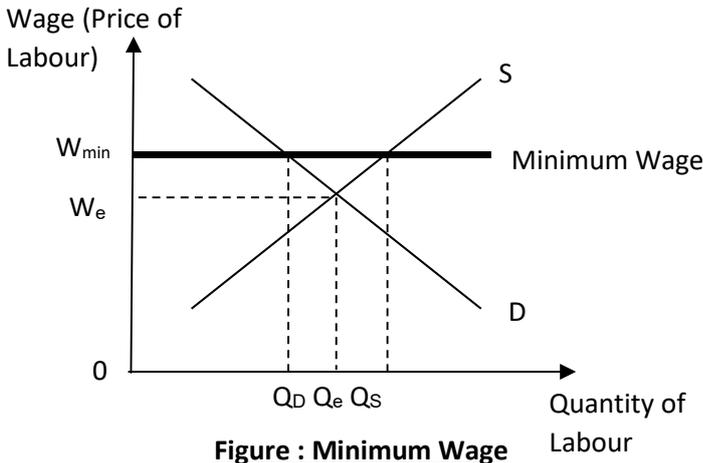


Questions

(a)	(i)	Describe the overall economic performance of the US between 2008 and 2015. [2]
		<p>Suggested Answer: Students need to use any 2 of the indicators below to suggest improved economic performance.</p> <ul style="list-style-type: none"> - improved BOT → increase in amount of exports to other countries - fall in unN → greater utilisation of labour - increase real GDP → increase in output produced - Inflation rate fell but GPL increase moderately → price stability
	(ii)	Explain how a strong US dollar would affect the economic performance of US in 2015 as shown in Table 1. [2]
		<p>Suggested Answer: Appreciation of US dollar → higher price of US's exports relative to other goods and services in the international market → fall in US's export volume. Lower price of US's imports relative to domestically produced goods → consumers switch away from domestically produced goods and services to buy more imports. Overall, net exports fall → reduce AD → lower economic growth, lower employment and worsen BOT (assuming MLC holds)</p>
(b)		Using demand and supply analysis, explain how the competition for labour is “causing inequality to get exacerbated” in wealthy countries. [4]
		<p>Suggested Answer:</p> <div style="display: flex; justify-content: space-around;"> <div data-bbox="367 1052 845 1500"> <p style="text-align: center;">Figure : High-skilled labour</p> </div> <div data-bbox="877 1052 1356 1500"> <p style="text-align: center;">Figure : Low-skilled labour</p> </div> </div> <p>- DD for high-skilled labour ↑ from D0 to D1. However, the long period of training involved in acquiring the specialised skills means that SS of high-skilled workers tends to be inelastic in the short run. With an inelastic supply S_i, the shortage created by the ↑ in demand results in a sharper ↑ in wage (W_0 to W_1) for the high-skilled workers, ceteris paribus. [2]</p> <p>- In contrast to high-skilled labour, the SS of low-skilled labour is more elastic – without any special training required, quantity supplied of such workers can be changed readily in response to changes in wage. Due to relocation of jobs out of wealthy countries, demand for low-skilled labour in the country fall from D2 to D3. Wages fall ceteris paribus, although by less than proportionate to fall in quantity supplied. [2]</p>

	<p>The sharp \uparrow in wages of the high-skilled workers and the fall in wages of the low-skilled workers lead to a widening income gap in many wealthy countries.</p> <p>Max 3m – if no use of elasticity of supply</p>
(c)	<p>With the use of a diagram, explain an argument for and against the implementation of a minimum wage as mentioned in Extract 7. [4]</p> <p>Suggested Answer:</p>  <p style="text-align: center;">Figure : Minimum Wage</p> <p>Argument For: A government imposes a minimum wage at W_{min} to prevent the wage from falling too low in order to protect the low-skilled workers' income. [1]</p> <p>Arguments Against: [2]</p> <ul style="list-style-type: none"> - At the minimum wage W_{min}, quantity supplied of labour is greater than quantity demanded ($Q_S > Q_D$), creating a surplus of labour. Thus, unemployment will increase. Given that the demand and supply of low skilled labour are both price elastic, it is likely that the minimum wage will cause significant number of workers to be unemployed. - Less incentive for workers to upgrade skill and knowledge, hence workers will become more inefficient in the long run. - Increases firms' unit cost of production assuming labour productivity remains constant \rightarrow lowers profitability of firms <p>1 m – correct diagram with explanation</p>
(d)	<p>Discuss the impact of globalisation of labour on various groups of economic agents in developing countries. [8]</p> <p>Suggested Answer:</p> <p><u>Impact on producers</u></p> <p>(+) increased outsourcing to developing countries \rightarrow increase scale of production \rightarrow ability to reap internal EOS e.g. technical EOS – cost savings enjoyed raises level of profits, ceteris paribus</p> <p>(+) transfer of knowledge and better production methods \rightarrow improve productivity \rightarrow lower unit cost of production \rightarrow higher profitability</p> <p>(+) increased outsourcing \rightarrow increase demand for firms' services \rightarrow increase in TR and profits, ceteris paribus</p> <p><u>Impact on consumers</u></p>

