

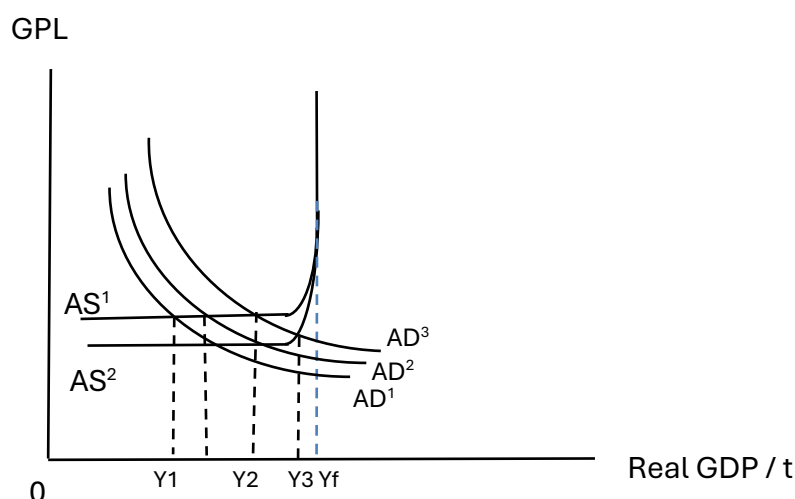
2025 H2 Economics Preliminary Examination
Paper 1 – Suggested Responses & Mark Scheme

Question 1: Plastic and its waste

(a))	Using a production possibility curve, explain how improper disposal of plastic affects a country's productive capacity. [2] - Improper disposal of plastic causes a part of a country's natural resources to become unusable or reduces the country's quantity of resources (e.g. destruction of marine life, which is a natural resource) resulting in a <u>reduction</u> in the country's productive capacity. [1] Or - Improper disposal of plastic causes microplastic to filter into waterways / the food chain (Extract 1) harming the health of a country's residents thereby leading to decreases in labour productivity and hence a <u>reduction</u> in the country's productive capacity. [1] - With the reduction in productive capacity, the country's PPC shifts inwards from PPC1 to PPC2. [1] Capital goods (units) Consumer goods (units)
(b))	With reference to Extract 1, Figure 1 and Figure 2:
(i))	Using a diagram, account for the change in price of plastic bags from 2020 to 2022. [4] - From 2020 to 2022, the price of crude oil and price of plastic bags both increased. - Because crude oil is needed to produce plastic bags (Extract 1), the rise in price of crude oil seen in Fig 1 would have caused the marginal cost (MC) of producing plastic bags to rise, which leads to a fall in supply of plastic bags, causing the SS curve to shift left from S^1 to S^2. [1m]

	- The resumption of economic activity in 2021 (Ext 1. Para 2) would have led to a rise in income of household, increasing their ability to pay for plastic bags, leading to a rise in demand for plastic bags, causing the DD curve to shift to the right from D^1 to D^2. [1m] Or - The resumption of economic activity in 2021 (Ext 1 Para 2) meant that firms increased production and this would have caused firms to increase their derived demand for plastic bags as inputs, causing the DD curve to shift to the right from D^1 to D^2. [1m] - The resulting shortage at the initial price level leads to an upward pressure on price [1m], where price rises to the new equilibrium level of P^2. - Diagram [1m]
(ii)	Explain the change in price of plastic bags from 2022 to 2023 despite the change in price of crude oil in Figure 2. [3] - The price of crude oil fell from 2022 to 2023. [1m] - Ceteris paribus, this would have led to a fall in MC of production and a rise in supply of plastic leading to downward pressure on price. [1m] - However, the price of plastic bags continued to rise. This must be because there was simultaneous rise in demand for plastic bags and the rise in demand exceeded the rise in supply, thus causing a shortage and hence rise in price of plastic bags. [1m]
(c)	With reference to Extract 2, explain how the export of waste management services might be explained by the concept of comparative advantage. [3] A country has comparative advantage in producing waste management services when it is able to produce the service at a lower opportunity cost, where lesser units of other goods are forgone in its production compared to another country. [1m] One way of managing (disposing of) plastic waste is to put it in landfills (Extract 2, para 1). Countries which are relatively land abundant will have a comparative advantage in managing it. [1m]

