

National Junior College Economics Department

**Preliminary Examination 2016
Paper 2 Answer Booklet**

**Senior High 2
H2 Economics
(9732/02)**

Examiners' Report for 2016 H2 Economics Prelims

Essay Question 1

In 2014, oil prices plunged to a historical low. Despite weak economic activities worldwide, there has been an increase in activities to produce oil which is a time-consuming process.

Discuss how these events are likely to impact the market for oil and its related markets. [25]

Suggested Answer:

Introduction:

- Explain how market equilibrium price and quantity is achieved: via the intersection of the demand and supply curves. It is a situation whereby there is no tendency for change in the market. This occurs when the quantity demanded equals the quantity supplied ($Q_d = Q_s$), where there is no shortage or surplus in the market.
- Hence, fluctuations in the demand and supply conditions, as well as elasticity concepts would affect the market equilibrium for oil and its related markets.

Market for oil:

- Demand for oil is derived from the demand of all goods as services worldwide. This is because power and energy such as light/electricity is needed to produce the various goods and services (e.g.: clothes, computers, cars).
- Weak economic activities worldwide imply that there is a weak global demand for goods and services due to falling incomes worldwide. Hence, assuming that most goods in general have $YED > 0$, falling income will lead to a fall in demand for goods and services. Hence, the demand for oil which is a derived demand will fall as well.
- Demand for oil shifts left from D_0 to D_1 as illustrated in Figure 1
- Equilibrium price of oil falls while equilibrium quantity decreases.
- Supply of oil tends to be price inelastic in the short run due to the fact that the length of production time of oil will be long. Hence, there is less degree of responsiveness of quantity supplied of oil to a decrease in price in the short run.
- Since there has been an increase in activities over the years to produce oil. It has resulted in the world supply of oil increasing.
- Hence the supply of oil increases, shifts right from S_0 to S_1 as shown in Figure 1
- Equilibrium price of oil falls while equilibrium quantity increases.
- Oil is has a high degree of necessity and there are also few alternative close substitutes available to oil.
- Hence $PED < 1$, which implies that a decrease in the price of oil will result in a less than proportionate increase in quantity demanded of oil, ceteris paribus.
- Combined effect:
 - Overall, the equilibrium price of oil decreases significantly and equilibrium quantity of oil increases.

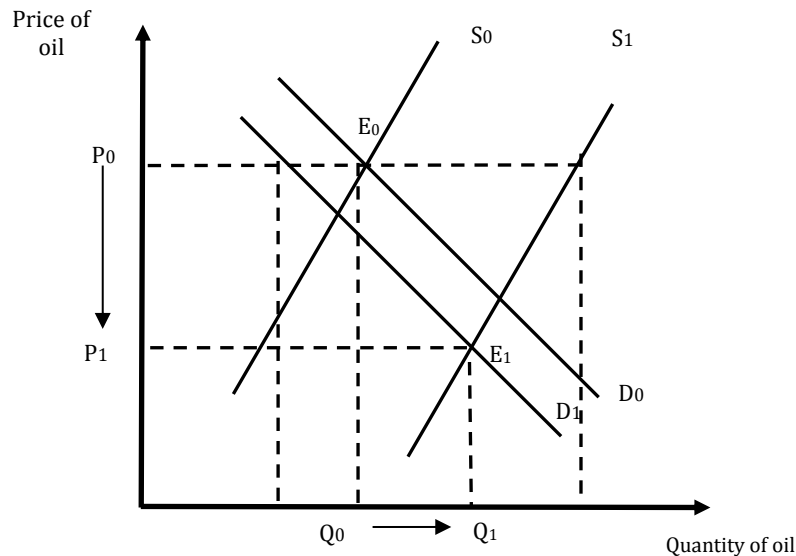


Figure 1

- At the initial price P_0 , there is a surplus (ref to Fig 1) where $Q_s > Q_d$.
- With the surplus, there is a downward pressure on prices. As long as the surplus exists in the market, the market price will decrease and movements along the demand and supply curves continue until a new market equilibrium E_1 is achieved where $Q_D = Q_S$ again at lower price at P_1 and higher quantity Q_1 .

Market for Air Travel:

- Oil is refined into different petroleum products such kerosene for jet fuel, gasoline for car petrol.
- Since oil prices have now fallen, it will mean that the cost of producing for example, jet fuel is lowered.
- Supply of air travel increases from SS_0 to SS_1 .
- However, weak economic activities worldwide signify that incomes are likely to be falling. Air travel is a luxury good with $YED > 1$ (income elastic) in comparison with bus or rail travel. Hence with a fall in income, demand for air travel will fall more than proportionately.
- Hence, it is likely that overall equilibrium price will fall and equilibrium quantity will fall due to a larger than proportionate fall in demand compared to increase in supply.

Market for Biofuels:

- Identify that oil and for example biofuel are substitutes in consumption.
- Define cross elasticity of demand (XED): Measures the degree of responsiveness of quantity demanded at every price level of biofuels to a change in the price of oil, ceteris paribus.
- Both oil and biofuels are substitutes in consumption and thus have positive cross elasticity of demand ($XED > 0$).
- Demand for biofuels decreases illustrated by a leftward shift of demand, resulting in the price and quantity of biofuels to decrease.

Conclusion:

In analysing the markets, we assumed *ceteris paribus* which may not hold in the real world. Hence changes in price and quantity may not be as expected.

Mark Scheme

Levels	Descriptors
High L3 19 – 21	<p>For an answer that exhibits Excellent Depth in analysis:</p> <ul style="list-style-type: none"> ✓ Accurate, precise and clear use of economic concepts and analysis in all explanations. ✓ Most explanations are well-developed ✓ Good explanation of price mechanism <p>For an answer that exhibits Excellent Breadth in analysis:</p> <ul style="list-style-type: none"> ❖ Oil Market <ul style="list-style-type: none"> ✓ PES is considered AND ✓ YED value is considered ✓ Simultaneous shifts of demand and supply on the final price and quantity and clear justifications of shifts ❖ Related markets <ul style="list-style-type: none"> ✓ Use of XED OR PED
Low L3 15 – 18	<p>For an answer that exhibits Very Good Depth in analysis:</p> <ul style="list-style-type: none"> ✓ Accurate, precise and clear use of economic concepts and analysis in all explanations. ✓ Most explanations are well-developed. ✓ Good explanation of price mechanism <p>For an answer that exhibits Very Good Breadth in analysis:</p> <ul style="list-style-type: none"> ❖ Oil Market <ul style="list-style-type: none"> ✓ PES is considered and/or ✓ YED value is considered ✓ Simultaneous shifts of demand and supply on the final price and/or quantity but may not have justifications of shifts ❖ Related markets <ul style="list-style-type: none"> ✓ Use of XED OR PED
High L2 12 – 14	<p>For an answer that exhibits Good Depth in analysis:</p> <ul style="list-style-type: none"> ✓ Accurate use of economic concepts and analysis in some explanations i.e. some explanations are descriptive. ✓ Some explanations are under-developed. ✓ Some explanation of the price mechanism <p>For an answer that exhibits Good Breadth in analysis:</p> <ul style="list-style-type: none"> ❖ Oil Market <ul style="list-style-type: none"> ✓ PES is considered and/or ✓ YED value is considered ❖ Related market
Low L2 10 – 11	<p>For an answer that exhibits Some Depth in analysis:</p> <ul style="list-style-type: none"> ✓ Accurate use of economic concepts and analysis in some explanations i.e. some explanations are descriptive. ✓ Some explanations are under-developed. ✓ Minimal or no explanation of price mechanism

