

ECONOMICS

Higher 2

Syllabus 9757

Examiner's Report
Year 6 Timed Practice 2022



ECONOMICS

Y6 H2 Timed Practice 2022

Paper 9757/01
Paper 1

Question 1

- (a) Using an appropriate diagram, explain how the developments in the natural gas market have led to a sharp surge in electricity prices. [5m]

Answer:

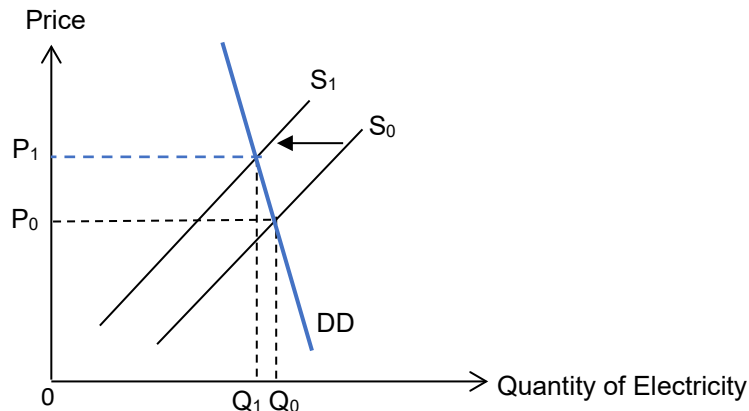
Explain the developments in the natural gas market and effect on gas prices. [2m]

Extract 1:

- **Fall in supply of gas**
 - Resulting from rise in cost of production due to gas supply chain disruptions worldwide
- **Rise in demand for gas**
 - Due to resumption of economic activities in many countries and higher usage for heating purposes which increases derive demand for gas given the harsh winter conditions.
- These led to higher gas prices.

Explain how the rise in gas prices caused sharp rise in electricity prices via market adjustment process with reference to diagram drawn. [2m]

As a result, cost of production of electricity increased since natural gas is used as a factor input to produce electricity. The increase in cost of production will discourage firms from supplying electricity at each price levels. Thus, supply falls from S_0 to S_1 . At the original price, P_0 , the occurrence of a shortage will result in upward pressure on prices resulting in rise in price of electricity to P_1 .



Application of PED of electricity to explain the **sharp surge** in prices [1m]

Due to a lack of availability of close substitutes to electricity, demand for electricity is price inelastic. The fall in supply will result in larger increase in prices of electricity relative to the fall in quantity of electricity.

Markers Comments:

- *Many students did not address how the developments (at least 2) in the gas market affect the demand and supply of gas and hence prices of gas. They also did not identify the relationship between gas and electricity to explain how increase in price of gas will lead to rise in electricity prices.*
- *The weaker scripts seemed very confused between the gas and electricity market as they often explain how the changes in demand and supply of gas directly affect electricity prices. This is inaccurate as the changes in demand and supply of gas should affect prices of gas first before explaining how the impact of rise in gas prices then affect the electricity market.*
- *Explanation for the sharp surge in electricity prices was also ignored by many scripts. Many just explained the rise in electricity prices without addressing the sharp surge.*
- *Despite question stating use of **an** appropriate diagram, students drew multiple diagrams. It is important that students adhere to the key word in the question and not waste time drawing unnecessary diagrams. Such low order questions should be answered in a concise manner as more time should be kept for the higher order questions. For this question, the diagram drawn should be that of the market for electricity given that question asked about the sharp surge in electricity prices.*
- *Many also showed poor organization and clarity of points. Analysis in one paragraph was about gas and it switched to electricity in the next. It went back to gas again in the following paragraph and then back to electricity again. The lack of proper planning and organization led to a poorly structured and extremely confusing analysis. Students are reminded that some time should be spent on planning of their answers to ensure a well-structured and coherent analysis.*

- (b) (i) Compare the market share of SP Services and SembCorp Power between 2013 and 2019. [2m]

Answer:

Similarity (1m)

The market share of SP services is consistently higher than that of SembCorp Power over the period of time.

Difference (1m)

Generally, the market share of SP services decreases while the market share of SembCorp Power increases over the period of time.

