

EQ4 Schematic Plan:

<p style="text-align: center;">Introduction</p> <ul style="list-style-type: none"> Briefly relate to the preamble and identify the economic problems faced by Singapore. State that Singapore government has to adopt policies to address these economic issues. 			
<p style="text-align: center;">Body (1)</p> <p>Explain the economic issues raised in preamble</p> <ul style="list-style-type: none"> Weakness in global markets → fall in global income → fall in demand for exports from Singapore Uncertainty in global markets → lowers confidence of consumers and producers → fall in consumption and investment → fall in demand for exports from Singapore and fall in FDI into Singapore Business conditions are difficult and uncertain → affects profitability and confidence of producers → fall in investment, cut in production increasing cost of production from rising manpower costs and tighter financing → cost push inflation → reduce export competitiveness and profitability → fall in investment and demand for exports from Singapore In all, both AD and AS fall and assuming that the fall in AS > fall in AD, general price level increases, while real national income and hence economic growth and employment are adversely affected. (illustrate using a diagram) 			
<p style="text-align: center;">Body (2)</p> <p>Explain and evaluate the possible policies that Singapore government may consider to boost its economy and lower inflationary pressures (in particular, rising business costs)</p>			
<p style="text-align: center;">Demand management policies to stimulate actual growth</p>		<p style="text-align: center;">Supply side policies to lower cost push inflation and raise potential growth</p>	
<p>Exchange Rate Policy</p> <ul style="list-style-type: none"> Explain how slowing down the pace of appreciation or a zero appreciation of Sing dollar can help boost AD via the multiplier process (explain) Evaluate the effectiveness and desirability of the use of this policy <ul style="list-style-type: none"> Size of k Inability to manage imported inflation 	<p>Fiscal Policy</p> <ul style="list-style-type: none"> Explain how expansionary fiscal policy can increase AD and hence stimulate actual growth and employment. Evaluate the effectiveness and desirability of the use of this policy <ul style="list-style-type: none"> Size of k Limits size of budget Possibility of demand pull inflation 	<p>Retraining & Education</p> <ul style="list-style-type: none"> Explain & evaluate how subsidies in retraining and education can increase labour productivity (reduce cost of production) and, in the SR, raises competitiveness of exports and increase investments. While in the LR, raises productivity capacity 	<p>Wage Income Policy</p> <ul style="list-style-type: none"> Explain & evaluate how wage-income policy (e.g increase in wages to be in line with increase in productivity) can keep wages competitive and manage labour cost Explain & evaluate how ↑ govt expenditure in developing new growth areas etc can achieve both aims

Evaluative Conclusion

- No single perfect policy to manage both problems faced.
- There is a need for a combination of demand management and supply policies to manage inflation and stimulate growth and hence employment in the short run. The combination should also stimulate potential growth as well.
- Need at least one policy tool for each marcoeconomic problem.
- Given the nature of Singapore economy, which is vulnerable to performance of global economies, the increase in real national income can only be achieved if global economies improve.

Mark Scheme

Level	Knowledge, Comprehension, Analysis and Application	Marks
L3	For an answer that shows a well-balanced approach in the analysis of economic policies (both demand management and supply side) that Singapore government can adopt to tackle the economic problems raised in the preamble.	15 - 21
L2	For an answer that explain and evaluate at least 2 economic policies that Singapore government can use in response to the economic problems faced. OR For an answer that only explain a full range of economic policies (demand management and supply side) that Singapore government can use in response to the economic problems faced. For an answer that explain and evaluate a full range of policies (demand management and supply side) to manage only 1 economic problem identified in the preamble. Max 12m	10 - 14
L1	For an answer that correctly identifies and shows good knowledge of the economic problems in preamble and briefly explain some possible policies. OR For an answer that shows good knowledge of possible policies without addressing the economic problems raised in preamble	1 - 9
Level	Evaluation, Synthesis	Marks
E2	For an evaluation based on economic analysis.	3 - 4
E1	For an evaluation not supported by analysis.	1 - 2

EQ5 Part (a) Schematic Plan

Introduction

- Define circular flow of income
- Identify the components of circular flow
- State Approach: This part will be examining how demand management policies by government can influence the circular flow of income

Body (1)

Explain the workings of the circular flow of income in a 4 sector economy

Households receive factor income (rent, wages, interest and profits) from firms in return for the provision of factor inputs such as land, labour, capital and enterprise. In return, the income paid out to households goes into buying goods and services produced by local firms (C), payment of income taxes to the government (T), as well as spending on imported goods and services (M).