	<p>For an answer that exhibits <u>Some Breadth</u> in analysis:</p> <ul style="list-style-type: none"> ❖ Oil Market <ul style="list-style-type: none"> ✓ PES or YED is considered ❖ Related market
<p>High L1 6 – 9</p>	<p>For an answer that exhibits <u>Insufficient Depth</u> in analysis:</p> <ul style="list-style-type: none"> ✓ Answer is primarily descriptive, not using economic concepts/terms in reasoning. ✓ Explanations are mostly under-developed. ✓ No or minimal price mechanism <p>For an answer that exhibits <u>Insufficient Breadth</u> in analysis:</p> <ul style="list-style-type: none"> ❖ Oil Market <ul style="list-style-type: none"> ✓ PES or YED value is considered
<p>Low L1 1 – 5</p>	<ul style="list-style-type: none"> • Most parts irrelevant to question • Major errors in the use of economic concepts

Levels	Descriptors
<p>E2 3-4</p>	For a well-reasoned criteria judgment .
<p>E1 1-2</p>	For an unexplained criteria-based judgement

Essay Question 2

In the global pharmaceutical market, the World Health Organisation (WHO) recommends international tiered pricing to improve access to medicines for the poor. With globalised and increasingly digital markets, dominant pharmaceutical firms are at the mercy of savvy consumers.

- (a) Explain the impact of globalisation on the price and output determination of a dominant firm. [10]
- (b) In the light of globalisation, assess the extent a firm might decide to increase its firm size or to not price discriminate. [15]

Part (a)**Suggested Answer****Introduction:**

- Essentially globalisation leads to lowered barriers that allows for freer movement of trade, capital and factors of production between countries. This lowered barrier to entry will thus affect the price and output determination of a dominant firm.
- There is a need to consider the price and output determination in the short term and in the long term, where freedom of entry and exit of firms occur.

Body

- A dominant firm is a firm with relatively significant market share and relatively significant barriers to entry. Thus, a dominant firm is likely to have market power and price-setting ability. This means that the firm's average revenue (AR) and marginal revenue (MR) curves are downward-sloping, indicating that an attempt by the firm to increase price would lead to only a less than proportionate fall in quantity demanded.

1. Impact of globalisation on revenue curves of a dominant firm

- As globalisation lowers barriers to entry of various markets, there is likely to be an increase in rival firms for a dominant firm. Rival firms that enter the market will compete away the market share of the dominant firm, thus leading to a fall in the dominant firm's both AR and MR curves.
- Both AR and MR curves will also become more gently-sloping to reflect the likely increase in price-elasticity of demand of a dominant firm, given the increase in availability of substitute goods and services offered by the increased number of rival firms
- As such, at the original output, MC is now higher than the new MR. Thus, each additional output produced by the firm and beyond adds more to costs than to revenue of the firm, leading to a fall in profits. Hence, a profit-maximising firm will be incentivised to reduce output where $MR = MC$ again, where profits are maximised.
- Given the fall in AR curve, at the new profit-maximising output, price of the firm's product has fallen .

2. Impact of globalisation on cost curves of a firm

- Globalisation allows firms to have increased access to cheaper imported raw materials, intermediate inputs and labour. With increased access to export markets overseas, firms may also enjoy external economies of scale such as economies of disintegration, where auxiliary firms help support the main firms, allowing main firms to specialise in the core production processes and reduces average costs.

- With globalisation, MC and AC curves shift downwards.
- As such, at the original output, MR is now higher than the new MC. Thus, each additional output produced by the firm would add more to revenue than to cost of the firm, leading to an increase in profits. Thus, a profit-maximising firm will be incentivised to increase output, where $MR = MC$ again, where profits are maximised.
- At the new profit-maximising output, price of the firm's product has fallen.

3. Combined consideration of the impact of globalisation on a firm's price and output

- With globalisation, the price of a firm is likely to fall but the impact on firm's output is indeterminate and depends on whether globalisation has a more significant impact on the firm's revenue or costs.
- Given that globalisation not only increases the availability of rival firms but also reduces imperfect information as a source of market power for dominant firms of global brands, the impact of globalisation on a firm's revenue curves is likely to be more significant. Thus, it is likely that a firm's output will also fall with globalisation.

Conclusion:

- Globalisation impacts both revenue and costs curves of a dominant firm, leading to a definite fall in price but the impact on output is depends on whether the impact on revenue or costs is more significant.

Mark scheme

Levels	Descriptors
High L3 9-10	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Excellent depth in analysis. <ul style="list-style-type: none"> ✓ Accurate, clear and precise use of economic concepts and analysis in most explanations. ✓ Almost all explanations are well-developed. ➤ Excellent breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Analysis of firm's revenue) and costs ✓ Analysis of combined impact of revenue and cost changes on both price and output of a firm. ✓ Firm's profit-maximising decision making process (explanation of why and how $MR = MC$ gives the profit-maximsing output).
Low L3 7-8	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Very good depth in analysis. <ul style="list-style-type: none"> ✓ Accurate and clear use of economic concepts and analysis in most explanations. ✓ Most explanations are well-developed. ➤ Very good breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Analysis of firm's revenue and costs ✓ Analysis of combined impact of revenue and cost changes on price and/or output of a firm. ✓ Firm's profit-maximising decision making process (explanation of why $MR = MC$ gives the profit-maximsing output).
L2 5-6	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Good depth in analysis. <ul style="list-style-type: none"> ✓ Accurate use of economic concepts and analysis in most explanations i.e. some explanations are descriptive.

