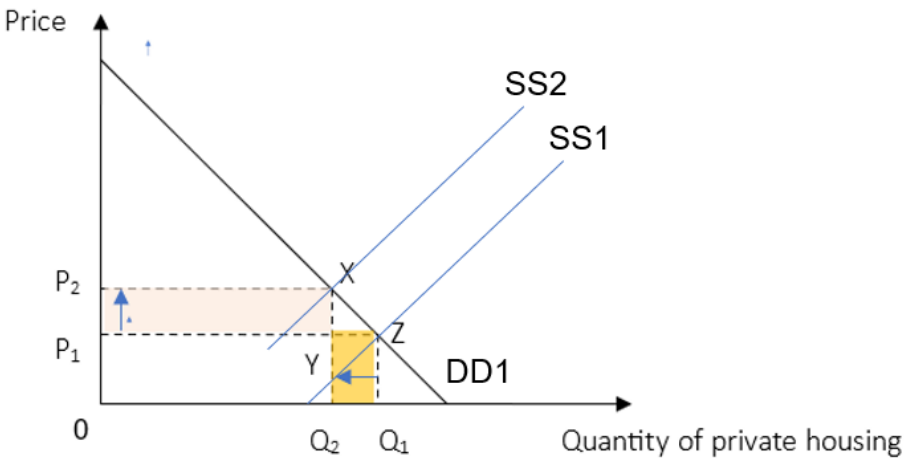
Suggested Answers

Question 1: The housing market in Singapore

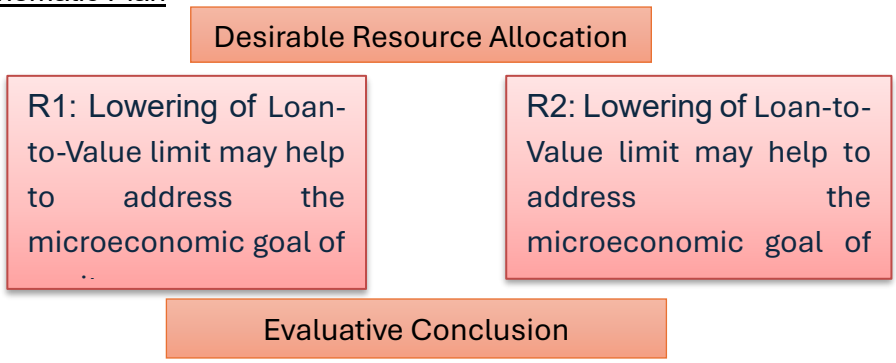
(a)		**With reference to Figure 1, compare the change in HDB resale and private homes prices in Singapore from 2016 to 2021.**	**[2]**
		Similarity: Both the prices of HDB resale and private home generally increased from 2016 to 2021. **Difference:** Prices of private homes increased at a faster rate than that of HDB resale from 2016 to 2021.	
		Examiner's Comments: **Content** **Strength:** • Most students were able to provide one similarity and one difference in the change in prices. **Areas of Improvement:** • Be mindful that the question asked about changes in prices. It is incorrect to state that "private homes prices were always higher than HDB resale prices," since the focus is not on levels but on changes over time. • When highlighting differences, students should compare the entire trend from 2016–2021. For example: While private homes prices consistently rose throughout 2016–2021, HDB resale prices fell from 2016–2018 before recovering. • Carefully read off the data, especially for the years in which HDB resale prices fell. The numerical indices show that HDB resale prices declined until 2018, not 2019. • Students should state that private homes prices increased at a higher relative rate of change compared to HDB resale prices. **Skills** **Areas of Improvement:** Students need to improve their data reading skills (interpreting numerical indices accurately) and writing skills (expressing changes over the entire period clearly).	
(b)		**Extract 1 states that prices of private homes hit new records.** **Explain why there was such a high rise in the price of private homes in 2021.**	**[3]**
		Rise in demand due to (any one point below) – [1] -lower cost of borrowing as interest rate fall	

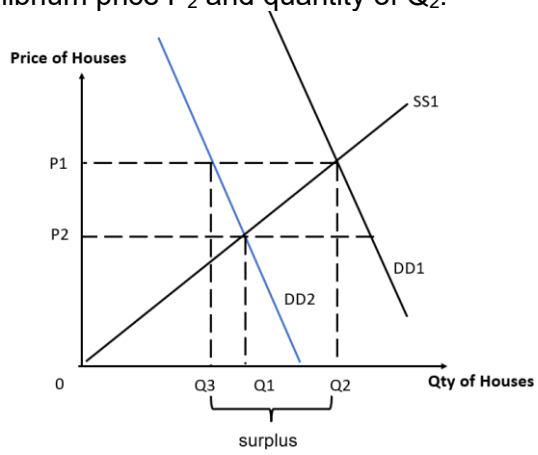
		-rise in income due to economic recovery led to rise in demand for normal goods such as private homes -pent-up demand indicating greater taste and preference for private homes **PES of private homes <1** as long time required to construct private home due to delays in construction resulting in a longer time to develop new private housing units or limited inventory stock of unsold units available– [1] Shortage at original equilibrium prices exerts upward pressure on prices and it takes sharp bidding up of prices as quantity supplied of private homes rise less than proportionately. This results in a **high rise** in the price of private in 2021. – [1] **Other possible answers**: Multiple factors of DD leading to an overall large rise in DD OR Explain high rise in price with the use of YED >1 or PES <1	
		Examiner's Comments: **Content:** **Strength:** • Many students correctly identified that housing demand increased and supported their answers with at least one factor and relevant evidence. **Areas of Improvement:** • While many explained the price adjustment process, students must also account for the sharp increase in prices. This requires applying concepts such as PES or YED to justify why prices rose by a large magnitude. • For students who applied PES: they should elaborate that when supply is price inelastic (PES < 1), the shortage is harder to clear, so a larger increase in price is required compared to when PES > 1. **Skills** **Areas of Improvement:** • Should support PES values with case study evidence. • Need to use correct phrasing: "Supply is price inelastic" or "PES < 1." Avoid "PES is inelastic," as PES is a value, not a descriptive term. • Students should focus on explaining only one demand factor; it is not necessary to include multiple factors.	
(c)		**With reference to Extract 2, explain how an increase in stamp duty on property developers is likely to affect total expenditure on private homes.**	**[5]**

