

Suggested Answers

(a) Identify and explain the measure mentioned in Extract 1 that has resulted in the difference between the two Gini Coefficients as shown in Figure 1. [2]

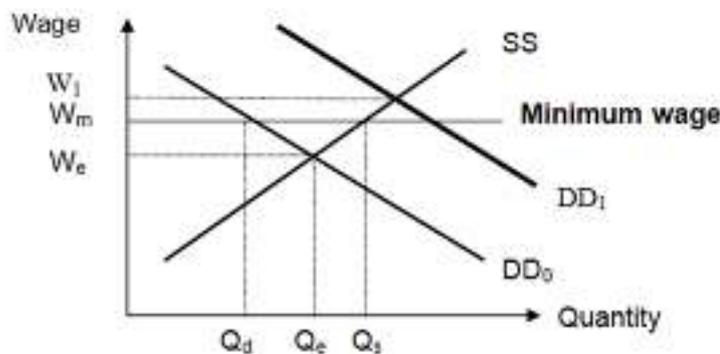
Identify: Wage Credit Scheme [1]

Explain: The scheme **redistributes income from the rich to the lower income households** by using taxes collected to **increase the income** of the **lower-income** earners, hence reducing the income inequality between the rich and the poor in Singapore. As a result, the Gini Coefficient values are **lower** after accounting for transfer payments and tax as shown in Figure 1. [1]

(b) With the aid of a diagram, comment on the validity that a “minimum wage would become the maximum wage” for Singaporean low-skilled workers according to Extract 2. [4]

Diagram [1]

Figure 1: Minimum wage for low skilled Singaporean workers



- Referring to Figure 1, the effective **minimum wage (W_m)** is one that is legally established and has to be **above the equilibrium wage (W_e)**.
- As Singapore cuts back on foreign low skilled workers as mentioned in Extract 2, it could result in **higher demand** for local low skilled workers, shifting the demand curve from DD_0 to DD_1 [1] and W_m is now a **lower wage than the new equilibrium** [1] and **appears** to be a maximum wage.
- But the **disequilibrium** means a **shortage of labour** [1] and will **push W_m to the new W_1** and hence, the comment “minimum wage would become the maximum wage” would be **invalid**.

(c) Explain why the implementation of a minimum wage, “despite the concerns raised, it’s a win-win for workers, for employers, as well as the economy” [6]

Economic Agents	Concerns raised (2m) (any two)	But still a win-win (4m)
Workers	A minimum wage can result in retrenchment due to the surplus of labor in the labor market [1] and previously employed workers to lose their jobs.	<p>However, since the quantum that WP is proposing is only about 27 per cent of Singaporeans’ median income, job losses would not be an issue as research has shown a minimum wage lower than 50 per cent of the median income would not have an adverse impact on jobs. [1] (this answer is not really economic analysis but it is an important evidence (research) in the case material)</p> <p><i>1st mark for any reasonable justification of why job losses is not a concern</i></p> <p>AND Higher wages lead to higher standard of living, purchase more goods and services. [1]</p> <p>OR Can link it back to part (a) how wages will increase ultimately to new equilibrium due to lack of foreign workers. [1]</p>

		<i>2nd mark for any benefits to workers</i>
Employers	It can mean higher cost of production [1] for the employers which will reduce their profit levels.	Given that “many job openings remain to be filled” as mentioned in Extract 2, the introduction of a minimum wage will benefit employers as more people, especially women and older Singaporeans will be encouraged to join the workforce and fill up these vacant job openings – speed up the hiring process and <u>cut costs</u>. [1] OR With lower turnover rate and more Singaporeans encouraged to join the workforce, employers will find it easier to find replacement for job positions and lesser cost will be incurred to keep hiring and retraining workers [1].
Economy	There might be wage push inflation [1] assuming the productivity of the low skilled Singaporean workers is not better than the foreign workers.	Higher wage motivates workers, hence increasing the productivity and that will increase long-run aggregate supply and thus higher potential growth. [1]

(d) Discuss the likely effectiveness of the measures that are taken to counter the problems that arise from asymmetric information in the labour market. [8]

Introduction

- Asymmetric information in the labour market prevents the most suitable candidate from being hired for a job, preventing desirable transactions taking place or labour from being hired.
- Signalling and screening processes can be put in place to counter these problems and their effectiveness shall be discussed.

Body

(1) Briefly explain asymmetric information between employers and employees.

- There is asymmetric information in the labour market as employers and potential employees do not have the same amount of knowledge regarding the potential employee’s true skill set.
- Often, the potential employee has an incentive to exaggerate his or her true qualifications in order to get the job during an interview.