Markers Comments:

- Many scripts still presented year by year comparisons instead of entire period between 2013 and 2019.
- There was excessive writing for this 2m questions. Students are to ensure short and concise answers for such small mark question.
- Markers were specifically looking for the above two significant points. It was important for students in this case to recognize that despite the different direction in market share for SP services and SembCorp Power, SP Services still had the larger market share.

- (ii) With reference to Table 1, explain how the electricity retail market might fail to allocate resources efficiently in the absence of government intervention. [4m]

Answer:

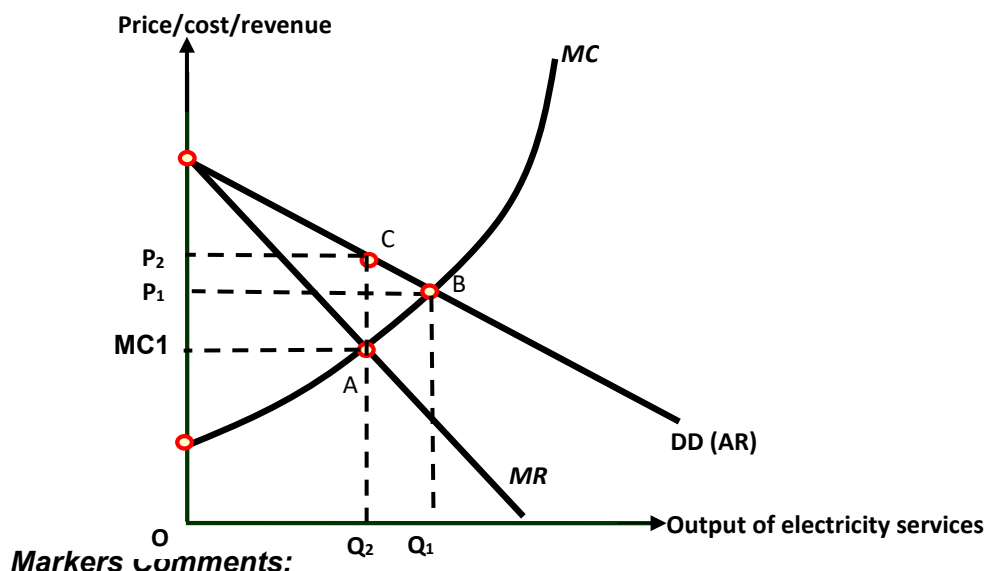
Brief explanation of source of market failure with evidence from Table 1 [1m]

Market dominance arise due to presence of an oligopoly as market share is dominated by 6 large firms in the electricity retail market.

Explain how market dominance result in market failure [3m]

As a result, these firms in the electricity retail market possess high price setting ability and faces a steep downward sloping demand curve

To maximise profits, firms would produce at profit-maximising output level Q_2 where $MC = MR$ and charge at a price P_2 . However, at Q_2 , the price charge (P_2) is higher than MC . This means that the value of the benefit that consumers received from consuming the last unit of output is higher than the costs it takes society to produce that unit. There is under-allocation of resources to provide electricity services to consumers. Society can be better off (Area ABC) if more units ($Q_1 - Q_2$) of the electricity services are produced. In the absence of government intervention, the free market under-allocated resources and hence is allocative inefficient.



- *Many scripts did not make reference to Table 1 when explaining market dominance.*
- *The weaker scripts identified the wrong source of market failure and wrote extensively on negative externalities.*
- *Explanation on why pricing above marginal cost led to allocative inefficiency was also poorly done.*
- *Some scripts explain the allocative inefficiency by showing the presence of deadweight loss (DWL) and explaining that consumer and producer surplus are not maximised. The approach of explaining the presence of DWL is not recommended for a firm-level analysis. This is because DWL is explained when there is a loss of allocative efficiency in a market.*

(c) Assess whether liberalisation of the electricity retail market is better than marginal cost pricing policy in improving allocative inefficiency. [10m]

Answer:

Induction:

The presence of market power and hence market dominance in the electricity retail market, results in market failure and allocative inefficiency. Government intervention in the form of liberalisation and marginal cost pricing policy can improve allocative inefficiency. Liberalisation refers to the removal barriers to entry to encourage new entrants into the market and promote greater competition in the market.

Liberalisation of the electricity retail market may improve allocative inefficiency.

