Catholic Junior College

JC2 Preliminary Examinations

Higher 3

ECONOMICS

Paper 1

9809/01

28 Aug 2017

3 hours 15 minutes

READ THESE INSTRUCTIONS FIRST

Write your name, class and question number on **all** the work you hand in.

Write in dark blue or black pen on both sides of the paper.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use highlighters, glue or correction fluid.

Begin each essay on a new sheet of paper.

Section A

Answer **all** questions.

Section B

Answer **two** questions.

At the end of the examination, fasten your work securely together.

Submit each essay **separately**.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **6** printed pages and **0** blank pages.

Section A

Answer **all** questions from this section

1 **Disruptive Technology**

Extract 1: We know what we want, but how do we get there?

Among all the economic issues we are dealing with, slower growth, helping people to upgrade, strengthening social safety nets - the defining challenge which we face in this era is disruption. Things are changing fast, old models are not working, new models are coming thick and fast and we are having to adjust and to keep up.

I shall just use the familiar example of the taxi business. Uber and Grab are private car hire services. They compete with taxis in cities all over the world. How does Uber and Grab work? They grab data from users. They analyse the travel patterns, they adjust the charging to match supply and demand. They are disrupting the taxi industry but commuters are benefitting. Better service, more responsive, faster. But taxi companies and drivers find their business affected. In some cities like London, or Sydney, or Jakarta, or Paris, the drivers have staged protests, blockades. They want the governments to protect their existing ways of doing business. What do we do in Singapore? We can respond to disruptive change like this in two ways. We can close ourselves off, try to stop people from using the new technology. We impose restrictions, we protect their old ways, the taxi companies and we force everybody to stick to that. But we will be left behind and our commuters will lose out and our economy will suffer. The other way is to embrace change. Let the disruption happen. Let the commuters enjoy better service but help the incumbents and especially help the taxi drivers to adapt to the changes. That is what we are doing. We are updating the rules to foster fair competition while protecting commuters. We require all the drivers whether taxis, Uber, Grab or anybody else to have the right insurance, you must have clean records.

As we adjust the rules, the companies will have to adapt and they can adapt. Our taxi drivers have been level-headed about the competition. Some welcomed the competition because now that they can go to the other side, the taxi companies are taking the taxi drivers more seriously and responding with better offers, new technology, enabling them to compete. On the other side, we also talked to the new operators and the new operators tell us, it is not so easy to compete in Singapore because unlike other cities, in Singapore, the taxi business is quite efficient. It is competitive, the drivers work hard and so, they have to work hard to get their share of the pie. So there is competition.

So the same thing is happening in other industries as well, like retail. Shopping habits are changing, people are going online. Used to buy groceries from FairPrice. Now you can shop online, from overseas stores, Amazon, Taobao even, with wider range and often cheaper, and have it delivered to you the next day to your doorstep or maybe to lockers in your neighbourhood for online retailers like this POPStation. But it is not just doom and gloom because when you disrupt, you also create new jobs. As a transport and financial hub, if people are buying online all over Southeast Asia and Asia, we can be in that business. The goods ship through Singapore, the financing has to be done somewhere, we can be a major player in this new logistics chain. There will be new opportunities, data analytics, digital marketing.

Adapted from Singapore National Day Rally 2016

Extract 2: Grab battles Uber in South-East Asia

Scooter-drivers in bright green helmets enliven the dusk of rush hour in Ho Chi Minh City, Vietnam's commercial centre. This conspicuous fleet is carrying round clients of Grab, a

South-East Asian ride-hailing firm. Its operations, connecting travellers with taxis, private cars and motorbike taxis in six countries, straddle a swiftly urbanising region.

Uber operates in all the same countries—Indonesia, Vietnam, the Philippines, Thailand, Malaysia and Singapore—but in 20 cities compared with Grab's 34. Last year, the American firm last year abandoned its costly efforts to crack China, and sold its business there to Didi Chuxing, a local competitor which is also an investor in Grab. The deal freed up resources which Uber is now using to push deeper into Grab's territories. Fierce discounting of rides has been one result. Uber's chances of dominance in South-East Asia have increased in the past 12 months or so, because it has been improving its local strategy—from having relatively few people on the ground and a narrow range of services to selling the same broad products as Grab: taxis, private cars and two-wheeler ride-hailing.