	<ul style="list-style-type: none"> ✓ Most explanations are developed i.e. some explanations are under-developed. ➤ Good breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Analysis of firm's revenue and/or costs
High L1 3-4	<p>For an answer that exhibits:</p> <ul style="list-style-type: none"> ➤ Insufficient depth in analysis. <ul style="list-style-type: none"> ✓ Inaccurate use of economic concepts and most explanations are descriptive. ✓ Most explanations are under-developed. ➤ Insufficient breadth in analysis. Contains <ul style="list-style-type: none"> ✓ Analysis of firm's revenue or costs ➤ Conceptual errors in analysis.
Low L1 1-2	<ul style="list-style-type: none"> • For an answer that: <ul style="list-style-type: none"> ➤ Is largely irrelevant. <ul style="list-style-type: none"> ✓ Cause(s) of change is not related to globalisation. ✓ Effect(s) of change is not related to price and output determination. ➤ Contains fundamental conceptual errors in analysis.

Part (b)**Suggested Answer****Introduction:**

- Globalisation presents firms the opportunity of tapping on overseas export markets to allow them to increase their scale of production to tap on both revenue and cost advantages.
- However, a firm may not necessarily wish to increase its firm's size as there might be concerns of diseconomies of scale setting in.
- Also with globalisation, as seen in part (a), barriers to entry to markets have been lowered. This may does negatively affect a firm's decision to price discriminate.

Body

1. With the advent of globalisation, firm decides to increase its firm size

- Globalisation presents firms the opportunity of tapping on overseas export markets to allow them to increase their scale of production to tap on both revenue and cost advantages.
- With an increase in scale of production, firms will be able to reap internal economies of scale (EOS). For example, with an increase in scale of production, firms may be able to reap technical EOS as there may be greater scope for increased specialisation. Thus, with globalisation firms are likely to increase its scale of production to increase its profits.
- In addition, a firm is also able to increase its revenue with increased scale of production by tapping onto international consumers markets. With a larger consumer base, firms are able to gain sales revenue. This allows firms to implement non-price strategies to enhance the demand of their good and make the demand of their goods less price-elastic. If non-price strategies are successful, the firm's demand curve will shift outwards.

2. Despite the advent of globalisation, firm decides not to increase its firm size

- Assuming that the market is one with low marginal efficiency of scale (MES) i.e. minimal internal EOS to be reaped but where diseconomies of scale (DisEOS) sets in quickly, then a firm might not choose to increase its firm size.
- For example, a firm when they choose to increase its scale of production, especially across international borders, internal DisEOS may set in due to miscommunication and coordination problems. Firms will suffer higher average costs and experience a decrease in profits with an increase in scale of production in such markets. Thus, a firm may decide not to increase its firm size.
- Assuming that the nature of the business is one where customisation and personalisation is preferred, there would be revenue advantages to be gained if a firm were to keep its firm size and consumer base small. As such, with enhanced consumers' preference due to customisation and personalised services, a small firm may benefit from an increase in its' firm's demand. Firm's demand may also become less price elastic, allowing the firm to increase its price to increase revenue. Thus, the firm may decide not to increase its firm size.

3. With the advent of globalisation, firm decides not to price discriminate

- For a firm to decide to price discriminate, the following conditions must be present. The firm must be able to separate the consumer market, that is, to be able to prevent those who pay the lower price from reselling the product to those who pay the higher price. The firm should also have sufficient market power in order to have ability to set its price. And in order for price discrimination to increase a firm's revenue, the firm should face different price elasticities of demand from separate groups of buyers.
- Globalisation lowers barriers to entry to markets and thus increases the likelihood of seepage between international consumer markets. For example, if a pharmaceutical firm

were to charge a higher price for a drug in developed countries and a lower price for the drug in developing countries in consideration of the difference in price elasticity of demand (PED). Consumers in developing countries may purchase the pharmaceutical drug at a lower price and attempt to resell to those in developed nations. The pharmaceutical firm will thus be only able to mainly sell to the lower-priced market in developing countries, thus rendering the price discrimination (in order to increase revenue) unsuccessful.

4. Despite the advent of globalisation, firm may still decide to price discriminate

- Within domestic markets, there is also minimal impact on seepage between different groups of consumers. Thus, while firms may be discouraged to price discriminate across international markets, firms may still be willing and able to price discriminate within domestic markets.

Synthesised Conclusion:

- The firm's decision to price discriminate depends how significant the impact of globalisation is on the market's barriers to entry. If the market is well 'protected' by legal barriers, then firms may still proceed to price discriminate despite the advent of globalisation.
- The firm's decision to increase its firm size depends on the type of market. For markets with high MES (e.g. heavy manufacturing industries), then firms are more likely to increase its scale of production. However, if the markets are characterised by lower MES (e.g. customised consumer accessories), then firms in such markets may prefer to not increase its scale of production.

Mark scheme

Levels	Descriptors
High L3 11	<p>For an answer that exhibits:</p> <ul style="list-style-type: none"> ➤ Excellent depth in analysis. <ul style="list-style-type: none"> ✓ Accurate, clear and precise use of economic concepts and analysis in most explanations. ✓ Almost all explanations are well-developed. ➤ Excellent breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Explanation of the possibility of a firm's decision to increase its firm's size and/or also the possibility of a firm to not to increase its firm's size. ✓ Explanation of the possibility of a firm's decision to not price discriminate and/or also the possibility of a firm to still price discriminate. ✓ Both revenue and cost considerations.
Low L3 9-10	<p>For an answer that exhibits:</p> <ul style="list-style-type: none"> ➤ Very good depth in analysis. <ul style="list-style-type: none"> ✓ Accurate and clear use of economic concepts and analysis in most explanations. ✓ Most explanations are well-developed. ➤ Very good breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Explanation of the possibility of a firm's decision to increase its firm's size and/or also the possibility of a firm to not to increase its firm's size. ✓ Explanation of the possibility of a firm's decision to not price discriminate and/or also the possibility of a firm to still price discriminate.
High L2 7-8	<p>For an answer that exhibits:</p> <ul style="list-style-type: none"> ➤ Good depth in analysis. <ul style="list-style-type: none"> ✓ Accurate use of economic concepts and analysis in most explanations i.e. some explanations are descriptive. ✓ Most explanations are developed i.e. some explanations are under-developed. ➤ Good breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Explanation of the possibility of a firm's decision to increase its firm's size and/or also the possibility of a firm to not to increase its firm's size. ✓ Explanation of the possibility of a firm's decision to not price discriminate and/or also the possibility of a firm to still price discriminate.
Low L2 6	<ul style="list-style-type: none"> • For an answer that exhibits: <ul style="list-style-type: none"> ➤ Sufficient depth in analysis. <ul style="list-style-type: none"> ✓ Accurate use of economic concepts and analysis in some explanations i.e. most explanations are descriptive. ✓ Some explanations are developed i.e. most explanations are under-developed ➤ Sufficient breadth in analysis. Contains: <ul style="list-style-type: none"> ✓ Explanation of the possibility of a firm's decision to increase its firm's size and/or also the possibility of a firm to not to increase its firm's size.

