

Question 1

Moving towards a more inclusive growth

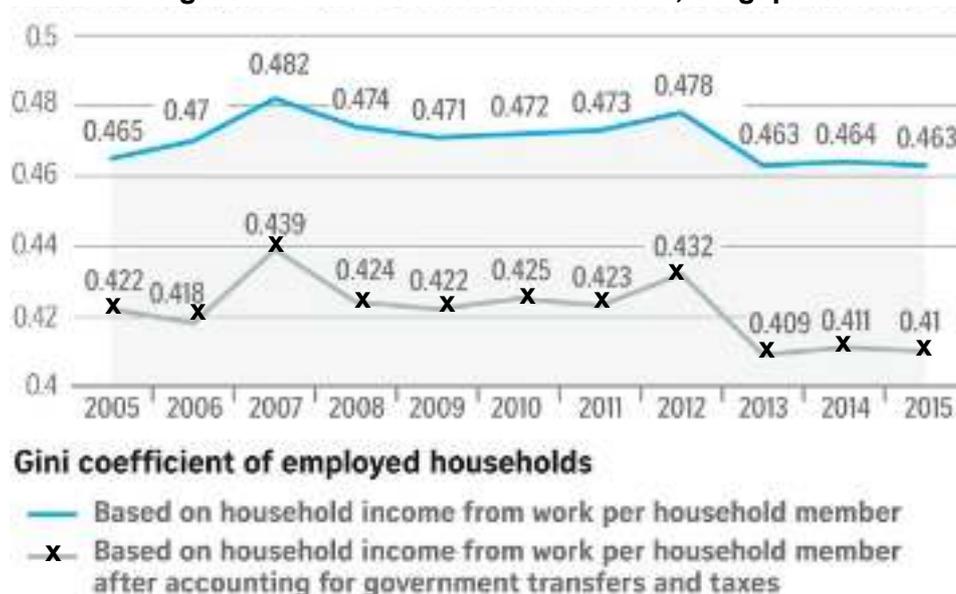
Extract 1: Ensuring that economic growth in Singapore is more inclusive and sustainable

As Singapore positions itself for the next phase of its economic development, one key area of focus for policymakers will be how to make sure no one is left behind. Several key measures have been put in place in recent years, chief among them Wage Credit Scheme and SkillsFuture. Under the Wage Credit Scheme, the government co-funds 40 per cent of wage increases given to citizens earning a monthly income of \$4,000 and below. As for SkillsFuture, it is a programme that pays for Singaporeans to learn new skills. Besides these two policies, the government has also made a good education available to all by subsidizing primary to tertiary education for residents to level the playing field.

Economists say some changes may be made to social policies in the coming years to ensure a more inclusive society. But, as with every policy decision, there will be tough trade-offs and the government is likely to stand by its position that there has to be a fair balance between spending on present needs and securing the interests of future generations. The government has to balance the desired rate of economic growth to take into account the country's current productive capacity, the environmental impact as well as equitable distribution of income.

Source: *The Straits Times*, 27 Sep 2015

Figure 1: Gini Coefficient 2005 – 2015, Singapore



Source: *Department of Statistics, Singapore*

Extract 2: Minimum wage viable in Singapore

With the Workers' Party (WP) coming out strong with its minimum wage proposal for Singaporean low skilled workers, questions have surfaced about its viability, such as possible job losses and whether the minimum wage would become the maximum wage. WP's East Coast GRC candidate Gerald Giam said that it is timely to introduce a minimum wage as Singapore is cutting back on the inflow of foreign low skilled workers. Besides, 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. The quantum that WP is proposing — at S\$1,000 for the first few years, before rising gradually to S\$1,250 — is about 27 per cent of Singaporeans' median income.

Noting that many job openings remain to be filled, he said the introduction of a minimum wage will encourage more people, especially women and older Singaporeans, to join the workforce since wages will be higher. This in turn will reduce employee turnover and motivate workers to work harder, which are beneficial to employers and the economy. "Despite the concerns raised, it's a win-win for workers, for employers, as well as the economy," Mr Giam said.

Source: *Today Online*, 5 Sep 2015

Extract 3: Asymmetric information in the jobs market

In the labour market, textbooks mostly assumed that employers know the productivity of their workers—or potential workers—and, thanks to competition, pay them for exactly the value of what they produce. However, in the real world, employers may struggle to tell which job candidates are best. Michael Spence, Nobel laureate in economics, showed that top workers might signal their talents to firms by collecting gongs, like college degrees. Crucially, 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. This idea turns conventional wisdom on its head. Education is usually thought to benefit society by making workers more productive. If it is merely a signal of talent, the returns to investment in education flow to the students but not to society at large.