Grab still claims to have services that are better suited to South-East Asians. Mr Anthony Tan points to its GrabHitch offering, for example. Uber doesn't offer anything as informal or low-priced. Indonesia is a key battleground: its population of 257m accounts for more than one-third of the region's people. Since launching its motorbike taxis in Jakarta in May 2015, Grab has gradually overhauled the lead formerly enjoyed by Go-Jek, a local ride-hailing business, and seems to be drawing ahead. Uber, which came late to the market, is now in third place. On February 2nd Grab said it will invest $700m into Indonesia over the next four years.

Adapted from The Economist, 9 Feb 2017

Extract 3: A tale of two cities

The markets believe yellow cabs are in trouble. The average price for New York's 13,771 medallions (licences to drive taxis) has fallen from $1m during the summer of 2014 to $690,000 over the past three months. But attributing these woes to Uber is difficult. Not all Uber passengers would otherwise have hopped in a cab—some might have taken the subway or bus, walked, cycled or stayed at home. Moreover, Uber is not taxis' only new source of competition. In 2013 the city introduced apple-green "boro taxis", which serve passengers outside the Manhattan core, and launched a bicycle-sharing scheme. Only now has the picture begun to clear up, as both Uber and New York's taxi regulator recently released detailed data. The best news for the Uber camp is that ridership has spiked since its entrance. Although Uber has not shared 2013 statistics, a leak to Business Insider, a news website, revealed an average of 140,000 Uber trips per week in December 2013. Assuming a steady compound growth rate over the two years to June 2015, that yields an estimate of 333,000 Uber rides in June 2013. Adding that to the 14.4m yellow-taxi trips that month, plus a handful of green-cab rides, produces a sum of 14.8m. In contrast, the total this June was 17.5m. This 18% increase makes clear that the market is not zero-sum.

Adapted from The Economist, 15 Aug 2015

Extract 4: The microeconomics of Uber's attempt to revolutionise taxi markets

New competitors always ruffle a few feathers. The unique thing about Uber is that it seems to have annoyed some of its customers as much as the incumbent cabbies. The problem is its "surge pricing", which can make the cost of Uber rides jump to many times the normal fare at weekends and on holidays. Gouging customers like this will eventually make them flee, denting Uber's business. Microeconomics suggests that although Uber's model does have a flaw, its dynamic pricing should be welcomed. Critics of Uber's pricing are treading a well-worn path: it seems unfair when the charges for drugs vary across countries, or, as in Uber's case, the price varies depending on the time that the journey is booked.

But price discrimination is not necessarily a bad thing. A firm offering a single price to all customers faces a trade-off: lowering prices raises sales but means offering a cut to

customers prepared to pay more. Maximising profits can often mean lowering supply: goods are not provided to cheapskate shoppers so that more can be made from high-rollers. Customers who value the good at more than it costs to produce might miss out in a one-price-fits-all system—as many punters who have tried to find a regular cab on New Year's Eve will know. Uber's price surge aims to solve this. Like many technology companies Uber is a middleman. It links independent cab drivers with customers wanting a ride in the same way that Google links searchers and advertisers or eBay links sellers and bidders. The business model only works when successful matches are made. Because price spikes raise the pay Uber's drivers receive (they get 80% of any fare, if they drive their own car) more cars are tempted onto the roads at times of high demand. Prices are high at 2am at the weekend not just because punters are willing to pay more, but also because drivers don't want to work then.

This strategy is common for firms that operate platforms or "two-sided" markets which link buyers and sellers. Firms often tilt the market to give one side a particularly sweet deal: nightclubs let women in free to justify charging men a hefty fee. The theory predicts each side's deal depends on two things: price sensitivity and how well-stocked each side of the market is. Uber's price surge fits perfectly: Friday-night revellers are hit by a double whammy since they are willing to pay up precisely when the pool of cabs is low.

The inflexibility of Uber's matchmaking fee, a fixed 20% of the fare, means that it may fail to optimise the matching of demand and supply. In quiet times, when fares are low, it may work well. Suppose it links lots of potential passengers willing to pay $20 for a journey with drivers happy to travel for $15. A 20% ($4) fee leaves both sides content. But now imagine a Friday night, with punters willing to pay $100 for a ride, and drivers happy to take $90: there should be scope for a deal, but Uber's $20 fee means such journeys won't happen. Despite the revenues a matchmaking fee generates, it may not be Uber's best strategy.

