SECTION 3: Essays

1. **(a) Explain how an economy is affected by globalisation. [10]**
(b) Assess whether protectionism is the best approach to minimise the adverse impact of globalisation. [15]

Suggested Answer for part (a)

Question Analysis	
Command	Explain how
Content	Impacts of globalisation
Context	An economy
Synopsis: *Students are expected to explain at least one positive and at least one negative impact of globalisation on an economy using AD/AS analysis.* *Note: The synopsis details the question requirements and broad approach students are required to take.*	

Introduction: Define globalisation as characterised by greater movement of goods, capital and labour. This essay will examine the possible positive and negative impacts of globalisation on an economy, with macroeconomic impacts such as on the balance of payments, on economic growth, employment and price stability.

Body:

R1: Positive Impact of globalisation on economy

(i) Improve BOP

Increased trade flows (both exports and imports) due to globalisation can increase an economy's net export revenue, assuming that the increase in export revenue outweighs the increase in import expenditure. (X- M) increases, improving BOT and hence BOP, ceteris paribus. For example, countries such as China and Singapore which have depended on trade for growth have maintained many years of BOP surpluses.
In addition, globalisation brings about greater inflows of foreign direct investments (FDIs), which improves the capital financial account and hence BOP, ceteris paribus.
The building up of BOP surplus helps the economy to accumulates foreign reserves, strengthening the economy in the event of economic uncertainty or allowing the central bank to be able to conduct exchange rate monetary policies when needed.

(ii) Achieve economic growth and lower unemployment

Increased net exports & FDI (assuming that FDI is invested in capital goods), leads to AD increase, [as AD = C+I+G+(X-M)], increasing RNY, leading to actual economic growth. The transfer of more advanced technology, knowledge and skills from FDIs and inflow of foreign labour enhances the economy's productive capacity, increasing LRAS, achieving potential economic growth (Fig 1).

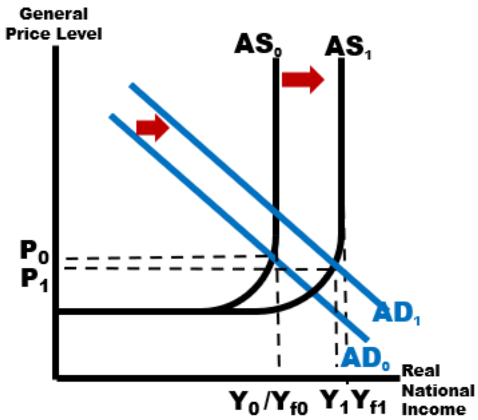

Fig 1

Based on Fig 1, globalisation inflows of trade, foreign direct investment and labour increases AD from AD0 to AD1 This initial rise in AD will cause an unplanned fall in the firm's inventory. Hence, firms will increase production and hence increase demand for resources such as labour. As more labour is hired, they receive more in wages. The purchasing power of the labour force increases. This leads to a multiple increase in induced consumption. Each subsequent rise in induced consumption will be increasingly smaller. This results in a multiple rightward shift in the AD curve, where AD is rising at a decreasing rate. The overall rise is AD has resulted in a **multiple rise in real national income from Y_0 to Y_1**. The rise in production of goods has also led to a rise in the derived demand for labour leading to a fall **in demand deficient unemployment.** At the same time, LRAS increases from AS0 to AS, enabling the economy to achieve potential growth from Yf0 to Yf1. The combined increase in AD and LRAS leads to both actual and potential economic growth, achieving sustained, non-inflationary growth from Y0 to Y1, and P0 to P1.

R2: Negative Impact of globalisation on economy

(i) Worsens BOP

Globalisation could, unfortunately, lead to a loss of comparative advantage (CA) to foreign countries. For example, the United States has lost its CA in the production of labour-intensive manufacturing goods to low cost countries like China and, as a result, experience many years of trade deficit, worsening its current account of the BOP.

In addition, FDIs may fall with increased outsourcing of low to mid value-added manufacturing activities to emerging low-cost countries, worsening capital financial account and hence BOP, ceteris paribus.

(ii) Fall in economic growth and rise in unemployment

The increasing interconnectedness between countries makes one susceptible to external economic conditions. For example, when major trading partners experience economic recession such as during the 2008 Global Financial Crisis or Eurozone debt crisis, trading partners such as Singapore experiences a large decrease in external demand, causing net exports to fall, reducing AD. Alternatively, the loss of CA to foreign countries causes countries such as US to lose export competitiveness, leading to a fall in net exports and hence AD. This triggers a reverse multiplier process, causing a multiplied fall in AD and hence RNY, causing

a fall in economic growth. The fall in production of goods and services reduces the derived demand for labour, leading to a rise in demand-deficient unemployment.
The negative outlook of the economy, if prolonged, may trigger an outflow of local talents who seek better employment opportunities elsewhere. This leads to brain drain, and may slow down potential growth, further worsening the impact on the economy.

The loss of CA due to globalisation may inevitably cause domestic firms who cannot match the competition in terms of price or quality to shut down, causing further unemployment. Workers who are retrenched from these firms may not have the necessary skillsets to shift to other (growing / sunrise) industries, leading to structural unemployment.

(iii) Inflation

From Fig 1 earlier, rapid increase in trade flows may boost AD beyond the productive capacity of the economy. If AD persistently increases more than AS, demand-pull inflation may occur in the short run.

In addition, global interconnectedness also meant that countries are also susceptible to global supply shocks. For example, global supply shocks due to the Russian-Ukraine war caused the prices of various primary commodities to increase. As countries are dependent on such primary commodities like oil and copper, the increase in prices of imported primary commodities increases the unit cost of production. This causes SRAS to fall from AS0 to AS1 to AS2, leading to imported cost-push inflation, as shown in Fig 2 below where the general price level increases from P0 to P1 to P2.

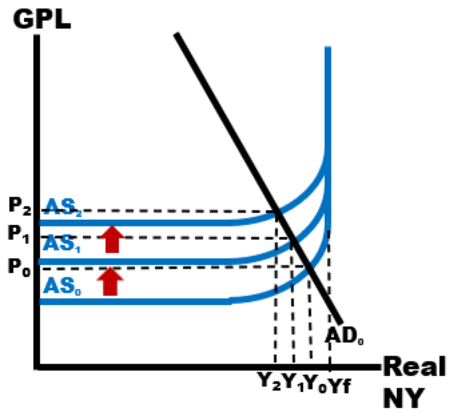

Fig 2

Conclusion: Countries may benefit and suffer from globalization. Some countries may benefit more than others. It is important for countries to adopt appropriate policies to maximise the benefits and minimise the costs of globalization.