		"Fast-growing prices did not hamper demand, and sales were brisk across many project launches" suggest **quantity demanded fell less than proportionately** indicating **PED <1** – [1] An increase in stamp duty, which is an additional fee that the developer has to pay when acquiring residential property for development, it raises the **cost of constructing or developing** new private homes, leading to a **fall in supply** of private homes from SS1 to SS2.[1] **[Note that stamp duty is an ad-valorem tax and thus a pivotal shift in SS]** With reference to the diagram below, when there is **an increase in price** of private housing due to the increase in stamp duty from P_1 to P_2, there would be **a less than proportionate fall in quantity demanded** for private housing from Q_1 to Q_2. [1] Since total expenditure (TE) = price x quantity, **the rise in TE** caused by the increase in buying price of private housing indicated by Area P_1P_2XY is **greater than the fall in TE** caused by the less than proportionate fall in quantity demanded from Q_1 to Q_2 as shown by the Area Q_2YZQ_1. [1] Hence, **overall,** the increase in stamp duty is likely to cause an **increase in the total expenditure** on private housing. [1]  	
		Marking Tip: Accept answers where students explain PED>1 and fall in TE- cap 4marks since the answer does not explain rise in sales mentioned in the extract. Pivotal shift of SS to indicate ad valorem tax	
		Examiner's Comments: **Content:** **Strength:** • Several students recognised that a tax on property developers raises land costs and reduces supply of private housing.	

		Areas of Improvement:
		• Many did not apply the total expenditure (TE) concept with PED and therefore missed out on explaining the change in TE using the market DD–SS diagram.
		
		• Some students mistakenly drew a firms diagram instead of a market DD–SS diagram. This question requires market analysis, not firm analysis.
		
		• To fully explain the overall increase in TE, students must compare:
		  • the loss in TE from the less than proportionate fall in quantity demanded, versus
		  • the gain in TE from the higher price.
		  • Since the gain outweighs the loss, TE rises overall.
		
		Skills
		Areas of Improvement:
		• Should use case study evidence to support PED values.
		• Avoid introducing extra demand factors unless the question uses the command word "Discuss whether." With ceteris paribus, the tax is the only factor to consider.	

(d)	**'The Government announced a package of measures to cool the private residential and HDB resale markets in December 2021.' (Extract 2)**		
	(i)	**Explain why the Singapore government may be concerned about the rising housing prices.**	**[2]**
		Housing is **a necessity [1]** which should be and remain affordable to everyone including lower income group. Due to the rising housing prices, some of the lower income group may be "priced out" and not have access to this necessity. This would mean that the government would be concerned about the rising housing prices as it would not be able to achieve one of its microeconomic goal of **promoting equity [1]**.	
		Examiner's Comments: **Content:** • Many students did not clearly state that housing was a necessity or the concern was equity. Some mentioned income inequality and did not link to how rising housing prices would worsen inequity. **Skill:** Some students indicated the concern as worsening of standard of living or allocative inefficiency. Since the preamble in the question states	

		Extract 2, they should make use of the information provided in the extract which suggest inequity with the phrase “social disparities”.	
	(ii)	**Discuss whether the lowering of Loan to value (LTV) limit mentioned in Extract 2 would help to address the concern identified in d(i).**	**[8]**
		Question Analysis Command Word: Discuss whether Content: Lowering of Loan-to-Value limit Context: Singapore Schematic Plan  **Introduction:** The main challenge facing the housing market in Singapore is inequity. There may be inequitable allocation of resources in the market for housing. With rising property prices, the low-income earners may be priced out of the market as they lack the ability to pay. In this case, resources are likely to be over-allocated to the higher income groups toward higher-end property and under-allocated towards basic housing for lower income groups, thus worsening inequity. **R1: Lowering Loan-to-Value (LTV) limit may help to address the microeconomic goal of equity** One of the cooling measures employed is the reduction of the Loan-to-Value (LTV) limit.	

		The LTV limit determines the maximum percentage of a property's appraised value or purchase price that a lender is willing to finance through a mortgage loan. Since housing expenses are mainly financed through mortgage loans, any changes in the LTV limit directly impacts the amount households can borrow for their housing purchases. When the LTV limit is lowered, it translates into households being able to secure a reduced amount of funds for the purchase of housing. This diminished borrowing capacity can prove discouraging for potential homebuyers, particularly those who possess limited savings for down payments. Consequently, it would lead to **a fall in demand** for housing, as **individuals find it increasingly difficult to enter the property market.** The reduction in demand (DD_1 to DD_2) leads to a surplus of housing units at the original equilibrium price, P_1. To clear this excess inventory, sellers often find it necessary to lower housing prices. Due to downward pressure in price, Qd increases while Qs decreases until Qd=Qs again at the new equilibrium price P_2 and quantity of Q_2.  This reduction in prices from P_1 to P_2 makes housing more affordable and accessible to a broader range of potential buyers, addressing the issue of rising prices and improving housing affordability for all, which in turn might reduce inequity assuming housing becomes more affordable to lower-income groups. **R2: Lowering the Loan-to-Value (LTV) limits may not help address the microeconomic goal of equity.** Lowering the Loan-to-Value (LTV) may inadvertently lead to a situation where many people such as first-time home buyers with limited savings being unable to own a house and are forced to rent instead. Renting a place, in the long run, can become more costly than owning a property because homeownership represents an asset that can appreciate over time. Assuming low-income groups are likely to have very limited savings, this disproportionately reduces their ability to purchase housing compared to higher income groups with greater pool of savings and CPF worsening equity.	