	Or One way of managing waste is to recycle it (Extract 2, para 1). Countries which are relatively more <i>capital abundant</i> or have <i>more abundance of skilled labour</i> needed for recycling certain types of plastic waste will have comparative advantage in such production. As highlighted in Extract 2, para 3, countries “differ in specific plastic recycling capabilities and needs, so while they might export some plastic waste, they also import others that are useful”. [1m] Countries who have a comparative disadvantage in managing the waste will be willing to import this service and countries with the comparative advantage will be willing to export it to the former so long as the terms of trade exceeds the latter's domestic opportunity cost of production <u>or</u> the transport cost of shipping the waste to the country who has the CA in waste management does not offset the cost differences between countries. [1m]
(d)	Discuss whether Malaysia should remain as a global hub for plastic waste management. [8] Introduction Malaysia should remain as a global hub only if the positive effects of being a plastic waste management global hub exceeds the negative effects. Body <u>Thesis</u>: Should, due to positive effects of being a plastic waste management global hub Malaysia should remain as a global hub for plastic waste management because it helps to boost its economic growth and lower unemployment, bringing about increases in material living standards. As highlighted in Extract 2, para 4, “higher plastic waste imports have positively impacted the economic growth of many low-income countries”. This can apply to Malaysia too. This is because the export of waste management services, e.g. plastic recycling leads to increases in AD for a country's final output, assuming export earnings rise by more than import spending. Assuming the presence of excess capacity and ceteris paribus, the rise in AD from AD¹ to AD² will lead to an unplanned fall in inventories in the affected sector and this causes firms in this sector to increase production and employment. This will lead to rises in households' income which induces them to increase consumption of domestic goods and services bringing about a multiplied rise in real GDP from Y1 to Y2 and hence actual growth.



Thus, when Malaysia exports its waste management services to countries like Japan when it became a global waste management hub, Malaysia will benefit from stronger economic growth and decrease in demand-deficient unemployment.

Moreover, being a global waste management hub includes “repurposing recycled plastics into goods” (Extract 2). This benefits Malaysia’s local industries because recycled plastic materials are cheaper and is a far cheaper option for industries that would otherwise rely on buying newly manufactured expensive plastics (Extract 2). This leads to a reduction in unit cost of production which in turn leads to increases in AS from AS^1 to AS^2 , further increasing real GDP from Y_2 to Y_3 and reducing unemployment in the country.

The actual growth will help to increase Malaysia’s real GDP per head, assuming real GDP growth exceeds population growth, and lead to increase in material living standards because a Malaysian can now consume more goods/services on average.

Moreover, based on the theory of CA, Malaysia stands to enjoy a rise in living standards because the increased level of trade brought about by being a global waste management hub will enable it to enjoy a higher level of living standards.

Malaysia arguably has the CA in producing waste management services due to its relative land abundance compared to countries like land scarce Japan. In return, Malaysia imports cars from Japan which has CA in car production due to its relative capital abundance.

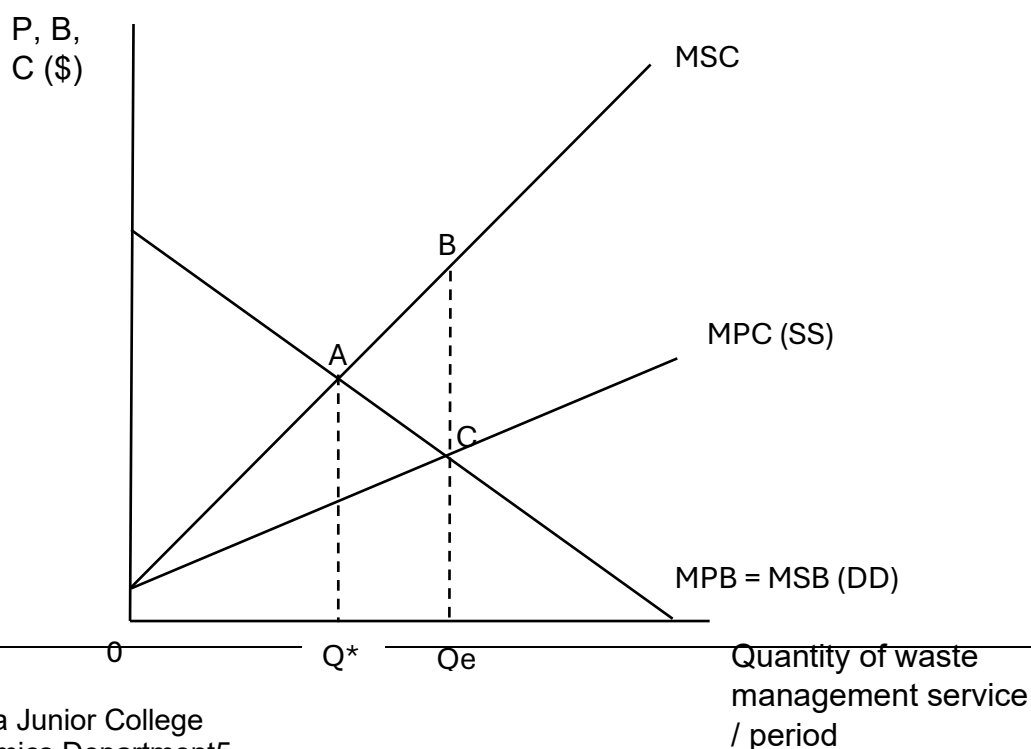
So long as the opportunity cost of producing waste management services is lower than the terms of trade, there is a net gain to be enjoyed from exporting waste management services. Graphically, by increasingly specialising and trading in waste management, Malaysia gets to consume beyond its PPC. This enables its residents to enjoy a higher level of material SOL from the higher level of consumption.