Liberalisation through the reduction in barriers to entry (issue more licenses, Extract 2) allows potential electricity retailers to enter and compete with incumbent retailers in the electricity retail market. As shown from Figure 1, assuming total market demand remain unchanged, the entry of new electricity retailers cause the demand for existing firms' electricity services to fall and become relatively price elastic as more substitutes are available, which is illustrated by a leftward shift of a firm's demand curve from AR_1 to AR_2 .

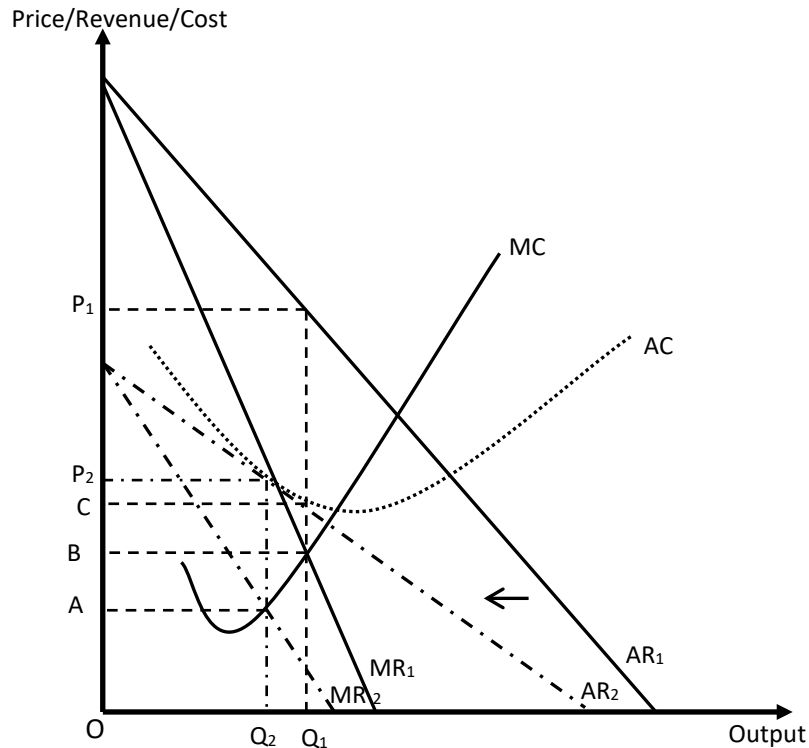


Figure 1: Effects of liberalisation

At the new profit maximising output level Q_2 , where $MR_2 = MC$, while the value of the marginal benefit (P_2) that consumers received from consuming the last unit of output is still higher than the marginal costs (A) it takes society to produce that unit, allocative inefficiency has improved compared to the case without liberalisation as the allocative inefficiency of the consumption and production of the last unit of output at Q_1 is BP_1 . More broadly, the improvement in allocative efficiency in the electricity retail market is achieved too, since all firms in the market is similarly impacted.

Limitation of liberalization in improving allocative inefficiency: <Any 1>

- From Extract 3, given a small local market size, market saturation sets as the market demand is not sufficient in supporting large number of firms
 - At the same time, new firms may not be able to effectively compete against those incumbent firms who likely have their own power generation assets or backed by their own power generation company to safeguard against volatile supply / cost side factors
 - Such new firms end up exiting the market (Extract 3: “departure of iSwitch & Ohm Energy”)
 - Limiting the improvement in allocative inefficiency in the long term as the remaining dominant firms will still have high market power and price setting ability way above marginal cost.

- From Extract 2, more than half of consumers are reluctant to switch to the new retailers despite the increased in choice of product offerings and overall lower prices.
 - This reflects the extremely strong brand loyalty towards the incumbent firms like SP Services as the consumers perceived it to be more reliable and trustworthy as their service provider given its track record.
 - As a result, demand for SP Services may not have fallen significantly despite new entrants and its demand remains relatively price inelastic as consumers do not perceive the services provided by new entrants to be close substitutes.
 - Hence the ability of an incumbent like SP to price way above MC remains and there might be no significant improvement in allocative inefficiency.

Marginal cost pricing policy can achieve allocative efficiency.