	✓ Explanation of the possibility of a firm's decision to not price discriminate and/or also the possibility of a firm to still price discriminate.
L1 1-5	For an answer that: <ul style="list-style-type: none"> ➤ Is largely irrelevant. <ul style="list-style-type: none"> ✓ Factor affecting firm's decision (s) to price discriminate and increase its firm size is not related at all to globalisation. ➤ Contains fundamental conceptual errors in analysis.

Levels	Descriptors
E2 3-4	For a well-reasoned criteria-based judgement that answers the question on why a firm will decide to increase its firm size or to not price discriminate.
E1 1-2	For an unexplained criteria-based judgement that answers the question on why a firm will decide to increase its firm size or to not price discriminate.

Essay Question 3

As economies gain greater success by ensuring a more efficient use of resources, there is an increasing call for governments to ensure that the success is better distributed.

Assess the appropriateness of alternative policies that can be adopted by a government to correct different causes of market failure.

[25]

Suggested answer**Introduction**

- In the real world, there are many examples of market failure.
- Different policies are required to correct the different causes of market failure.

Body 1: Explain why and how the case of merit goods results in market failure i.e. the existence of positive externalities, imperfect information and inequity.

- Market failure can occur in the case of merit goods e.g. healthcare services such as vaccinations. Merit goods are private goods that have positive externalities and deemed socially desirable but often under-consumed in a free market without any form of government intervention perhaps also due to the lack of information.

a. Positive externalities

- Positive externalities are spill over benefits associated with the production and/or consumption of goods to third parties who are not directly involved in the production and/or consumption of the goods and no compensation is involved.
- Healthcare services have private benefits such as longer life expectancy because of the lesser probability of becoming infected by viruses and private costs such as the payment for the high cost of vaccinations and medical examinations.
- However, it also has external benefits such leading to their absent from work and thus the reduction in the economy productivity.
- Healthcare services are often under-consumed resulting in deadweight losses because the external benefit is not internalised by the consumers.
- The private benefit and the private cost can be illustrated by MPB and MPC
(include a diagram)
- The free market equilibrium is achieved at E_p where $MPB = MPC$ with output Q_p and price P_p . The existence of external benefit suggests that there will be a divergence between MPB and MSB by the amount MEB at every possible output level as shown in Diagram 1 because private economic agents fail to internalise the external benefit.
- Assuming no external cost and hence $MEC = 0$, $MPC = MSC$, social optimality is achieved at E_s where $MSB = MSC$ with output Q_s and price P_s . Since $Q_s > Q_p$, there is an under allocation of resources resulting in an under-consumption of healthcare services by

quantity Q_s . Hence resulting in allocative inefficiency illustrated by a deadweight loss triangle of area AEP_s and therefore results in market failure.

b. Imperfect information

- 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 benefit and thus under-value the private benefit.
- For example, consumers might not be fully aware of the private benefit of regular health checks thus perceive the private benefit to be lower.

c. Inequity

- Healthcare services also exhibit market failure 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 healthcare services since the market price is largely reflective of the demand of those who can afford. Therefore, the combination of goods and services produced and/or consumed does not allow the society gain the greatest level of satisfaction.

Body 2: Explain why and how the inexistence of markets in the case of public goods results in market failure.

- Another cause of market failure is the inexistence of markets as in the case of public goods. Public goods (e.g. road sign) are goods that are characterised by non-rivalry and non-excludability in consumption.
- Non-rivalry in consumption suggests that an additional consumption does not reduce the benefit available to the next user and hence suggests that the marginal cost of using the good is zero. To achieve allocative efficiency, price must be equal to marginal costs and hence price should be equal to zero. Hence a profit maximising firm would unlikely provide for road signs .
- Non-excludability in consumption suggests that it is almost impossible to charge non-paying users from enjoying the benefit arising from using the good once the good is produced and hence suggests that users would not be willing to pay for using the good because they can free ride. Therefore, there would unlikely be a demand for the good in a free market even if the supply for the good exists.

Body 3: Policies

- When the free market fails, government interventions might be necessary to achieve allocative efficiency. However, different policies might be needed to correct different causes of market failure.

a. Direct provision for free and subsidies

- While direct provision for free is necessary to correct market failure in the case of public goods, direct provision for free to correct market failure due to positive externalities in the case of merit goods might result in over consumption of the merit goods and therefore might worsen allocative inefficiency.
- Direct provision of a merit good for free can be illustrated by a shift of MPC resulting in an over consumption which in turn leads to deadweight loss
- The use of subsidies might be more appropriate to internalise the positive externalities in the case of merit goods. The use of subsidies, for example, indirect subsidies to lower the cost of the production of the merit goods thus achieving allocative efficiency at social optimal level Q_s .
- In addition, the use of subsidies would involve lower government spending as illustrated as compared to direct provision for free thus the former would also involve lower opportunity cost, for example, in terms of the benefit of other developmental projects forgone.
- Nevertheless, the use of subsidies might not be a better way compared to provision for free to correct market failure in the case of public goods because consumers would still prefer to free ride to enjoy the goods for free.
- Moreover, a profit maximising firm would still not produce the goods if the production of the goods would result in post-subsidies sub-normal profit.

b. Provision of information

- To correct market failure due to imperfect information in the case of merit goods, a government can provide the necessary information (e.g. fund exhibitions, posters, television advertisements, etc) to help consumers make rational decisions.
- On the other hand, provision of information might not be appropriate to correct market failure in the case of public goods because even with perfect information, consumers would still prefer to free ride to enjoy the goods for free.
- In addition, provision of information might not be appropriate to correct the market failure due to externalities in the case of merit goods because even if with perfect information, consumers who are assumed to be self-interest motivated would not likely internalise the externalities.

c. Distributional policies

- To correct the market failure due to inequity in the case of healthcare services as merit goods, distributional policies are required. For example a tax can be imposed on luxurious services to increase their private cost to the rich to decrease their demand while to increase the consumption of under-consumed necessary services by the poor, tax revenue collected can be used to provide subsidies for the poor to increase their demand for such services.

Evaluative conclusion

- In conclusion, different policies are required to deal with different causes of market failure given that some policies are more appropriate than others. Therefore, if an example of market failure exhibits different causes of market failure, a combination of complementary policies would be required.