Anti-thesis: Shouldn't, due to negative effects of being a plastic waste management global hub

Malaysia should not continue to be a global hub for managing waste because it leads to environmental degradation which reduces Malaysians' non-material living standards and makes economic growth unsustainable.

Firms in Malaysia that produce waste management services are not likely to internalise the negative externalities that arise from the production of this service. E.g. incineration of plastic waste results in carbon emissions (Extract 4, last para). Putting the plastic waste in landfills will render the land unusable for other productive purposes. The micro plastic that leaks into the food chain / waterways (Extract 1) will result in health problems for third parties like Malaysian residents who did not contribute to the plastic waste. The problem is compounded by "illicit waste management practices such as open burning and illegal dumping" (Extract 3) by the waste management firms in Malaysia, which adds to greater external costs suffered by 3rd parties.

Left to market forces, the lack of internalisation of external costs leads to overproduction of this service and welfare loss. The market equilibrium is at Q_e where demand equals supply while the social optimal level of production is Q^* where marginal social benefit (MSB) = marginal social cost (MSC). The excess production of this service ($Q_e - Q^*$) leads to welfare loss of area ABC because $MSB < MSC$ for each unit of the excess output i.e. each unit of excess output between $Q_e - Q^*$ adds less to total social benefit than total social cost.



The use of land as landfills for waste and the deterioration in health of Malaysia's residents will also cause a fall in quantity and/or quality of Malaysia's resources. This constrains Malaysia's potential growth.

Summative conclusion

Malaysia should not continue to be a global hub for plastic waste management. This is because weighing the benefits against the costs, the negative effects outweigh the positive effects.

- While the negative impact can be reduced via appropriate policies – e.g. regulation on waste disposal methods and areas where waste disposal is allowed, so that the production of the waste can fall to or at least closer to the socially optimal level, this requires sufficient monitoring. This is expensive and given that Malaysia is not a small country, successful monitoring is hard to achieve.
- Moreover, Malaysia is a middle-income country whose residents are likely to increasingly value non-material SOL over material SOL. Thus, society could view the benefits of the growth generated from being a global waste management hub as being lower than the costs. Desire for more sustainable growth might hence require Malaysia to give up its role as a global waste management hub.

Level	Description	Marks
L2	Answers at this level will provide cursory to developed (analytical) explanation of the arguments for and against Malaysia being a global hub for waste management. Relevant economic models / concepts are applied and case evidence should be used to contextualise the explanation.	4 – 6
L1	Answers at this level will provide only knowledge of the arguments for and against Malaysia being a global hub for waste management. Attempts at explanation are vague or/and partly flawed.	1 – 3
E	Evaluation marks will be awarded for evaluative comment(s) made with reference to the nature of Malaysian economy (e.g. not small, middle income). Supporting evidence is used in the substantiation. A judgement should be made on whether the decision is appropriate in the context of the case - Malaysia.	1 – 2

- (e) “Over the decades, many jurisdictions have adopted various policies to reduce the consumption of plastic bags either through bans, fees on customers or taxes on stores that sell them” (Extract 4).

Discuss the extent to which mandating fees on customers for each plastic bag and banning retailers from giving out single use plastic bags might enable Singapore to address the plastic waste problem. [10]