Any amount left over from household income after deducting for C, T and M is assumed to be saved (S) in banks. S, T and M are regarded as withdrawals from the circular flow, since this part of household income is not spent on firm output.

Body (2)

Explain the impact of fiscal and monetary policies (expansionary/contractionary) on the circular flow of income

Fiscal Policy (Expansionary)

(Increase in government expenditure and/or Decrease in direct taxes)

- Increase in government expenditure → direct increase in injection
- Decrease in direct taxes → direct decrease in withdrawal.
- if decrease in personal income tax, consumption increases → fall in savings (withdrawal)
- if decrease in corporate tax → increase in investment (injection)
- Overall, there is a net injection into the circular flow
- Explain how the expansionary fiscal policy expands the circular flow of income by causing a net injection into the circular flow via the multiplier process (explain using numerical e.g.).

Monetary Policy (Expansionary)

(Increase money supply OR Decrease interest rates)

- Increase in money supply → lowers interest rates.
- Decrease interest rates → decrease cost of borrowing → increase investment (injection) and consumption
- decrease returns from lending/saving → reduce savings (withdrawals)
- Overall, there is a net injection into the circular flow
- Therefore, there is an expansion of the circular flow of income.

Conclusion

Expansionary fiscal and monetary policies, thus, raise the circular flow of income by causing a net injection. Contractionary demand management policies will do the reverse.

Mark Scheme:

Level		Knowledge, Comprehension, Analysis and Application	Marks
L3	For a comprehensive explanation of the operations of fiscal and monetary policies (including the multiplier process) and demonstrate their impact on the relevant components on circular flow of income.		9 - 12
L2	For an answer that explain how (contractionary or expansionary) fiscal and monetary policies work without the explanation of multiplier process and their impact on the circular flow of income.		5 - 8
L1	For an answer that shows knowledge of circular flow of income and its components and demand management policies		1 - 4

EQ5 Part (b) Schematic Plan

<p style="text-align: center;">Introduction</p> <ul style="list-style-type: none"> Define budget deficit: a government budget deficit occurs when a government spends more than it receives in tax revenue State Approach: Whether a budget deficit should be of a concern to governments depends on a number of issues for e.g. duration of deficit, size of the deficit, cause of the deficit and how the deficit is financed etc 	
<p style="text-align: center;">Body</p> <p style="text-align: center;">Should a government be concerned about a budget deficit?</p>	
<p>Thesis: Yes, budget deficit is a concern</p> <p>Explain the impact of the following cases</p> <ul style="list-style-type: none"> If budget deficit is persistent and large If budget deficit is financed by borrowing and the implications on future generations 	<p>Anti-thesis: No, budget deficit is not a concern</p> <p>Explain the impact of the following cases</p> <ul style="list-style-type: none"> If budget deficit is temporary due to the use of expansionary fiscal policy during a recession. If budget deficit occurs due to government expenditure on activities that can raise potential growth If budget deficit is financed by government reserves from accumulated budget surpluses
<p style="text-align: center;">Evaluative Conclusion</p> <ul style="list-style-type: none"> Many governments are running budget deficits in the recent years as they have increased their spending. Hence it is important for governments to realise the impact of their increased expenditure on their budget position. Other than to consider the duration, size, cause of the budget deficit and how the deficit is financed, there is a need to also consider the nature of the economy and the economic context that the country is facing. For instance, increasing government expenditure is necessary to boost potential growth and if government has sufficient reserves, a budget deficit is not an issue. Apply to specific economies. 	

Mark Scheme:

Level	Knowledge, Comprehension, Analysis and Application	Marks
L3	For a comprehensive and detailed analysis of the criteria used to evaluate the issue of whether a budget deficit is of concern	7 - 9
L2	For an unbalanced answer. One sided answer with no thesis or anti-thesis to address whether a budget deficit is a concern	4 - 6
L1	For an answer that shows knowledge of a government budget deficit and some impact (positive or negative) of a government budget deficit.	1 - 3

TJC 2016 Preliminary Examination
H2 Economics Suggested Answers

Level		Evaluation, Synthesis	Marks
E2	For an evaluation based on economic analysis or empirical evidence		3 - 4
E1	For an evaluation not supported by analysis.		1 - 2