Adapted from The Economist, 29 Mar 2014

Extract 5: Is Uber a threat to democracy?

This year's Rencontres Économiques forum focused on the changing nature of work. The forum's theme was undoubtedly selected partly in response to fears that technological advances will lead to widespread unemployment. Historically, technological revolutions have eventually led to more, if different, jobs; but, with machines becoming increasingly intelligent, this time may be differentwe may need to re-build our societies so that, as intelligent machines increase productivity, the declining demand for human work has welfare-enhancing outcomes like higher (and more equitably distributed) incomes and more leisure.

Uber, is precisely the kind of disruptive company that is driving the shift. Uber's software, in a sense, does the job of thousands of Walrasian auctioneers acting locally in space and time, leading to almost perfect price discrimination. Airlines have long employed such price discrimination, offering multiple prices for the same distance flown, depending on date and time. But Uber price setting is unique in its immediacy, which it has achieved by taking full advantage of modern communications technology.
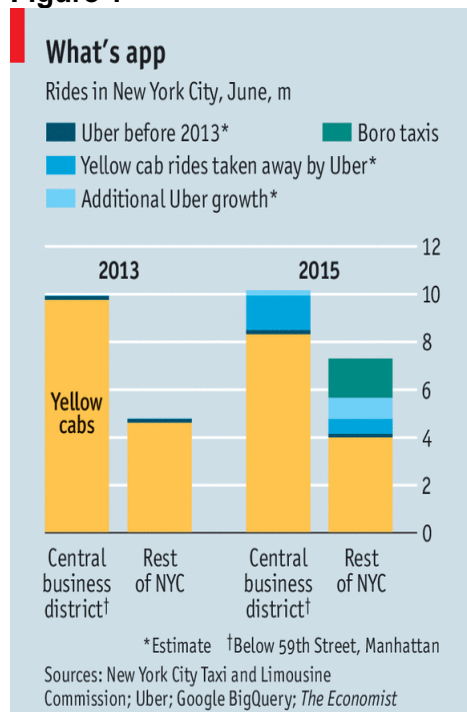
In terms of work, Uber creates more jobs than it destroys. This leads to a clear increase in efficiency and provides overall income gains. Even if losers were fully compensated, the sum of the gains – shared by the firm, its mostly part-time workers, and its customers – would far outweigh the losses. Nevertheless, there are real problems. For starters, there are the losers: traditional taxi drivers, who often have had to pay large license fees and thus cannot compete with Uber's low prices. While this problem always arises when disruptive new technologies appear, innovation and adoption are occurring faster than ever.

Another problem is regulation. Taxis produce income tax, but also value-added or sales taxes. But the UberX software has made it impossible to collect value-added tax. To level the playing field, local or national authorities should require the company to integrate tax-collection software into its app. The fact that UberX drivers, unlike taxi drivers, do not cover passenger insurance also amounts to unfair competition, and must be remedied. Moreover, in France, taxi drivers must undergo regular health and professional tests, to which UberX drivers are not subject. Like all Uber drivers, they are "monitored" by users, who evaluate them through the app after each ride. This may be a useful innovation; but it is not really a valid replacement for, say, an eye exam.

The final problem with innovative companies like Uber is that the financial returns overwhelmingly accrue to the company's leadership, rather than to the service providers. Such companies' contribution to rising income inequality – and thus to regulatory capture, media bias, and disproportionate influence in elections – cannot be ignored.

Adapted from The Brookings Institution, 23 Jul 2015

Figure 1

What's app
Rides in New York City, June, m

- Uber before 2013*
- Boro taxis
- Yellow cab rides taken away by Uber*
- Additional Uber growth*

*Estimate   †Below 59th Street, Manhattan

Sources: New York City Taxi and Limousine Commission; Uber; Google BigQuery; *The Economist*

Source: The Economist, 15 Aug 2015

Questions

a) Explain why the entrance of companies like Uber or Grab into an economy is not a zero-sum game. [6]

b) Assess the need for Singapore government to level the playing field within the taxi industry. [8]

c) Discuss if 'surge pricing' is the answer to a more efficient allocation of resources for "two-sided" markets. [8]

d) Evaluate the extent to which governments of emerging economies like Vietnam should "embrace the change" brought about by disruptive technologies . [8]