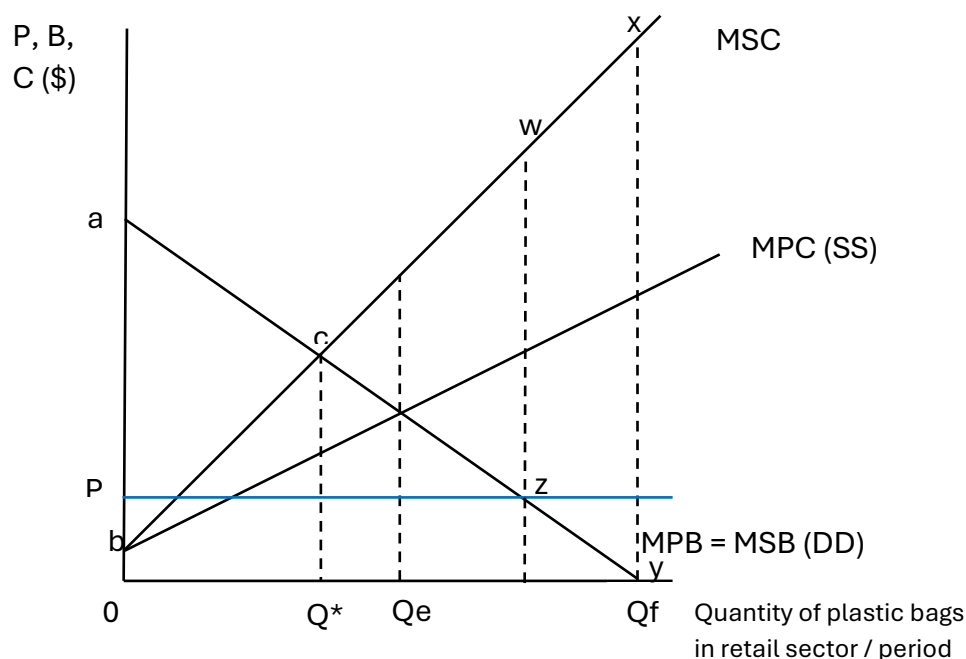
Intro

- The plastic waste problem refers to the adverse effects that plastic waste has on individuals who are neither producers nor consumers of plastic and on society. For example, incineration of plastic results in carbon emissions (Extract 4) that harm the health of third parties.
- Because individuals disregard such external costs, without government intervention, there is over-consumption of plastic resulting in welfare loss.

Body

One way to address the plastic waste problem is for the government to mandate fees for each plastic bag used for their shopping.

- In the diagram below, the MSC exceeds the MPC of plastic bags because of the MEC explained above.
- The social optimal level of using plastic bags is at Q^* where $MSB = MSC$.
- Consumers, to maximise net TPB, will consume plastic bags up to the point where the $MPB = MPC$.
- Without government intervention, and assuming retailers charge for disposable carrier bags that the latter need to carry their purchases, the quantity consumed will be Q_e but retailers typically do not charge the market price for the bags. They provide it free of charge.
- At zero price, consumers will consume Q_f units.



- This leads to over-consumption of $(Q_f - Q^*)$ units for which $MSB < MSC$ and hence welfare loss of area cxy .

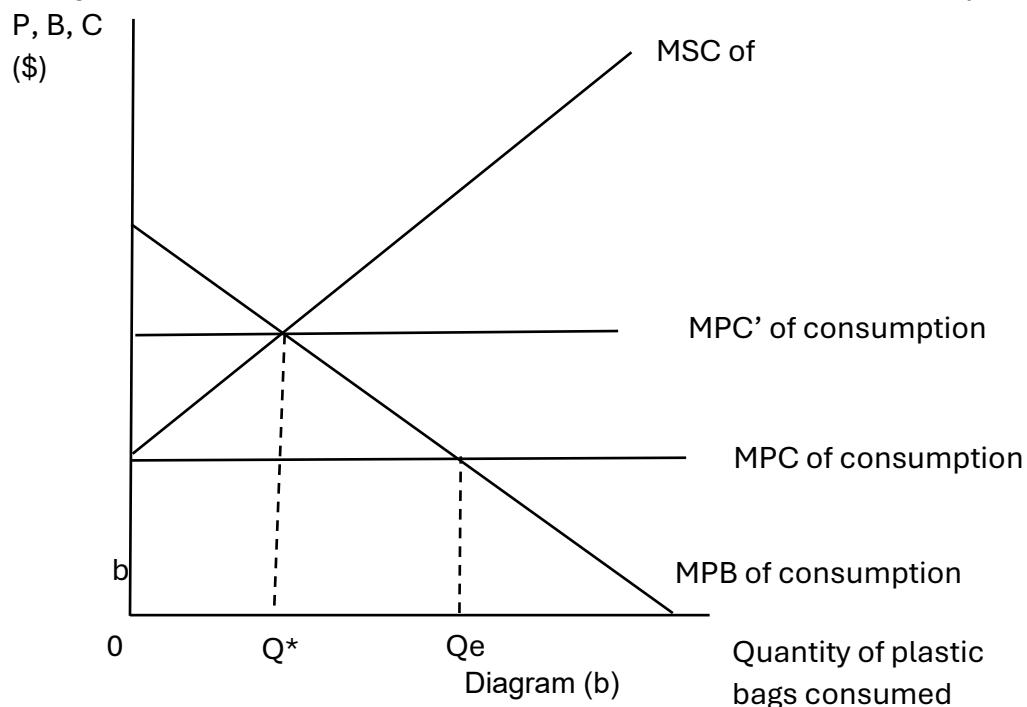
- By mandating retailers to charge for the plastic bags, e.g. a price of 0P, quantity demanded falls to Qg.
- According to Extract 4, this measure has worked to some extent in Singapore – major supermarket operators report “giving out significantly fewer disposable carrier bags - some have reported reductions of 50% to 80% compared to last year.”

With the reduction in the level of quantity of plastic bags consumed, welfare loss is reduced to area cwz.

Alternative analysis

One way to address the plastic waste problem is for the government to mandate fees for each plastic bag used for their shopping.

- In the diagram below, the MSC exceeds the MPC of plastic bags because of the MEC explained above.
- Without government intervention, consumers, to maximise net TPB, will consume plastic bags up to the point where the MPB = MPC, i.e., Qe units.
- The MPC of plastic bags is the average price paid per plastic bag.
- By getting retailers to charge their customers a fee for carriers, the MPC of consuming plastic bags rises to MPC'. This is because the average price paid per plastic bag now rises.
- At Qe, the MPB is now lower than the MPC of consuming plastic bags. Rational consumers will lower quantity to Q*.
- This assumes that the fee is high enough to raise MPC by enough to lower the consumption level to the socially optimal level of consumption where MPB=MSB=MSC.
- According to Extract 4, this measure has worked to some extent in Singapore – major supermarket operators report “giving out significantly fewer disposable carrier bags - some have reported reductions of 50% to 80% compared to last year.”