The government can mandate that all firms in the electricity retail market to employ MC pricing. Referring to Figure 2, with MC pricing ($P_2=MC$), the social optimum is achieved at $0Q_2$, instead of at the profit maximising output level Q_1 in the absence of government intervention. At Q_2 , allocative efficiency is achieved since the value of the benefit that consumers received from consuming the last unit of output (Q_2) is equals to the costs it takes society to produce that unit.

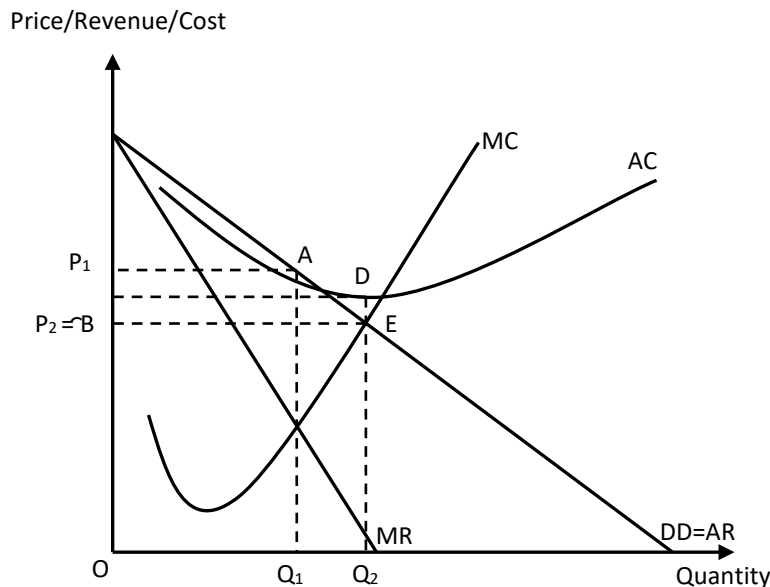


Figure 2: Effects of MC pricing

Limitation of MC Pricing in achieving allocative efficiency:

- Given government's imperfect information about the marginal costs for each firm and that firms may not reveal accurate information about their marginal costs since there is incentive for them to overestimate their marginal costs (so that firms can charge high prices above their 'actual/true' MC)

- Despite MC pricing, the prices will still not be equivalent to the true marginal costs
 - Under-production remains and allocative efficiency is still not achieved
- Not desirable to firms because firms earn subnormal profits which is not sustainable in the long run.
 - Referring to Figure 2, with MC pricing, a firm will now earn subnormal profits (Area BCDE) and will exit the market in the long run. This could potentially result in a missing market and under-allocation of resources -> Allocative inefficient

Conclusion / Synthesis: Make an informed judgement about whether liberalisation of the electricity retail market is better than marginal cost pricing policy in improving allocative inefficiency. (*Comparison should also take into consideration other aspects like desirability*)

- In terms of addressing allocative inefficiency, MC pricing would be better assuming that government has accurate information about marginal costs of firms.
- However, ...
 - ***Discuss about the desirability of liberalization & MC pricing***
- Liberalisation of the market has benefitted consumers in the form of having more choices in electricity prices and potentially having other value added and diverse services like provision of broadband to consumers (as seen in other countries) to differentiate themselves from other firms, leading to improving consumer & hence societal welfare
 - However, it may be difficult to reap significant internal economies of scale to reduce average cost of production (technical EOS) and pass on cost savings to consumers in the form of lower electricity prices as each firm now supply less electricity services to consumers assuming no change in total market demand for electricity.
- MC pricing may not be desirable to firms because firms earn subnormal profits which is not sustainable in the long run.
 - Referring to Figure 2, with MC pricing, a firm will now earn subnormal profits (Area BCDE) and will exit the market in the long run.
 - Hence government subsidies (=Area BCDE) need to be provided to firms such that they earn at least normal profits to remain in the market should MC pricing be implemented.
 - With a limited government budget, it may not be sustainable to provide subsidies to firms.

Weighing between liberalization and MC pricing in terms of sustainability of policies

- While liberalisation can eventually result in some degree of consolidation of the market as some firms exit the market, liberalisation is arguably a better policy in improving allocative inefficiency more sustainably as it does not require additional government subsidies to be provided to firms as compared to MC pricing.
 - Moreover, the threat of potential competition, can help to minimize firms from exercising their market power to charge high electricity prices above marginal costs.

