

CSQ Question 1

(a)	Using data from Table 1,	
	<p>(i) Compare the balance of trade position of UK, China and Singapore.</p> <p>China and Singapore's balance of trade were in surplus while UK's balance of trade was in deficit. [1m]</p> <p>Balance of trade surplus (as a % of GDP) for Singapore was larger than for China. [1m]</p>	[2]
	<p>(ii) Assess the usefulness of the given key economic indicators in comparing living standards between countries.</p> <p>SOL includes both the quantitative (material) and qualitative (non-material) aspects.</p> <ul style="list-style-type: none"> Explain how real GDP indicates material SOL and how it can compare living standards between countries [1m] <p>GDP measures the total monetary value of all final goods and services produced within the geographical boundary of a country, usually in a year. By comparing countries' GDP growth rate, we can see which economy is growing, stagnating or declining. When this indicator is further adjusted for inflation to give real GDP growth, it can be used to analyse differences in material SOL between countries as a higher real GDP growth rate would mean that the purchasing power of an individual from that country is higher. Real GDP growth rate in China was the highest at 5.5%, while Singapore and UK registered relatively slower growth rates at 2.4% and 2.15% respectively. Hence one may infer that the purchasing power of residents in China was the highest.</p> <ul style="list-style-type: none"> Explain how life expectancy data/CO₂ emissions data can be used to compare non-material SOL [1m] <p>Life expectancy at birth refers to the average number of years that a newborn may expect to live for. It can be used as a proxy for the quality and accessibility of healthcare in a country. A higher life expectancy in countries such as the UK and Singapore, with life expectancy of more than 80 years, suggests that individuals in these countries have more timely and high quality healthcare, as compared to China at 76. Hence, statistics on life expectancy at birth can be used to compare non-material standard of living between countries.</p> <p>OR</p> <p>Data on CO₂ emissions showed that China has lower emissions compared to Singapore. However, the data is measured in terms of per capita, and China's population size is so many times larger than Singapore's. Thus the data may not accurately reflect air quality and thus non-material SOL between the countries.</p> <ul style="list-style-type: none"> Explain limitations in real GDP data /non-mat SOL data/ Evaluative statement[2m] <ul style="list-style-type: none"> no data on population size not adjusted for differences in cost of living <ul style="list-style-type: none"> therefore should use PPP adjusted real GDP per capita to compare material SOL between countries <p>However, there are several limitations in using real GDP data to compare SOL between countries. This is because of differences in population size and cost of living between countries. While China registered the highest real GDP growth rate, China also has the largest population amongst the 3 countries, many times larger in fact. Thus real GDP growth rate does not allow comparison of material SOL for the average person between countries.</p> <p>Furthermore, even if data on population size is available, real GDP figures do not correct for differences in cost of living. For example, the amount of US\$ needed to buy the same basket of goods and services in Singapore is probably a lot more than that required in China because the cost of living in China is very much lower than Singapore's. Thus, even if Singapore has a higher real GDP per capita than China, it does not necessarily mean that Singapore residents would have a higher material</p>	[4]