(2) Briefly explain how this leads to adverse selection and moral hazard, link to resource misallocation

- This results in adverse selection in which not the most suitable candidate being selected for the job, and employers may end up hiring under-qualified workers, resulting in misallocation of resources in the labour market.
- Also, it can lead to moral hazard after the candidate is hired for the job. Since it may be costly for employers to monitor employees continuously, they have the tendency to not fulfil their job responsibilities and or perform satisfactory work and still get paid, resulting in wastage of resources.

(3) Solutions aimed at equalising information:

Measures (Define)	Evidence and analysis	Limitations
Signalling It is the attempt by the informed side of the market to communicate information that the other side would find valuable.	<i>Extract 3 mentioned that ‘top workers might signal their talents to firms by collecting gongs, like college degrees’</i> Qualified candidates might be able to send a signal to potential employers that indicates that they are good potential hires. Completing college and earning a degree signals to potential employers a desirable attribute and the possibility of higher productivity and ability to work better.	<i>Extract 4: “...this only works if the signal is credible: if low-productivity workers found it easy to get a degree, then they could masquerade as clever types...”</i> <i>Extract 5: “...Recruiters have long complained that degree scores fail to give employers a true picture of a candidate’s potential...”</i> However , signalling will not solve an adverse selection problem if it is unprofitable for high ability candidates to signal or if both high and low ability candidates send the same signal, so that the signal is worthless to the employers. High ability workers well qualified for a job may not afford to get educated and obtain a degree to signal to potential employers of their ability. Similarly, low ability workers may well afford a

		college degree but may not necessarily fit the job requirements.
Screening The party with less information 'acquires' useful information from the party with more information. The less informed party makes it mandatory for the more informed party to provide him with some useful information before the transaction takes place.	Employers may make potential employees go through certain aptitude tests to find out their suitability for the job. If they pass the tests, they will be hired for the job. Just like what the <i>accounting firm EY chooses to use its in-house assessment programme and numeracy tests that they believe is a more robust and reliable indicator of a candidate's potential to succeed.</i>	However , this means that employers have to incur additional costs in conducting the checks and setting up of tests.

Conclusion

Above measures at best helped to close the informational gaps between employers and employees prior to hiring but they may not necessarily solve the problem of 'mis-hiring' or not able to hire the best-fit candidate based on job requirements. Furthermore, these measures do not deal with moral hazard issue that may arise post-hiring when employees do not fulfil their job responsibilities and still get paid.

Mark scheme

L2	<p>Consolidate (Application and Analysis)</p> <ul style="list-style-type: none"> Adopts a clear conceptual framework that considers asymmetric information in the labour market and how signalling and screening help to tackle the problem. Good reference and analysis of measures mentioned in the extracts. Contains both thesis and anti-thesis responses to the question. Analysis is grounded on economic concepts and applied to the context of the labour market <i>(if only thesis or AT, cap. at L1 3m for content)</i> <i>Capped at 3m if only consider 1 measure</i> 	4 – 6
L1	<p>Knowledge and Understanding (Description)</p> <ul style="list-style-type: none"> Answer lacks the use of a clear conceptual framework that considers asymmetric information in the labour market and how signalling and screening help to tackle the problem. Contains only the thesis or anti-thesis responses to the question. Only signalling or screening is analysed Analysis contains lots of data but lacks the relevant economic concepts Analysis is not well-applied to the context of the labour market 	1 – 3
E	An unsubstantiated judgement on the effectiveness of the measures that are taken to counter the problems that arise from asymmetric information in the labour market	1m
	A substantiated judgement on the effectiveness of the measures that are taken to counter the problems that arise from asymmetric information in the labour market <i>Note: For students with analysis on 1 measure, there is no cap on evaluation mark at 1m.</i>	2m

(e) Assess the extent to which the Singapore government should pursue a more inclusive growth. [10]

Introduction

Clarify inclusive society and concerns of Singapore government

- Inclusive growth indicates a rate of growth that is sustained over a period of time. It is broad-based across economic sectors, and create productive employment opportunities for the majority of the country's population.
- Extract 1 mentions that as Singapore positions itself for the next phase of economic development, one key area of focus for policymakers will be how to make sure no one is left behind and some changes may be made to social policies to ensure a more inclusive society/growth.

Body

Singapore government should pursue a more inclusive society:

Singapore is already one the richest countries in the world – can focus on more inclusive growth

- According to Table 1, Singapore is ranked 3rd in the world in terms of PPP per capita. This suggests that an average Singaporean has high purchasing power to consume goods and services after adjusting for price differences and taking into considerations the costs of living in different countries.
- But in Extract 5, Singapore's Gini Coefficient after the redistributive effect of taxes and transfers which are meant to reduce income disparity, is worse than many other countries like US and UK. This suggests that there is a wider income disparity in Singapore as compared to them.
- Hence, more could be done to ensure the lower income households could also enjoy the higher growth.