Section B

Answer **two** questions from this section

2 Discuss why it would make more sense for Economics to be based on how people actually behave. [35]

3 Firms use various strategies to gain a competitive advantage over their rivals. Discuss the impacts of these strategies on profits, efficiency and welfare. [35]

4 "The establishment of clear and well-defined property rights will lead to an efficient allocation of resources. " Discuss. [35]

5 With the advent of improved communication and technology, multinational firms have been able to expand into multiple countries. Assess the extent to which this is beneficial for different types of economies. [35]

6 "Government's budgetary position has the most significant impact on the level of economic growth of a country". To what extent is this statement valid for emerging economies? [35]

[END OF PAPER]

Suggested Answer Scheme

Section A

a) Explain why the entrance of companies like Uber or Grab into an economy is not a zero-sum game. [6]
- Explain the idea that zero-sum game is about in order for A to gain 1 B has to lose 1.
- Explain the creation of demand
- Uber may have taken over parts of Yellow Cab share but the growth of Uber outstrips the loss that Yellow Cab incurred in NYC.
- Reference to Ext 3: ' Not all Uber passengers would otherwise have hopped in a cab—some might have taken the subway or bus, walked, cycled or stayed at home.' 'an average of 140,000 Uber trips per week in December 2013. Assuming a steady compound growth rate over the two years to June 2015, that yields an estimate of 333,000 Uber rides in June 2013. Adding that to the 14.4m yellow-taxi trips that month, plus a handful of green-cab rides, produces a sum of 14.8m. In contrast, the total this June was 17.5m. This 18% increase makes clear that the market is not zero-sum.'
- Reference to data in figure too

b) Assess the need for Singapore government to level the playing field within the taxi industry [8]
- To protect the livelihood of taxi-drivers (rather than firms) there is a need for government to intervene.
- For the safety of consumers, there is also a need for Ext 1 'you must have the right insurance, you must have clean records.'
- Other impact on consumers via prices, quality, innovation
- The level of intervention is not to prevent the disruption but to help the economy cope with the disruption. Eg retraining of drivers
- Taxes (see last extract)

c) Discuss if 'surge pricing' is an answer to a more efficient allocation of resources for "two-sided" markets. [8]
- The theory predicts each side's deal depends on two things: price sensitivity and how well-stocked each side of the market is.
- Student should elaborate on the price elasticities of demand and supply
- Serge pricing will ensure both sides of the market are able to respond to the price sensitivity and also incentivise drivers to increase Qsupply at high demand periods and/or locations
- Problem of 20% cut by Uber, where the quantum gets larger with surge and longer distance. Thus increasing the distance between demand and supply
- Explain price discrimination and how it helps to achieve more AE

d) Evaluate the extent to which governments of emerging economies like Vietnam should "embrace the change" brought about by disruptive technologies. [8]

Beneficial as :
- New technology can be adopted and/or adapted for other growing industries
- Increases technological advancement which is crucial for growth (Solow/Romer)
- Citizens are able to enjoy a more efficient market for transport

Detrimental as:
- Local companies are starved of demand if Uber takes on a aggressive predatory pricing strategy
- Impact on BOP in the long run
- Pollution if there are minimal standards for transportation (cars, bikes)

Section B

2 Discuss why it would make more sense for economics to be based on how people actually behave. [35]

Introduction: In order to address 'make more sense', students should explain the purpose of economics.
- Outline central problem and the purpose of economics to study the allocation of resources in such a way that maximise the use of limited resources, i.e. attaining efficiency and equity

Thesis: In order to address 'how people actually behave', students should infer that current economic thought is based on 'how people should behave', i.e. based on economic's limited definition of rationality
- Explain how economic agents are assumed to act rationally when they subscribe to the marginalist principle and self interest
- Explain how the marginalist principle based on self-interest leads to efficient equilibrium outcomes
- Recognise how the equilibrium outcomes are only efficient based on strict assumptions (6 of them) – perfect information, perfect mobility, perfect competition, fair income distribution, rivalrous, excludable, no externalities, ceteris paribus

Anti-thesis: In order to address 'how people actually behave', students should consider the various behaviours that contradict economic's definition of rationality and its assumptions
- Sunk cost fallacy: students should explain how decisions are not based on marginal costs and benefits but average/total costs and benefits
- Saliency bias: students should explain how the assumption of perfect information can be flouted because of differences in how economic agents value information – perceived vs actual, e.g. a recent & more salient piece of information being valued more than another piece of equally valuable information; role of advertising
- Loss aversion (status quo bias): valuing the marginal cost of changing one's decision to be higher than the marginal benefit – therefore requiring a larger than required MB to change one's decision.