(+) movement of low-skilled jobs from developed to developing countries → higher DD for low-skilled and hence higher wages of low-skilled in developing countries + higher employment → higher household income and purchasing power → higher ability to afford more goods and services → higher material SOL

Impact on government/economy

(+) increase price competitiveness of exports due to EOS enjoyed by firms → increase export volume → increase AD

(+) higher investments in new production facilities by firms from developed countries → increase AD + transfer of technology and skills from developed countries → increase productivity of labour in developing countries → increase productive capacity → increase LRAS.

→ increase in AD and LRAS → increase RNY, employment and material SOL

(+) Improve poverty and lower income inequality as lower-skilled workers' income increase → govt may spend less on welfare payments to low-income group

Evaluation

While globalisation of labour largely benefits the different economic agents in developing countries in the short term, they may face potential backlash from developed economies in the long term because globalisation of labour has exacerbated the income inequality in developed countries by depressing the wages of low-skilled workers. So, if the developed countries seek to adopt the protectionist trade policy to block the outsourcing of labour to protect their lower-skilled workers, this would reduce the extent of gains for developing countries. Hence, developing countries may need to reduce reliance on the outsourcing from developed countries.

Mark Scheme

L2	Well-developed answer on the impact on 3 different economic agents in developing countries. Max 5m for impact on only 2 economic agents.	4-6
L1	Undeveloped explanation of the impact on the different economic agents in developing countries. Max 3m for impact on only 1 economic agent.	1-3
E1	Provide an evaluation on the extent of the impact on the economic agents of developing economies that is based on economic reasoning.	1-2

(e) Extract 9 mentioned that Singapore has shifted towards inclusive growth.

Discuss whether US should follow Singapore's approach towards growth. [10]

Suggested Answer:

US is facing slow growth and rising income inequality. It is important to note that there is a trade-off between higher econ growth and lower income inequality (Extract 7: "reducing income inequality may slice off a little of the GDP growth"); efforts to reduce income inequality means less resources are allocated to achieve higher economic growth → forgoing a higher level of growth that could potentially be achieved.

Yes, US should focus more on achieving **inclusive** growth rather than rapid growth

- US's income inequality has increased over the years (extract 6) → would slow down long-term growth further because lower income group suffer from poor health and low productivity and cannot invest in education (extract 8) hence slow down rise in AS.

- A little more redistribution might improve economic growth (extract 8). Since lower income group has higher MPC than higher income group, increasing the income of the lower income group can achieve higher level of C to spur economic growth.
- improve income inequality → reduce inequitable distribution of resources

No, US should focus more on generating economic growth rather than lowering income inequality

- US is still experiencing slow growth (extract 6) and unemployment is still rather high (Table 1) - there is room for further improvement in economic growth and employment
- Explain benefits of growth such as higher material SOL that could be enjoyed by the citizens when their household income increases. Once higher economic growth is attained, US can still achieve inclusive growth through progressive income tax and redistribution.
- Anyway, some degree of income inequality is needed to propel growth (extract 8). The existence of large financial rewards would incentivise people to engage in risky entrepreneurship and innovation which could drive greater investments → increase AD and AS → achieve higher actual and potential economic growth

Conclusion/ Evaluation

- For a developed country such as US, it is difficult to pursue high growth rates - current 2.6% GDP growth rate is considered satisfactory (while not as good as pre-2008 recession period, but at least GDP growth has been improving) → should focus on lowering income inequality to achieve more inclusive growth like Singapore

- While SG is able to provide \$8 billion Pioneer Generation Package to help the older citizens due to its large amount of reserves, it is more difficult for US to pursue inclusive growth due to its large fiscal deficits (Table 1 shows increasing govt debt as a percentage of GDP). So, increased spending to support the lower income group through transfer payments could add further strain on US govt budget. The tax rate in US is already at a higher rate and over-taxing could contribute to severe disincentive to effort.

- US can achieve higher econ growth and lower income inequality at the same time given appropriate govt policies e.g. investment in information and communications technology and investments on human capital through education and training

Mark Scheme:

L2	Well-developed and balanced answer that provided arguments for and against US achieving lower income inequality vs higher economic growth. There is consideration of the possibility of trade-off between lower income inequality and higher economic growth. Answer is well-contextualised with use of case evidence.	5-7
L1	Undeveloped explanation on the arguments for and against achieving lower income inequality vs higher economic growth. Answer is not contextualised, with little use of case evidence. Max 4m for a developed, one-sided answer.	1-4
E1	Provide an evaluation on whether US should follow SG's approach to achieve inclusive growth that is based on sound economic reasoning.	1-3

[Total: 30]