Mark Scheme:

	Knowledge, Application, Understanding and Analysis	

L3	• A **clear** and coherent answer that is **relevant** to the question requirements and applied to its context.
	• Answer covers sufficient **scope** with *at least two* distinct requirements (i.e. areas of analysis):
	  ○ Requirement 1: Positive impact of globalistion to an economy
	  ○ Requirement 2: Negative impact of globalisation to an economy
	• Answer is **accurate** and has sufficient **depth**:
	  ○ Detailed and accurate explanation of economic concepts with **analytical** application to the question.
	  ○ Economic analysis is supported by accurately labelled and explained diagrams (i.e. AD/AS framework) and relevant real-world examples
		8–10

L2	• Answer is **mostly relevant** to the question requirements. • Answer **lacks scope** (e.g. considers only the first or second requirement). • Answer may contain **minor inaccuracies** and has **insufficient depth** with **cursory** application to the question (e.g. incomplete or inaccurate explanation of economic concepts, incomplete or no explanation of diagrams and little or no use of real-world examples).	5–7
L1	• Answer is **mostly irrelevant** to question requirements. • Economic concepts are not explained and/or are **inaccurate**. • Economic analysis **lacks coherence** and **accuracy**. • Lacking in use of diagrams or wrong diagrams are used.	1–4

Suggested Answer for Part (b)

Question Analysis	
Command	Assess whether
Content	Protectionism
Context	minimise the adverse impact of globalisation
Synopsis: *Students are expected to explain and evaluate protectionism policy and at least one alternative policy to minimise the adverse impact of globalisation using AD/AS analysis.* *Note: The synopsis details the question requirements and broad approach students are required to take.*	

Introduction: As explained in part (a), the negative impacts of globalisation are the worsening of the BOP, fall in economic growth, unemployment. This essay will examine whether protectionism is the best approach to minimise the adverse impact of globalisation.

Body:

R1: Explain how protectionism minimize (some) of the negative impacts of globalization

- Illustrate with the use of diagram how the use of import tariffs (Fig 3) can be used to correct trade deficit/ achieve higher EG/ lower demand-deficient unemployment

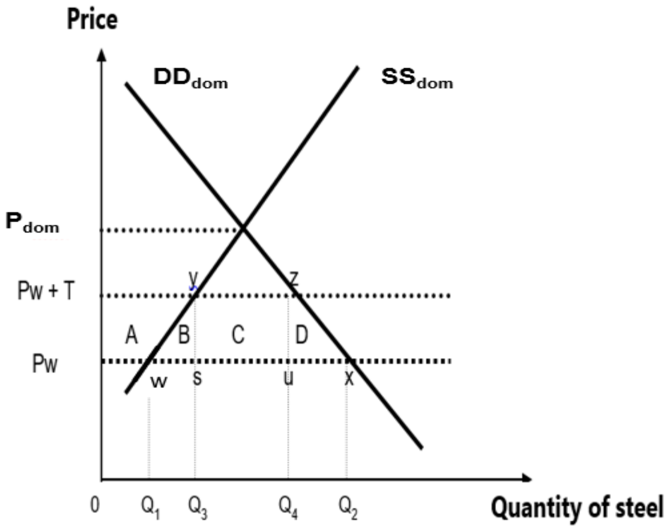

Fig 3

A tariff increases price of imports from Pw to Pw+T. This reduces the quantity demanded for imports from Q1Q2 to Q3Q4. Import expenditure falls from Q1wxQ2 to Q3suQ4, increasing net exports, ceteris paribus. This helps to improve current account. At the same time, the increase in net exports increases AD, triggering a multiplier process and hence increase RNY, achieving growth and reducing demand deficient unemployment as labour is a derived demand. As consumers switch from imports to buy domestically-produced goods, this also increases domestic production from Q1 to Q3 and hence increases employment.

E1: Limitations and evaluation of protectionism

- Retaliation by trading partners might lead to a fall in export revenue of host country
- Not solving the root cause of the problem such as loss of CA and inefficiencies. Hence, inefficient firms have no incentive to restructure to improve the competitiveness of their products.
- Unable to resolve the outflow of FDI due to loss of CA as protectionist measures mainly target imports to protect domestic industries, rather than preventing the outflow of capital. Instead, protectionism will inevitably lead to inefficiencies and higher costs of production, which discourage FDI → fall in the inflow of capital/ increase in capital outflow will worsen capital account, making efforts to correct BOP deficit counterproductive.

R2: Explain (any 2) of the other measures and their limitations – depending on the negative impact of globalisation that students choose to address

1) Fiscal Policy
2) Monetary policy
3) Supply-side policies

E2: Limitation and evaluation of alternative measures

Note: students should explain the first alternative policy in depth, with evaluation, and briefly explain the second alternative policy in order to better manage their time.

Conclusion:
Students are required to compare across policies to decide which policy is the best to tackle the specific problem identified

[Root Cause, Time Period] E.g. While the use of protectionist measures is effective in correcting BOT deficit/ increase domestic employment/ increase real national output in the short run, they are unable to solve the issue of the loss of CA. The use of such measures could be counterproductive in the long run as it impedes efficiencies. In this case, the use of appropriate supply-side would be a better solution albeit more time is needed for these measures to make a positive impact on the economy.

Knowledge, Application, Understanding and Analysis		
L3	• A **clear** and coherent answer that is **relevant** to the question requirements and applied to its context. • Answer covers sufficient **scope** with *<u>at least two</u>* distinct requirements (i.e. areas of analysis): ○ **Requirement 1:** Protectionism is an appropriate measure to minimise the adverse impact of globalisation ○ **Requirement 2:** An alternative measure that is appropriate to minimise the adverse impact of globalisation • Answer is **accurate** and has sufficient **depth**: ○ Detailed and accurate explanation of economic concepts with **analytical** application to the question. ○ Economic analysis is supported by accurately labelled and explained diagrams (i.e. AD/AS framework) and relevant real-world examples	8–10
L2	• Answer is **mostly relevant** to the question requirements. • Answer **lacks scope** (e.g. considers only the first or second requirement). • Answer may contain **minor inaccuracies** and has **insufficient depth** with **cursory** application to the question (e.g. incomplete or inaccurate explanation of economic concepts, incomplete or no explanation of diagrams and little or no use of real-world examples).	5–7
L1	• Answer is **mostly irrelevant** to question requirements. • Economic concepts are not explained and/or **inaccurate**. • Economic analysis **lacks coherence** and **accuracy**. • Lacking in use of diagrams or wrong diagrams are used.	1–4
Evaluation		
E3	• Two well-explained evaluative judgements that are supported by arguments presented in the answer and linked to the context of the question PLUS a summative conclusion.	5
E2	• Two evaluative judgements, one of which is explained.	3–4
E1	• Evaluative statements that are unexplained or not supported by the arguments presented in the answer OR a judgement that is not linked to the context of the question; OR • One explained evaluative judgement.	1–2

2. **(a) Explain the potential challenges that might arise when a country loses competitiveness in an increasingly globalized world. [10]**

(b) Discuss whether protectionism is the most appropriate measure to manage the challenges when a country loses its competitiveness. [15]

<u>Suggested Answer for Part (a)</u>

Question Analysis	
Command	Explain
Content	Potential challenges relating to inability to achieve macroeconomic goals when a country loses competitiveness
Context	Increasingly globalized world
Synopsis: *Students are expected to provide challenges to the internal and external macroeconomic goals when a country loses competitiveness in an increasingly globalized world using AD/AS analysis.* *Note: The synopsis details the question requirements and broad approach students are required to take.*	

<u>Introduction</u>

An increasingly globalized world refers to an increasing interconnectedness between countries in terms of increasing mobility of goods, investments and labour. And when a country loses competitiveness in an increasingly globalized world, it could mean losing export, investment and/or labour competitiveness which could lead a country's inability to achieve her internal (economic growth, low unemployment rate and low inflation rate) and external (favourable trade balance) macroeconomic goals.