- Giving behaviour: differences in how consumers define the bounds of their MPC and MPB. E.g. impacts on family and friends considered to be a private cost/benefit rather than an external cost/benefit

Evaluative comment addressing 'make more sense':
- In support of the anti-thesis:
  o Making policies more effective in achieving intended outcomes – water tariffs and how the display of household consumption relative to national averages makes consumers more aware of the externalities that they are internalising when paying for usage of water -> achieve outcomes that are more efficient as opposed to not taking these 'behavioural' elements into account
  o Individual differences that cannot be overcome – e.g. in giving behaviour, in unequal dollar votes due to unequal distribution of income – and therefore the need to look at how each segment (e.g. income groups, age, population demographic) behaves differently
  o Differences in perception that cannot be overcome – market equilibriums reflect how economic agents value their status quo more than its actual worth. E.g. property resale prices vs land sale prices + producers' profits in the same location

- In support of thesis:
  o Still useful in markets where the assumptions generally hold: e.g. general agriculture market where competition is close to perfect and less susceptible to endowment effect, sunk cost fallacy (with exceptions to certain market segments: 'organic', 'grain, grass fed')
  o Useful as a benchmark to understand how economic agents deviate from the 'ideal' definition of a free market and rationality. E.g. helps government assess how far their policies are in achieving efficient outcomes
  o Prices (and price mechanism) can be distorted by many other factors (e.g. market power, advertising): these behavioural distortions are the least of economists' concerns (e.g. the ability of large phonemakers like Apple and Samsung to consolidate market share and profits amplifies the impacts of these behavioural elements and impacts of inequality, hence the fundamental issue is addressing these other distortions, so that behaviours fall in line more with the definition of 'rationality', rather than addressing the behaviours themselves)
  o (along with the above point) provide the conditions necessary for economic agents to behave rationality – 'free up' the market, make society more equal

Overall synthesis:
1. Given the current context of unequal income and resource distribution, difficult to achieve the prescribed conditions necessary for markets to be 'free'
2. Price mechanism distorted by many factors that are political and cultural that are beyond economists' domain
3. Economists should try to study how economic agents behave in these contexts rather than try to change the context/conditions to fit the necessary assumptions for markets to be free and agents to be rational.

Level Marking Descriptor

Level 3 (18-25m)	• Full grasp of implication of question
	  o Rationality vs behavioural elements that deviate from definition of rationality
	  o Conditions/assumptions required for market to be free vs

	reality
	• Clear analytic explanation of theories brought up for discussion eg sunk cost fallacy 　○ Contextualised explanation of behavioural elements and how they deviate from marginalist principle/self-interest • Coherent structure towards reasoned conclusion • Thorough knowledge of relevant facts and theory + excellent ability to present in clear, succinct and logical manner • Recognition of implication of analysis of real world problems and relevant current situations (citing real world macro/micro economic policies) 　○ Taking into account real world 'conditions' – susceptibility to behavioural elements
Level 2 (10-17m)	• Undeveloped explanation of facts and theory • Less coherent structure • Some awareness of current economic literature • Essential meaning of question but some irrelevant points, omissions or errors • Reasonably clear presentation but analysis not always sound • Recognisable structure but not altogether coherent
Level 1 (1-9m)	• Meaning of question not fully grasped • Valid points but poorly explained • Poor presentation