Limitations

- If the price charged per plastic bag is high enough, at the level where MSB=MSC, then consumption can drop to the socially optimal level. However, it is not likely for

	a government to know how much to mandate retailers to charge due to government's imperfect information. - A limitation of this policy is that it might only have short-term effectiveness. After some time, consumers might get used to the idea of paying for plastic bags (Extract 4) and so demand become more price inelastic such that there will be hardly any fall in quantity demanded compared to before the government intervened with the regulation. Another way to address the plastic waste problem is for the government to ban retailers from giving customers plastic bags to aid them to carry their purchases. - With reference to diagram (a) above, if the ban is imposed on all retailers the quantity of plastic bags consumed in the retail sector drops to zero. - The resulting change in welfare for society will be avoiding the welfare loss of area cxy but also losing the welfare gain of area acb from consuming the social optimal level of plastic bags. This is because $MSB > MSC$ for the Q^* units. There can be a net gain in welfare from using this measure if $\text{area cxy} > \text{area acb}$. Limitations - Should $\text{area cxy} < \text{area acb}$, then this manner of intervention results in greater allocative inefficiency. - Just like the measure of mandating retailers to charge for plastic bags, this manner of intervention could have the perverse effect of making consumers turn to "the use of alternative single-use bags. Shoppers might opt for these alternatives and buy bundles of single-use bags for garbage disposal, believing they are better value for their money." (Extract 4, para 3). This defeats the purpose of the scheme. - The use of a ban might not be acceptable to the public. Extract 4 indicates the view that there can be a riot should plastics be banned. <u>Summative conclusion</u> The extent of both measures in enabling SG to address the plastic waste problem is limited. Additional measures need to be undertaken. • It is very likely that mandating retailers to charge for plastic bags will only have short-term effectiveness. As highlighted in Extract 4, Singaporeans value convenience and per capita real income in Singapore is also very high. Many residents would consider 5 to 10 cents per plastic bag as a small price to pay for convenience. The small share of the price of plastic bags as a percentage of an average person's income makes the demand price inelastic. • With Singaporeans' high valuation of convenience, demand for disposable plastics, including plastic bags, is high. Nevertheless, with the high MEC of plastic bags, area cxy could still be higher than area acb. This suggests that banning retailers from issuing plastic bags to shoppers will lead to a rise in society's welfare. Also, although imposing a ban might be unacceptable by the public, if it is combined with public education to make the public more aware of the external costs of plastic, a ban could over time become accepted by the public. Currently, there is limited public awareness about the consequences of plastic use [Extract 4]. • However, banning the giving of free plastic bags or requiring retailers to charge a much higher price for plastic bags (to better disincentivise usage) may not solve the problem and could worsen the problem (as explained above) and so a more
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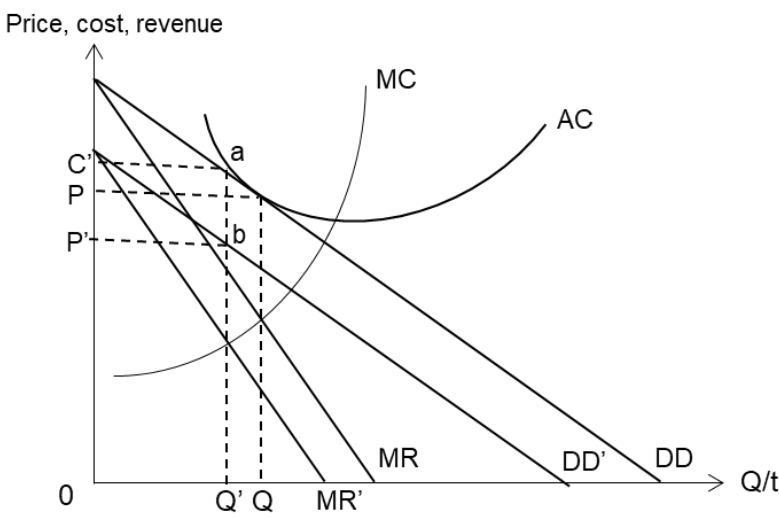
effective approach is to also tax the production of plastic bags. This reduces the perverse effect where consumers switch to alternative sources of plastic bags – e.g. “buy bundles of single-use bags for garbage disposal” and end up using more plastic.

- Moreover, disposable plastic bag is only one of the sources of plastic waste. Other measures are needed. For example, with Singapore’s strong hawker culture where plastic bags and utensils are used, a long-term solution will require innovation that can present producers with alternatives to the use of plastics.