<i>Knowledge, Application, Understanding, Analysis</i>	
L1 (1 – 4m)	No reference to case material Little or weak economic analysis. Not answering the question.
L2 (5 – 7 m)	Balanced answer that covers both strengths and limitations of both policies either in thesis or anti-thesis and provide a thorough analysis.
<i>Evaluation</i>	
E1 (1m)	Mere repetition of points discussed.
E2 (2-3m)	A judgment/conclusion supported by reasons / economic analysis and contextual understanding of the case material. Able to compare between liberalization and MC pricing. Give suggestion / Recommendation to improve allocative inefficiency in the electricity retail market

Markers Comments:

- *Many did not use economics framework to explain how liberalization and MC pricing works in improving allocative inefficiency, leading to weak analysis lacking in economics rigour. These scripts provided only a descriptive explanation of how competition drives down prices.*
- *For the explanation on liberalization in improving allocative inefficiency, focus should be placed on addressing the decrease in divergence between P and MC after entry of new electricity retailers. This was often neglected, and students instead compared how the new profit maximizing output (given the decrease in AR) is nearer to the allocative efficient output based on the previous AR curve. This analysis is inaccurate as the allocative efficient output is different given the new AR after entry of new firms.*
- *Given that question asked about which policy is better in addressing allocative inefficiency, the limitations of each policy should focus on improving allocative inefficiency. Many wrote about loss of dynamic efficiency and choices which do not address the requirements of this question. These are seen as evaluative points in terms of desirability of policies. Some scripts focused only on the limitations of policies.*
- *Diagrams were poorly drawn, and explanation of diagrams were not done in the analysis.*

- *Many did not make references to case material and did not answer in context of the electricity markets. Answers were very rehearsed and generic and could be apply to any context. To score well for case study, analysis needs to be contextualized.*

(d) Explain 2 factors affecting a government's decision in accelerating the use of renewable energy source for electricity generation. [4]

Answer:

A government will weigh the benefits and costs of renewable energy usage like solar panels, wind turbines etc. before making its decision.

Benefits in accelerating use of renewable energy for electricity generation:

From Extract 4:

Give that renewable energy like “solar energy is clean, generates no emissions, and contributes to Singapore’s energy security”

- Consideration of extent of reduction in negative externalities. There will be huge reduction in negative externalities like air pollution/global warming from electricity generation, leading to great reduction in marginal external costs to society, resulting in more allocative efficient outcome for society.

OR

- Prospects of achieving sustainable economic growth in future. Compared to natural gas, renewable energy does not lead to environmental degradation. Since it is renewable, there is little fear of depletion of resources and hence preventing fall in productive capacity of economy in future.

OR

- Ensuring energy security for Singapore. Renewable energy source allows for diversification of energy sources for electricity generation which reduces Singapore’s vulnerability against external shocks like volatile global market conditions leading to rising gas prices as seen in Extract 1. Given that solar power is renewable, it allows for continuous generation and provision of electricity at relatively stable prices compared to natural gas as a source (Extract 1: sharp surge in electricity prices due to rising gas prices).

Costs to be considered by government:

Extract 4: “challenges in deploying solar on a large scale in Singapore ...”

- Consideration of opportunity costs. For small countries like Singapore, given land constraints, opportunity costs will be incurred

as deploying solar on a large scale would mean development of residential housing/ schools/ infrastructure may have to be foregone. This may possibly result in lower societal welfare if society values the latter more than the former.

OR

Extract 4: “challenges in employing people with relevant job experiences...”

- Degree of labour immobility has to be considered as deployment of solar power requires a skilled labour force. If the workers currently working in the electricity generation companies do not have the relevant renewable technology skills, there would be massive structural unemployment if solar power were to be deployed to electricity generation.

OR

Extract 4: “EMA invest in R&D such as solar forecasting and in energy storage”

- Availability of funds and hence its sustainability should be considered. For large deployment of solar energy, government needs to constantly invest in R&D and storage space requires large amount of funds. In addition, R&D does not always lead to successful outcomes and may need multiple trials. A substantial amount of funds may have to be injected initially before successful results can be seen. Limited fiscal budget would mean use of renewable energy source may not be feasible.