Evaluation

Level 3 (7-10m)	• Evaluate critically alternative theoretical explanation and concepts, contemporary issues, perspectives and policy choices 　○ Perspectives: defining the bounds of economists' concerns vs other concerns that could still affect the economists' domain 　○ Contemporary issues: income inequality vs efficiency; market power vs free market; rationality vs behavioural 　○ Weighing the significance of each issue in terms of their implications • Well-reasoned, in-depth conclusion justifying decisions and outcomes • Recognise unstated assumptions, evaluate their relevance, and synthesise economic arguments to arrive at well-reasoned judgements and decisions
Level 2 (4-6m)	• Some attempt at evaluation or conclusion that is relevant to the question but judgement not explained or is lacking sound analysis • The conclusion will be brief and poorly focused on the economic arguments, perspectives and outcomes that have been made in the body of the essay
Level 1 (1-3m)	• Limited use of evidence to weigh up the strengths and weaknesses of competing perspectives and/or argument • Conclusions and judgments will consist mainly of assertions and

	expressions of opinion

3 Firms use various strategies to gain a competitive advantage over their rivals. Discuss the impacts of these strategies on profits, efficiency and welfare. **[35]**
Answers should determine what affects competitive advantage; Michael Porter's Five Forces model can help to start the discussion. Students should explore how the threat of substitutes, threat of new entrants, power of buyers, power of suppliers, and competitive rivalry in the industry may *determine* a firm's competitive advantage in real-world industries.

Building on that, answers can explore a range of strategies to further achieve and sustain competitive advantage, such as through establishing:

- **Product differentiation strategies** with the use of advertising, branding, R&D, product innovation, patents
- **Lowest-delivered-cost strategies** with the use of process innovation, R&D, outsourcing
- **Information technology strategy**

Answers will need to show what each of the terms '**Profits**', '**Efficiency**' and '**Welfare**' (PEW) mean.

- For example, profit can refer to long-run equilibrium profits and monopoly profits.
- Efficiency can be explained in terms of productive and allocative (also known as economic), dynamic, Pareto and X-efficiencies.
- Welfare can be seen through the lens of equity, where benefits to society might be enjoyed only for a minority of the population.

Answers should as far as possible not be centered only around H2 (i.e. supernormal and normal profits, productive, allocative and dynamic efficiencies, and deadweight losses) but also include H3 ideas.

Answers should show how strategies will impact PEW.

- An approach could be to discuss how firms may engage in product differentiation strategies using advertising and showing how it will affect a firm's long run vs short run profits, how it will impact X-inefficiency, and how welfare could potentially be affected if such activities are in fact wasteful.

Potential evaluation can be based on the extent to which such strategies affect PEW, such as the extent to which such strategies work in raising profits given real-world conditions. Other evaluative comments can be centered around whether impacts are similar across various industries or whether certain factors may hinder the impacts on PEW (such as forces of globalization, existence of regulatory authorities, etc).

Level Marking Descriptor

Level 3 (18-25m)	• Full grasp of implication of question o Answers will need to explore a range of strategies to further achieve and sustain competitive advantage

	• Clear analytic explanation of theories brought up for discussion ○ Answers will need to show what each of the terms 'Profits', 'Efficiency' and 'Welfare' (PEW) mean • Coherent structure towards reasoned conclusion • Thorough knowledge of relevant facts and theory + excellent ability to present in clear, succinct and logical manner • Recognition of implication of analysis of real world problems and relevant current situations (citing real world macro/micro economic policies)
Level 2 (10-17m)	• Undeveloped explanation of facts and theory • Less coherent structure • Some awareness of current economic literature • Essential meaning of question but some irrelevant points, omissions or errors • Reasonably clear presentation but analysis not always sound • Recognisable structure but not altogether coherent
Level 1 (1-9m)	• Meaning of question not fully grasped • Valid points but poorly explained • Poor presentation

Evaluation

Level 3 (7-10m)	• Evaluate critically alternative theoretical explanation and concepts, contemporary issues, perspectives and policy choices • Well-reasoned, in-depth conclusion justifying decisions and outcomes • Recognise unstated assumptions, evaluate their relevance, and synthesise economic arguments to arrive at well-reasoned judgements and decisions
Level 2 (4-6m)	• Some attempt at evaluation or conclusion that is relevant to the question but judgement not explained or is lacking sound analysis • The conclusion will be brief and poorly focused on the economic arguments, perspectives and outcomes that have been made in the body of the essay
Level 1 (1-3m)	• Limited use of evidence to weigh up the strengths and weaknesses of competing perspectives and/or argument • Conclusions and judgments will consist mainly of assertions and expressions of opinion

4 "The establishment of clear and well-defined property rights will lead to an efficient allocation of resources. " Discuss.   [35]
- To explain coase theorem and the idea of how well assigned property rights will ease the market failure in industries that suffer from pollution.
- Consideration can also be given to industries that tap into natural resources like fishing/logging etc.
- However, there are also limitations to this method such as costs of bargaining, monitoring, enforcement etc.