Low-income households often rely on maximum borrowing to finance their purchase of homes. If they are unable to secure sufficient borrowing from banks, they may turn to more expensive sources such as licensed money lenders raising their financial vulnerability. On the other hand, the high-income households do not face this constraint on their financing ability.

Evaluative conclusion:

While the lowering of the LTV limit seeks to reduce demand, it might not be effective as rising property prices would likely make property a good investment and those in higher income groups might not be deterred by this measure.

Thus, at best, there might be only moderation in the rise of property prices. It would therefore be more effective to also release more land for residential property development. This would increase the supply of both public and private housing and, assuming greater than demand changes, may help to both reduce price and increase units of housing available to all. This increases the affordability of housing to low-income groups and improves equity as more people in low-income group become homeowners.

OR

Lowering of LTV limits might not be enough to bring down prices significantly for low-income group as prices of housing even if they were to fall, remain high due to high fixed cost involved in construction of housing. It needs to be complemented with subsidies and grants to make them more affordable and accessible to low-income individuals.

Marking Scheme		
L2	Well-developed explanation of how lowering of LTV limits may and may not improve equity.	4 – 6
L1	Under-developed explanation of how lowering of LTV limits may and may not improve equity.	1 – 3
E1	Underdeveloped analysis of judgement on whether lowering of LTV limits improves equity	1
E2	Overall judgement that is well supported by case study evidence and well-developed analysis on whether LTV limits lowering improves equity	2

Examiner's Comments:
Content:

- Many students were able to demonstrate the understanding lowering LTV limits meant more out of pocket upfront expenses incurred by potential homebuyers.
- However, some students did not use appropriate and/or accurate economic analysis (demand and supply) to elaborate on how lowering of LTV limits would lead to lowering of house prices.
- Others presented demand and supply analysis but did not link back to how inequity is reduced.
- Most students were able to explain using relevant information from the extract on why inequity might in fact worsen due to lowering of LTV limits.

Skill:

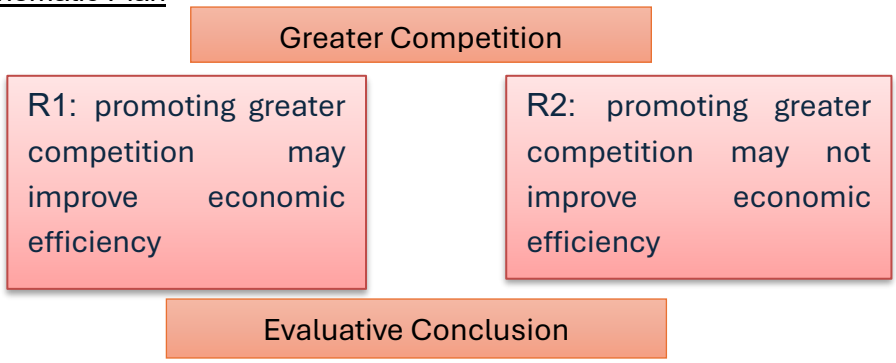
- Some students explained both lowering LTV limits and ABSD in the body paragraphs. This showed not a good grasp of question requirement which should be on whether lowering of LTV limits reduces inequity and not a generic discussion of possible policies and limitations.

(e)		**With reference to Extract 3, assess the extent to which promoting greater competition can improve economic efficiency in the private home property market.**	**[10]**

Question Analysis

Command Word	Assess the extent
Content	Greater competition can improve economic efficiency
Context	Private home property market

Schematic Plan

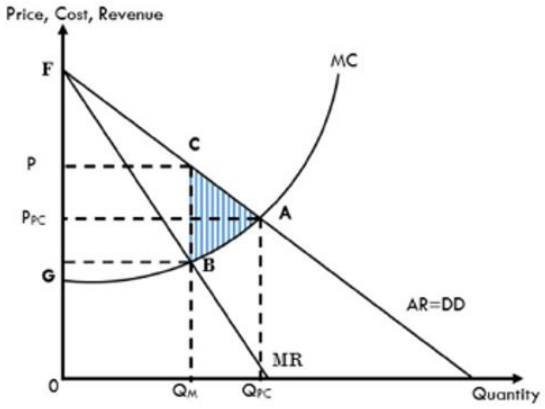


Introduction:
With strong market dominance, property developers possess strong market power, and this gives rise to their greater ability to restrict output to set higher price.
A dominant firm is a firm with market power and is a price setter. Therefore, it faces a downward demand curve. To maximise profits, they produce at marginal revenue (MR) = marginal cost (MC) and price their goods accordingly.

A profit maximising monopolist restricts output where MC=MR and produces quantity Qm while charging a price that is higher than its marginal costs (P>MC), this means that the value placed on the good by the society is higher than the opportunity cost in producing the last unit.

However, allocative efficiency is achieved at the socially optimum output that occurs at P=MC, that is at Qpc with price at Ppc.

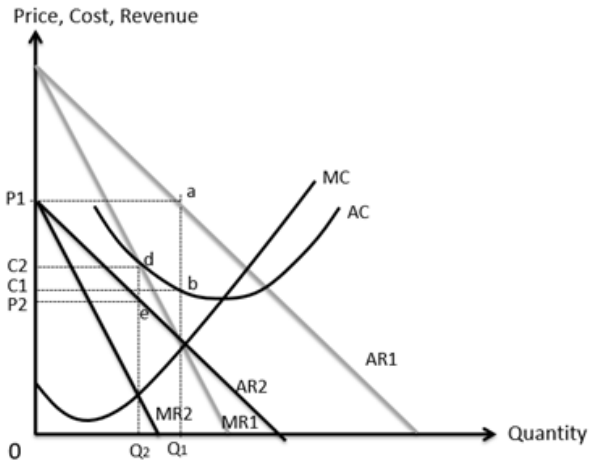
Compared to the socially optimum output, a dominant firm seeking to maximise profits will underproduce the good by QmQpc. As a result of underproduction, there is a DWL to society denoted by Area ABC.