Mark Scheme

Levels	Descriptors
High L3 19-21	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Excellent depth in analysis. <ul style="list-style-type: none"> ✓ Accurate, clear and precise use of economic concepts and analysis in most explanations. ✓ Almost all explanations are well-developed. ➤ Excellent breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Causes of market failure. ✓ Appropriate policies to correct the causes of market failure. .
Low L3 15-18	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Very good depth in analysis. <ul style="list-style-type: none"> ✓ Accurate and clear use of economic concepts and analysis in most explanations. ✓ Most explanations are well-developed. ➤ Very good breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Causes of market failure. ✓ Appropriate policies to correct the causes of market failure.
High L2 12-14	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Good depth in analysis. <ul style="list-style-type: none"> ✓ Accurate use of economic concepts and analysis in most explanations i.e. some explanations are descriptive. ✓ Most explanations are developed i.e. some explanations are under-developed. ➤ Good breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Causes of market failure. ✓ Appropriate policies to correct the cause(s) of market failure.
Low L2 10-11	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Sufficient depth in analysis. <ul style="list-style-type: none"> ✓ Accurate use of economic concepts and analysis in some explanations i.e. most explanations are descriptive. ✓ Some explanations are developed i.e. most explanations are under-developed. ➤ Sufficient breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Cause of market failure. ✓ Appropriate policy to correct the cause(s) of market failure.
High L1 6-9	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Insufficient depth in analysis. <ul style="list-style-type: none"> ✓ Use of economic concepts and analysis in some explanations e.g. most explanations are descriptive. ✓ Most explanations are undeveloped. ➤ Insufficient breadth in analysis: Contains

	✓ Cause of market failure. OR ✓ Appropriate policy to increase allocative efficiency and/or improve equity.
Low L1 1-5	For an answer that: <ul style="list-style-type: none"> ➤ Is largely irrelevant. <ul style="list-style-type: none"> ✓ Cause(s) is not related to market failure or policies to increase allocative efficiency and/or improve equity. ✓ Effect(s) is not related to allocative efficiency or equity. ➤ Contains fundamental conceptual error(s) in analysis.

Levels	Descriptors
E2 3-4	For a well-reasoned criteria-based judgement that answers the question on the appropriateness of alternative policies that can be adopted by a government to correct different types of market failure.
E1 1-2	For an unexplained criteria-based judgement that answers the question on the appropriateness of alternative policies that can be adopted by a government to correct different types of market failure.

Essay Question 4

India and many developing countries faced a severe depreciation of their currencies in 2013, largely caused by capital flight and weak external demand.

Discuss the view that the government of a developing country should intervene by only strengthening its currency. [25]

Suggested answers**Introduction:**

- In view of the capital flight and weak external demand, while the strengthening of the currency via the purchase of the domestic currency in the foreign exchange market is 1 way of mitigating the problem, other solutions should be considered too.

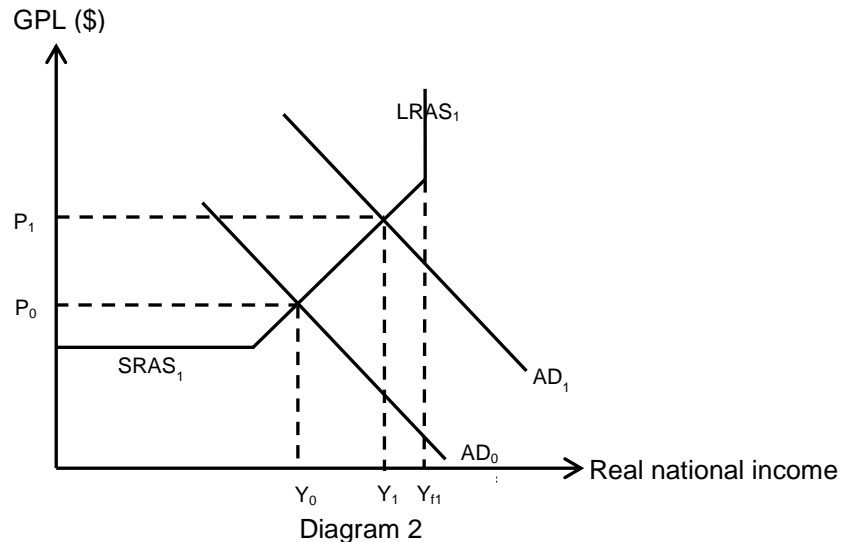
Body 1: Explain the macroeconomic problems brought about by capital flight, weak external demand, and a severely depreciated currency**1a: Macroeconomic impact of the situations**

- Capital flight brings about problems for the economy. As capital leaves the economy, the money supply in the economy decreases, as seen from MS_0 to MS_1 , which may lead to an increase in equilibrium interest rates from i_0 to i_1 . When interest rates increase, this increases the cost of borrowing, and decreases the expected return on investment of firms. Hence, I decrease in the economy, thus the AD decreases, which decrease real national income. Cyclical unemployment also increases as a result. As investment falls, this reduces the extent of potential economic growth. (Draw LP/MS/AD-AS diagram)
- Similarly, a weak external demand for their exports will cause a fall in export revenue X . This further worsens the level of national income and the level of cyclical unemployment in the economy. The current account also worsens as $(X-M)$ decreases.
- A depreciating currency may also signal to potential foreign investors of the poor economic health of the economy, and hence foreign direct investment will fall. AD will thus be lower, and potential economic growth is similarly hindered.

Body 2: Explain how strengthening the currency will affect the macroeconomic health of the economy

- A strengthened currency will reduce or reverse this flow of capital as the speculators no longer fear their investments will decrease in value due to a depreciating currency.
- Hence, the negative impact on consumption, investment and thus national income, unemployment and standard of living is subdued.
- The BOP may cease to worsen as there is a reduced outflow in the C&FA account.
- Strengthening the currency is likely to lead to an increase in positive outlook and thus may increase FDI if the government is seen to be credible in its actions in correcting the weak economy.
- The increase in investment is likely to lead to an increase aggregate demand. AD increases from AD_0 to AD_1 , ceteris paribus, national income increases. Cyclical unemployment thus decreases. The aggregate supply will also increase as the productive capacity of the economy increases, hence leading to potential economic growth.
- A depreciating currency results in exports becoming cheaper in foreign currency, hence the demand for exports and export revenue increases. Imports become relatively more expensive their domestic currency and hence become relatively expensive compared to domestically produced substitutes.

- A country's quantity demanded of imports will decrease more than proportionately to the change in price, assuming the country has a relatively low reliance on imports. Import expenditure will thus decrease.
- Given that export revenue increases and import expenditure decreases, assuming overall consumption to be constant and Marshall-Lerner Condition $|PED_x + PED_m| > 1$ holds, net exports increases. AD increase from AD_0 to AD_1 , ceteris paribus, national income increases from Y_0 to Y_1 . Cyclical unemployment thus decreases.



- Hence, the effect of the weak external demand on the economy will be mitigated if the currency was allowed to depreciate. Strengthening the currency will therefore cause domestic goods to be relatively more expensive and less export competitive, causing a further fall export demand, and thus export revenue. Net exports $X-M$ also worsens, causing a further worsening of the current account and hence balance of payments.
- An appreciation of the currency will reduce the price of imported raw material, intermediate and final goods and services. This will reduce the cost of production and reduce the general price level, while increasing national income and decreasing unemployment.