- Furthermore, this may not alleviate other forms of market failure eg, non-provision of public goods, goods with positive externalities.
- Reasoned conclusion in terms of whether the definition of property rights solves the majority of inefficiencies in the various markets in a society.

Level Marking Descriptors

Level 3 (18-25m)	• Full grasp of implication of question • Clear analytic explanation of theories brought up for discussion eg, coase theorem • Coherent structure towards reasoned conclusion • Thorough knowledge of relevant facts and theory + excellent ability to present in clear, succinct and logical manner • Recognition of implication of analysis of real world problems and relevant current situations (citing real world policies)
Level 2 (10-17m)	• Undeveloped explanation of facts and theory • Less coherent structure • Some awareness of current economic literature • Essential meaning of question but some irrelevant points, omissions or errors • Reasonably clear presentation but analysis not always sound • Recognisable structure but not altogether coherent
Level 1 (1-9m)	• Meaning of question not fully grasped • Valid points but poorly explained • Poor presentation

Evaluation

Level 3 (7-10m)	• Evaluate critically alternative theoretical explanation and concepts, contemporary issues, perspectives and policy choices • Well-reasoned, in-depth conclusion justifying decisions and outcomes (ie if Behavioural economic will enhance modern day policy making) • Recognise unstated assumptions, evaluate their relevance, and synthesise economic arguments to arrive at well-reasoned judgements and decisions
Level 2 (4-6m)	• Some attempt at evaluation or conclusion that is relevant to the question but judgement not explained or is lacking sound analysis • The conclusion will be brief and poorly focused on the economic arguments, perspectives and outcomes that have been made in the body of the essay
Level 1 (1-3m)	• Limited use of evidence to weigh up the strengths and weaknesses of competing perspectives and/or argument • Conclusions and judgments will consist mainly of assertions and expressions of opinion

5 With the advent of improved communication and technology, multinational firms have

been able to expand into multiple countries. Assess the extent to which this is beneficial for different types of economies. [35]

Points of considerations:

Intro

- Definition of MNEs: A multinational or transnational enterprise is an enterprise that engages in foreign direct investment (FDI) and owns or, in some way, controls value-added activities in more than one country.
- Candidates should briefly explain:
- Globalisation and the changes (Version 1.0, 2.0 and 3.0) especially with the link to improvements in ICT;
- Motives of expansion by MNEs (Theory of CA, EOS, Control of factors of production, government incentives etc) and
- 3 broad strategies MNEs expand into other economies (vertical / horizontal integration & conglomerate)

Main Body

- Candidates should analyse the impact of Globalisation from various parameters (competitiveness, outsourcing and employment, labour mobility, capital flows, exchange rates, BOP, EG and national policies etc) with reference to both emerging and advanced economies in forming their different perspectives in arguments
- Heterogeneity of the impact of globalisation across the different economies – with advanced economies enjoying a larger share of the benefits (increasing gap in income distribution)
- Impact of globalisation on developing/emerging economies should be analysed from employment and supply-side effects
- Other possible points include:
  - o Impact of MNEs on economies (home and host countries) – BOP, employment, impact on local firms, local prices, tax revenues, technology and skills transfer, trade etc)

Synthesis

- Set criteria of analysis of the statement: _The extent to_ which globalisation and growth of MNEs benefit emerging economies over advanced economies depends on the several key factors such as:
  - o Good governance and strength of institutions
  - o Structural fit of the economy to the opportunities presented by globalisation
  - o Rate of growth of population as compared to economic growth
  - o Environmental and social impact

Level Marking Descriptor

Level 3 (18-25m)	• Full grasp of implication of question
	• Clear analytic explanation of theories brought up for discussion eg theory of CA and expansion strategies
	• Coherent structure towards reasoned conclusion
	• Thorough knowledge of relevant facts and theory + excellent ability to present in clear, succinct and logical manner
	• Recognition of implication of analysis of real world problems and

	relevant current situations (citing real world macro/micro economic policies)
Level 2 **(10-17m)**	• Undeveloped explanation of facts and theory • Less coherent structure • Some awareness of current economic literature • Essential meaning of question but some irrelevant points, omissions or errors • Reasonably clear presentation but analysis not always sound • Recognisable structure but not altogether coherent
Level 1 **(1-9m)**	• Meaning of question not fully grasped • Valid points but poorly explained • Poor presentation

