the longer term, and worsening its current trade deficit instead as domestic industries failed to develop their competitiveness. [2]

Pro-globalisation government policies are basically pro-market policies to promote economic growth. This is basically in favour of the rich and able ones leaving the poor and disadvantaged ones falling behind resulting in ‘widening income inequality’. (E5 P1) (E7 P3-4) [2]

Government **encouraging fixed-capital investment (e.g. in property development) for full employment** could lead to excessive fixed-asset investment with an over-expansion of productive capacity (large numbers of offices and apartments being unoccupied) resulting in underutilisation of capacity. Such misallocation and wastage of resources compromise on long-term economic growth. (E6 P3) [2]

Latvia, confronted by the debt crisis, adopted **austerity measure (reduce government spending and raise taxes)** to reduce debt **at the expense of domestic demand and hence economic growth in the long run**. (The government hence has to take steps, supply-side polices, to improve the economy’s international competitiveness over time and achieve sustainable growth.) (E5 P2) (E7 P7) [2]

(d)	Given the economic objectives announced in Extract 6, discuss how China’s reform measures contribute to resilience in her economy and sustained economic growth.	[8]
------------	---	------------

Question interpretation:

What are the economic objectives?

What are China’s reform measures?

How do they contribute to resilience in her economy?

How do they contribute to sustained economic growth?

How could these measures have (i) negative side-effects or (ii) be ineffective at achieving the outcomes the government pursues?

China’s objectives are to ‘sustain medium-to-high GDP growth’ and ‘avoid any sharp drop in growth’ (Extract 6). The reform measures include ‘simplification of business registration, streamlining administration and targeted tax reductions’ (at industries where investment is to be encouraged). Underlying the reform measures is to transform the economy ‘from its focus on manufacturing for export and fixed-asset investment to a more balanced and sustainable consumption-driven model’ (Extract 6). The growth of domestic market and the emphasis on productive investment are for its economic resilience with sustained economic growth.

Economic growth is the increase in real GNP over the previous year. For sustained economic growth, AS must increase in tandem with AD where

Identify China’s economic objectives and reform measures

Define core terms in the

<p>mild inflation underlies the conducive environment favourable for economic activities. Economic resilience is the ability of an economy to recover from or adjust to the effects of adverse shocks to which it may be inherently exposed to. It is the ability of the economy to cope, recover, and reconstruct in the event of a disaster or crisis, such as economic growth is not disrupted.</p> <p>To promote growth and strengthen resilience, PM Li suggested that the Chinese economy will be less dependent on manufacturing for export and fixed-asset investment (e.g. in property development) and move to a more balanced and sustainable consumption-driven model through innovation. This would reduce the vulnerability of the economy to external shocks and crisis, such as the recent global financial crisis when exports fall, and strengthen her capacity to absorb and overcome severe shocks. Fixed-asset investment may result in an over-expansion of productive capacity (large numbers of offices and apartments being unoccupied) not helpful in supporting full employment but result in underutilisation of capacity when external demand or exports are weak.</p> <p>Besides the ease of registering a business to encourage entrepreneurship, innovation and creation, there will also be financial support for SMEs to encourage innovation. These will encourage domestic productive investment, away from fixed-asset investment, and hence consumption, contributing to economic growth through the multiplier effect. Unlike foreign investments which are more likely to be foot-loose and may relocate overseas during bad times, domestic I is relatively stable contributing to China's economic resilience. Higher investment would not only increase AD but also increase AS (in the long run) giving rise to sustained economic growth. Moreover, such SMEs may grow to be MNCs that contribute to exports demand and property income from abroad.</p> <p>Moreover, the success of the new growth model and the reform measures depends on the response of the people which hinges on their confidence in the economy. Time lags are involved too. Extract 6 also cites Premier Li that the “downward pressure on the economy” was growing. Consumers may be more pessimistic about their future income growth, and thus cut back on the growth of their consumption, impeding the government's desire to rebalance the economy to a more consumption – driven model.</p> <p>Fixed-asset investment from foreign sources could be beneficial as they bring about transfer of knowledge and technology, shorten the learning curve and contribute further to sustained economic growth. Therefore, by implementing measures to reduce the growth of investments, such benefits to long run growth could be lost. Furthermore, exports earnings have its advantage against domestic consumption as it improves China's BOP position and strength of the currency. A strong RMB may enable Chinese consumers to purchase foreign goods and services more cheaply, thereby improving their material SOL.</p>	<p><i>question</i></p> <p><i>Analyse how diversification results in growth and resilience.</i></p> <p><i>Analyse how encouraging innovation and entrepreneurship could result in growth and resilience.</i></p> <p><u><i>Anti-Thesis</i></u></p> <p><i>Effectiveness of reform measures</i></p> <p><i>Negative side-effects of reducing fixed asset investments.</i></p>
--	--