Body 3: Explain how AS policy could be used

- To tackle the problem of weak external demand, supply-side policies must be used in order to increase competitiveness for domestic country's export sectors in the long run. For instance, subsidies could be given to fund research and development projects to allow the country to produce better quality products.
- Hence this might cause foreign consumers to switch to the country's exports and the country's residents will switch from imports to domestically produced goods. Since X increases and M decreases, net exports increases. This increases the national income and reduces cyclical unemployment.
- Such supply-side policies improve the infrastructure of the economy, improve the quality and cost of labour which will attract foreign long term investments. FDI may increase due to greater confidence with the economy due to a greater expected return on investment. The LRAS will hence increase and shift to the right, resulting in potential economic growth.
- Hence, other than improving the current account, it will also result in a net credit in the

capital and financial account, hence effectively improving the BOP.

Body 4: Any other policies

Conclusion:

- Strengthening the currency may stem the outflow of capital temporarily, but that has a negative impact on national income as it lowers the export competitiveness of the developing country's exports.
- Hence it is important to consider a mixture of policies bearing in mind the pros and cons of each policy.

Mark Scheme

Level	Description
High L3 19-21	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Excellent depth in analysis: Contains <ul style="list-style-type: none"> ✓ Analysis of the macroeconomic implications of the situation ➤ Excellent breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Analysis of the macroeconomic impact of the situation ✓ Analysis of the impact of currency strengthening + other policies
Low L3 15-18	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Very Good depth in analysis: Contains <ul style="list-style-type: none"> Analysis of the macroeconomic implications of the situation ➤ Excellent breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Analysis of the macroeconomic impact of the situation ✓ Analysis of the impact of currency strengthening + other policies
High L2 12-14	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Good depth in analysis: Contains <ul style="list-style-type: none"> Analysis of the macroeconomic implications of the situation ➤ Good breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Analysis of macroeconomic impact of the situation ✓ Analysis of the impact of currency strengthening + other policy
Low L2 10-11	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Sufficient depth in analysis. <ul style="list-style-type: none"> ✓ Analysis of the macroeconomic implications of the situation ➤ Sufficient breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Analysis of the macroeconomic impact of the situation ✓ An absence of the analysis of other policies other than exchange rate
High L1 6-9	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Insufficient depth in analysis. <ul style="list-style-type: none"> ✓ Analysis of the macroeconomic implications of the situation ➤ Insufficient in analysis: Contains <ul style="list-style-type: none"> ✓ Analysis of the macroeconomic impact of the situation ✓ An absence of the analysis of other policies other than exchange rate
Low L1 1-5	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Absence of depth in analysis. <ul style="list-style-type: none"> ✓ Shows an absence or highly inaccurate use of economic tools of analysis. ➤ Absence of breadth in analysis. Contains

	✓ Smattering of points ➤ Many conceptual error(s) in analysis.
E2 3-4	Criteria based judgment made on the view the government of a developing country should intervene by only strengthening its currency.
E1 1-2	Attempt to make a criteria based judgment on the view the government of a developing country should intervene by only strengthening its currency

Essay Question 5

"We have made skills, innovation and productivity the basis for economic growth. This is key to keeping our economy vibrant, with a strong core of Singapore-based companies where every Singaporean is in well-paying and meaningful jobs by managing foreign workforce growth."

Source: Singapore Budget Speech 2014

Discuss why the Singapore government should focus on supply side policies rather than demand management policies to achieve sustained economic growth.

[25]

Suggested answer:**Introduction:**

Sustained economic growth is defined as non-inflationary growth where a country is able to achieve an increase in national output, yet able to keep the inflation rate low. It requires the long run aggregate supply to increase in tandem with the increase in aggregate demand where the country achieves both actual and potential economic growth. In the case of Singapore, the government should place more emphasis on supply side policies due to the root causes of the problems faced by the Singapore economy and the unique characteristics of the Singapore economy.

Body:**Body 1: Supply side policies should be the focus rather than demand management**

1) Singapore has a small multiplier value:

- Demand management policies that Singapore use includes exchange rate policy and fiscal policy. These policies have an impact on Aggregate Demand (AD) which will influence the National Income via the multiplier effect.
- During times of economic recession such as in 2009, the government may choose to do depreciation of the exchange rate which will result in net exports (X-M) increasing for Singapore since Marshall-Lerner condition of $IPED_x + PED_{ml} > 1$ is fulfilled. This will result in National income increasing from Y_0 to Y_1 , resulting in actual economic growth.
- However, demand management policies may not be effective in increasing national income by a large extent due to the fact that Singapore has a small multiplier size.
- Our small multiplier size is because of our high Marginal propensity to Import (MPM), high marginal propensity to save (MPS). Hence, there is high leakages from the circular flow of income, resulting in national income increasing by a smaller extent for Singapore.

- Hence, demand management policies have their limitations as they work through increasing national income through the multiplier effect.

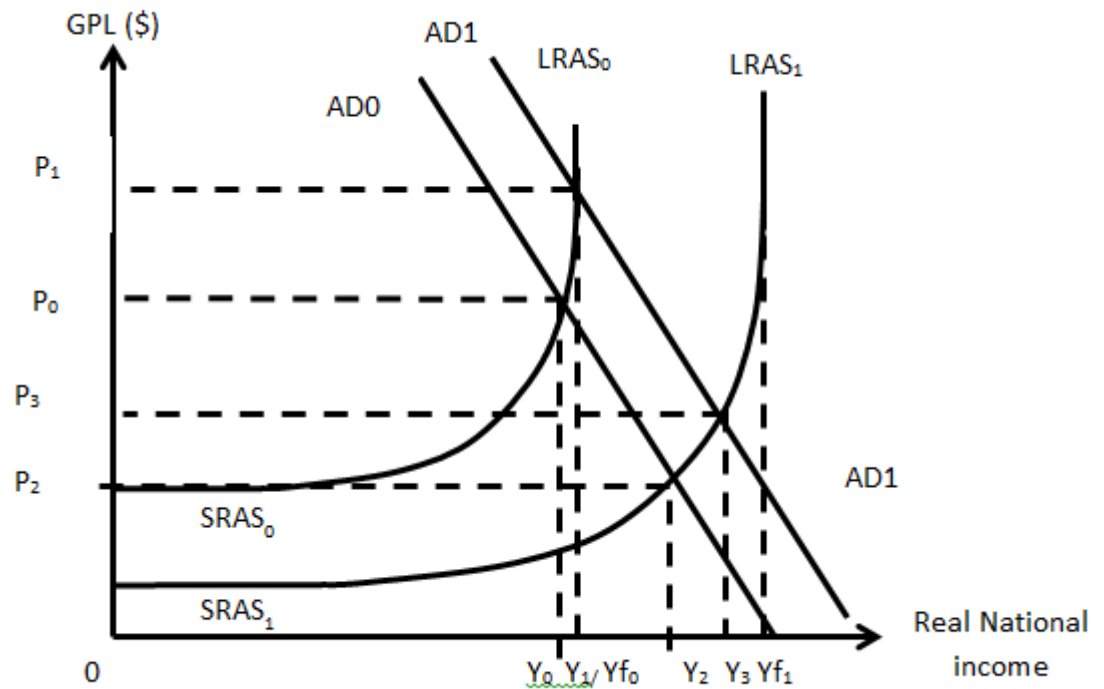


Figure 1

- 2) Crowding out effect
- 3) Any other limitations of demand management policies

Hence, due to the limitations of demand management policies, supply side policies are preferred.