Source: *The Economist*, 23 July 2016

Extract 4: Ernst and Young no longer consider degrees

One of Britain's biggest graduate recruiters, Ernst and Young (EY), a global accountancy firm, announced that it will no longer consider degree or A-level results when assessing potential employees. The company said it had made the decision to change the application rules after an independent study rated its in-house assessment programme and numeracy tests as "a robust and reliable indicator of a candidate's potential to succeed".

Maggie Stilwell, EY's managing partner for talent, said she hoped the new policy would "open up opportunities for talented individuals regardless of their background and provide greater access to the profession". It has been welcomed by many in the universities sector. Malcolm Trobe, deputy general secretary of the Association of School and College Leaders, said: "Academic qualifications will always be vitally important but companies often want to ensure that the people they employ have strengths and skills they specifically require for their business. For too long social background has affected an individual's likelihood of working in a higher level occupation like accountancy. We applaud Ernst and Young for this effort to make its employment practices fairer."

Source: *The Independent*, 3 Aug 2015

Extract 5: Singapore ranked among the world's most unequal countries

Measured by its Gini coefficient, Singapore is among the world's most unequal countries. In 2015, Singapore's Gini coefficient is 0.412 after taxes and transfers is worse than the US (0.39), the OECD's scores for the UK (0.351), Australia (0.325) or Germany (0.290). However, the comparison may be unfair: Singapore is also a city, and New York and London all have higher Gini coefficients than it does. Studies have shown that within the same country, income inequality can be expected to be higher in major cities. One reason given is larger cities attract rich households because they reward their skills more highly than smaller cities – a "superstar effect" in "superstar cities". As a result, Prime Minister Lee Hsien Loong thinks Singapore should not fret overly about its inequality rankings. "If I can get another ten billionaires to move to Singapore," he said in 2013, "my Gini coefficient will get worse but I think Singaporeans will be better off, because they will bring in business, bring in opportunities, open new doors and create new jobs."

Nonetheless, to address the rising concerns of income inequality in the country, Deputy Prime Minister and Finance Minister Tharman Shanmugaratnam announced in the 2015 budget that the top-tier income tax rate would be increased by 2 percentage points to 22 per cent for income earned in 2016 with taxes to be paid in 2017 and the proceeds would be used to subsidise senior citizens and low-income earners. Adding on, he said social mobility "has to be part of our Singapore identity", as he sketched out the government's efforts to build a fair and inclusive society. "Social mobility is the defining challenge in every advanced country today. We're fortunate that Singapore has so far done relatively well. It is actually still a more fluid society than most." Someone who comes from a low-income background has a better chance of making it to the ranks of the richest in Singapore than in the United States, Britain or the Scandinavian countries. Among young adults in their mid-20s to early 30s in Singapore, 14 per cent of those from families in the poorest one-fifth have moved into the top one-fifth of income earners, he said. This compares with 7.5 per cent in the US and 9 per cent in Britain.

Source: Various, 2015

Table 1: World ranking of top 10 countries by PPP per capita (USD), Year 2015

World Ranking	Country	PPP per capita (USD)
1	Qatar	88,222
2	Luxembourg	81,466
3	Singapore	56,694
4	Norway	51,959
5	Brunei	48,333
6	United Arab Emirates	47,439
7	United States of America	46,860
8	Switzerland	41,950
9	Netherlands	40,973
10	Australia	39,764