To improve economic efficiency, the government may introduce greater competition which weakens firm's ability to set high prices. It involves bringing down barriers to entry into property industry, making the market more competitive due to the increase in number of firms.

R1: Promoting greater competition may improve economic efficiency in the private home property market
Studies indicate homebuilders take advantage of their dominant position in the local housing market by setting higher prices.

With more competition, the AR and MR shifts left, with a higher PED value due to the increase in number of substitutes available. The profit maximising output falls from Q1 to Q2, and price fall from P1 to P2. As a result, the gap between P2 and MC2 will now be smaller (as compared to the gap between P1 and MC1), reducing the extent **of allocative inefficiency** issue in society.



Additionally, greater competition will drive firms to be more efficient in construction of housing units by applying modern technology. They will be forced to use less of old methods such as using low-skilled labour which could account for poor workmanship and defects in housing units. This helps to **reduce X inefficiency**.

Furthermore, allowing foreign property developers to operate in local markets will introduce new and dynamic firms into the market increasing the level of competition leading to firms having greater incentive to innovate by R&D into more advanced construction technology which leads to lower prices of housing units, better quality of construction, and greater choices in terms of design and space configurations for consumers as firms compete to retain or increase their market share in the property market. This helps to **improve dynamic efficiency**.

R2: Promoting greater competition may not improve economic efficiency in the private home property market

The introduction of more competition into the industry will likely reduce the market share of existing developers such as CDL.

The firm's ability to reap internal economics of scale might be reduced as their scale of operation might not be that extensive compared to the current situation as they can acquire even fewer parcels of land for property development. For example, their ability to reap financial EOS might be reduced as larger firms are often able to get bank loans at lower rates of interest and with better conditions due to their creditworthiness. Hence, their average cost might increase, **worsening productive efficiency** as they are operating at output much lower than MES.

The introduction of greater competition might reduce profits of developer as they face a fall in TR assuming ceteris paribus, which reduces the ability to invest in innovation. For example, developers might not consider improving design of flats to be more sustainable e.g. using solar energy for energy efficiency or more conducive for living with smart

features to make units feel more spacious and comfortable. This **worsens dynamic efficiency.**

Evaluative conclusion

Whether increased competition in the private home property market improves efficiency depends on the following factors:

Nature of competition

Competition could drive dynamic efficiency in general when developers innovate in design or construction methods. Hence, much of the competition may be in terms of non-price forms as developers may compete in terms of offering luxury services such as sky gardens or concierge services rather than affordability.

Therefore, the type of competition affects the extent of improvement on efficiency.

OR

The rise in competition in private home property market may not on the balance improve economic efficiency.

Incorporating innovative products such as a pet corner and a library are unlikely to be patented. Hence, other developers might be able to copy such features easily with minor tweaks and the developers engaging in innovation can no longer command a premium to claw back the cost of innovation. Thus, developers may lack the incentive to innovate and offer more premium products worsening dynamic efficiency.

Private property market where developers construct different types of niche housing based on specifications or preferences of consumers might already be limited in the ability to exploit internal economics of scale and thus increasing competition may not significantly improve productive efficiency. In the long run, however assuming aged private properties are torn down to make way for new developments, private property developers may be able to acquire bigger parcels of land, allowing them to operate at larger scale and be better able to reap internal economics of scale, thus improving productive efficiency.

Marking Scheme		
L2	Well-developed explanation of the impact of promoting greater competition on improving economic efficiency.	5 – 7
L1	Under-developed explanation of the impact of promoting greater competition on improving economic efficiency.	1 – 4
E1	Underdeveloped analysis of the extent or types (positive or negative) of impact.	1
E2	Overall judgement that is well supported by case study evidence and well-developed analysis of the extent or types (positive or negative) of impact.	2 – 3

		Examiner's Comments: **Content:** Many students did not accurately state the conditions for different types of efficiency. Common errors: • Innovation improves productive efficiency instead of dynamic efficiency. • Profit maximisation condition (MR=MC) and allocative efficiency condition of P=MC are not clearly stated or explained in the answer. • Explaining how firms respond with strategies and how these strategies such as predatory pricing affects efficiency instead of considering the direct impact of loss of market share to new firms resulting in changes in the different types of efficiency. **Skill:** • Diagrams should be drawn large and with the aid of ruler and the axes and curves accurately labelled. • Shifts of revenue and cost curves should be accurately drawn and the changes in price and output clearly indicated on the diagram and accurately referred to in the explanation. • Diagrams drawn should be clearly used to explain the changes in different types of efficiency. In many answers, the focus was mainly on revenue/cost changes and the impact on profits instead of efficiency or address economic efficiency in general. • There should be consistent attempt to relate the points to the given context of private property developers instead of generic explanation of increased competition on dominant firm's efficiency.	

Question 2: Trade in an uncertain world

(a)	**Using Table 1, explain whether you would expect the likely size of Singapore's multiplier to be large or small.**	**[2]**
	Answer: The likely size of Singapore's multiplier is **likely to be small**. [1] As seen in Table 1, the imports of goods and services as percentage of GDP is large (136.9%) in 2023 and this suggests that the **marginal propensity to import (mpm) is likely to be large**. Since the formula for the multiplier is k = 1 / mpw, with a large mpm, this suggests that the likely mpw for Singapore is likely to be large as well implying that the likely size of Singapore's multiplier is small. [1]	
	Examiner's Comments: **Content:** • Many students struggled to use the data in Table 1 effectively to infer the likely size of Singapore's multiplier. • Some also mistakenly took the marginal propensity to import (MPM) as 136.9, which was incorrect. • It should be noted that an actual calculation is not required here as some attempted unnecessary calculations. • Many candidates did not provide the formula and therefore could not explain how the marginal propensity to import or withdraw is inversely related to the multiplier even though a high value of mpm was correctly identified. **Skill:** • This question tested the ability to interpret data and apply it to theoretical concepts rather than performing calculations. • Many students did not demonstrate this skill effectively, either by quoting numbers without interpretation or by carrying out unnecessary workings. • To score well, students must use the data provided to reason through the likely outcome, showing clear linkage between the openness of the economy, leakages, and the resulting size of the multiplier.	
(b)	**Explain how the current account of the balance of payments of Singapore will be affected in the long run due to the "A$148 billion (US$95.2 billion) investment in Australia in 2022" (Extract 2).**	**[2]**
	Answer: Direct investments from Singapore to Australia **will yield long-run profits [1]**, leading to **increased inflows [1]** in the income balance of the current account of Singapore's balance of payments.	

