

4.	<p>Amid the slowest GDP growth in six years and the flattest employment growth in more than a decade, Finance Minister Heng Swee Keat announced a Budget with a strong focus on economic restructuring such as tightening the foreign labour market to raise productivity.</p> <p style="text-align: right;">Source: channelnewsasia.com/news/singapore/budget-2016</p> <p>(a) Explain the key determinants of sustained economic growth. [10] (b) How far do you agree that the Singapore government should focus on raising productivity to achieve sustained economic growth? [15]</p>
a)	<p>Intro:</p> <ul style="list-style-type: none"> - Define 'economic growth' (actual and potential). - Outline the 2 primary sources of growth, higher AD and higher AS. - Address the 'sustained' nature of the growth in question. <p>Body 1 (AD)</p> <ul style="list-style-type: none"> - Show how an increase in AD will lead to an increase in RNY (diag). - Explain the 'key' factors that can increase AD. - Explain what influences the levels of C, I, G and (X-M) individually (using illustrative examples of different economies). - Identify which of these factors are most important. <p>Body 2 (SRAS)</p> <ul style="list-style-type: none"> - Show how an increase in SRAS (downward shift) will increase RNY (diag). - Explain the 'key' factors that can shift AS downward (CoP). - Explain the key components of CoP (i.e. wages, interest, rents). - Comment on the viability of this as a source of 'sustained' growth. <p>Body 3 (LRAS)</p> <ul style="list-style-type: none"> - Show how an increase in LRAS (rightward shift) will increase RNY (diag). - Explain the key factors that can shift AS rightward (quantity & quality of FoP). - Explain how an increase in the quantity & quality of land, labour and capital can increase RNY (using illustrative examples). <p>Conclusion: (Summative)</p> <ul style="list-style-type: none"> - Although summative in nature, the conclusion here must be agglomerative in that it sums up the key factors (AD, SRAS and LRAS). Comment on the relative importance of the different factors.
MARK SCHEME	
L1	<p>Shows a cursory knowledge of the factors affecting economic growth. Little or no use of the AD/AS framework.</p> <p style="text-align: right;">1-4m</p>
L2	<ul style="list-style-type: none"> - Shows good knowledge of the factors affecting economic growth. - Is able to categorise these factors into the framework: <ul style="list-style-type: none"> → Actual growth (AD and SRAS factors) → Potential growth (LRAS factors) - Able to recognise that to achieve sustained growth, BOTH SR and LR factors must be present. <p>[Students who leave out SRAS factors should not be penalized]</p> <p style="text-align: right;">5-6m</p>
L3	<ul style="list-style-type: none"> - Able to explain 3 key determinants involving actual and potential growth with the use of real-world examples. <p style="text-align: right;">7m</p>
	<ul style="list-style-type: none"> - Analysis considers the context of different economies (e.g. Developing, developed, emerging etc.) <p style="text-align: right;">8-10m</p>

(b)

Intro:

- Outline the different ways to achieve sustained growth → increasing productive capacity (increasing the quantity & quality of FoPs) whilst maintaining AD growth.
- Outline the context of the Singapore economy
 - Constraints: small geographical size, shrinking size of the domestic work force, lacking in natural resources etc.
 - Condition: slow GDP growth, flat employment growth (pre-amble)
- Need for policies that increase LRAS while addressing the need to boost weak AD.
- Productivity affects quality of FoPs → raises LRAS (and subsequently SRAS).

Body

Thesis: Government should focus on raising productivity to achieve sustained EG

- Explain how the Singapore government raises productivity (e.g. tightening of foreign labour market (pre-amble), use of technology etc.)
- Explain how raising productivity affects the LRAS curve (diag).

Anti-Thesis 1: Limitations of raising productivity to achieve sustained EG

- Explain the limitations and potential difficulties of raising productivity.
 - Resistance of firms to use technology (when cheap alternatives are available)**
 - Resistance of workers to new methods and re-training.
 - Results will take time to be reaped.

Anti-Thesis 2: Use of other policies to achieve sustained EG

(a) DD-management policies (highlight urgency given weak economic conditions)

- Using the Singapore context, show how DD-management policies (either FP or ERP) can increase RNY (diag).
- Explain the limitations.
 - Singapore has a small K
 - Implications on the government budget

(b) Other SS-side policies

Infrastructure development (e.g. MRT lines, airport terminals etc.)

- Use illustrative example to explain how SS-side policies can affect the AS curve (diag)
- Explain the limitations and potential difficulties of SS-side policies
 - Adds a strain on the govt budget.
 - Long run approach which only offer rewards in the very long term.
 - If not properly chosen some projects may turn into 'white elephants'.

SS-side measures to raise quantity of FoP (e.g. easing PR and labour requirements)

- Use illustrative example from the Singapore context to explain how the increase foreign labour affects the AS curve (diag).
- Explain the limitations and potential difficulties of increasing foreign labour.
 - Worsens income inequality.
 - Reduces the incentive to improve production methods (productivity)**
 - Only increases productive capacity in the SR.
 - Social problems.

(Compare the effectiveness of raising productivity with other approaches)

Criterion	↑ Productivity	↑ Population (Foreign)	Infrastructure	AD mgt policies
Effectiveness	Effective	Reduces costs; increases productive capacity in the SR	Can be ineffective if not well chosen	Effective but insufficient.
Costs (Time frame)	Cost of education and retraining. Difficult to do LT.	Low costs to the govt. Social costs are high. -ve effects on Y-distrn	Cost of infrastructure projects can be high.	Budget implications.
Sustainability	Can be sustainable if a productivity 'culture' is developed.	Not sustainable	Not very sustainable (limit to infrastructure projects).	

	<p>Conclusion: (Evaluative)</p> <ul style="list-style-type: none"> - A comment should be made on the need for the government to manage AD in order to achieve sustained growth. - A summary of the results from the above comparison should be made. - A judgement must be made wrt the extent to which increasing productivity should be the government's primary focus. (Time period, prevailing macro threats) <p>(Example: "Although increasing productivity would be the most desirable approach, DD management policies should also be considered in times of imminent economic slowdown.")</p>	
	MARK SCHEME	
L1	Shows knowledge of how productivity can affect growth. No application of theoretical framework to support analysis.	1-5m
L2	<ul style="list-style-type: none"> - Able to explain how sustained economic growth can be achieved by raising productivity and one other policy (AD or LRAS) using ADAS framework. - Able to explain the limitations of the chosen measures. <p>[Max 7m for explanation of supply-side policy as the alternative measure.]</p>	6-8m
L3	<ul style="list-style-type: none"> - Able to explain how sustained economic growth can be achieved by raising productivity and two other policies (AD and LRAS) using ADAS framework. - Able to illustrate the policy approach and its limitations in the Singapore context. (Other economies could be used to illustrate the limitations). - Able to compare the different policy approaches. 	9-11m
E1	Makes a judgement but lacking in economic justification	1-2m
E2	Well substantiated judgement based on economic analysis and application to the Singapore context.	3-4m