

Demand & Supply

- 1 "Many countries are reporting growth due to an increase in world merchandise trade, technology transfer and labour mobility."

Assess the impact of these recent developments on different product markets in [25] Singapore.

Suggested Approach

Interpretation of Question		
What is the command cue? (What are the skills required for the question?) "Assess" – a 2-sided analysis, and evaluation of likely outcomes in the different markets with justification.	What are the content cues? (What are the concepts required to answer the question) "recent developments": - "increase in world merchandise trade" → economic growth → increase in income → change in demand depending on the nature of good - "technological transfer" → lower cost of production → increase supply of goods - "labour mobility" → reduce pressure on wages → lower cost of production → increase supply of goods "impact of ... on markets": - impact on equilibrium price, quantity, total revenue	What are the contextual cues? (What is the context for the question?) "Different product markets in Singapore" – luxury, necessity and inferior products sold in Singapore

Introduction

- Issue The experience by many countries based on the preamble are essentially traits of globalization.
- Growth in world merchandise trade → result in economic growth → rise in income for households.
 - Increase in trade → increase in exports and imports → availability of wider range of consumer goods and services.
 - Increase in transfer of technology and labour mobility → increase productivity and reduce wage pressures → lowering cost of production.

Approach This essay aims to discuss the possible impact of the above developments on different product markets in Singapore, using demand and supply analysis.

The relevant economic concepts to include for analysis are: PED, YED, PES and shifts in DD and SS curves.

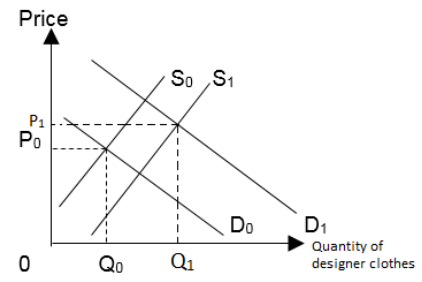
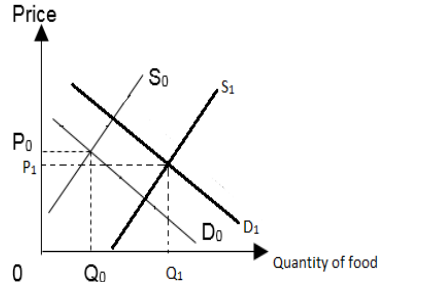
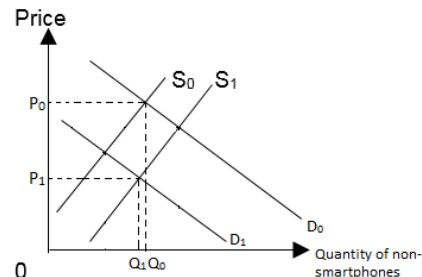
Body

The product markets here refer to the luxury, necessities and inferior goods markets in Singapore.

The rise in income arising from the increase in world merchandise trade and capital flows shifts the demand curve to the right for luxury goods and necessities while the demand for inferior good falls, shifting the demand curve leftward.

The supply curve for all product markets increase due to the lower cost of production arising from higher productivity from technology transfer and the influx of labour. More goods are also available from increased imports due to increase in trading activities and this increases the supply of goods as well.

Elaboration

Product Market	Δ in Demand when $Y \uparrow$ (Consider YED & PES)	Δ in Supply (Consider PED)	Final impact on the product market (Evaluate which outcome is most likely)
Luxury goods (e.g. designer clothes or watches) (Justify YED>1)	Demand \uparrow more than proportionately PES < 1 assuming luxury goods are of top quality and take longer production period + relatively smaller number of producers (niche markets) (PES > 1 also possible) $\rightarrow DD \uparrow \rightarrow P \uparrow, Q \uparrow$	PED > 1 due to the nature of the good + higher proportion of income SS $\uparrow \rightarrow P \downarrow, Q \uparrow$ (more than prop.)	DD \uparrow > SS \uparrow : P \uparrow , Q \uparrow , TR \uparrow 
Necessities (e.g. food) (Justify 0<YED<1)	Demand \uparrow less than proportionately PES < 1 assuming necessities such as fresh food which have shorter shelf lives and difficult to accumulate stocks DD $\uparrow \rightarrow P \uparrow, Q \uparrow$ Ev: P\uparrow but to a smaller extent compared to luxury goods	PED < 1 as they are basic goods + smaller proportion to income SS $\uparrow \rightarrow P \downarrow, Q \uparrow$ (less than prop.)	DD \uparrow < SS \uparrow : P \downarrow , Q \uparrow , TR \uparrow 
Inferior goods (e.g. 2nd hand cars or non-smart phones) (Justify YED<0)	Demand \downarrow with a rise in income. PES > 1 assuming they are low-end manufactured goods with stocks that are easily accumulated DD $\downarrow \rightarrow P \downarrow, Q \downarrow$	PED > 1 assuming many substitutes SS $\uparrow \rightarrow P \downarrow, Q \uparrow$ (more than prop.)	DD \downarrow + SS $\uparrow \rightarrow P \downarrow, Q?$, TR? <i>Effect on Q and TR depends on the magnitude of shifts of dd and ss (e.g. Q can \downarrow if dd for inferior goods is income elastic, leading to TR\downarrow)</i> 