		<p>standard of living as the cost of living may be a lot higher. Hence, there is a need to use PPP-adjusted GDP figures as it reflects the relative costs of goods and services in various countries.</p> <p><u>Evaluation/Conclusion</u> Overall, the key economic indicators in Table 1 are not useful in comparing living standards between countries because of insufficient data presented.</p>	
(b)	(i)	<p>With reference to Extract 1, identify the changes in UK's patterns of trade.</p> <p>UK's major trade partners have changed from traditional EU countries to increasingly more from non EU countries such as China. [1m]</p> <p>There is also a change in the types of goods that UK exports. Exports of lower technology goods have fallen while exports of pharmaceuticals, machinery and services are growing. [1m]</p>	[2]
	(ii)	<p>Using your own knowledge, explain how the theory of comparative advantage can explain the change(s) identified in (b)(i).</p> <p>An economy is said to have a comparative advantage over another in the production of a good if it incurs a lower opportunity cost in producing the good or service.</p> <p>The theory of CA can explain why UK's exports of pharmaceuticals and services are increasing as the comparative advantage that a country enjoys can change over time. This could be due to changes in factor endowment, efforts to improve production techniques or deliberate government policies to create new areas of comparative advantage.</p> <p>The UK government could have invested heavily in the development of the pharmaceuticals and services sectors to help their domestic industries acquire a new comparative advantage. This could be done by encouraging upgrading of skills and conduct of research and development in these sectors. As the skills of the labour changes, the opportunity cost of continuing to produce lower technology goods start to increase while the opportunity cost of producing "high technology manufactures" falls. This has contributed to a gain in comparative cost advantage in the production of high end manufactured goods such as pharmaceutical products and explains for the rise of such goods amongst UK's exports.</p> <p>However, while the theory of CA can explain the change in the type of goods that UK exports, it may not explain the change in who the UK trades with. The change in UK's major trading partners is more likely due to the different economic growth performance and growth model experienced by the UK and its traditional as well as new trading partners.</p>	[4]
(c)	(i)	<p>With reference to Extract 3, discuss whether the "shifting trade flows" is the most significant challenge facing the Singapore government in achieving inclusive economic growth.</p> <ul style="list-style-type: none"> Define inclusive economic growth actual growth, potential growth, income equity, creates productive employment opportunities for the majority of the country's population, income distribution <p><u>P1 (Shifting trade flow may be a significant challenge in achieving inclusive economic growth)</u></p> <ul style="list-style-type: none"> Shifting trade flows (China moving to own sources of FOPs) → Loss of CA in re-export industries → widen income gap between those in sunrise (service industry) and sunset (changes in demand of different groups of workers and thus wages) "shifting trade flows" reduce net exports and AD and reduce actual growth <p><u>P2: (Other factors may be more significant challenges in achieving inclusive economic growth)</u></p> <ul style="list-style-type: none"> Explain how "disruptive change" cause structural unemployment → technology changes and with no upgrading skills → demand for lower skilled workers fall while demand for higher skilled workers increase → widen income gap → challenge in achieving inclusive economic growth 	[8]

	<ul style="list-style-type: none"> Explain how “lacklustre global growth” → fall in income of trading partners reduce net exports and AD and reduce actual growth Explain how “protracted Oil Price Slump” → fall in income of oil producing industries → fall in incomes of workers in these industries → $C \downarrow$ → Fall in AD <p>Evaluation</p> <p>take a stand on whether ‘shifting trade flows’ is the most significant challenge in achieving inclusive economic growth</p> <ul style="list-style-type: none"> While the other reasons could also cause UnN, disruptive change widens the income gap not only between those who are employed and unemployed, but also between those with skills that are in demand and those without → therefore more difficult to achieve inclusive economic growth <table border="1"> <thead> <tr> <th colspan="3">Knowledge, Application, Understanding, Analysis</th></tr> </thead> <tbody> <tr> <td>L2</td><td>Balanced and well developed answer on challenges to achieving inclusive growth in Singapore. . Limited reference to extract evidence</td><td>4-6</td></tr> <tr> <td>L1</td><td>Brief explanation on challenges to achieving inclusive growth Singapore. Many conceptual errors</td><td>1-3</td></tr> <tr> <td>E2</td><td>Evaluation based on economic analysis</td><td>2</td></tr> <tr> <td>E1</td><td>Mere statement without economic analysis</td><td>1</td></tr> </tbody> </table>	Knowledge, Application, Understanding, Analysis			L2	Balanced and well developed answer on challenges to achieving inclusive growth in Singapore. . Limited reference to extract evidence	4-6	L1	Brief explanation on challenges to achieving inclusive growth Singapore. Many conceptual errors	1-3	E2	Evaluation based on economic analysis	2	E1	Mere statement without economic analysis	1	
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(ii)	<p>Discuss the policy options that the China and Singapore government have put in place to achieve sustained and inclusive growth respectively.</p> <ul style="list-style-type: none"> Sustained growth: actual growth, potential growth Inclusive growth: actual growth, potential growth, income equity, creates productive employment opportunities for the majority of the country’s population, income distribution <p>China</p> <p><i>Policies: Expansionary MP + Expansionary FP/SSP</i></p> <p>Perspective 1 H (Expansionary MP):</p> <ul style="list-style-type: none"> “cut interest rates six time” → Fall in cost of borrowing → C and I increase → AD increase → actual growth Increase in I → increase in qty of capital goods → increase in productive capacity → potential growth <p>H(Expansionary FP/SSP):</p> <ul style="list-style-type: none"> Increase G and reduce T (Extract 3: “Expanding the budget deficit”) → increase in AD → actual growth Increase G on infrastructural projects → increase quality of FOP → increase in productive capacity → potential growth <p>Actual + Potential Growth → sustained growth</p> <p>A(Expansionary MP):</p> <ul style="list-style-type: none"> Large domestic market (Extract 3: “Chinese companies are increasingly sourcing from within the country”) → increase in C and I will significantly affect AD <p>Perspective 2 L(Expansionary MP):</p> <ul style="list-style-type: none"> l/r has already been cut six times → may be unable to cut further (liquidity trap) <p>L (Expansionary FP/SSP):</p> <ul style="list-style-type: none"> May run into budget debt → increase in T in the LR (Extract 4) → reduce C and I → reduce AD 	[10]															