<u>Body</u>

R1: Challenges to the Internal Macroeconomic goals due to a country's loss of competitiveness in an increasingly globalized world

(i) Impact of increase mobility of Goods and Services

Due to an increasing interconnectedness between countries in terms of increasing mobility of goods and services, countries often find themselves grappling with the challenges posed by the emergence of low-cost nations. One of the primary factors contributing to the **erosion of export competitiveness is the significant disparity in labor costs between developed and emerging economies**. Low-cost countries often possess a labor force willing to work for considerably lower wages than their counterparts in developed nations. This wage differential enables these nations to produce goods and services at a fraction of the cost, giving them a competitive edge in the global market. For example, China with a massive and relatively inexpensive labor force, coupled with strategic industrial policies, has become a manufacturing powerhouse. This has led to a decline in the export competitiveness of numerous developed nations such as the United States, particularly in industries such as textiles, electronics, and manufacturing. Therefore, trading partners may choose to import from these low-cost countries instead. This will thus lead to a fall in the demand for domestic country's export resulting in a fall in export revenue.

Import expenditure may also rise due to domestic inflation. When there is rising inflation in the domestic country, consumers' real income will fall assuming that their wages remain constant. Thus, with a fall in real income, consumers' purchasing power fall, and this prompts them to reassess their spending habits and choices. As consumers are now facing higher prices for domestic products, they might then shift their preferences towards imported goods that seem relatively cheaper. The demand for imports will then rise leading a rise in import expenditure.

(ii) Impact of increase mobility of investments

With increase interconnectedness between countries, countries that can provide better returns to investments, would be able to attract local and FDI from the domestic country. These countries may be able to provide better returns to investments due to having improvement in technology, rising labour productivity, improvement in infrastructure etc. For example, countries like the United States with advanced technology and innovation ecosystems, has leveraged their interconnectedness to attract investments in cutting-edge industries. Silicon Valley in the United States has become synonymous with technological innovation, drawing entrepreneurs, venture capitalists, and multinational corporations from around the world. The interconnectedness of these regions facilitates knowledge sharing, collaboration, and access to capital, making them highly attractive for both local and foreign investors. This may then cause an outflow of local and FDI from the domestic countries to the United States.

Therefore, when a country loses competitiveness in an increasingly globalized world, it may lead to falling export revenue, rising import expenditure and/or investment expenditure. This will cause aggregate demand (AD) to fall. With a fall in AD, the AD curve will shift to the left from AD_0 to AD_1 as shown in figure 1. This initial fall in AD will cause an unplanned rise in the firm's inventory. Hence, firms will cut down on production and hence reduce demand for resources such as labour. As less labour is hired, they receive less in wages. The purchasing power of the labour force falls. This leads to a multiple fall in induced consumption. Each subsequent fall in induced consumption will be increasingly smaller. This results in a multiple leftward shift in the AD curve, where AD is falling at a decreasing rate. The overall fall is AD has resulted in a **multiple fall in real national income from Y_1 to Y_2**. The fall in production of goods has also led to fall in the derived demand for labour leading to a rise **in demand deficient unemployment.** This thus **cause challenges for the country to achieve actual growth and low unemployment rate.** In the long run, the fall in investment expenditure would also reduce the quantity of capital as existing plan and machinery depreciate and are not replaced fast enough. The economy will thus face a fall in productive capacity and cause LRAS to decrease from AS_0 to AS_1 leading to **a fall in potential growth** (from Y_{f0} to Y_{f1}).

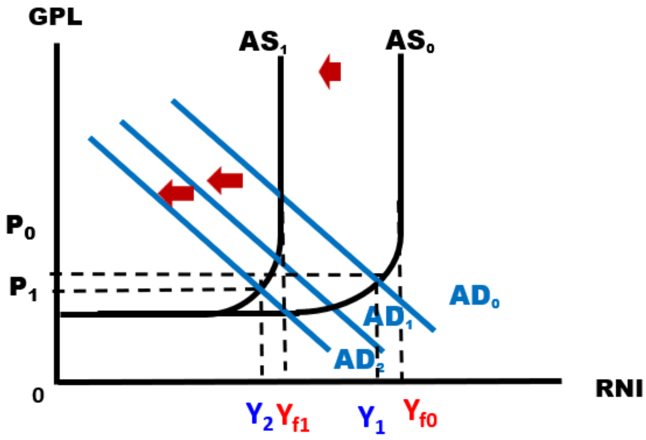

Figure 1

(iii) Impact of increase mobility of labour

With greater labour mobility because of an increasingly globalized world, it would also have implication on the productive capacity of a country. As mentioned previously, when countries lose export and investment competitiveness, they will face falling aggregate demand. It will thus lead to a fall in real national income (actual growth) and a rise in demand deficient unemployment as labour is a derived demand. With poor economic outlook, skilled workers, including engineers and professionals may thus seek opportunities abroad in countries with strong economic prospects and better job prospects. This brain drain further exacerbates the loss of human capital within the country and decreases productive capacity of the economy. This will thus cause LRAS to shift to the left from AS_0 to AS_1 leading to **a fall in potential growth** (from Y_{f0} to Y_{f1}) as shown in figure 1.

R2: Challenges to the External Macroeconomic goals due to a country's loss of competitiveness in an increasingly globalized world

When a country loses competitiveness in an increasingly globalized world, it can also affect the external macroeconomic goal. As explained previously, with increasing interconnectedness between countries, a country could lose its competitiveness due to the erosion of export competitiveness and/or when there is rising domestic inflation which will lead to falling export revenue and rising import expenditure respectively. Thus, with **net export falling, it will worsen the trade balance and hence current account.**

Furthermore, if the country is unable to attract investments as their trading partners have superior and more advanced technology, higher labour productivity or better infrastructure, there will be an **outflow of local and FDI from the domestic country. This will result in worsening of the capital and financial account.**

With the worsening of both the current and capital and financial accounts, the country will thus face an **unfavourable balance of payment position**. In addition, if the balance of payment deficit is persistent, it could lead to a downward pressure on the country's exchange rate. With a depreciation of the country's exchange rate, prices of imported factor inputs will rise, and this may fuel imported inflation and deter potential FDI.

Conclusion

The loss in global competitiveness can be devastating for a country's Internal and External goal. Hence, governments would need to use relevant measures to address the loss in global competitiveness.

Mark Scheme:

Knowledge, Application, Understanding and Analysis		
L3	• A **clear** and coherent answer that is **relevant** to the question requirements and applied to its context. • Answer covers sufficient **scope** with *at least two* distinct requirements (i.e. areas of analysis): ○ Requirement 1: Challenges to the Internal Macroeconomic goals due to a country's loss of competitiveness in an increasingly globalized world ○ Requirement 2: Challenges to the External Macroeconomic goals due to a country's loss of competitiveness in an increasingly globalized world • Answer is **accurate** and has sufficient **depth**: ○ Detailed and accurate explanation of economic concepts with **analytical** application to the question. ○ Economic analysis is supported by accurately labelled and explained diagrams (i.e. AD/AS framework) and relevant real-world examples	8–10
L2	• Answer is **mostly relevant** to the question requirements. • Answer **lacks scope** (e.g. considers only the first or second requirement). • Answer may contain **minor inaccuracies** and has **insufficient depth** with **cursory** application to the question (e.g. incomplete or inaccurate explanation of economic concepts, incomplete or no explanation of diagrams and little or no use of real-world examples).	5–7
L1	• Answer is **mostly irrelevant** to question requirements. • Economic concepts are not explained and/or are **inaccurate**. • Economic analysis **lacks coherence** and **accuracy**. • Lacking in use of diagrams or wrong diagrams are used.	1–4

b) Discuss whether protectionism is the most appropriate measure to manage the challenges when a country loses its competitiveness.