Level	Knowledge, Application, Understanding and Analysis	Marks [8]
L3	<ul style="list-style-type: none"> Interpret and meet all the question requirements accurately. Explain economic concepts, relationships and theories with depth and rigour. Analyse arguments using an appropriate economic framework, criteria, yardsticks, and is well-organised. Show good application to the given context by using relevant case materials to support economic analysis. Go beyond the case materials to bring in contextual knowledge <i>where necessary</i>. Evaluate arguments specific to case context, and use an appropriate criterion to synthesise a reasoned judgement. 	7 - 8
L2	<ul style="list-style-type: none"> Did not meet all the question requirements e.g. answers may not be balanced. Lack depth and rigour in the explanation of economic concepts, relationship and theories. Did not show good organisation and structure of answer using an appropriate framework. <u>Fail to apply sufficiently</u> to the given context (insufficient use of case materials to support analysis). Did not go beyond the use of case materials <i>where</i> required. 	4 - 6
L1	<ul style="list-style-type: none"> Are largely descriptive with limited use of economic concepts. <u>Did not utilise case materials</u> to support economic analysis or <u>lifted chunks of text without economic analysis</u>. 	1 - 3

(e)	(i)	Explain how 'government efforts to curtail the inflow of cheap foreign labour' is a tightening policy.	[4]
------------	------------	---	------------

- 'Government efforts to curtail the inflow of cheap foreign labour' would lead to a fall in the supply of labour in Singapore. It would further tighten the already tight labour market in Singapore, leading to rising wage rate and 'push up business costs' (Extract 7)
 - Such efforts constitutes a tightening policy because it would lead to a fall in both the aggregate supply (AS) and the aggregate demand (AD). A smaller workforce will directly compromise on Singapore's productive capacity (AS) while the drop in population without the foreign workers lower consumption (AD).
- [Students could possibly show this via a **labour market diagram or/and an AD/AS diagram.**]
- This is particularly significant given that foreign labour takes up more than 25% of the population (1.4m/5.5m, since 2000, E7 P7)
 - The consequent fall in real output or real GDP and higher general price level illustrates tightening impact on the economy.

Marker's comments:

- Many showed poor grasp of the question failing to see 'tightening policy' in terms of the tightening/contractionary effect on the economy. (If only the students recall that an

alternative term for contractionary fiscal policy is tight fiscal policy, similarly for monetary policy)
o The students hence either did not use or failed to use the AD/AS model well in their answers.

	(ii) Discuss the view that the tightening policy helps to get the Singapore economy 'onto a path of sustainable, productivity-driven growth'.	[8]
--	--	------------