Evaluation

Level 3 **(7-10m)**	• Evaluate critically alternative theoretical explanation and concepts, contemporary issues, perspectives and policy choices • Well-reasoned, in-depth conclusion justifying decisions and outcomes (ie if globalisation will benefit the emerging economies more than advanced economies) • Recognise unstated assumptions, evaluate their relevance, and synthesise economic arguments to arrive at well-reasoned judgements and decisions
Level 2 **(4-6m)**	• Some attempt at evaluation or conclusion that is relevant to the question but judgement not explained or is lacking sound analysis • The conclusion will be brief and poorly focused on the economic arguments, perspectives and outcomes that have been made in the body of the essay
Level 1 **(1-3m)**	• Limited use of evidence to weigh up the strengths and weaknesses of competing perspectives and/or argument • Conclusions and judgments will consist mainly of assertions and expressions of opinion

6 "Government's budgetary position has the most significant impact on the level of economic growth of a country". To what extent is this statement valid for emerging economies? [35]

Introduction	▪ Definition of an emerging economy ▪ Contextualisation of the various possible government budgetary positions ▪ Essay Overview
Thesis	Government's budget position impacts the level of economic growth of an emerging economy ▪ Determines the type of institution (extractive versus inclusive) that influences 'k' and 'y' in the Solow growth model → impacts economic growth

	▪ Budget affects investment in solow model and hence k as well as y→ affects the rate of growth of an economy -explain possible outcome on the economy if the govt has budget surplus -explain possible outcome on the economy if the govt. runs persistent and large budget deficit ▪ Government's budget position also helps to facilitate the diffusion and discovery of technological advancements → Romer growth theory → impacts economic growth
Anti-Thesis 1	Government's budget position will not be able to impact the level of economic growth of an emerging economy ▪ Limitations of the Solow model and Romer growth theory ▪ Government's budget position → G → only impacts AD minimally, especially for countries with a very small multiplier ▪ Degree of innovation is largely dependent on the incentive to innovate [which is non-rivalrous] and is more affected by institution than by govt. budget.
Anti-Thesis 2	Other factors can also impact the level of economic growth of an emerging economy ▪ External factors → E.g. Openness of economy; Level of exports (and export competitiveness) and investments (FDI; capital flows) ▪ Internal factors → E.g. Size of domestic market (C); Size of labour force
Synthesis	Weigh all factors Stand Justification

Level Marking Descriptor

Level 3
(18-25m)
	• Full grasp of implication of question
	    o Required to explore the various factors that have an impact on economic growth
	• Clear analytic explanation of theories brought up for discussion
	    o Solow growth model
	• Coherent structure towards reasoned conclusion
	• Thorough knowledge of relevant facts and theory + excellent ability to present in clear, succinct and logical manner
	• Recognition of implication of analysis of real world problems and relevant current situations (citing real world macro/micro economic policies)

Level 2 (10-17m)	• Undeveloped explanation of facts and theory • Less coherent structure • Some awareness of current economic literature

	• Essential meaning of question but some irrelevant points, omissions or errors • Reasonably clear presentation but analysis not always sound • Recognisable structure but not altogether coherent
Level 1 (1-9m)	• Meaning of question not fully grasped • Valid points but poorly explained • Poor presentation

Evaluation

Level 3 (7-10m)	• Evaluate critically alternative theoretical explanation and concepts, contemporary issues, perspectives and policy choices • Well-reasoned, in-depth conclusion justifying decisions and outcomes • Recognise unstated assumptions, evaluate their relevance, and synthesise economic arguments to arrive at well-reasoned judgements and decisions
Level 2 (4-6m)	• Some attempt at evaluation or conclusion that is relevant to the question but judgement not explained or is lacking sound analysis • The conclusion will be brief and poorly focused on the economic arguments, perspectives and outcomes that have been made in the body of the essay
Level 1 (1-3m)	• Limited use of evidence to weigh up the strengths and weaknesses of competing perspectives and/or argument • Conclusions and judgments will consist mainly of assertions and expressions of opinion