Suggested Answer for Part (b)

Question Analysis	
Command	Discuss whether
Content	Protectionist tools such as tariff and an alternative measure (e.g. SS-side policy) to manage the challenges (internal & external) when a country loses its competitiveness.
Context	No particular country. Use examples to explain the answers.

Synopsis:

Students are expected to explain how protectionism (e.g. tariff) and an alternative measure such as SS-side policy work to address the challenges (falling economics growth, rising unemployment and worsening BOP). The answer should include sound judgement about the difficulties faced by each type of policy and come to a good summative conclusion on whether protectionism is the most appropriate measure.

Note: The synopsis details the question requirements and broad approach students are required to take.

Introduction

A country faces challenges in achieving its internal and external goals with the loss of competitiveness in an increasingly globalized world. With the adverse consequences faced, some governments used it to justify the use of protectionist measures.

Body

R1: Protectionism is an appropriate measure to manage the challenges when a country loses its competitiveness.

Protectionism refers to actions undertaken by governments to shelter the domestic industries from foreign competition. These actions can be categorized into tariff vs non-tariff barriers to trade. The government can impose a tariff on the imported good (e.g. steel) to address the loss in trade competitiveness (in particular, price competitiveness) and worsening of the BOP position.

With a tariff, the price the domestic consumer pays for the good would be Pw plus the tariff as seen in figure 4 below.

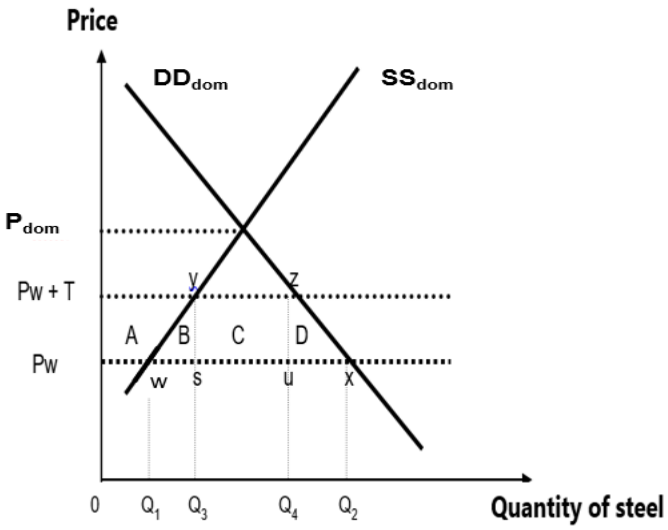

Figure 4

Assume the government imposes a tariff represented by T, the price paid by the domestic consumer after the tariff would be Pw+T, where Pw goes to the foreign producer and T goes to the government. This artificially raises the import prices, making imports less price competitive.

The tariff raises the domestic price to Pw+T, and this encourages domestic supplier to raise their quantity supplied (law of supply) from quantity $\mathbf{Q_1}$ to $\mathbf{Q_3}$. Simultaneously, at the higher price Pw+T, domestic consumer are now only willing to purchase quantity $\mathbf{Q_4}$ i.e quantity demanded falls from $\mathbf{Q_2}$ to $\mathbf{Q_4}$ (law of demand). Hence at price, Pw+T, domestic consumers are willing to purchase $\mathbf{Q_4}$, but domestic suppliers are only willing to supply $\mathbf{Q_3}$. Hence $\mathbf{Q_4Q_3}$ are imported from the foreign producers. Thus, the amount imported is reduced to $\mathbf{Q_4Q_3}$ (from $\mathbf{Q_1Q_2}$ before the tariff).

Before the tariff, domestic consumers were purchasing **$\mathbf{Q_1Q_2}$ imports** at the price Pw. Hence import expenditure is $\mathbf{Q_1wxQ_2}$. After the tariff, domestic consumers purchase less ie. **$\mathbf{Q_3Q_4}$ imports** at the price Pw+T. Although they spend **$\mathbf{Q_3yzQ_4}$, area C (or syzu)** goes to the government. The foreign producers still receive Pw per unit, even though the domestic consumer is paying Pw+T per unit, as T goes to the government.

Hence the foreign producer receives the price Pw for selling quantity $\mathbf{Q_3Q_4}$ and $\mathbf{Q_3suQ_4}$ is the revenue received by foreign producers (which is the new import expenditure). In summary, with a tariff, import expenditure would fall from Q_1wxQ_2 to Q_3suQ_4. The fall in import expenditure leads to an improvement in the current account, helping to improve and eventually correct a BOP deficit (external macroeconomic goal), caused by the loss in trade competitiveness.

Moreover, with a fall in import expenditure and increase in domestic consumption from Q_1 to Q_3, ceteris paribus, it will lead to a rise in aggregate demand (AD). The initial rise in AD, will cause an unplanned fall in the firm's inventory. To maintain their inventory, firms will need to employ more resources such as labour. As more labour are hired, they receive more in wages. The purchasing power of the labour force rises. This leads to a multiple rise in induced consumption. Each subsequent rise in induced consumption will be increasingly smaller. This results in a multiple rightward shift in the AD curve, where AD is rising at a decreasing rate. The overall rise is AD in figure 5 has resulted in a multiple rise in real NY from Y_0 to Y_2 leading to a rise in actual growth (internal macroecnomic goal). Since labour is a derived demand, the demand for labour rises and this will seek to solve demand-deficient unemployment (internal macroeconomic goal).

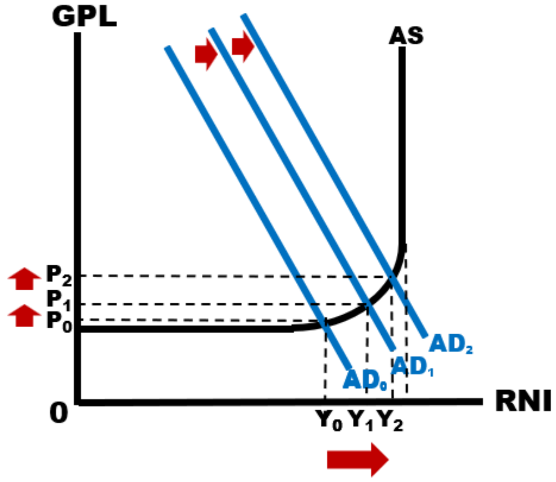

Figure 5

To evaluate, traditional protectionism measures like tariffs are hostile and invite retaliation from trading partners. For example, the trade-war between US and China led to an escalation of tariffs imposed by both countries over various goods and resources such as solar panels, washing machines, soybeans, steel piping, etc. These tariffs ended up hurting American and Chinese manufacturers as they face rising costs of production, resulting in a fall in SRAS and rising GPL, reducing their export competitiveness which may worsen current account instead.

The use of tariff on imports also leads to misallocation of scarce resources. The protected domestic industry can no longer compete with foreign counterparts even in their domestic markets due to a loss of comparative advantage. Protectionism merely perpetuates domestic inefficiency as it prolongs the inefficient use of the economy's resources and leads to allocative inefficiency.
With reference to figure 4, areas B and D represent deadweight loss to society or efficiency losses. They arise because tariffs distort incentives to consumers and producers.

R2: SS-side policy is an alternative measure that is appropriate to manage the challenges when a country loses its competitiveness.