Level	Description	Marks
L2	Answers at this level will provide cursory to developed (analytical) explanation of how the 2 measures address the problem of plastic waste.	4 – 7
L1	Answers at this level will provide only knowledge of the benefits and costs of the policy. Attempts at explanation are vague or/and partly flawed. Developed explanation of only 1 of the 2 measures to address plastic waste will score a max of 3m.	1 – 3
E	Evaluation marks will be awarded for evaluative comment(s) made with reference to the level of significance of the limitations of the measures. A judgement should be made on the extent of effectiveness of the measures.	1 – 3

[Total: 30]

Question 2: China's economic woes

(a)	Explain how the information in Figure 3 highlights a concern over China's longer-term growth prospects. [2] Figure 3 shows China's working age population falling from 2024, suggesting that in the longer term, the quantity of labour will fall [1]. Ceteris paribus, productive capacity will fall and there will be negative potential growth, constraining China's future economic growth [1].
(b)	Using demand and supply analysis, explain why China's yuan 'hit a more-than-one-week low against the dollar' (Extract 5). [2] Investors expect interest rate in China to fall (Ext. 5), and would move their savings out to other countries to earn higher interest, i.e., hot money outflow [1]. This increases the supply of China's yuan in the foreign exchange market, leading to its depreciation. [1]
(c)	Explain why the 0.7% rise in the CPI in March 2023 (Extract 5) may prompt Chinese policymakers to intervene. [2] An inflation of 0.7% is lower than China's official targets (Ext 5). This may signal weak demand for China's goods and services, causing households to hold back on consumption / firms to hold back on investment, which will lead to a fall in AD and negatively impact economic growth [2]. As such, Chinese policymakers may intervene to boost AD and growth.
(d)	Using a diagram, explain how "anxiety about what weaker growth means for unemployment and incomes" (Extract 6) might affect profits of firms in China. [4] Ext 6 suggests the economic outlook is poor in China, causing consumers to save rather than spend out of fear of future unemployment and/or falls in income. This leads to a fall in demand for a firm's products from DD to DD' in the diagram below. MR falls as well to MR' [1]. The firm's profit-maximising output (where marginal cost = marginal revenue) and price falls from Q and P to Q' and P' as a result [1]. This leads to a fall in profit for the firm, from normal profits to a subnormal profit of C'abP' [1]. 

(e)	Explain how “Beijing’s regulatory crackdown” in selected sectors (Extract 6) led to youth unemployment in China. [2] The regulatory crackdown has led to less jobs in sectors such as education, technology and property. Graduates who studied relevant courses in universities may therefore be unable to find jobs in these sectors [1]. As they lack the necessary skills to find jobs in other sectors, i.e. there is a mismatch between the skills they have and what businesses require (Ext 6), these youths will become structurally unemployed [1]. OR Before the crackdown, these sectors were viable options for young workers. The crackdown has “led to large-scale job losses in recent years,” suggesting that some young workers previously in these sectors have lost their jobs. As they likely lack the relevant skills required for jobs in other sectors, these youths will remain structurally unemployed.
(f)	Discuss whether “China’s prolonged slowdown will hurt, rather than help, the rest of the world” as mentioned in Extract 7. [8] Introduction As the world’s second-largest economy and a key trade partner for many countries, China’s prolonged slowdown will have both significant positive and negative impacts on the other countries. Body <u>Side 1: China’s prolonged slowdown will hurt the other countries.</u> China’s prolonged slowdown will hurt the rest of the world as it will lead to negative growth and rising unemployment in other countries. China’s slowdown has led to a fall in imports of “everything from construction materials to electronics” (Ext 7), likely because the slowdown has led to a fall in household and investor confidence in the economy. As such, households reduce their consumption of everything including imports, while firms reduce investment expenditure, which includes spending on imported capital goods. For other countries selling to China, such as Japan, this would mean a fall in demand for exports and thus export revenue (X). The fall in X would mean a fall in aggregate demand (AD) from AD_0 to AD_1 in Fig. 1. The fall in AD leads to an unplanned rise in firms’ inventories, prompting firms to cut production and employment of factor inputs, including labour. Thus, national income falls from Y_0 to Y_1, which leads to households reducing consumption and causing AD to fall again. The process repeats, leading to a multiplied fall in real national income from Y_0 to Y_2, assuming spare capacity in the economy.

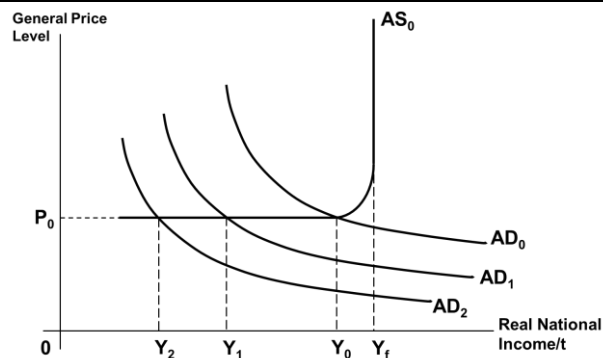


Fig 1

Thus, other countries would suffer negative economic growth and rising demand-deficient unemployment because of China's slowdown.