	Examiner's Comments: **Content:** • Most students did poorly for this question because they were unable to identify the components of the BOP. • Many wrong answers were related to FDI or hot money (both which are found in the capital accounts). Proper terminology should be used to identify the inflow of "profits", and not "dividends" or "income". **Skill:** • Students should pay close attention to the structure of the BOP. More revision is required on the "Invisible Balance" on the Current Account.	
(c)	**With reference to Extract 4, explain two possible types of unemployment.**	**[4]**
	Answer: **Structural Unemployment [2]:** One type of unemployment is **structural unemployment**, which occurs when workers' skills do not match the requirements of available jobs due to long-term changes in the economy. With the rapid adoption of AI as stated in Extract 4, this may lead to the displacement of labour as machines/ robots replace human labour. E.g. the increase in use of generative artificial intelligence (AI) in call centres. As such, these workers with limited skills may face prolonged unemployment due to the lack of compatibility of skills with what is required by jobs available in the market (high-tech industries). **Demand-deficient Unemployment [2]:** One type of unemployment is **demand-deficient unemployment**, which is caused by insufficient Aggregate Demand. When economic growth slows, firms become pessimistic and may reduce production and cut jobs. According to the International Monetary Fund (IMF), global GDP growth is expected to fall to 3.0% in 2023 and 2024, down from 3.5% in 2022. This projected slowdown in growth indicates weaker demand in the global economy, which can lead to reduced employment opportunities.	
	Examiner's Comments: **Content:** • Most students were able to identify both types of unemployment correctly. However, explanations that simply plug in key words such as "mismatch of skills" for structural UE and "fall in AD" for demand-deficient UE were not	

	rewarded. Students should use the context of the CSQ materials to answer the question. **Skill:** • Be more thorough in the explanations for structural and demand-deficient UE, e.g. explaining how low-skilled workers are displaced and unemployed, and how they remain unemployed due to a mismatch in their skills and what employers are looking for**.**	
(d)	**Explain the factors that affect the profitability of the trading firms.**	**[4]**
	Answer: Profits = TR-TC Hence focus on Cost and Revenue. **<u>Cost [2]</u>** Firstly, efforts to **strengthen and digitalise supply chains** through technologies like AI, IoT, and blockchain enhances transparency, inventory management, and demand forecasting. This boosts productivity and reduces inefficiencies, helping firms to **lower their cost of production (COP)**. Hence, this leads to **higher profits**. **<u>Revenue [2]</u>** Secondly, the move towards **greening supply chains**—through sustainable sourcing, lower emissions, and circular economy practices—can initially raise costs but offers long-term gains. Increasingly, environmentally conscious consumers prefer sustainable firms, leading to a rise in **demand** for their goods and services. This causes the **average revenue (AR)** curve to shift upwards, hence TR rise. The combination of higher demand and consumer loyalty supports stronger pricing power, contributing to **higher profits** in the long run. Overall, by becoming more efficient, cost-effective, and aligned with consumer preferences, trading firms that adapt to these global trends will likely experience **greater competitiveness and sustained profitability** over time.	
	<u>Examiner's Comments:</u> **Content:** **Strength:** • Many students understood the profit concept and stated the equation: Profit = Total Revenue (TR) – Total Cost (TC). **Areas of Improvement:** • While students quoted evidence from the extract, they often did not link it clearly to TR and TC analysis. **Skills**	

Areas of Improvement:

A balanced answer should include:

- one reason for an increase in TR, and
- one reason for a decrease in TC.

- Many students could not fully understand the keyword "trading firms" in the question.

  Trading firms refer to firms engaged in importing and exporting goods and services. They act as intermediaries that facilitate cross-border trade by buying products from one country and selling them in another. Their performance is influenced by both price factors (e.g., changes in exchange rates, global commodity prices) and non-price factors (e.g., trade policies, logistics efficiency, demand conditions abroad).

Students should strategically select evidence that relates to these price and.

(e) **Discuss the extent to which Singapore's trade with Australia is based on the concept of comparative advantage.** **[8]**

Question Analysis

Command Word	**Discuss the extent**
Content	Comparative advantage as a basis for specialisation and trade
Context	Agricultural products vs other goods

Schematic Plan

Define comparative advantage	
R1: Singapore's trade with Australia is based on its comparative advantage Explanation on Benefits from specialisation and trade of goods based on CA Singapore: - Factor Endowment: Capital, skilled labour, strategic location - Lower opportunity cost in refined/oil/tech goods compared to agriculture - Hence CA in Oil refining and trading, Electronics and biomedical exports	**R2: Singapore's trade with Australia is based on other reasons** Explanation on other considerations such as - FTAs – removal of trade barriers, bilateral access to markets, but diversion of trade - Strategic Re-exports – due to Singapore's role as global hub - Political and Economic Stability? - Diversification and Food Security – Ensures reliable supply of Food from various sources, including Australia

Australia: - Factor Endowment: Natural resources, land abundance - Lower opportunity cost in agriculture/mineral goods compared to tech - Hence CA in Precious metals and minerals, Agriculture and meat products	
Weighing and evaluate the 2 cases.	

Introduction:

The concept of comparative advantage suggests that countries should specialize in the production of goods and services in which they have the lowest opportunity cost, and trade for others. Doing so would allow both countries to enjoy mutual benefits as this allows them to be able to consume beyond their PPC.