Therefore, protectionism may not be the most appropriate measure to manage the challenges when a country loses its competitiveness. Long-term supply-side policies to restructure and upgrade labour skills and technology may instead be more appropriate. For example, in Singapore, the government implemented the Production and Innovation Credit (PIC) scheme which provides tax benefits on investments made by businesses in a broad range of activities along the innovation value chain. Under this scheme, firms can enjoy 400% tax deductions/allowances of up to $400,000 of their expenditure. This will thus incentivize the firms to invest which raises the country's productive capacity. In addition, with successful R&D, firms may also able to develop more cost-effective production processes. These measures will thus increase both short-run (SRAS) and long run-aggregate supply (LRAS).

Apart from increasing investment expenditure, the government can also make use supply-side policies to upgrade the skills of labour. For example, in Singapore, the government introduced the Workforce Skills Qualification (WSQ) which help to train, develop, assess and certify the skills and competencies of the workforce. The Skills Future Credit scheme was also introduced where all Singaporeans aged 25 and above received an opening credit of S$500 to reskill and upskill. With the improvement in labour productivity, it will help to lower the unit cost of production for firms and this will lead to a rise in both SR and LRAS.

Hence, the abovementioned supply-side measures will cause a country's AS curve to increase from AS_0 to AS_1 as shown in figure 6 below. The real national income increase from Y_0 to Y_1 and Y_f from Y_{f0} to Y_{f1}. There is actual and potential growth. Since labour is a derived demand, demand for labour increases and unemployment falls. The general price level also falls from P_0 to P_1. (Internal macroeconomic goals)

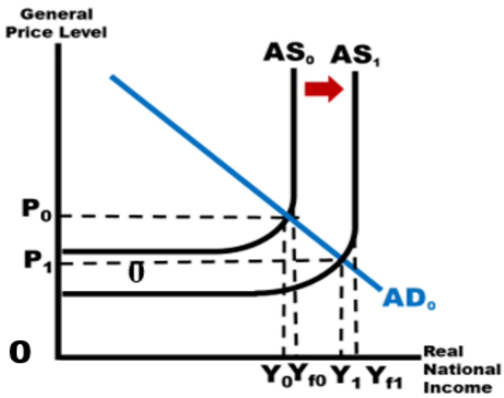

Figure 6

With the fall in general price level, it will also help to improve the country's export price competitiveness. Thus, export revenue may rise assuming demand for exports is price elastic. With export revenue rising, ceteris paribus, it will improve the trade balance.

Furthermore, with a skilled labour force and rising labour productivity, it may attract FDI which will improve the capital and financial account balance. With improvement in both the current and capital account, it will lead to an improvement in the balance of payment position. (External macroeconomic goal)

To evaluate, R&D takes a long time and there is no guarantee that the R&D will be successful. Thus, AS may not increase and the challenges are not managed. Regarding training of labour, workers may not be willing to go for training and they may not necessarily pick up new skill as it depends on the workers' aptitude as well. Implementing these programmes would also create a large strain on government budget and would not be a feasible solution for countries that are running on a large budget deficit.

Conclusion

[Stand]: Protectionism may not be the most appropriate measure to manage the challenges when a country loses its competitiveness.

[Justify]:

[Time Period + Root Cause]: Protectionism may only be appropriate in the short run but not in the long run as the negative consequences such as retaliation from trading partners will eventually outweigh the benefits. It is, at best, a temporary measure. The more appropriate solution would be to deal with the root cause of loss of competitiveness. If there is a loss in competitiveness, the country should then implement long-run supply-side policies so that it can be productive and regain competitiveness. Nevertheless, if the country incurs a large budget deficit and is unable to subsidise training and provide incentives for investments, then protectionism may be a more appropriate policy in the short run to manage the challenges.

Mark Scheme:

<table>
<tr><th colspan="3">Knowledge, Application, Understanding and Analysis</th></tr>
<tr><td>L3</td><td>• A clear and coherent answer that is relevant to the question requirements and applied to its context.
• Answer covers sufficient scope with <u>at least two</u> distinct requirements (i.e. areas of analysis):
○ Requirement 1: Protectionism is an appropriate measure to manage the challenges when a country loses its competitiveness.
○ Requirement 2: SS-side policy is an alternative measure that is appropriate to manage the challenges when a country loses its competitiveness.
• Answer is accurate and has sufficient depth:
○ Detailed and accurate explanation of economic concepts with analytical application to the question.
○ Economic analysis is supported by accurately labelled and explained diagrams (i.e. AD/AS framework) and relevant real-world examples</td><td>8–10</td></tr>
<tr><td>L2</td><td>• Answer is mostly relevant to the question requirements.
• Answer lacks scope (e.g. considers only the first or second requirement).
• Answer may contain minor inaccuracies and has insufficient depth with cursory application to the question (e.g. incomplete or inaccurate explanation of economic concepts, incomplete or no explanation of diagrams and little or no use of real-world examples).</td><td>5–7</td></tr>
<tr><td>L1</td><td>• Answer is mostly irrelevant to question requirements.
• Economic concepts are not explained and/or inaccurate.
• Economic analysis lacks coherence and accuracy.
• Lacking in use of diagrams or wrong diagrams are used.</td><td>1–4</td></tr>
<tr><th colspan="3">Evaluation</th></tr>
<tr><td>E3</td><td>• Two well-explained evaluative judgements that are supported by arguments presented in the answer and linked to the context of the question PLUS a summative conclusion.</td><td>5</td></tr>
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<tr><td>E1</td><td>• Evaluative statements that are unexplained or not supported by the arguments presented in the answer OR a judgement that is not linked to the context of the question; OR
• One explained evaluative judgement.</td><td>1–2</td></tr>
</table>

3. **(a) Explain the factors that will influence a government's decision to open up their economy to globalization. [10]**

(b) Assess the measures adopted by the Singapore government to improve Singapore's global competitiveness. [15]

<u>Suggested Answer for part (a)</u>

Question Analysis	
Command	Explain
Content	Factors to open up economy to globalisation (benefits of globalisation)
Context	A government
Synopsis: *Students are expected to use AD-AS analysis to explain reasons/factors that will motivate a government's decision to open up their economy to globalisation, primarily focusing on positive impacts of globalisation. Students should cover all 3 dimensions of globalisation in their answer.* *Note: The synopsis details the question requirements and broad approach students are required to take.*	

Introduction

There are 3 dimensions of globalisation: increase mobility of goods and services, investment and labour. This essay will explain the benefits of the increase mobility of these 3 dimensions on an economy, focusing on the impact of macroeconomic goals.

Body

R1: Achieve Economic Growth and Reduce Unemployment

(i) <u>Benefits of trade</u>

- Enjoy greater consumer welfare from importing products it may or may not have Comparative Advantage to produce.
  - If country has the comparative advantage in the production of one good, trade enables the consumers to enjoy a larger variety of products that they do not have comparative advantage to produce
- Enable a small and open economy, such as Singapore, to maintain its export-competitiveness
  - Openness enables imports of cheaper raw materials which is crucial for small and open economies which lacks natural resources → maintain/reduce the cost of production → SRAS curve to shift downwards (Fig 1 below) → lower general price level → cheaper exports (this is a movement along AD, not a shift) → stimulating economic growth, reduce unemployment

