

## 2017 H2 Prelim Paper 2

- 4 In 2016, Singapore's GDP at 2010 prices grew by 2 per cent, the unemployment rate rose slightly to 2.1 per cent while the inflation rate stood at negative 0.5 per cent. The external demand, supported by both merchandise exports and services exports, grew at a slower pace of 1.6 per cent.
- (a) Explain how the above economic indicators can be used to assess Singapore's economic performance. [10]
- (b) Assess the usefulness of the above economic indicators as measures of changes in standard of living in Singapore. [15]

### **Part (a)**

#### **Introduction**

Economic performance can be assessed in terms of attaining the macroeconomic goals of the country, such as sustained economic growth, low level of unemployment, low inflation rate and healthy balance of payment. Economic performance can be internal or external, and it can be measured via key economic indicators such as Gross Domestic Product (GDP) and unemployment and balance of payments (BOP).

#### **(i) Real GDP growth**

The first indicator to assess Singapore's economic performance is the Gross Domestic Product (GDP). GDP refers to the value of all final goods and services produced within a given country during a given period of time. In order to see how fast Singapore economy is growing we look at the real GDP growth rates. In 2016, Singapore's real GDP as seen by GDP at 2010 prices, grew by 2 percent. The data indicates that the GDP figures has taken inflation into account as given by  $\text{Real GDP growth (\%)} = \text{Nominal GDP growth (\%)} - \text{Inflation rate (\%)}$ . Hence, the positive GDP growth rates indicates that the overall output level has increased. As such there is an increase in production of goods and services and higher employment opportunities. However, while the positive real GDP growth reflects Singapore experiencing economic growth, a 2 per cent increase, shows that Singapore experiencing slow economic growth as it could be lower than desired. While this suggest that Singapore has averted a recession, which is a contraction of the economy, such subdued growth rates is probably an indication that the economy is facing some economic challenges and that firms and consumers might not be too optimistic about spending and the government will need to monitor the situation more closely to ensure economy does not slip into a recession, which means that the goal of sustained economic growth is not achieved.

#### **(ii) Inflation rate**

Secondly, inflation rate is also a key economic indicator. Inflation rate is measured by the percentage change in Consumer Price Index (CPI). The goal of a government is to maintain price stability, i.e. low inflation rate, in the economy by ensuring there are no excessive increase in prices. A moderate increase in prices is desired as stable prices improves economic outlook and it can aid the process of economic decision making by firms and households and is thus conducive to economic growth. Therefore, the inflation rate of negative 0.5 per could be a great cause of concern as it is a sign that the Singapore economy is not doing well and that deflationary pressures are

present. The Singapore government is keen to prevent deflation from taking root in the economy as it can have undesirable spillover effects on an economy. For example, if the price of goods and services is consistently dropping, consumers would probably delay purchasing these items until the price was as low as possible. Delayed spending results in fewer sales and less revenue for businesses, which in turn reduces the demand for labour and thereby increases unemployment. This can weaken the Singapore economy even further, leading to a fall in economic growth.

### **(iii) Unemployment rate**

While the primary indicator used is the real GDP growth rates, the level of unemployment is an important indicator for economists to assess economic performance as the level of unemployment indicates whether the economy is fully utilising her resources. At 2.1 per cent, Singapore's unemployment rate is relatively low in comparison to other countries. This suggests that Singapore is probably not experiencing high cyclical unemployment that usually occurs with a recession, which Singapore is not experiencing, as seen by the real GDP growth rates. However, this needs to be compared to Singapore's general unemployment trends. In this regard, this figure is an increase from the previous figures which tends to be below 2 per cent. This probably is an indication of rising structural unemployment as the Singapore economy is currently undergoing major restructuring as it shifts to more knowledge-based and technology-intensive types of production. Therefore this figure, besides indicating that the economy is can do more in utilising its resources fully, might also provide further insights to the nature of unemployment the Singapore economy is facing when compared to its long term trend, which will aid the government in developing policies to address the root problems of unemployment more specifically.

### **(iv) Export growth**

Lastly, while BOP is not given the Singapore government can use the data on merchandise exports and services exports to assess the external performance of the Singapore economy, especially in terms of export competitiveness. As merchandise exports and services exports grew at a slower pace of 1.6 per cent, it indicates that externally Singapore may not be performing well as export demand is not growing sufficiently. As Singapore's economy is driven by external demand, a slowdown in export growth will have serious implications on its economic growth and employment and weaken its exchange rate, which can have other undesirable consequences on a small and open economy like Singapore, particularly in terms of imported inflation. Hence, this data will inform the government of the need to have measures to boost the demand for exports and strengthen the Singapore dollar.