Evaluation

- **Question ceteris paribus assumption** – In reality, ceteris paribus assumption does not hold and many factors may change concurrently to influence the impact on the product markets.
- **Difficulty of getting accurate elasticity data**

Conclusion

The impact on the different product markets (luxury, necessities, inferior) differ when there is an increase in world merchandise trade, capital flows, technology transfer and labour mobility, depending on the relative shifts of demand and supply. In the case of luxury goods, it is clear that both price and quantity will increase but not necessarily so for necessities though the case for inferior good is likely to see a fall in both price and quantity.

Despite the limitations of using elasticity concepts, the above analysis can still be useful as a guide for businesses in Singapore in deciding the industries to focus on, the choice of goods to produce and if there is a need to restructure or divest in view of the developments in order to remain competitive.

Note:

- *Students are free to justify the PED/PES of the goods concerned as long as they are conceptually sound and reasonable. And that will have impact on the final outcome of the product markets.*

Mark Scheme

Level	Descriptors
Level 3	<ul style="list-style-type: none"> • Answer shows excellent knowledge of demand and supply forces and how these affect the 3 different product markets namely luxury, necessity and inferior products.
18 – 21	<ul style="list-style-type: none"> • Clear analysis of simultaneous shifts, recognition that equilibrium price or quantity may be reinforced and in another instance, it may be indeterminate. • Answer is balanced in consideration of demand and supply forces. Answer includes the different extent of shifts of supply vs demand. • Excellent rigour in economic analysis and development.
15 – 17	<ul style="list-style-type: none"> • Answer shows good knowledge of demand and supply forces and how these affect the 3 different product markets. • Good consideration of elasticity concepts (i.e. YED and PED &/or PES) and its relevance in influencing market equilibrium. • Good use of diagrams that is adequately explained (which includes diagrams with simultaneous shifts). • Max 15m if answer shows knowledge of the 3 markets, but only does combined shift for 1.
Level 2	<ul style="list-style-type: none"> • Answer shows adequate knowledge of demand and supply forces and how these affect equilibrium price and quantity.
12 – 14	<ul style="list-style-type: none"> • Some consideration of elasticity concepts (i.e. at least one elasticity concept well explained) and its relevance in influencing market equilibrium. • Some rigour in economic analysis and development. • Max of 13m if only 2 out of 3 markets are well analysed.
10 – 11	<ul style="list-style-type: none"> • Answer is relevant but analysis has some inaccuracies/incomplete examples. Is able to identify forces in DD and SS but lacking in detailed elasticity discussions. • But answer lacks balance in consideration of demand and supply forces.
Level 1	<ul style="list-style-type: none"> • Able to sketch a DD & SS diagram and identify & briefly explain impact on the product markets.
6 – 9	<ul style="list-style-type: none"> • Some errors and inconsistencies occur in the explanation and use of some economic concepts. • Minimal reference to context.
1 – 5	<ul style="list-style-type: none"> • Misinterpreted question as a macroeconomic issue but there are few valid points though they do not clearly address the question. • Demonstrates some basic knowledge of different types of products.
E2 (3 – 4)	Explained judgement with economic analysis with regards to the impact on different product markets resulting from the combined effects of change in demand and supply. Include the ability to question assumptions.
E1 (1 – 2)	Mainly unexplained judgement.