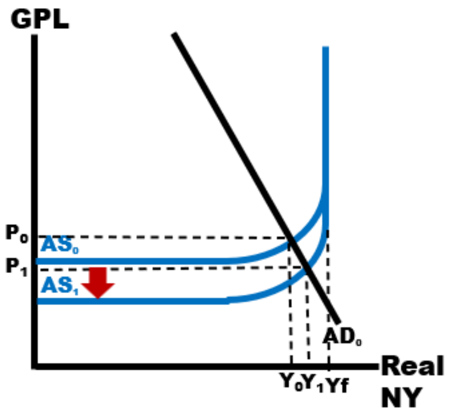

Fig 1

(ii) Benefits of entry of foreign funds and FDI

- FDI inflow → increase in investment → increase in AD → multiplier effect → increase in EG, fall in unemployment.
- FDI inflows → transfer of skills and technology → improve labour productivity, total factor productivity → increase in quantity and quality of resources → increase in potential growth
- Increase in AD and LRAS ensure sustainable economic growth (Fig 2)

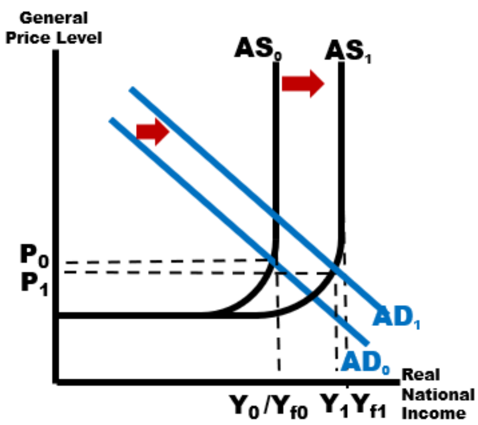

Fig 2

R2: Reduce Inflation (achieve Price Stability)

(i) Benefits of entry of both foreign labour and talents

- Entry of foreign talent → improve the quality of the labour force → shift the productive capacity to the right → enables the country to move into high-tech, capital intensive manufacturing and services.
- Entry of foreign labour → increase the pool of low-wage workers to employ → increase the quantity of the labour force and reduce cost of production → shift entire LRAS rightwards and downwards (Fig 3)

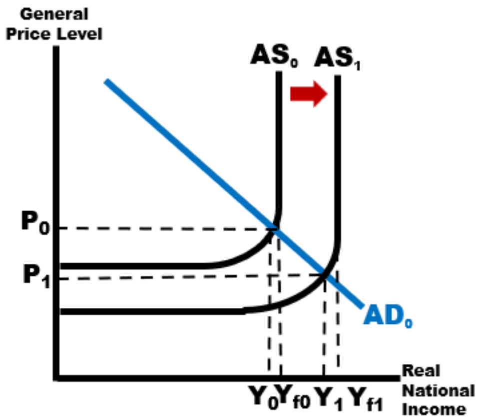

Fig 3

The rise in LRAS from AS0 to AS1 reduces the general price level from P0 to P1, helping to reduce inflationary pressures and maintaining price stability.
In addition, entry of foreign talents and labour help economies cope with the challenges of aging population on labour forces, especially for countries with an ageing workforce and low fertility rates.

Note: it is also possible to accept also any explanation on costs influencing the government's decision, provided students phrase their answers clearly to answer the question directly

- The level of competitiveness in the economy in order for the benefits to outweigh the costs of globalisation
- the extent or frequency of shocks which can increase the country's vulnerability to these external factors
- performance of global economy e.g. when the world economy is facing a recession, there will be an adverse impact on a globalised and open economy

Mark Scheme

Knowledge, Application, Understanding and Analysis		
L3	• A **clear** and coherent answer that is **relevant** to the question requirements and applied to its context. • Answer covers sufficient **scope** with *at least two* distinct requirements (i.e. areas of analysis): ○ Requirement 1: Positive impact of globalistion to an economy, focusing on RNY ○ Requirement 2: Positive impact of globalisation to an economy, focusing on GPL • Answer is **accurate** and has sufficient **depth**: ○ Detailed and accurate explanation of economic concepts with **analytical** application to the question. ○ Economic analysis is supported by accurately labelled and explained diagrams (i.e. AD/AS framework) and relevant real-world examples	8–10
L2	• Answer is **mostly relevant** to the question requirements. • Answer **lacks scope** (e.g. considers only the first or second requirement). • Answer may contain **minor inaccuracies** and has **insufficient depth** with **cursory** application to the question (e.g. incomplete or inaccurate	5–7

	explanation of economic concepts, incomplete or no explanation of diagrams and little or no use of real-world examples).	
L1	• Answer is **mostly irrelevant** to question requirements. • Economic concepts are not explained and/or are **inaccurate**. • Economic analysis **lacks coherence** and **accuracy**. • Lacking in use of diagrams or wrong diagrams are used.	1–4

(b) Assess the measures adopted by the Singapore government to improve Singapore's global competitiveness. [15]

Suggested Answer for part (b)

Question Analysis	
Command	Assess
Content	Measures to improve global competitiveness
Context	Singapore
Synopsis: *Students are expected to use AD-AS analysis to explain and evaluate at least 2 measures adopted by the Singapore government to improve Singapore's global competitiveness. Students should cover both price and non-price competitiveness, and supply-side and other types of policies in order to have scope/breadth in their answers.* *Note: The synopsis details the question requirements and broad approach students are required to take.*	

Introduction
This essay will explain and evaluate the measures the policies that the Singapore government has adopted to improve the price and non-price competitiveness of the country. These measures are supply-side policies, free trade policy and exchange rate policy.

Body

R1: Supply-side policies (choose 1 or 2)

(i) Reduction of income and corporate tax → Increase in supply of labour & Investment to increase the productive capacity of the economy

- reduction of corporate tax → firms will have more after tax profits which enable them to invest in R&D, resulting in dynamic efficiency → improve price and non-price competitiveness of exports (with better technology)
  - Limitation: falling govt tax revenue – limits expenditure on other areas e.g. welfare. But not a big problem for Singapore as the government can always draw from their reserves to spend or run a short-term budget deficit to support such supply-side policies

(ii) Enforcing strong Intellectual Property Right Law/ environment → increase confidence and willingness for firms to engage in R&D activities → attract skills & knowledge-based FDI to Singapore to carry out R&D, since innovative products & ideas can be patented & protected → help Singapore to develop new comparative advantage

- Limitation: compliance and monitoring costs may be incurred → but for smaller geographical countries like Singapore, this enforcement may be more feasible as compared to larger countries

(iii) Subsidise education → new courses such as Information Technology, School of the Arts (SOTA) etc that specialise in niche areas to groom students so as to compete globally → develop new areas of comparative advantage to boost our export competitiveness

(iv) skills upgrading/training/re-training for those who are structurally unemployed → Government's SPUR Program in providing training & re-training → enable workers to be updated on latest developments and new skills → increase quality of labour → improves both price and non-price competitiveness of our exports, improves our attractiveness as an investment location for FDI
- Limitation: strain on govt budget → in S'pore, a co-payment system between firms and govt is instead adopted → mitigates the drain on the fiscal resources. However, this is an important area for our long-term growth and Singapore government can always draw from our reserves or run short-term budget deficit to support skill upgrading

(v) Immigration policy - openness to foreign talent → This will supplement our limited pool of aging population in terms of skilled labour → increasing our attractives to FDI
Immigration policy - Openness to Unskilled labour e.g. domestic maids & construction workers will help to lower wage rate of blue collar workers as well as supplement shortages in manual workers → help to reduce cost of production in Singapore
- Limitation: may pose a strain on existing infrastructure as seen in the congestion situations in the public transport networks

R2: Free trade policy

Free trade policy

a. Free trade policy introduce greater foreign competition → Possible erosion of market power for domestic firms → incentivises firms to engage in both price and non-price competition → more competitive prices and better quality/variety of products → increase in consumers welfare

b. FTA → Improve global competitiveness as price of exports will be more competitive since no tariff is imposed → increase X, multiplied increase in AD and RNY
- Limitation: vulnerable to external shocks when the economy is so open