However,

- It was stated in Extract 5 that it may not be fair to compare Singapore with other countries but rather with cities in which New York and London which have higher Gini coefficient. Big cities tend to have higher income inequality and as they attract top income earners who will worsen Gini coefficients.
- But they bring along more opportunities and create new jobs, hence high Gini coefficient is not a concern since everyone including the lower income households will benefit in terms of employment and better job prospects, thereby still able to achieve the goal of inclusive society.

Besides, Singapore already has high social mobility.

Extract 5 also suggests that the situation of inequity in Singapore might not be all that bad given the high level of social mobility. Compared to United States, Britain or the Scandinavian countries, "someone who comes from a low-income background has a better chance of making it to the ranks of the richest in Singapore". This suggests that all the existing policies are effective in supporting the low-income in moving up the social ladder and hence ensuring inclusive growth.

Pursuing a more inclusive growth achieves other goals of the government.

- Transfer payments such as wage credit scheme has redistributed income from the rich to the lower income households and has lowered the Gini coefficient as mentioned in part (a).
- Other measures such as SkillsFuture and subsidy for education have not only resulted in the decreasing trend in the Gini coefficient, they have also increased the productive capacity of the economy, leading to potential growth as the workers gain new skills and at the same time achieving a more socially desirable resource allocation for education which is a merit good.

However,

- According to Ext 3, the returns to investment in education flow to the students, but not to society at large.
- The external benefits of education might not be that significant.

Singapore government should consider the constraint and possible trade-offs

- Given a limited government budget, opportunity cost will be incurred for every decision that the government make on government expenditure.
- There are also possible trade-offs between a more inclusive growth and sustainable growth. As mentioned in Extract 1: there is a need for a "fair balance between spending on present needs and securing the interests of future generations".
- Instead of spending its limited budget on policies that mainly focus on inclusive growth, the government budget could also be put to better use in securing the interests of future generations, for example reducing environmental costs, slowing down depletion of resources (for sustainable growth) or to increase current productive capacity of the economy to ensure non-inflationary/sustained growth.

Note:

Students can mention to pursue a more inclusive growth will necessary mean higher taxes – 2% increase in income tax for the highest income earners that may have some disincentive to work. But they should also quickly realise that at 22%, it is still much lower than many developed countries and it only affects the top 2% earners and thus the disincentive to work argument will not be a big concern.

Conclusion:

- Singapore government should not pursue inclusive growth **excessively** (or should only pursue to a small extent) as many of the current policies are closing the gap of income disparity and there is high opportunity cost involved.
- Data have consistently shown that the current inequitable situation in Singapore is not as serious as what the Gini coefficient indicates and in fact, we have very high level of social mobility compared to other developed countries.
- Moreover, existing policies like Wage Credit Scheme and SkillsFuture have successfully lowered Singapore's Gini Coefficient. Therefore, there is no need to aggressively introduce new/extreme policies such as the minimum wage which could have unintended consequences on the economy.
- **Nonetheless**, with rising concerns over income disparity, this is something that the government cannot easily push aside. Thus, it already has plans to increase income tax for the highest income group to help the elderly and lower income wage groups. Given that Singapore is already one of the richest countries in the world, the Singapore government definitely can do more to help the less privileged, to create a more inclusive society.

Mark scheme

L2	<p>Consolidate (Application and Analysis)</p> <ul style="list-style-type: none"> • Discusses well at least 3 considerations that determine whether Singapore should pursue inclusive growth to a large and small extent. Points raised are well discussed & analysed with strong & generous use of both theory and case evidence to support the arguments. • Good link between economic concepts and the evidence raised – i.e. not just lots of evidence without tying them clearly to the relevant economic concepts. 	5 – 7
L1	<p>Knowledge and Understanding (Description)</p> <ul style="list-style-type: none"> • Shows awareness of current inequity situation in Singapore but answer is highly descriptive, mainly lifting from extracts. • Lack theoretical framework • Limited range of consideration (only 1 to 2 main points) • Lopsided answer that lacks an element of discussion. E.g. only considered why Singapore should pursue inclusive growth to a large or small extent. 	1 – 4
E	<p>Evaluative Comment</p> <ul style="list-style-type: none"> • Judgement on the extent to which the Singapore government should pursue a more inclusive society. • Takes into account the circumstances surrounding the case to substantiate the chosen judgement. <p><i>For high evaluation mark, students need to address the “extent” to which govt should pursue inclusive growth.</i></p>	1 – 3