### **Conclusion**

In conclusion, while Singapore's real GDP growth suggests that the economy is still growing, the slow pace of growth, with further support from the other indicators suggests that Singapore's economy might not be performing well. Therefore, there is a need for the government to be more active in managing the economy to improve its economic performance.

**Suggested Mark Scheme (9757)**

Level	Descriptor	Marks
L3	Clear explanation, using economic analysis, of how 3 of the indicators can be used to assess economic performance in the context of Singapore.  Only internal performance indicators – max 8	8- 10
L2	Some explanation of how the indicators can be used to assess economic performance in context of Singapore. .  Or  Well-developed explanation of 2 indicators.	5- 7
L1	Some knowledge of the use of the indicators. Little reference to context and little explanation.	1- 4

**Suggested Mark Scheme (9732)**

Level	Descriptor	Marks
L3	Clear explanation, using economic analysis, of how 3 of the indicators can be used to assess economic performance in the context of Singapore.  Well-developed explanation of 2 indicators - max 7	7- 10
L2	Some explanation of how the indicators can be used to assess economic performance in context of Singapore. .	5- 6
L1	Some knowledge of the use of the indicators. Little reference to context and little explanation.	1- 4

## **Part (b)**

### **Introduction**

Standard of living refers to the level of economic and social well-being, or the average quality of life of a population which includes the material and non-material aspects of life where *material aspects* include the quantity and quality of goods and services available for consumption. *Non-material aspects* include the environment which one lives (e.g. number of working hours, leisure hours, quality of physical environment, life expectancy etc.)

### **Usefulness of selected indicators in indicating changes in SOL**

The data given in the preamble is useful to measure changes in SOL in Singapore in the following ways:

#### **(i) Real GDP growth**

- Changes in real GDP is useful in showing changes in material SOL in Singapore. For example, real GDP growth as by growth of GDP at 2010 prices which is 2 per cent, can provide some indication that there is an increase in material SOL in Singapore in this case. As real GDP refers to the total value of final goods and services produced within a country with effects of inflation eliminated, an increase in the real GDP figure reflects increase in the quantity of goods and services produced. This implies an increase in the quantity of goods and services available for consumption for the households and hence higher material SOL in Singapore. (Note that since real GDP growth rate is provided, inflation rate is not needed for the assessment of changes in SOL)
- The higher level of real GDP also indicates higher income and purchasing power which will allow the households in Singapore to have greater ability to access quality healthcare services and education hence an increase in non-material SOL.

#### **(ii) Unemployment rate**

- The fairly low unemployment rate, which has been constant at around 2 per cent indicates that most in the Singapore labour force are able to get a job which then enables them to earn an income. This means that the Singapore government is able to continue its collection of tax revenue. This can be used by the Singapore government to spend on developmental projects like building a more reliable and efficient rail network. This leads to a higher non-material SOL as individuals do not need to endure the hassle and stress of travelling in congested roads and have greater assurance that they can get to their destinations on time. Additionally, the relative ease in getting jobs may also mean the stress from being unemployed is greatly reduced, leading to a rise in non-material well-being of the average person.
- However, rising unemployment rate would mean that those that more workers in the labour force are out of a job and this can mean a loss of income for these individuals. As a result, standard of living for this group of workers could have fallen instead.

### **Limitations of the selected indicators in measuring SOL in Singapore**

However, the usefulness of the above indicators in measuring changes in SOL in Singapore may be limited due to the following reasons:

(Focus on need to take into account population changes and at least one other limitation)

#### **Real GDP growth rates does not take into account population changes**

The use of total (also known as 'gross') GDP does not give one much insight into living standards in a country. Over longer time periods, the use of gross GDP to measure economic growth or living standards over time also becomes less meaningful given that population changes are likely to happen. An increase in gross GDP could be due to each worker producing more (and hence generating more income), or by the economy having more workers due to population growth. A better indicator to assess changes in material SOL is real GDP per capita. This indicator is obtained through dividing real GDP by the population size. . Given that Singapore has a low population growth rate that is consistently below 2 per cent, then real GDP per capita has increased and it indicates that there is an increase in the average income, implying an increase in the material SOL of the average Singaporean.