Evaluation

Short Run: MP and FP are key as there is spare capacity in the Chinese economy (“factory overcapacity and property inventories”). Focus should be on boosting AD rather than LRAS

Long Run: Once China has transitioned to be a domestic driven economy and nearing Y_f → need to focus on improving LRAS to prevent overheating

Singapore

Policies: Supply side policy (Skills future, workfare, tax policies)

Perspective 1**H (Skillsfuture):**

- subsidies for skills upgrading for workers → improves productivity → lowers COP → increases SRAS → actual growth
- Increase productivity → Increase productive capacity → increase LRAS → potential growth
- Able to produce higher quality products → Increase demand for X → AD increases → actual growth
- Improving the skills of workers → reduce impact of disruptive change (Extract 3) on lower skilled workers → helps mitigate the impact of structural UnN → improves equity

H (Tax Policy):

- Providing subsidies for public services (healthcare) to lower income → enables essential services to be made available and affordable to low income households → improves equity

H (Workfare):

- Income tax credits → increases disposable income for low income households → mitigates income gap → improves equity

Actual growth + potential growth + improved equity → Inclusive growth

A(Skillsfuture):

- Improving quality of exports can also make our exports less substitutable → less susceptible to shifting trade flows and global income changes (extract 3) → fall in AD will be smaller → smaller negative impacts of growth in the long run

Perspective 2**L(Skillsfuture):**

- Difficult to change mindset
- No guarantee that training will translate to increased productivity
- The success of the policy depends on how quickly workers can change their mindsets and strive to learn new skills.

L(Workfare and Subsidies):

- **Need to increase T in the LR → reduce AD → Link to growth**

Evaluation

Productivity growth in the past few years have still been low, thus signalling that the past programmes to improve productivity does not have its desired impacts yet.