R3: Exchange rate policy

Exchange rate policy

Maintaining export competitiveness using exchange rate policy → due to our import reliance, Singapore has been adopting a policy of gradual appreciation → manage the increase in cost of production → dampen the fall in SRAS → reduce pressure on prices
- Limitation: an appreciation will hurt our export price competitiveness, may cause AD to fall → depends on net effect of fall in AD vs increase in SRAS to see impact on economic growth and employment

Conclusion:

- **[Time period]** Supply-side policies take a long time to take effect; thus other policies like exchange rate policy or trade policy is needed to raise Singapore's competitiveness in the short run.
- **[State of economy]** Comparison of measures e.g. pursuit of global competitiveness may entail trade-offs in the achievement of other economic goals if it is pursued predominantly

through demand-management policies. E.g. the pursuit of global competitiveness allows the achievement of economic growth and balance of payments surplus but may lead to greater income inequality and structural unemployment. Prioritising the importance of global competitiveness depending on the current economic situation e.g. the focus for an already competitive economy may be ensuring a lower income gap in its society through active redistribution policies

Mark Scheme

Knowledge, Application, Understanding and Analysis		
L3	• A **clear** and coherent answer that is **relevant** to the question requirements and applied to its context. • Answer covers sufficient **scope** with *at least two* distinct requirements (i.e. areas of analysis): o **Requirement 1:** Supply-side policies adopted by the Singapore government to improve Singapore's global competitiveness. o **Requirement 2:** Alternative policies adopted by the Singapore government to improve Singapore's global competitiveness. • Answer is **accurate** and has sufficient **depth**: o Detailed and accurate explanation of economic concepts with **analytical** application to the question. o Economic analysis is supported by accurately labelled and explained diagrams (i.e. AD/AS framework) and relevant real-world examples	8–10
L2	• Answer is **mostly relevant** to the question requirements. • Answer **lacks scope** (e.g. considers only the first or second requirement). • Answer may contain **minor inaccuracies** and has **insufficient depth** with **cursory** application to the question (e.g. incomplete or inaccurate explanation of economic concepts, incomplete or no explanation of diagrams and little or no use of real-world examples).	5–7
L1	• Answer is **mostly irrelevant** to question requirements. • Economic concepts are not explained and/or **inaccurate**. • Economic analysis **lacks coherence** and **accuracy**. • Lacking in use of diagrams or wrong diagrams are used.	1–4
Evaluation		
E3	• Two well-explained evaluative judgements that are supported by arguments presented in the answer and linked to the context of the question PLUS a summative conclusion.	5
E2	• Two evaluative judgements, one of which is explained.	3–4
E1	• Evaluative statements that are unexplained or not supported by the arguments presented in the answer OR a judgement that is not linked to the context of the question; OR • One explained evaluative judgement.	1–2

<u>4</u>. Traditional trade theory explains that differences in relative opportunity cost result in countries specialising and trading according to their comparative advantages. In recent years countries are also increasingly trading in goods within the same industry, and at the same time experiencing the phenomenon of off-shoring, where firms have relocated parts of their production process overseas.

(a) Explain how Singapore has benefitted from opening its door to trade and capital flows. [10]

(b) To what extent are recent changes in global trade and capital flows attributed to differences in opportunity cost? [15]

<u>Suggested Answer for part (a)</u>

<u>Introduction:</u>

- Clarify the meaning of "opening its doors to trade and capital flows"
  - Singapore adopting a pro-trade stance with no barriers to trade as reflected in its total trade value (X+M) being about 3xGDP
  - Singapore being open to capital flows with minimal restrictions to capital flows both in terms of FDI and hot $ flows

  - Benefits can be assessed in terms of attainment of macroeconomic and microeconomic goals. Singapore has adopted an open approach to trade and capital flows in view of it being a small economy, lacking in natural resources, with a small domestic market and a price and interest taker in the global commodity and financial market.

<u>Body:</u>

R1: Explain the benefits for Singapore in terms of increase in <u>trade flows</u>

1) Increase in X revenue via FTAs
  - Define FTA: Legally binding agreement between two or more countries that seeks to reduce or eliminate trade barriers.
  - Explain that Singapore has pursued an openness to trade with its signing of FTAs (both bilateral and multi-lateral) which has enabled Singapore it to expand its exports markets.
  - With the lowering of trade barriers against Singapore's X, Singapore is able to leverage and trade according to its comparative advantage and increase both its export volume and value, overcoming its constraints of a small domestic market.
  - Increase in X value → Increase AD → more than proportionate increase in NY (briefly explain the k effect) → increase real GDP → increase real national output → increase utilisation of existing resources → actual growth (Illustrate with rightward shift of AD curve)
  - With firms increasing production → increase demand for labour, with labour being a derived demand → increase employment.
  - Increase in X revenue improves current account of BOP (ceteris paribus)

2) Increase in M expenditure

- By being open to trade, Singapore has also benefited from its ability to M essential raw materials and food stuff more cheaply than resorting to produce such goods herself where the opportunity cost of doing so would be high given its lack of natural resources.
- Lower prices on imported inputs → lower COP → Increase SRAS → Increase actual growth, lower GPL, dampening cost-push inflation. (Illustrate with downward shift of SRAS curve)
- Lower COP also increases Singapore's X price competitiveness, assuming $PED_X > 1$ → Increase in X revenue and similar effects on raising AD, actual growth and employment.
- By being open to trade, competition from foreign M lowers barriers to entry and forces firm to be cost-efficient and adopt product and process innovation → movement towards productive and dynamic efficiency,

Overall effect of increase in both export revenue and import expenditure has been an improvement of Singapore's BOT and current account of BOP. This is due to Singapore's high M content of exports. Cheaper imported inputs has largely been beneficial in promoting exports growth.

R2: Explain the benefits for Singapore in terms of <u>increase in capital flows</u> in the form of FDI (Students may also consider the effects of hot $ inflow)

- Inward investment via FDI → increase in I component of AD → similar effects on raising AD, actual growth and employment.
- Increase in FDI → helps to build up capital stock and deepen Singapore's capital intensity. This has been particularly beneficial in accelerating Singapore's industrialisation process. Increases economy's productive capacity and increases potential growth. (Illustrate with rightward shift of LRAS curve)
- Increase in FDI → demonstration and competition effect → encourages innovation, R&D → increases potential growth.
- FDI inflows improves capital account in SR, ceteris paribus improves overall BOP.

<u>Conclusion:</u> Singapore has largely benefited from its openness to both trade and capital flows. This has been aided by the government's conducive economic policies to support and promote trade and FDI.

Knowledge, Application, Understanding and Analysis		Marks
L3	✓ Both R1 and R2 with excellent ability to apply to the given context of Singapore ✓ Clear grasp of the important issues involved and the context (small open economy implications) ✓ Good scope to answer (at least 3 points covering the benefits of both trade and capital flows) ✓ Clear reasoned structure to whole analysis ✓ Rigour in economic analysis o Provides definition(s) to key terms in preamble/question o Effective use of analytical economic framework (with diagrams) o Examples used are explained	8 – 10
L2	✓ Either R1 or R2 (max 5m) ✓ Both R1 and R2 with answer that shows an ability to identify facts, some ability at graphical illustration, fair ability to apply AD-AS analysis or relevant economic theory to explain the effects of trade or capital flows on the macroeconomic and/or microeconomic objectives. ✓ Accurate though undeveloped explanation of the benefits of being open to trade/capital flows on the macroeconomic and/or microeconomic objectives. ✓ No/Weak application to Singapore economy context	5 – 7
L1	✓ Weak and incomplete understanding of the question and context: - **Mainly** irrelevancies OR substantial glaring conceptual errors - Does not go beyond listing	1 – 4

Traditional trade theory explains that differences in relative opportunity cost result in countries specialising and trading according to their comparative advantages. In recent years countries are also increasingly trading in goods within the same industry, and at the same time experiencing the phenomenon of off-shoring, where firms have relocated parts of their production process overseas.