Side 2: China's prolonged slowdown will help the other countries.

However, China's slowdown may help other countries by reducing cost-push inflationary pressures. As mentioned in Ext 7, China's slowdown has led to lower global oil prices, likely because China has reduced its demand for oil. Lower oil prices will lead to lower energy prices, which reduces the unit cost of production for most firms since energy (in the form of electricity) is a key factor input for production. With a lower UCOP, firms are more willing and able to produce the same output at lower prices, and AS increases from AS_0 to AS_1 in Fig 2. As a result, equilibrium GPL falls from P_0 to P_1 , benefiting countries such as the United States which was facing high inflation.

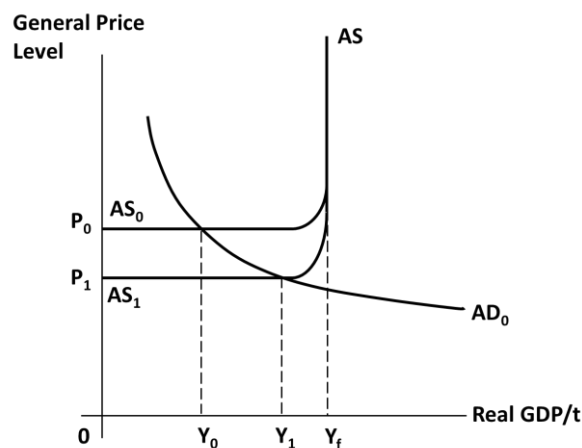


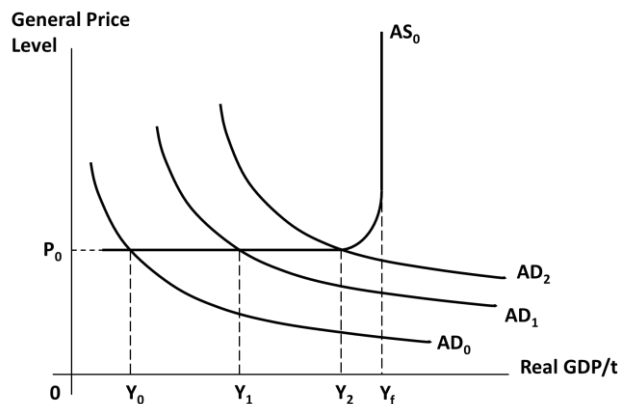
Fig 2

Conclusion

It is more likely for China's slowdown to hurt, rather than help, the rest of the world. China is a large buyer of many countries' exports as the world's second-largest economy (Ext 7). As such, the fall in X and thus AD will likely be significant. While inflationary pressures are reduced, the fall in AD is likely to outweigh the rise in AS , making recession a possibility in many countries. This would mean falling real incomes and living standards even as GPL falls, and even countries facing high inflation like the United States have called the economic problems China's slowdown bring a "ticking time bomb" (Ext 7), suggesting that overall impact is negative.

	Mark Scheme:		
	Level	Description	Marks
	L2	Answers at this level will provide cursory to developed (analytical) explanations of the positive and negative impacts of China's slowdown on the rest of the world. Relevant economic models / concepts are applied and case evidence should be used to contextualise the explanation.	4 – 6
	L1	Answers at this level will provide only knowledge of the positive and negative impacts of China's slowdown on the rest of the world. Attempts at explanation are vague or/and partly flawed.	1 – 3
	E	Evaluation marks will be awarded for evaluative comment(s) made with reference to the nature of China's economy (e.g. second largest, drives global growth). Supporting evidence is used in the substantiation. A judgement should be made on whether China's slowdown will hurt or help the rest of the world.	1 – 2
(g)	Discuss whether fiscal policy is the most effective way for China to tackle its macroeconomic issues faced. [10] Introduction China is facing a slowdown in economic growth, high youth unemployment and disinflation (first half of 2023) / deflation (second half of 2023). Expansionary fiscal policy, involving reducing direct tax and/or increasing government spending, can help to tackle the macroeconomic issues faced. <i>[Note to students: Focus on any 2 issues, though the poor growth is the most crucial and should be included.]</i> Body <u>Side 1: Explain how expansionary fiscal policy work to tackle the macroeconomic issues China faced.</u> Expansionary fiscal policy can stimulate economic growth, create jobs and possibly combat deflationary pressures. From Ext 8, expansionary fiscal policy can take the form of funding infrastructure work or increasing transfer payments to low income families. Funding infrastructure work will increase government expenditure (G) on domestically produced goods and services such as construction services, increasing AD. Providing transfer payments to low income families will increase their disposable income, enabling them to increase consumption expenditure (C). The rise in G and C will lead to a rise in AD from AD₀ to AD₁. This leads to an unplanned fall in firms' inventories, prompting firms to increase production and employment of factor inputs, including labour. Thus, national income increases from Y₀ to Y₁, which leads to households increasing consumption and causing AD		

to rise again. The process repeats, and the increase in AD from fiscal policy leads to a multiplied rise in real national income from Y_0 to Y_2 via the multiplier effect, assuming spare capacity in the economy. This will help to boost actual growth.