Mark scheme		
L2	Good explanation on the policies adopted by China and Singapore to achieve sustained and inclusive growth respectively.	5-7
L1	Brief explanation on the policies adopted by China and Singapore to achieve sustained and inclusive growth respectively. May contain conceptual errors	1-4

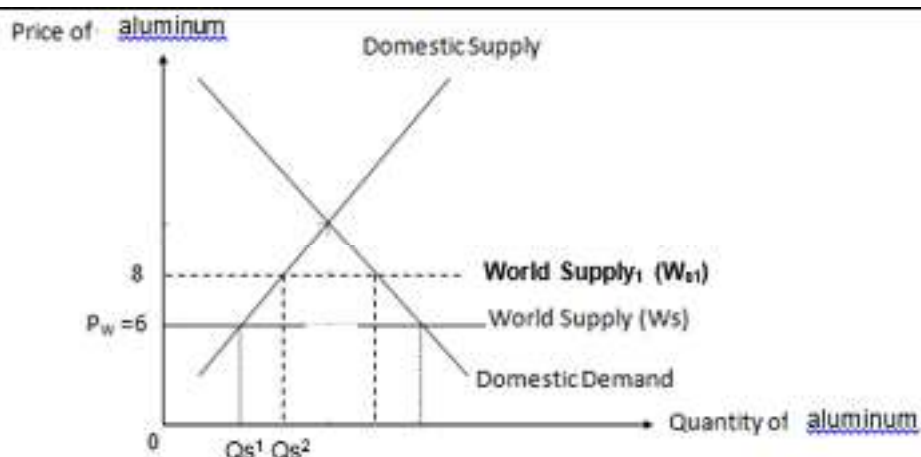
			Answers that only cover either Singapore / China will be capped at 4m		
			Evaluation		
		E2	Evaluation based on economic analysis (Which policy is better)	2-3	
		E1	Mere statement without economic analysis	1	