#### **Inaccuracies in calculation of GDP**

One possible reason why the usefulness of real GDP per capita is limited is inaccuracies that can arise from calculating GDP. When an activity takes place in the hidden economy/informal economy, wages are being paid to those working and hence they may enjoy a reasonably high material standard of living, which is not accounted for in GDP statistics. The size of the hidden economy may change over time. For example, it may change due to changes in enforcement of income tax reporting, (for example on part time taxi drivers or tuition teachers), or growth in informal sectors attracting workers. In this case, the actual GDP figures would understate the material SOL as those in the informal sector would be earning wages, enabling them to purchase goods and services.

#### **Composition of not taken into account**

As the increase in exports of goods and services in Singapore, as seen from the preamble, has also contributed to an increase in real GDP it might not be accurately reflect an increase in SOL. Without a corresponding increase in consumption, living standards might not increasing as consumption gives citizens' satisfaction and not exports which would increase the satisfaction level of someone elsewhere who is purchasing the good, i.e. a foreigner.

#### **Changes in income distribution is not taken into account**

Other than real GDP per capita, there is a need to use other indicators like the Gini coefficient to measure income distribution. This is because if the higher output produced could be consumed only by a minority group with the means to afford the goods, then the average person in the country is not necessarily better off and there might not be a rise in an average Singaporean's material SOL. Hence the Gini coefficient helps to assess if there is equity (in terms of fairness and ease of access to goods and services) in the distribution of the increased output. A rise in the Gini coefficient value reflects rising income inequality in Singapore and is likely to reflect

that the SOL for the average person might not have increased. Hence, changes in real GDP per capita has be complemented by Gini coefficient data to provide more accurate assessment of how SOL has changed in Singapore.

(Note: limitations of employment rate can also be accepted)

### **Difficulties of measuring SOL with use of economic indicators**

#### **Qualitative aspect of SOL not fully captured**

The qualitative aspect of SOL cannot be captured by output or income figures as the average person's well-being is not determined solely by the quantity of goods and services he can consume. Thus there is a need to look at qualitative indicators like the number of leisure hours the average person enjoys, personal freedom, access to education and health care etc. The qualitative aspect of life will rise if the average individual enjoys better work-life balance, and is able to find time pursue his interests. Likewise, the increased accessibility to healthcare services like health check-ups, vaccinations will also lead to higher non-material SOL of the average person as he becomes healthier.

#### **Conclusion**

Of all the indicators, real GDP growth rates is the most useful indicator and is useful to some extent in measuring changes in standard of living in Singapore, especially that of material aspect. However, a better indicator which be changes in real GDP per capita. However its usefulness can be limited due to the other limitations mentioned above. It is not sufficient and needs to be complemented with an indicator to measure income distribution like the Gini coefficient and other qualitative indicators such as hours worked, crime rates, life expectancy, healthcare, to capture changes in non-material SOL.

**Suggested Mark Scheme (9757)**

<b>Knowledge, Application/Understanding and Analysis</b>		
<b>L3</b>	A well-developed analysis, supported with the good use of examples, of the usefulness and limitations of the indicators in measuring SOL in Singapore.	<b>8-10</b>
<b>L2</b>	An underdeveloped, descriptive explanation of the usefulness and limitations of the indicators in measuring SOL in Singapore.  One-sided answer – Max 7 Without the use of examples – max 6	<b>5-7</b>
<b>L1</b>	For an answer shows some basic knowledge of the usefulness or limitations of the indicators.	<b>1-4</b>
<b>Evaluation</b>		
<b>E3</b>	An insightful evaluation that uses analysis to support a judgement on usefulness of the indicators in measuring SOL in Singapore.	<b>4-5</b>
<b>E2</b>	Some attempt at evaluation or conclusion about usefulness of indicators in measuring SOL in Singapore.	<b>2-3</b>
<b>E1</b>	For an answer that gives unsupported evaluative statement(s).	<b>1</b>

**Suggested Mark Scheme (9732)**

<b>Knowledge, Application/Understanding and Analysis</b>		
<b>L3</b>	A well-developed analysis, supported with the good use of examples, of the usefulness and limitations of the indicators in measuring SOL in Singapore.	<b>9-11</b>
<b>L2</b>	An underdeveloped, descriptive explanation of the usefulness and limitations of the indicators in measuring SOL in Singapore.  One-sided answer – Max 7 Without the use of examples – max 6	<b>6-8</b>
<b>L1</b>	For an answer shows some basic knowledge of the usefulness or limitations of the indicators.	<b>1-5</b>
<b>Evaluation</b>		
<b>E2</b>	An insightful evaluation that uses analysis to support a judgement on usefulness of the indicators in measuring SOL in Singapore.	<b>3-4</b>
<b>E1</b>	For an answer that gives unsupported evaluative statement(s).	<b>1-2</b>