Source: *International Monetary Fund*

Questions

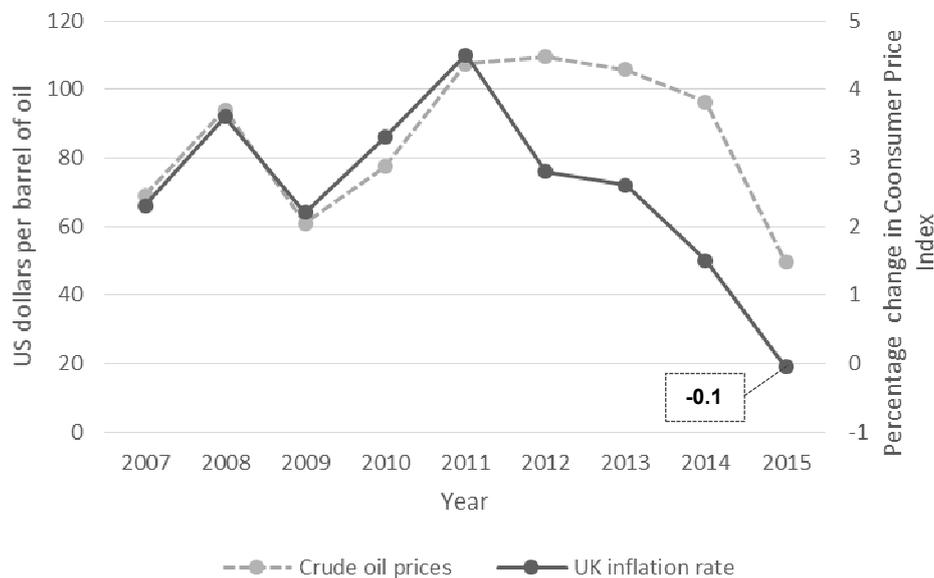
- (a) Identify and explain the measure mentioned in Extract 1 that has resulted in the difference between the two Gini Coefficients as shown in Figure 1. [2]
- (b) With the aid of a diagram, comment on the validity that a “minimum wage would become the maximum wage” for Singaporean low-skilled workers according to Extract 2. [4]
- (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]
- (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]
- (e) Assess the extent to which the Singapore government should pursue a more inclusive growth. [10]

[Total: 30]

Question 2

Oil prices and deflationary impacts on various countries

Figure 2: Crude oil prices and UK inflation, 2007–2015



Source: OPEC, Office for National Statistics

Extract 6: Falling oil prices: Who are the winners and losers?

Global oil prices have fallen sharply over the past seven months, leading to significant revenue shortfalls in many energy exporting nations, while consumers in many importing countries are likely to have to pay less to heat their homes or drive their cars.

From 2010 until mid-2014, world oil prices had been fairly stable, at around \$110 a barrel. But since June prices have more than halved. The reasons for this change are twofold - weak demand in many countries due to insipid economic growth, coupled with surging US production.

Russia is one of the world's largest oil producers, and its dramatic interest rate hike to 17% in support of its troubled rouble underscores how heavily its economy depends on energy revenues, with oil and gas accounting for 70% of export incomes. Russia loses about \$2bn in revenues for every dollar fall in the oil price, and the World Bank has warned that Russia's economy would shrink by at least 0.7% in 2015 if oil prices do not recover.

For most of Europe and Asia, lower oil prices may be a blessing. With Europe's flagging economies characterised by low inflation and weak growth, any benefits of lower energy prices would be welcomed by beleaguered governments. A 10% fall in oil prices should lead to a 0.1% increase in economic output, say some.

China, which is set to become the largest net importer of oil, should gain from falling prices. However, lower oil prices won't fully offset the far wider effects of a slowing economy. India imports 75% of its oil, and analysts say falling oil prices will ease its current account deficit. At the same time, the cost of India's fuel subsidies could fall by \$2.5bn this year - but only if oil prices stay low.

Source: BBC, 19 January 2015

Extract 7: UK slips into deflation

The UK has officially slipped into deflation for the first time in more than half a century, but economists and policy makers are not concerned, saying that a brief period of gently falling prices is more likely to help growth than harm it.

Prices, as measured by the consumer prices index (CPI), fell by 0.1% because of the slide in global oil prices, which has reduced the cost of imports. It is not just the price of oil that is falling; so are the prices of most commodities. Now that prices of consumer essentials like food and energy are stagnant or falling, many households are finally getting a boost in living standards as purchasing power of incomes rise. Many, including pensioners, should benefit. Moreover, deflation will help the country to fully restore export competitiveness. Bank of England Governor Mark Carney has consistently said that any period of negative inflation is likely to be temporary, and will not morph into the pernicious deflation seen in countries such as Japan.