(b) To what extent are recent changes in global trade and capital flows attributed to differences in opportunity cost? [15]

<u>Suggested Answer for part (b)</u>

<u>Introduction:</u>

Clarify the meaning of "recent changes in global trade and capital flows".
- Increase in trade flows with reference to the rise of intra-industry trade.
- Increase in inward FDI with the trend towards off-shoring

State that differences in opportunity cost results in countries trading according to their comparative advantage.
- State the theory of comparative advantage.

Body

R1: Recent changes in trade and capital flows can be attributed to the differences in opportunity cost as explained by the theory of comparative advantage.

❖ Using the theory of comparative advantage, explain how opportunity costs differences between countries account for the rise in intra industry trade in a specific context.

➢ For trade in goods at different stages of production within the same industry.

Eg. China's intra-industry trade in electronics.

China's has a relative factor abundance in low cost, low skilled labour and land, it is able to assemble and produce finished consumer electronics targeted at the mass market at a lower opportunity cost than a country like the South Korea, i.e China forgoes relatively lower amounts of other goods that would have been sacrificed to produce finished consumer electronic products. Eg. Household appliances, iPhone etc.

South Korea has a relative factor abundance in high cost but high skilled labour, higher degree of capital intensity, it is able to produce high-end electronic components at a lower opportunity cost than a country like China.

According to the theory of comparative advantage, China has CA in producing mass market finished consumer electronic products, it specializes in producing and exports such goods to countries like South Korea.

For the case of South Korea, it has a CA in producing high-end electronic components, it specializes in producing and exports such intermediate goods to countries like China.

Thus, the theory of comparative advantage and the differences in opportunity costs in production between countries explains the phenomenon of intra-industry trade.

Evaluation for R1

❖ Explain how differences in opportunity cost also accounts for the phenomenon of off-shoring where firms relocate part of their production process overseas.

- Explain the rationale for off-shoring: firms seek to reduce COP and focus on core business. For a global MNC, it can seek to relocate part of its production process away from its home country to other countries where the cost of production is lower.

Eg. Global MNCs has taken advantage of the low cost labour and abundant land in countries like China to off-shore its manufacturing and assembly facilities. This has resulted in greater flows of FDI to China and also promoted the exports of goods such as finished consumer electronics which is in line with the theory of CA due to the differences in opportunity costs as explained earlier → more cost efficient to specialise and engage in such production activities.

Eg. Global MNCs has taken advantage of the low cost, abundant higher skilled labour in countries like India to off-shore its IT operations. Eg. global firms like HP IBM, Intel, AMD, Microsoft, Oracle Corporation and Cisco have off-shored their IT services. This is in line with the theory of CA. India with its relative abundant skilled labour would have a lower opportunity cost in providing IT related services→ more cost efficient to specialise and engage in such activities

R2: Other factors can also account for the recent changes in trade and capital flows.

- For trade in goods at same stage of production within the same industry.

- Demand side factors: Changes income, taste and preferences.

With the rapid growth and development of emerging economies like China, rising affluence has spurred greater intra-industry trade. Eg. Chinese consumers with their rising disposable income have a new found appetite and ability to afford better quality branded imported goods like apparel, bags and cars. Although China do manufacture and exports such categories of goods, it also imports them at the same time, resulting in a greater product variety for the domestic market.

In the agriculture industry, India, traditionally an exporter of corn is in the process of moving towards a net importer of feed grains due to the greater demand for poultry with India's changing taste and preference for meat.

- For FDI flows due to off-shoring

- Ability to respond to more quickly to changing local demand
  Global MNCs may value proximity to the local market. They want to be in, or close to markets where the consumer base is large, making customised products and responding quickly to changing local demand.
  Eg. Bombardier, a Canadian maker of airplanes and trains, used to focus on cost savings made by off-shoring jobs abroad; now Bombardier is in China for the large Chinese market. Lenovo, which has its own factories in China is moving some production to America is so it will be able to customise its computers for U.S consumers and respond quickly to them.
- For trade and FDI flows due to off-shoring

- Diversification argument
  To reduce the vulnerability to economic shocks stemming from a too narrow a specialization, countries have increasing sought to diversify their economy by pursuing industrial policies to also develop the sectors for exports which they traditionally have been a net importer.

- Role of FTAs: With the signing of FTAs, along with the lowering of trade barriers, the easing of investment rules has facilitated the shifting of production facilities overseas between the partner countries, eg. From U.S to Mexico with NAFTA → promotes off-shoring

- Economies of scale to produce a specific good within the broad product category. Intra-industry trade allows countries to specialise in a limited variety of production and thus reap the advantages of increasing returns (i.e., economies of scale), but without reducing the variety of goods available for consumption.
- (Optional: Seasonal variations impacting demand/supply conditions
  Eg. Brocoli imported to U.S from Mexico in the winter and exported from U.S to Mexico in the summer.)

Reasoned conclusion:

- For goods within the same industry but at different stages of production, intra-industry trade can be better explained due to the differences in opportunity cost and hence comparative advantage.
- For goods within the same industry but at the same stage of production, the effect of opportunity cost and comparative advantage differences become less important as a determinant of intra-industry trade and off-shoring.

Level	Knowledge, Application, Understanding and Analysis	Marks
L3	▪ Both R1 and R2 with good use of appropriate framework/concepts in analysis ▪ Sound application of theory of comparative advantage with in-depth discussion of question ▪ Good application using appropriate contextual egs to illustrate intra-industry trade and off-shoring	8-10
L2	▪ Either R1 or R2 (max 5m) ▪ Both R1 and R2 with the use of appropriate framework/concepts in analysis ▪ Some ability to apply the theory of comparative advantage and other relevant concepts with appropriate examples. ▪ Max 7m if only discussed reasons for trade flows/capital flows ▪ Max 6 if only covers inter-industry trade no/weak off-shoring explanation but good attempt at explaining CA theory. ▪ Lacks consistent rigour in analysis ▪ Some errors in analysis	5-7
L1	▪ A demonstration of the inability to interpret or grasp the requirements of the question eg. Irrelevant answers that does not address the issue of intra-industry trade correctly ▪ Lacks use of economic framework/concepts in analysis ▪ Lacks scope of coverage	1-4
	Evaluation	
E3	Ensured that policies are evaluated as well as Takes a **clear, overall relevant stand in the conclusion**:	**5**
E2	• Evaluative judgements about **BOTH** requirements in the body paragraphs that are built on appropriate economic analysis which are **directly relevant** to the question requirement and have **sufficient depth**. E.g. **Recognise** the **unstated assumption(s)** of the economic analysis and **evaluate** their relevance to the question.	**3-4**
E1	Evaluative judgement about **one requirement or overall summative conclusion** which are **directly relevant** to the question requirement and contains **sufficient depth**.	**1-2**