R1: Singapore's trade with Australia is based on its comparative advantage

An analysis of the trade flows between Singapore and Australia indicates that their bilateral trade is largely underpinned by comparative advantage, though this is shaped by strategic positioning, re-export activities, and policy agreements.

These patterns reflect Singapore's **comparative advantage in capital-intensive and high-skilled sectors**. Due to the lack of natural resources, Singapore has acquired **factor endowment** and developed advanced capabilities in these areas.

- From Table 2, Singapore export mineral fuels, oils, distillation products – despite importing a small amount ($364M), it exports a massive $8.94B worth to Australia, suggesting strong refining and re-export capabilities. Exports also include high-tech goods – like Electrical, electronic equipment, showing strength in value-added manufactured goods.
- From Extract 2, Petroleum refining and oil trading: Singapore is a top three global hub for oil trading and refining, with refining capacity of 1.5 million barrels/day and a dominant presence in crude oil trading, handling 20% of global crude oil trade. Its refined products such as gasoil and gasoline dominate exports to Australia, accounting for over US$10 billion in trade and 12,800 megalitres of fuel in 2022.
- Electronics and biomedical technology: Exports of electrical equipment and medical devices reflect Singapore's knowledge-based economy, supported by R&D, skilled labour, and infrastructure.

These sectors align with Singapore's **factor endowments** – skilled labour, capital, and strategic location. Hence, Singapore's production of these goods incur **lower opportunity costs** in terms of other goods such as Agriculture than Australia, suggesting exports are strongly based on comparative advantage.

Likewise, Australia has a **comparative advantage in land- and resource-intensive sectors**, including:

- From Table 3, Australia exports pearls, precious stones, metals, coins due to its abundant reserves of gold and minerals drive exports of precious metals. Animal and vegetable fats/oils are agriculture products due to

Australia's vast arable land that supports large-scale production of meat and oils, which are imported into land-scarce Singapore. Meat and edible meat offal are also exported as Australia is a major meat exporter in the region.

Production of these goods by Australia is due to its **strong factor endowment** in mineral reserves and abundant land for cultivating agriculture and rearing animals. This results in Australian production of Mineral and Agriculture products incurring **lower opportunity cost** of other goods as compared to Singapore. This results in Australia having CA in these areas and specialising in them. These imports complement Singapore's limitations in land and resources, reinforcing that trade is largely aligned with comparative advantage.

R2: Singapore's trade with Australia is based on other reasons

From Extract 5, Singapore and Australia trade under the Singapore-Australia Free Trade Agreement (SAFTA), which creates a framework to promote freer and more efficient trade between the two countries. How they trade based on the FTA:

- SAFTA removes all tariffs on goods traded between Singapore and Australia.
    - This means Singaporean exports enter Australia duty-free, and Australian goods enter Singapore without tariffs, reducing costs for both exporters and consumers.
- Improved Market Access for Services
    - The FTA allows easier access to each other's service sectors, including:
    - Education services
    - Financial services
    - Telecommunications services

- While SAFTA benefits the two countries, it can divert trade away from more efficient producers in non-member countries, as businesses may prefer trading partners with preferential access.

Other acceptable reasons

- **Strategic reasons (link to transport cost): Singapore's role as a global trade hub** means not all exports reflect local production.
    - For instance, **oil or precious metals** may be re-exported rather than domestically refined.
    - Many of Singapore's exports to Australia are actually re-exports - goods from other countries (e.g. oil from the Middle East, electronics from China or Japan) that pass through Singapore's ports before being sent to Australia.
- **Reliable and Stable Economy**: Trade between Singapore and Australia in **Energy, Banking and Education services,** are due to a combination of reasons such as strong collaboration, robust legal systems, recognition of education quality.
    - It is supported by their stable political and economic systems, which foster trust, legal certainty, and long-term partnerships. This reliability enables multi-year LNG contracts, cross-border banking by firms like DBS, education exchanges, real estate investments by GIC, and ICT collaborations with companies like Telstra - all relying on strong legal and regulatory frameworks.

- **Singapore imports of raw materials (link to diversification of supply)**:
    - Singapore prioritizes food security and aims to diversify its sources to avoid over-reliance on any one country. Australia is seen as a reliable, politically stable, and geographically accessible source of food.
    - Australia has a reputation for high food safety, quality control, and sustainable farming practices. This aligns with Singapore's stringent food import regulations and consumer expectations for safe and high-quality food.
    - Food Security, Seasonal Advantage: Australia's climate and seasons are opposite to those in the Northern Hemisphere, so it can supply fresh produce (e.g. fruits like cherries, oranges, grapes) out of season for other regions. This makes Australian agriculture a good fit for Singapore's year-round demand.

Evaluation
Singapore's trade with Australia is **largely** based on comparative advantage, particularly in areas aligned with each country's factor endowments and economic structure.

However, increasingly, non-traditional factors like foreign investment, bilateral agreements, and strategic geopolitical alignment also shape the trade relationship, making comparative advantage an important but not exclusive explanation.

While some trade between Singapore and Australia deviates from strict comparative advantage (e.g. services, intra-industry trade), the bulk of it—especially in natural resources, manufacturing, and logistics—strongly reflects comparative advantage.

Mark Scheme

Level	Knowledge, Application, Understanding and Analysis	Marks
L2	The response provides a balanced and well-developed analysis of why Singapore and Australia engage in trade, using the lens of comparative advantage and supplementing it with factors such as bilateral agreements, strategic interests, and intra-industry trade. It references the specific contexts of both countries (e.g., Australia's natural resources, Singapore's strength in services and refining) clearly.	4 – 6
L1	One-sided answer that only explains why Singapore and Australia engage in trade, using comparative advantage Or a balanced answer that only lifts from extracts without any explanation.	1 – 3
EV	An evaluative judgment is made: "Singapore's trade with Australia is mostly, but not entirely, based on comparative advantage," with reasons such as the role of services, investment flows, and strategic partnerships.	1 – 2

Examiner's Comments:
Content:

- Majority of the students were not able to use data from Tables 2 and 3 to explain comparative advantage. Some students deviated to explain Singapore's trade patterns with the rest of the world when the question was on trade between Australia and Singapore. Some answers did not show an understanding of the difference between crude oil and refined petroleum.