[Depends on what is identified as the second macroeconomic issue] As mentioned above, when firms increase production, **derived demand** for factor inputs such as labour will rise. This will create more jobs in the economy, enabling recent graduates or youths who lost their jobs during the pandemic to find a job and reducing demand-deficient youth unemployment.

If AD rises significantly enough, such that the economy is now producing near Y_f , GPL will also rise too as firms can no longer find suitable factor inputs to increase production, resulting in less efficient factor combinations and rising UCOP. Firms would thus require higher prices to cover the rising cost, before being willing to produce the goods. The rise in GPL will lead to inflation, and resolve the problem of deflationary pressures that can trigger a deflationary spiral.

[Alternative point: Ext 8 mentions fiscal subsidies and tax incentives to support tech innovation and advanced manufacturing. This can increase I and AD.]

[Ev] The effectiveness of fiscal policy will be limited, as “consumers are wary of spending” (Ext 8). This means that even if more transfer payments were provided, households are likely to save rather than spend, so C and thus AD will not rise significantly to stimulate economic growth and employment.

[Ev] Fiscal policy is unlikely to be effective because it is likely to lead to crowding out effect. Extract 6 mentions “towering local government debt”. To finance increased spending on infrastructure and transfer payments, the indebted local governments will likely need to borrow, increasing demand for loanable funds and leading to higher interest rates. The increase in interest rates will crowd out private consumption and investment expenditure as the cost of borrowing rises. This will offset the increase in AD from fiscal policy, resulting in little economic growth.

Side 2: Explain how one other policy i.e., expansionary monetary policy work to tackle the macroeconomic issues China faced.

Besides fiscal policy, there is “room for monetary policy easing to boost demand” (Ext 5).

Such monetary policy easing would involve China's Central Bank cutting interest rates. A fall in interest rate lowers the cost of borrowing for firms and households. This makes it cheaper for firms to borrow to invest. With the fall in marginal cost of investment, assuming expected rate of returns remain constant, more investment projects will become profitable, incentivising firms to increase investment expenditure (I). Households will also be incentivised to increase consumption of big ticket items via loans, increasing C. [OR a fall in interest rate lowers the returns to savings and thus lowers the opportunity cost of consumption. This will incentivise households to save less and consume more, increasing C.]

The rise in I and C will increase AD, helping China to boost economic growth and employment and combat deflationary pressures as explained earlier.

[Possible Ev]: The poor consumer and firm confidence (Ext 8) may mean households and firms are unresponsive to the interest rate cuts, limiting the increase in C & I and thus AD & growth.

Alternative Side 2:

Besides fiscal policy, the China government can also use supply-side policy in the form of subsidising training programmes to address the issue of youth (structural) unemployment. These subsidies will reduce the marginal cost of training and incentivise unemployed youths to sign up for training programmes. This will allow the unemployed youths to reskill and equip themselves with the relevant new skills required by businesses in sectors with job opportunities, hence allowing these graduates to find employment in these sectors. This thus reduces occupational immobility and structural unemployment.

[Note: Students may also bring in supply-side policies for PG (if the issue identified is negative PG caused by fall in quantity of labour over time i.e., based on what Fig. 3 is saying).]

Conclusion

Fiscal policy is not the most effective way for China to tackle the macroeconomic issues faced.

This is because the poor consumer confidence (Ext 8) and likelihood of crowding out effect will limit the effectiveness of expansionary fiscal policy (as explained earlier). In particular, crowding out effect will be very likely, because debt levels of local governments have been surging (Ext 6), suggesting the need for borrowing for any expansionary fiscal policy.

In contrast, monetary policy which does not strain government budgets will be more effective in increasing AD. Cuts in interest rate also has the additional benefit of causing China's yuan to depreciate (Ext 5), which can boost flagging exports and increase AD.

Or

[Depending on which policies you explained]: In contrast, supply-side policy in the form of reskilling will likely be effective in addressing youth unemployment since the root cause was a mismatch of skills (Ext 6) and youths who have recently graduated from universities tend to be more receptive to participating in reskilling programmes.

	Level	Description	Marks
	L2	Answers at this level will provide cursory to developed (analytical) explanation of how the 2 policies address macroeconomic issues China faced. To obtain full credit, the 2 policies need to address more than 1 macroeconomic issue.	4 – 7
	L1	Answers at this level will provide some relevant knowledge of fiscal policy and 1 other policy. Attempts at explanation are vague or/and partly flawed. Developed explanation of only 1 policy (e.g. only fiscal policy) to address macroeconomic issues China faced.	1 – 3
	E	Evaluation marks will be awarded for evaluative comment(s) made with reference to <u>effectiveness</u> of the policies. A judgement should be made on whether fiscal policy is the most effective policy.	1 – 3