<p>To help get the Singapore economy 'onto a path of sustainable, productivity-driven growth', Singapore has employed a tightening policy which include curtailing the inflow of cheap foreign labour' (Extract 7). <u>However</u>, this tightening policy may not be sufficient on its own, as will be discussed below.</p> <p>As explained earlier in (e)(i), restricting the flow of cheap foreign labour can increase unit costs of production and contract the economy. As costs increase, producers, being profit maximisers, would be forced to seek alternative methods to maintain their profits. Producers may adopt more capital-intensive methods of production by increasing their capital-to-labour ratio, which may be less costly, and also more sustainable as the Singapore economy cannot keep employing foreign labour to make up for the lack in labour force numbers.</p> <p>Productivity may also increase as producers may be incentivised to engage in research and development to develop more productive capital and more productive methods of production. Also, producers may send more of their workers for training to improve their productivity keep their costs of production down. Hence, such a tightening policy can help boost productivity-driven growth.</p> <p>Curtailing the inflow of foreign labour which helps to deal with the problem of congestion and competition for housing should also contribute to sustainable growth. The implied cooling down of the property market helps to prevent building up of asset bubble with could be inflationary (consumption-led with a greater wealth), and on the other hand recession when it bursts. The prevention of large swings in inflation and slow growth provides more stability and sustainability to the economy,</p> <p><u>However</u>, in the short run, such growth may not be sustainable as producers will struggle to stay in business when their costs of production increase. Also, productivity is unlikely to increase in the short run. Rather, retrenchment of workers is likely to occur when wages increase from the shortage of workers. There could also be increased structural unemployment as the low-skilled workers, due to occupational immobility, lack the relevant skills to transit to other industries. As such, 'the country must intensify efforts to help companies and workers upgrade'. (Extract 7) Such support could take the form of</p>	<p><i><u>Introduction:</u> Provide background context and state approach</i></p> <p><i><u>Thesis:</u> The tightening policy (restricting foreign labour inflow) can help Singapore get onto a path of sustainable, productivity-driven growth</i></p> <p><i><u>Anti-thesis:</u> Other measures are required to help the Singapore economy</i></p>
---	---

	<p>temporary subsidies for employers to transit to alternative methods of production to remain competitive, and temporary subsidies for workers to receive training to improve their productivity and for them to acquire the relevant skills to transit to other industries.</p> <p>For growth to be sustainable, Singapore must remain internationally competitive and “restructure at home so [as to] compete in the world.” (Extract 5) Supply-side policies which involve increasing productivity of workers through training and education, and increasing the price and non-price competitiveness of our exports would be equally, if not more important in helping the Singapore economy, a country heavily reliant on external demand (Table 3, 192% of GDP), get onto the path of ‘sustainable, productivity-driven growth.’</p> <p>In summary, while the tightening policy can help Singapore grow in a sustainable manner in the long run, supply-side policies may be required in the short run to help support the Singapore economy in its restructuring. However, as such supply-side policies tend to take a long time to take effect, the Singapore government may need to supplement such policies with exchange rate policy by maintaining a zero appreciation or even let its Sing dollar depreciate slightly in the immediate term for its exports to be competitive in the world market.</p>	<p><i>Evaluative conclusion:</i></p>
Level	Knowledge, Comprehension, Application, and Analysis	Marks
L3	<ul style="list-style-type: none"> • Interpret and meet all the question requirements accurately. • Explain economic concepts, relationships and theories with depth and rigour. • Analyse arguments using an appropriate economic framework, criteria, yardsticks, and is well-organised. • Show good application to the given context by using relevant case materials to support economic analysis. • Go beyond the case materials to bring in contextual knowledge <i>where necessary</i>. • Evaluate arguments specific to case context, and use an appropriate criterion to synthesise a reasoned judgement. 	7 - 8
L2	<ul style="list-style-type: none"> • Did not meet all the question requirements e.g. answers may not be balanced. • Lack depth and rigour in the explanation of economic concepts, relationship and theories. • Did not show good organisation and structure of answer using an appropriate framework. • <u>Fail to apply sufficiently</u> to the given context (insufficient use of case materials to support analysis). • Did not go beyond the use of case materials <i>where required</i>. 	4 - 6
L1	<ul style="list-style-type: none"> • Are largely descriptive with limited use of economic concepts. • <u>Did not utilise case materials</u> to support economic analysis or <u>lifted chunks of text without economic analysis</u>; 	1 - 3