- Better answers were able to explain the source of CA in both Singapore and Australia as well as incorporate data well into their answers. And they were able to explain FTA/strategic/political/geographical reasons as alternative reasons why Singapore and Australia continue to trade in goods and services that neither have CA in.

Skill:

- Using data from CSQ materials is a skill that differentiates better answers from memorised one. A contextualised answer will always score better than a generic answer.
- Finally, remember to allocate a paragraph for evaluation for questions 8m and above.

(f) **Discuss the extent to which Singapore's efforts to expand and diversify trading activities and deepen our integration into global supply chains, as seen in Extract 6, can drive sustained economic growth.** **[10]**

Question Analysis

Command Word	**Discuss how**
Content	efforts to expand and diversify trading activities
Context	enhance its position as a trading hub and drive economic growth

Schematic Plan

Define key terms	
R1: Singapore's efforts to expand and diversify trading activities and deepen our integration into global supply chains can drive economic growth <u>to a large extent</u>	**R2: Singapore's efforts to expand and diversify trading activities can drive economic growth <u>to a small extent</u>**

- Expanding and diversifying trading activities increases exports and investments. - Deeper integration into global supply chains increases imports - These leads to actual and potential economic growth.	- Vulnerability to external shocks such as geopolitical risks and protectionism - Talent constraints may hinder growth in emerging sectors like carbon trading - Innovation uncertainty as it is costly, long-term, and unpredictable - Rising import expenditure - Over-diversification weakening comparative advantage
Weighing and evaluate the 2 cases.	

R1 – Singapore's efforts to expand and diversify trading activities and deepen our integration into global supply chains can drive economic growth to a large extent

Expanding and Diversifying Trading Activities

Extract 6: Singapore aims to broaden the range of products and services it trades, moving beyond traditional commodities like oil and metals to include emerging sectors.

This increases **export revenue and investments** through:

- **Entry into New Markets**: By trading **green commodities** like biofuels, carbon credits, and electricity, Singapore taps into fast-growing global demand driven by the energy transition and climate goals.
- **Rise in Value-Added Exports**: Singapore doesn't just re-export goods—it also adds value through storage and trading services.
- **Services Exports Growth**: As trade activities diversify, supporting services like logistics, finance, insurance, and digital trade platforms become significant exports themselves. With Singapore becoming a hub for price discovery (e.g., in LNG and rubber), firms around the world rely on Singapore-based services to facilitate trade.
- Attracts substantial foreign **investments** due to its strategic location, stable policy environment, and pro-business infrastructure. Foreign trading firms setting up or expanding regional/global HQs, Multinational corporations choosing Singapore as a regional base, and Emerging commodity trading and services. E.g. Singapore was home to regional headquarters for 4,200 multinationals in 2023 – three times more than Hong Kong.

Increase in RNY due to Multiplier:

The rise in net exports and investments increases Aggregate Demand (AD), which raises real national income (RNY) through the multiplier process, leading to actual economic growth.

Impact of Investments on Aggregate Supply (AS) and Potential Growth

- Investment in various industries increases capital stock of Singapore, boosting Singapore's productive capacity. Policies and firms also promote innovation and global supply chain integration, focusing on digital and green sectors also improves technology and quality of FOP.
- These factors increase Singapore's productive capacity, shift AS outward, and achieving potential economic growth.

Innovation and labour flows also increases:

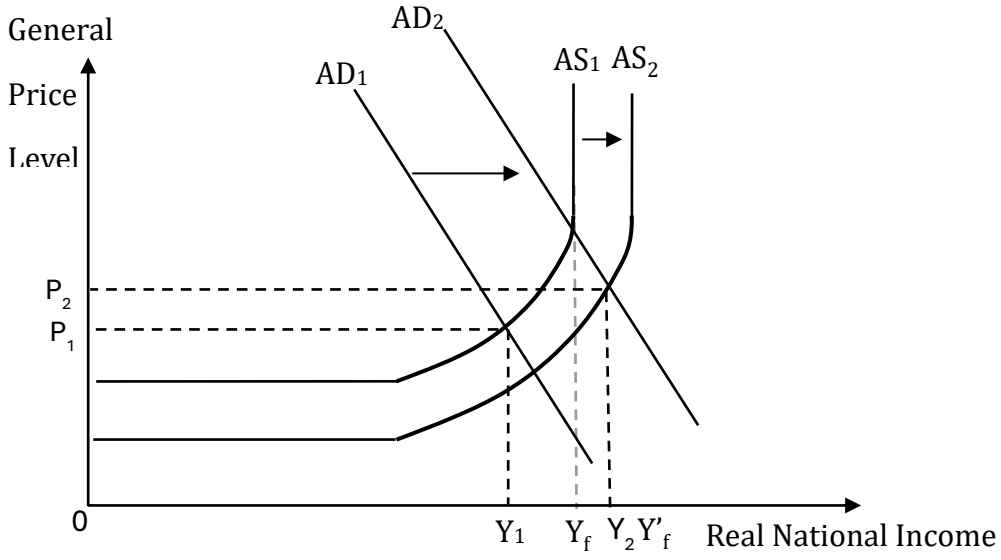
- Firms and policies also helped to encourage talent and innovation, e.g. Targeted immigration for strategic sectors (e.g., carbon trading) and Support for digitalisation and greening of supply chains (e.g., AI, blockchain).
- Further boosts AS resulting in further potential economic growth.

Deepening Integration into Global Supply Chains

Singapore strengthens its role as a critical node in international supply chains, enabling it to benefit from and contribute more to global trade flows.