However, while the data should not be mistaken for “damaging deflation”, Chancellor George Osborne cautioned, “We have to remain vigilant to deflationary risks even when our system is well equipped to deal with them should they arise.” Deflationary expectations create a vicious cycle of falling prices and wages which shrinks an economy as households put off consumption in anticipation of lower prices. This leads to bankruptcies, firms selling off unprofitable branches, higher unemployment and output decline. Meanwhile, the Trades Union Congress general secretary, Frances O’Grady, commented, “The first period of negative inflation in over half a century could signal that there’s something very wrong with the recovery.” David Kern, Chief Economist at the British Chambers of Commerce, said: “(The) recent trade and manufacturing figures have been disappointing, and ongoing global uncertainties, especially in the emerging markets, reinforce our view that the recovery is fragile, and no risks should be taken.”

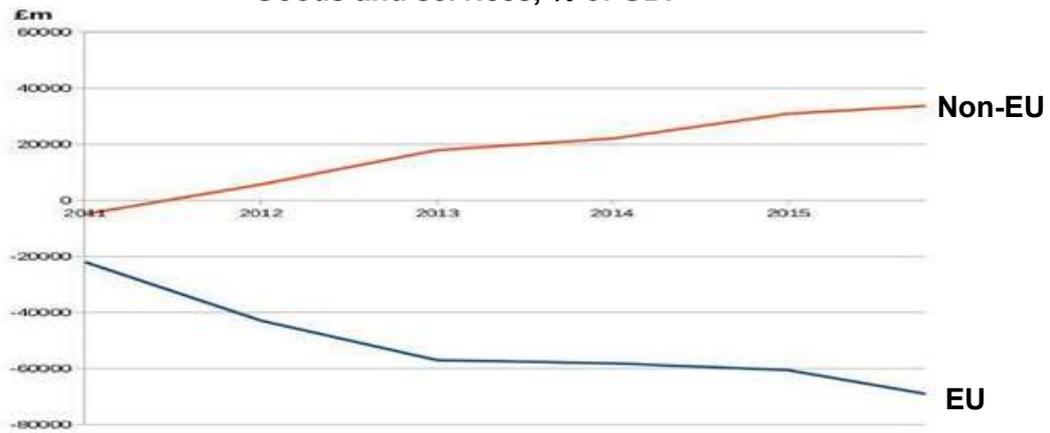
Source: Various, 2015

Extract 8: Eurozone threat to the UK

Deflationary forces have been kicking up turbulence in Europe. The European Central Bank wants to weaken the euro so Europe will be more competitive with other countries. Currently, the euro has hit an 11-year low against the U.S. dollar. The Eurozone price falls are very bad news for Britain due to the UK’s massive 6% current account deficit. All other things being equal, a weakening euro will widen that deficit further. Or to put it another way, the European Central Bank’s putative cure for Eurozone deflation is to export it to the UK. At the same time, the UK has huge aggregate indebtedness (household, business and government debt as a share of GDP or national income). If serious deflation took hold in the UK, she would experience a hideous combination of economic stagnation and growing doubts about her ability to service her huge debts. Hence the President of the European Central Bank’s supposed cure for the Eurozone’s economic woes could be toxic for the UK.

Source: Adapted from *BBC News*, 8 January 2015

**Figure 3: The UK's balance of trade with EU and non-EU countries
Goods and services, % of GDP**



Source: Office of National Statistics

Table 2: UK Economic Statistics, 2012 – 2015

	2012	2013	2014	2015
GDP growth (%)	1.313	1.911	3.07	2.194
Unemployment (%)	8.0	7.6	6.2	5.4
Government budget (% of GDP)	-4.97	-4.91	-4.01	-3.15
Current Account (% of GDP)	-3.67	-4.39	-4.66	-4.28

Source: OECD; Office of National Statistics

Questions:

- (a) (i) State the relationship between crude oil prices and the UK inflation rate in Figure 2. [1]
- (ii) With the help of a diagram, explain why the supply factor rather than the demand factor is more likely to cause the fall in crude oil prices. [3]
- (b) Explain why a fall in crude oil prices would impact the economic growth of countries differently. [4]
- (c) Explain the impact of Russia's "interest rate hike to 17%" on the rouble. [2]
- (d) Explain why pensioners benefit from a period of deflation. [2]
- (e) Discuss the extent to which small firms with high levels of competition are more likely to shut-down than big firms with less competition with the onset of deflationary pressures. [8]
- (f) Discuss whether the UK government should be worried about the impact of domestic and Eurozone deflation on its economy. [10]

[Total: 30]

[END OF PAPER]

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 Kristian Behrens and Frédéric Robert-Nicoud; *Do cities widen the gap between the rich and the poor?*; World Economic Forum; 24 July 2014
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