Body 2: Supply side policies should be the focus rather than demand management

- The use of expansionary fiscal policy increasing AD and national income. Actual economic growth is achieved but this comes at the expense of demand pull inflation.
- This is because Singapore's economy is near the full employment level. Therefore, this excessive demand coupled with lack of spare capacity to expand output will cause demand-pull inflation where prices increase from P_0 to P_1 as shown in Fig 1.
- This results in inflationary pressures in which there are detrimental effects of inflation on the economy.
- Hence, supply side policies are needed to dampen the increase in inflationary pressures so as to allow Singapore to experience non-inflationary economic growth.
- Policies such as government encouraging R&D and improvements in technology help to make Singapore's exports more competitive. LRAS increases from $LRAS_0$ to $LRAS_1$ whereby higher potential growth is achieved and at the same time mitigating inflationary pressures.

Body 3: Supply side policies should be the focus rather than demand management

- Singapore is a small and open economy, open to trade and foreign direct investments. Hence, supply side policies enable Singapore to be less reliant on the external economy in terms of trade and FDI.

- The use of demand management policies such as gradual appreciation of exchange rate to curb cost push inflation (SRAS increase) and expansionary fiscal policy of lowering corporate tax rates to boost investments (AD increases) have enabled Singapore to achieve actual economic growth.
- Hence, to minimise overreliance on other countries for goods and services, the government should use supply side policies to boost local enterprise or encourage firms to innovate to come up ways to allow us to be more self-reliant.
- Demand management policies such as fiscal policy, exchange rate policy do not enable Singapore to overcome the problem of overreliance on foreign labourers since these policies mainly targets changing of aggregate demand.
- Hence, supply side policy are preferred as a long term solution whereby the government now manages the foreign workers growth by implementing higher foreign workers levies. By relying less on foreign workers, firms will have the impetus to raise their own productivity through R&D and innovation to improve their production processes to make it more efficient.

Conclusion:

- In the context of wanting Singapore to have a vibrant economy where we are able to achieve both actual and potential economic growth, supply side policies will be preferred over demand management policies.

Mark scheme

Levels	Descriptors
High L3 19 – 21	For an answer that exhibits Excellent Depth in analysis: <ul style="list-style-type: none"> ✓ Accurate, precise and clear use of economic concepts and analysis in all explanations. ✓ Most explanations are well-developed. For an answer that exhibits Excellent Breadth in analysis: <ul style="list-style-type: none"> ✓ Factors to explain supply side policy is preferred
Low L3 15– 18	For an answer that exhibits Very Good Depth in analysis: <ul style="list-style-type: none"> ✓ Accurate and clear use of economic concepts and analysis in most explanations. ✓ Most explanations are developed. For an answer that exhibits Very Good Breadth in analysis: <ul style="list-style-type: none"> ✓ Factors to explain supply side policy is preferred
High L2 12 – 14	For an answer that exhibits Good Depth in analysis: <ul style="list-style-type: none"> ✓ Accurate use of economic concepts and analysis in some explanations i.e. some explanations are descriptive. ✓ Some explanations are under-developed. For an answer that exhibits Good Breadth in analysis: <ul style="list-style-type: none"> ✓ Factors to explain supply side policy is preferred
Low L2 10 – 11	For an answer that exhibits Some Depth in analysis: <ul style="list-style-type: none"> ✓ Accurate use of economic concepts and analysis in some explanations i.e. some explanations are descriptive. ✓ Some explanations are under-developed.

	For an answer that exhibits Some Breadth in analysis: ✓ Factors to explain supply side policy is preferred
High L1 6 – 9	For an answer that exhibits Insufficient Depth in analysis: ✓ Answer is primarily descriptive , not using economic concepts/terms in reasoning ✓ Explanations are mostly under-developed . For an answer that exhibits Insufficient Breadth in analysis: ✓ Factor to explain why supply side policy is preferred
Low L1 1 – 5	<ul style="list-style-type: none"> • Most parts irrelevant to question • Major errors in the use of economic concepts

Levels	Descriptors
E2 3-4	Criteria based judgment made on why AS policy is preferred
E1 1-2	Attempt to make a criteria based judgment on why AS policy

Question 6

(a) Explain why a small economy should embrace globalisation. [10]

(b) Discuss whether protectionism is justified during times of worldwide recession. [15]

Part (a)**Suggested Answers****Introduction**

- A small economy (e.g. Singapore) should embrace globalisation because by tapping on external demand, external capital and foreign labour, the economy can better achieve its macroeconomic objectives.

Body:

- Being a small economy like Singapore that enjoys comparative in capital intensive goods can export these goods and thus increase its net export revenue (X-M). This would improve the small economy's balance of trade (and hence balance of payments) which in turn increases its aggregate demand $AD=C+I+G+(X-M)$ as illustrated by the shift of the AD curve from AD_0 to AD_1 in Diagram 1. (include diagram)
- The increase in AD results in an increase in real national income (i.e. actual growth) a decrease in demand deficient unemployment as labour is a derived demand.
- Being a small economy, the economy is likely to be heavily dependent on foreign direct investments to achieve sustained economic growth
- In addition to the benefit of an increase in AD to the small economy as explained previously, the increase in FDIs increase LRAS from $LRAS_1$ to $LRAS_2$ as shown in Diagram 2. (include diagram)
- Full employment level of output (i.e. potential growth) increase from Y_{f1} to Y_{f2} . Demand pull inflation is likely to occur in the long run if the small economy is near or at full employment level of output.
- Furthermore, the inflow of FDIs is also likely to improve its balance of payments.

Conclusion

- In conclusion, a small economy can benefit from embracing globalisation.