CSQ Question 2

(a)	(i) Describe the trend in China's aluminium production levels between 2010 and 2015 shown in Table 2.	[1]					
	China's aluminium production levels have increased between 2010 and 2015.						
	<p><u>Marker's comments</u> Some students stated that the production levels for China increased from 100 to 195. That is incorrect. 100 and 195 are index numbers and do not reflect actual production levels. All students can tell is that production levels have increased by 95% between 2010 and 2015 but the absolute levels of aluminium produced cannot be determined.</p>						
	(ii) With reference to Extract 5, explain a possible reason for the trend in China's aluminium production levels between 2010 and 2015 shown in Table 1.	[2]					
(b)	<p><u>Demand Reason + Evidence</u> Increased demand for cars and the aluminium content in cars. Demand for aluminium is derived from the demand for cars. As the demand for cars increases, carmakers will require more aluminium to produce cars and this leads to an increase in demand for aluminium and hence, an increase in production levels.</p> <p>OR</p> <p><u>Supply Reason + Evidence</u> Improvement of production methods. With the improvement of production methods and higher levels of productivity, this will lead to a lower cost of production and an increase in profitability for firms to produce aluminium. Hence, this results in an increase in willingness and ability to produce aluminium and this is represented by an increase in supply. Hence, this leads to an increase in production levels.</p>						
	(i) Explain whether data from the extracts support the claim that "Chinese companies are dumping aluminium on international markets" (Extract 6).	[4]					
	<p>Dumping is the practice of selling exports at prices below its marginal cost of production.</p> <p>To decide if "<i>Chinese companies are indeed dumping aluminium on international markets</i>" (Extract 6), it is necessary to find out if the low prices of aluminium sold in foreign markets are a result of deliberate government support or true comparative advantage.</p> <p><u>Perspective 1: data from the extracts support the claim</u> Extract 6 mentions that the Chinese government has provided tremendous subsidies, "opaque" tax rebates and cheap loans to the companies. These allow them to price their aluminium at artificially low prices, possibly at levels even below their original marginal costs of production. Hence, the data supports the claim that Chinese companies are dumping aluminium on international markets.</p> <p><u>Perspective 2: data from the extracts does not support the claim</u> However, Extract 6 also mentions that Chinese companies have the advantage of low-cost labour over their international rivals. This suggests that Chinese companies do have a comparative advantage in producing aluminium and the low prices are due to lower input costs (such as wage) due to the abundance of resources (such as workers) in China. As such, these companies are not dumping aluminium.</p>						
	(ii) Assess the likely impacts of an increase in tax rebates on Chinese exported aluminium products on consumers, employees and producers in other countries like India.	[10]					
	<p>With an increase in tax rebates, this will lead an increase in production levels by Chinese firms and an increase in the quantity of exported aluminium products to India due to the fall in costs of production for Chinese aluminium firms.</p> <table border="1"> <thead> <tr> <th></th><th>Positive impacts</th><th>Negative impacts</th></tr> </thead> <tbody> <tr> <td>Impact on consumers (price, quantity, variety, consumer surplus)</td><td>Chinese firms can export a greater amount of aluminium to India and Indian car manufacturers will be able to enjoy lower costs of production which may be passed on to consumers in terms of lower prices.</td><td>In the long run, if the relatively lower prices imposed by Chinese firms lead to Indian aluminium producers shutting down, these Chinese firms may no longer have the incentive to charge lower prices.</td></tr> </tbody> </table>		Positive impacts	Negative impacts	Impact on consumers (price, quantity, variety, consumer surplus)	Chinese firms can export a greater amount of aluminium to India and Indian car manufacturers will be able to enjoy lower costs of production which may be passed on to consumers in terms of lower prices.	In the long run, if the relatively lower prices imposed by Chinese firms lead to Indian aluminium producers shutting down, these Chinese firms may no longer have the incentive to charge lower prices.
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	Alternative perspective: Producers of cars as consumers of aluminium (profits)	In the short run, consumers of goods that depend on aluminium as a factor of production (such as car manufacturers) will be able to enjoy lower prices.	Producers of cars that depend on aluminium will now face a higher cost of production which may then be passed on to consumer in terms of higher prices.															
	Impact on producers (profits or $TR < TC$)	If Chinese firms are dumping aluminium into the Indian market, this allows car producers to enjoy a lower cost of production. Ceteris paribus, this will lead to a higher level of profits for the car producers.	With a fall in demand of Indian aluminium due to how price of its substitute, Chinese aluminium is cheaper, Indian producers face a fall in equilibrium price and quantity and thus total revenue. Ceteris paribus, profits fall. In the long run, if the fall in revenue persists, producers of cars that depend on aluminium as a factor of production will now face a higher cost of production if Chinese firms start to raise prices. Suppose that the demand for cars is price elastic since there are usually public transport substitutes, then the rise in price may lead to a more than proportionate decrease in quantity demanded for cars and revenue earned by producers fall.															
	Impact on employees (wages, employment, SOL)	With the increase in production of cars, producers employ more factors of production including labour, leading to a fall in dd-deficient unemployment. Also when DD for labour increases, there would be an increase in the wage rate in the labour market, ceteris paribus.	In the long run, income earned by employees in both the aluminium industry and related markets may start to fall. Also, there will be a higher incidence of unemployment in this sector.															
	Evaluation: Impact on the different economic agents in India would largely depend on whether India is heavily dependent on imported aluminium from China. Since China is one of the world's largest producers of aluminium, it is likely that the impacts will be significant. However, the likelihood for the impacts to be negative would depend on the success of the Indian government in mitigating the level of imported aluminium from China.																	
<table><tr><th colspan="3">Mark Scheme</th></tr><tr><td>L2</td><td>Balanced and well developed answer on how each economic agent may be affected by the increase in tax rebates in China.</td><td>5-7</td></tr><tr><td>L1</td><td>Brief and under-developed explanation on how the economic agents may be affected by the increase in tax rebates in China. Impact on one or more economic agents may not have been analysed by the student.</td><td>1-4</td></tr><tr><td colspan="3"></td></tr><tr><td>E</td><td>Evaluation based on economic analysis. Students should make a comment about how each economic agent may be affected on balance, based on the analysis provided.</td><td>1-3</td></tr></table>				Mark Scheme			L2	Balanced and well developed answer on how each economic agent may be affected by the increase in tax rebates in China.	5-7	L1	Brief and under-developed explanation on how the economic agents may be affected by the increase in tax rebates in China. Impact on one or more economic agents may not have been analysed by the student.	1-4				E	Evaluation based on economic analysis. Students should make a comment about how each economic agent may be affected on balance, based on the analysis provided.	1-3
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(c)	(i)	With the use of a relevant diagram, explain the impact of an import tariff on the level of domestic aluminium production in India.																