This boosts imports of raw materials:

- Enables Singapore firms to benefit from global imports of raw materials, either by importing from newer markets or diversifying imports from more markets to reduce risk
- Thereby reducing the price of Singapore imports, decrease unit cost of production, increase SRAS, resulting in increase in RNY.



A rise in AD from AD_1 to AD_2 will result in actual economic growth and when there is an outward shift of the LRAS curve from AS_1 to AS_2, potential growth occurs. Taken together, Singapore experiences sustained economic growth.

R2 – Singapore's efforts to expand and diversify trading activities and deepen our integration into global supply chains can drive economic growth to a small extent

Vulnerability due to Dependency on Global Trade Networks

Despite its strategic trade agreements, Singapore's heavy reliance on global supply chains makes it vulnerable to external disruptions, such as geopolitical tensions or protectionist policies. "Geo-economic fragmentation and a shift to more inward-looking trade policies will curtail the gains from global trade." These developments may reduce global trade flows or increase volatility in commodity markets, directly impacting Singapore's trade-driven economy.

E.g.

Geopolitical tensions (US-China trade war, Russia-Ukraine conflict) can disrupt supply-chains and reduce demand for Singapore's exports. Thus, even if there was diversification of trade partners by Singapore, these shocks affect global trade and demand and can thus limit the export-driven AD growth experienced in Singapore.

Global recessions (GFC & COVID-19 pandemic) saw sharp decreases in demand for Singapore exports as there was a global fall in incomes and purchasing power.

Talent Constraints
Although Singapore has prioritised immigration policies for strategic roles, maintaining a steady inflow of skilled professionals remains essential. Tight local labour markets or political pressure to limit foreign talent could hinder the growth of specialised sectors like carbon trading and digital supply chains.

Need to Constantly Innovate and Compete
To maintain its edge, Singapore must invest in AI, blockchain, and green technologies, which requires continuous upskilling and infrastructure development. Falling behind in these areas could weaken its competitive advantage in next-generation trade and sustainability-linked markets. These also require government support through fiscal policy. Innovation is also unpredictable and long term in nature.

Surge in Import Expenditure
A surge in Singapore's imports can lead to a worsening balance of trade (BOT) position, particularly if the increase in imports outpaces export growth. A deteriorating BOT reduces net exports, which is a key component of aggregate demand. As a result, this can dampen economic growth, especially if domestic production is substituted by foreign goods and services, leading to weaker AD and growth.

Over-Diversification Undermining Comparative Advantage
Singapore's extensive efforts to diversify its trade and import sources, while beneficial for resilience and supply security, may dilute its focus on areas with comparative advantage. By spreading resources across too many sectors or engaging heavily in re-exports and non-core activities, Singapore risks utilizing fewer resources industries that it has CA in, such as high-tech manufacturing or services. This also limits economies of scale and productivity gains.

<u>Evaluation</u>

Favourable Policies / Conditions in Support of Its Status

- Singapore's success as a global trading hub is strongly supported by a combination of natural advantages and forward-looking policies. Its strategic location, advanced infrastructure, network of Free Trade Agreements (FTAs), and access to a highly skilled workforce provide a solid foundation for trade facilitation and investment attraction. These favourable conditions position Singapore well to continue expanding and diversifying its trade activities.

Already Established Its Status as a Trading Hub

- Second, Singapore has already built a reputation for political stability, transparent governance, and strong rule of law, which fosters trust among international investors and trading partners. This credibility is crucial for long-term investment in areas such as digital trade and green technology, which require a stable policy environment.

Future Challenges

- Despite its strengths, Singapore faces growing challenges from global economic uncertainties, rising protectionism, and geopolitical tensions. To sustain its growth, Singapore must remain agile, constantly reviewing and adapting its macroeconomic policies, investing in innovation, and strengthening resilience in supply chains to navigate an increasingly complex global environment.

Hence, Singapore's deliberate efforts to expand and diversify its trading activities, coupled with its strategic push towards developing digital and green economies, will significantly strengthen its position as a global trading hub and serve as a powerful engine for long-term economic growth.

Mark Scheme

Level	Knowledge, Application, Understanding and Analysis	Marks
L2	The response provides a balanced and well-developed analysis of how Singapore's efforts to expand and diversify its trading activities and deepening integration, enhance its position as a global trading hub and achieve sustained economic growth.	4 – 7
L1	The response is either one-sided, focusing on only one aspect of Singapore's trade efforts (such as expand and diversify trading activities) without a broader analysis of how they collectively strengthen its trading position, or simply restates information from the provided extracts with minimal explanation or development.	1 – 3
EV	An evaluative judgment is made: "Singapore's trade diversification efforts, particularly in digital and green sectors, enhance its position as a trading hub," with reasons such as the potential for new economic growth, the global shift towards sustainability, and the role of technology in facilitating cross-border trade. It acknowledges the complexity of the issue by noting that while these efforts are promising, challenges such as	1 – 3

	regional competition or global economic shifts must also be considered.	

Examiner's Comments:
Content:

- Most answers were theoretically sound, with clear analysis of how actual and potential growth can be achieved. Many also made good use of the multiplier process to explain how actual growth takes place.

- However, many scripts lacked a holistic response that addressed both the diversification and deepening of trading activities, which resulted in answers with incomplete explanations. For instance, some candidates did not explain how both exports and investments, as well as imports of resources, can drive actual and potential growth. This meant that several key aspects of the question were overlooked. In addition, answers were often not well-applied to the extract, which weakened the quality of application.

- There were several recurring errors. Some candidates wrongly applied the concept of PED, even though export prices were not changing. Others omitted discussion of trade with comparative advantage when explaining why aggregate demand rises. In some cases, exports were not explicitly addressed, despite the question being centred on trade. Finally, a number of candidates confused the idea of sustained growth with sustainable growth.

Skill:

- Many candidates did not complete this part of the question, likely due to poor time management. Some answers were also one sided, i.e. did not look at how Singapore's sustained growth can be harmed by trade.