Mark scheme

Levels	Descriptors
High L3 9-10	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Excellent depth in analysis. <ul style="list-style-type: none"> ✓ Accurate, clear and precise use of economic concepts and analysis in most explanations. ✓ Almost all explanations are well-developed. ➤ Excellent breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Benefits a small economy can enjoy from
Low L3 7-8	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Very good depth in analysis. <ul style="list-style-type: none"> ✓ Accurate and clear use of economic concepts and analysis in most explanations. ✓ Most explanations are well-developed.

	<ul style="list-style-type: none"> ➤ Very good breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Benefits a small economy can enjoy from
L2 5-6	<p>For an answer that exhibits:</p> <ul style="list-style-type: none"> ➤ Good depth in analysis. <ul style="list-style-type: none"> ✓ Accurate use of economic concepts and analysis in most explanations i.e. some explanations are descriptive. ✓ Most explanations are developed i.e. some explanations are under-developed. ➤ Good breadth in analysis. Contains <ul style="list-style-type: none"> ✓ benefits a small economy can enjoy from
High L1 3-4	<p>For an answer that exhibits:</p> <ul style="list-style-type: none"> ➤ Insufficient depth in analysis. <ul style="list-style-type: none"> ✓ Accurate use of economic concepts and analysis in some explanations i.e. most explanations are descriptive. ✓ Some explanations are developed i.e. most explanations are under-developed. ➤ Insufficient breadth in analysis. Contains <ul style="list-style-type: none"> ✓ benefit a small economy can enjoy from ➤ Conceptual errors in analysis.
Low L1 1-2	<p>For an answer that:</p> <ul style="list-style-type: none"> ➤ Is largely irrelevant. <ul style="list-style-type: none"> ✓ Cause(s) of change is not related to globalisation. ✓ Effect(s) of change is not related to macroeconomic objectives. ➤ Contains fundamental conceptual errors in analysis.

Part (b)

Suggested Answer

Introduction

- During times of worldwide recession, world economies would generally suffer from a decrease in real national income (i.e. actual growth), an increase in demand deficient unemployment, a worsening of balance of payments and a lower living standard.
- Some economies may turn to protectionism to boost actual growth, decrease demand deficient unemployment, improve balance of payments and improve living standards. Nevertheless, turning to protectionism during times of worldwide recession might backfire.

Explain why and how protectionism might be justified

Body 1:

- During times of worldwide recession, a domestic economy might employ protectionism via imposing import tariffs to boost actual growth, decrease demand

deficient unemployment, improve balance of payments and improve living standards.

- As illustrated in Diagram 3, the imposition of an import tariff would lead to an increase in the price of the good in the domestic market. (include diagram)
- Due to the higher price, domestic consumption of the good is likely to decrease. Also, domestic production of the good is likely to increase. With the increase in domestic production, there is lesser reliance on the imported good thus quantity of the imported good is likely to decrease.
- The decrease in import expenditure is likely to lead to an improvement in the domestic economy's balance of trade (X-M) and hence improvement in its balance of payments.
- The increase in net export revenue (X-M) is also likely to lead to an increase in the domestic economy's aggregate demand AD. The increase in AD is therefore likely to lead to an increase in real national income (i.e. actual growth).

Body 2:

- Moreover, during times of worldwide recession, the domestic economy might employ protectionism to ensure survival of infant industries. Infant industries are likely to gain comparative advantages in the long term if given sufficient time to develop themselves.
- During times of worldwide recession, the relatively low demand for infant industries' goods may lead to infant industries having limited profits, infant industries are more vulnerable to closure.
- The closure of infant industries is likely to decrease real national income, increase demand deficient unemployment, worsen balance of payments
- To prevent the shutdown of infant industries and the associated negative effects, the domestic economy might want to protect infant industries during worldwide recession. If so, protectionism might be justified during times of worldwide recession.

Explain why and how protectionism might not be justified

Body 3:

- However, during times of worldwide recession, real national incomes of the domestic economy's trading partners are also likely to be decreasing. Protectionism by the domestic economy is likely to decrease export revenue of its trading partners leading to decreases in their AD and hence further lower the trading partners' real national incomes. The lower purchasing power of trading partners might lead to lower demand for the domestic economy's export and thus lead to a decrease in its AD.
- Also, the trading partners might retaliate by imposing protectionism on the domestic economy and thus worsen the domestic economy's balance of trade and hence decrease its AD further.
- The decrease in AD is likely to worsen the negative effects of the worldwide recession on the domestic economy thus protectionism might not be justified during times of worldwide recession.

Evaluative conclusion

- In conclusion, protectionism during times of worldwide recession brings both benefits and disadvantages.
- Protectionism is arguably justified if the reason is to protect infant industries
- However, if the domestic economy is heavily dependent on exports for growth

protectionism which invites retaliation might lead to significant disadvantages and thus more likely worsen the negative effects of the worldwide recession on the domestic economy.

Mark scheme

Levels	Descriptors
High L3 11	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Excellent depth in analysis. <ul style="list-style-type: none"> ✓ Accurate, clear and precise use of economic concepts and analysis in most explanations. ✓ Almost all explanations are well-developed. ➤ Excellent breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Well selected arguments for and against protectionism given the context of a worldwide recession.
Low L3 9-10	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Very good depth in analysis. <ul style="list-style-type: none"> ✓ Accurate and clear use of economic concepts and analysis in most explanations. ✓ Most explanations are well-developed. ➤ Very good breadth in analysis: Contains <ul style="list-style-type: none"> ✓ Well selected arguments for and against protectionism given the context of a worldwide recession.
L2 6-8	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Good depth in analysis. <ul style="list-style-type: none"> ✓ Accurate use of economic concepts and analysis in most explanations i.e. some explanations are descriptive. ✓ Most explanations are developed i.e. some explanations are under-developed. ➤ Good breadth in analysis. Contains <ul style="list-style-type: none"> ✓ Arguments for and against protectionism.
High L1 3-5	For an answer that exhibits: <ul style="list-style-type: none"> ➤ Insufficient depth in analysis. <ul style="list-style-type: none"> ✓ Accurate use of economic concepts and analysis in some explanations i.e. most explanations are descriptive. ✓ Some explanations are developed i.e. most explanations are under-developed. ➤ Insufficient breadth in analysis (i.e. one sided answer). Contains <ul style="list-style-type: none"> ✓ Protectionism might be justified. <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> ✓ Protectionism might not be justified.
Low L1 1-2	For an answer that: <ul style="list-style-type: none"> ➤ Is largely irrelevant. <ul style="list-style-type: none"> ✓ Cause(s) of change is not related to ✓ Effect(s) of change is not related to ➤ Contains fundamental conceptual errors in analysis.

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Levels	Descriptors
E2 3-4	For a well-reasoned criteria-based judgment that answers the question
E1 1-2	For an unexplained criteria-based judgment that answers the question