[3]



The import tariff raises the world price of aluminium from \$6 to \$8 and this is represented by the **upward shift of the world supply curve** from W_s to W_{s1} .

With this increase in price, domestic aluminium producers in India will be incentivized to increase production according to the law of supply and **quantity supplied increases from Q_{s1} to Q_{s2}** .

(ii) **Explain how price elasticity of supply for domestic aluminium production affects the extent of impact of the import tariff.**

[2]

Price elasticity of supply (PES) of aluminium refers to the degree of responsiveness of quantity supplied of aluminium to a given change in price of aluminium, ceteris paribus.

If the value of PES is more than 1, it is likely that the **rise** in the price of aluminium due to the import tariff will lead to a **more than proportionate increase** in **quantity supplied** by domestic producers, ceteris paribus.

OR

If the value of PES is less than 1, it is likely that the **rise** in the price of aluminium due to the import tariff will lead to a **less than proportionate increase** in **quantity supplied** of aluminium, ceteris paribus.

(iii) **Vietnam and India face different issues due to the increase in production levels of aluminium.**

Discuss whether imposing import tariffs on aluminium in India will address these issues faced by both countries.

[8]

	Yes	No
Reduce unemployment in India	<p>Since $PES > 1$ for aluminium production due to the increase in flexibility in the production process (Extract 1), the higher prices due to the import tariff will lead to a more than proportionate increase in quantity supplied of domestic aluminium production.</p> <p>As Indian aluminium producers increase their production levels, this will lead to an increase in the derived demand for labour. Thus, the import tariffs will lead to a lower level of demand deficient unemployment in India.</p>	<p>Import tariffs may lead to higher unemployment in other sectors of the economy due to higher costs of aluminium (as a factor of production).</p> <p>Import tariffs may lead to retaliation and feedback effect on the Indian economy, thus worsening unemployment.</p>
Address/Reduce negative externality	Due to the imposition of import tariffs, this will lead to a reduction in the	Imposition of import tariffs may not necessarily lead to a large fall in

<p>due to the production of bauxite, which is a factor of production for aluminium</p>	<p>quantity of aluminium imports as imported aluminium become less price competitive. Ceteris paribus, there will be a fall in the derived demand for bauxite.</p> <p>As production of bauxite falls, this leads to a lower level of negative externalities produced.</p>	<p>aluminium production in China. China may also be exporting aluminium to larger markets such as the USA. Hence, derived demand for bauxite may not fall significantly.</p> <p>Producers are not forced to internalise the external cost to the environment. Deadweight loss is still created due to the production of bauxite.</p>
<p>Evaluation:</p>		
<p>It is more likely that the imposition of the import tariff will address unemployment in India than the negative externalities in Vietnam as externalities will only be eliminated if production is reduced to zero (which is unlikely). Furthermore, even if import tariffs may be effective in addressing unemployment in India, this may only be the case in the short run. In the long run, these import tariffs may be perceived to be protectionist and may invite retaliation from other countries, thus worsening unemployment in India.</p>		
<p>Mark Scheme</p>		
L2	Balanced and well developed answer on how the issues in both India and Vietnam may be addressed.	4-6
L1	Brief and under-developed explanation on how the issues in both India and Vietnam may be addressed. Issues are not identified correctly.	1-3
E		
	Evaluative comments are provided on how the issues of negative externalities in Vietnam and unemployment in India may be addressed by the import tariffs in India.	1-2