Explain any 2 costs or 2 benefits or 1 cost & 1 benefit.

2m for explanation of each factor with reference to case material

Markers' Comments:

- *Many did not explain the factors in context of case study materials.*
- *Many also did not use economics analysis in their explanation*

Question 2

- (a) With reference to the growth and inflation indicators in Table 2, compare the economic performance of Malaysia with China in 2020. [5]

Suggested Answer

- Comparing the economic performance of the two countries using each indicator. [2m each]
- For each country:

Growth indicator

- Correctly identify the growth indicator from Table 2 with reference to 2020
E.g., Malaysia's real GDP growth is -5.6%
E.g., China's real GDP growth is 2.3%
- Accurately interpret the growth indicator and comparing it using an appropriate signposting word/phrase
E.g., Malaysia's real GDP fell but China's rose.

Inflation indicator

- Correctly identify the inflation indicator from Table 2 with reference to 2020
E.g., Malaysia's inflation rate is -1.1%
E.g., China's inflation rate is 2.4%
- Accurately interpret the inflation indicator and comparing it using an appropriate signposting word/phrase
E.g., Malaysia's GPL fell (or Malaysia experienced a deflation) while China's GPL rose

Overall stand to show comparison of economic performance between Malaysia and China [1m]: China performed better than Malaysia in 2020 after weighing up both indicators

Examiners' Comments

- Most candidates were able to understand the data and were able to use comparative words (e.g., in comparison, however, in contrast etc.)
- However, many were not able to interpret the data with sufficient rigour. Specifically, quite a number of candidates did not even clearly identify that positive real GDP growth rate meant that real GDP increased while a negative rate meant that real GDP fell. Similarly, the explicit interpretation of positive and negative inflation rates was missing in quite a few scripts as well.
- Weaker responses merely parroted the information, e.g., indicating that the growth rate was positive for China. Other weaker responses misunderstood the question and compared the 2 countries across time.

- Many candidates did not read the question carefully and included unemployment and BOP indicators for comparison in their answer, which was not required.
- (b) Malaysia is expected to see a “short-term boost for economic purchases and spending for the replacement and repairs of damaged items”. [2]

Explain one factor that determines the extent of impact on national income.

Suggested Answer

- ‘Short-term boost for economic purchases and spending for the replacement and repairs of damaged items’ refers to a rise in consumption expenditure (C) by households and/or a rise in investment expenditure (I) by firms
- Identify any one relevant factor [1m]:
 - Size of multiplier
 - Magnitude of change in Investment
 - Supply side reason
- Explanation of the factor [1m]

Size of multiplier - affected by the size of MPW (comprising the MPS, MPT and MPM). E.g., When the MPS is small, the multiplier size is large, hence a given change in autonomous AD will result in a larger amount of income is reinjected into the circular flow of income and spent on domestically goods and services in each round of the multiplier process, there will be a larger impact on national income.

E.g., Magnitude of change in Investment – For a given multiplier coefficient value (K), since the change in national income is K times the change in autonomous AD, the larger the magnitude of change in investment expenditure, the greater the extent of change in national income.

E.g., Supply-side reason – the greater the availability of spare capacity within the economy, a given change in AD will result in a larger extent of change in real national income, with moderate increases in GPL, which reduces the dampening effect on the multiplier. Hence, we expect a large impact on national income.

Examiners’ Comments

- This question was generally well done. Most candidates understood different factors that would affect the extent of impact on RNY when there is a change in autonomous AD. However, many failed to identify that the change in AD was mainly due to a change in I as set out in the question stem. Credit was awarded to those who have included any underlying determinant of C and I that leads to reinforcing or off-setting effect on AD hence the extent of rise in RNY, such as interest rate, consumer or business confidence. However, this approach was

- not preferred because such answers would have violated the ceteris paribus assumption laid out in the question stem.
- However, a fair number of candidates misunderstood the question and interpreted the question simply as the effect on national income rather than the **extent of the effect** on national income.
 - Rigour and specificity with regards to the MPW component is required to score full credit, e.g., merely stating the multiplier value as a factor is insufficient.
- (c) Discuss how Malaysia's current and future living standards are affected by the composition of national income in terms of the expenditure components as shown in Table 3. [8]

Suggested Answer

Introduction:

- Define SOL – measure of economic and social well-being. It includes both material and non-material aspects. Material SOL is reflected by quantitative aspect which refers to the amount of goods and services available for the average individual in the country to consume. Non-material SOL is reflected by the qualitative aspect which can be represented for instance by the quality and availability of healthcare and education services etc.
- Identify the relevant expenditure components of GDP given in Table 3 for discussion - C, I, G, X, M
 - ⊖ Private consumption takes up 60.8% of GDP
 - This means more resources are devoted to the production of consumer goods, fewer resources are devoted to the production of capital goods.
- Elaborate using the relevant expenditure components of GDP given in Table 3, how they impact current and future SOL

Consumption Expenditure

- High proportion of consumption expenditure (C) out of GDP at 60.8%. Private consumption, C, refers to household expenditures on domestically produced consumer goods such as food and essentials such as clothing which satisfy their wants and increase their utility. Hence with more goods and services available for the average person to consume, the **current material SOL** of the country is relatively high.
- Private consumption also includes the purchase of leisure activities such as concerts and hotel staycations. By partaking in these leisure activities, these can help to reduce stress levels experienced by individuals. Alternatively, households could be consuming more and higher quality healthcare which allows them to become healthier and enjoy longer life expectancy. AND / OR better access to education and knowledge. Hence with more of such services available for the average individual to consume, the **current non-material SOL** is relatively high.

Investment Expenditure

- Low proportion of Gross Fixed Capital Formation (I) out of GDP at 20.9% → With a low investment expenditure, there will be low ability to accumulate capital stock such as plants and machinery which limits the country's productive capacity. This will therefore lower the ability to produce more goods and services in the future. Hence this also lowers the ability of the average individual to consume goods and services in the future, which implies a relatively low future material SOL.
- This corroborates with the high C proportion out of GDP explained earlier, as relatively more resources channeled to the production and consumption of consumer goods results in a trade-off in terms of less resources available for production of capital goods. Hence there is a trade-off between high current material SOL but low future material SOL, as explained previously.

X&M

- Export revenue share of GDP is at 61.4%. This is relatively high which implies that the country is receiving a sizable amount of foreign exchange earnings that can be used to pay for consumption of goods and services in the future → future material SOL is high
 - Production of goods and services in Malaysia made available for foreign consumption exceeds that of foreign goods made available to Malaysians → Current material SOL is lower than if the BOT surplus was smaller (Assuming if they were consumer goods)
- Import expenditure share of GDP is at 54.9%. This is also relatively high which may imply the country is consuming more goods and services (from abroad) → current material SOL is high as these provide variety and choice. However, if the imports were on capital goods → improves future material SOL as it contributes to accumulation of capital stock, which enhances the economy's capacity to produce goods and services for consumption in the future.

Government expenditure

- 12.9% of GDP → But really depends on how the government spent it → If large proportion of it was spent on improving infrastructure e.g improvement in transportation network → more efficient transport → higher economic productivity, enhancing the economy's capacity to produce goods and services for consumption in the future → higher future material SOL.
- However, if it were spent on healthcare like building more hospital → impact will be on improving future non-material SOL when the hospitals start operating in the future.

Reasoned Conclusion

- Overall: Malaysia seems to be focusing more on current SOL at the expense of future SOL
- However, just because a high percentage of GDP is spent on consumption does not necessarily mean that an average citizen in Malaysia has high material SOL as this would also be dependent on the level of real GDP/capita.

- SOL is also dependent on the non-material aspects, which no explicit information is provided
- Depends on how G is spent – can be spent to improve infrastructure in Malaysia, to offset the effects on future SOL
- Will also need to consider Malaysia's future economic performance, as this composition may be due to Covid-19 and its recession, resulting in lower business confidence and fall in exports, however once the economy recovers (as expected in Extract 5), both current and future SOL likely to improve quickly.

Level	Knowledge, Understanding, Analysis, Application
1 1 – 3m	• No balanced answer, only considering either future or current SOL • No use of economic framework, journalistic answer • No link to context / no use of data from Table 3
2 4 – 6m	• Discussion on the impacts of current and future SOL, including material and non-material SOL • Link to evidence that points to at least 2 pieces of data from Table 3
Evaluation	
1 1m	A judgment provided with some brief explanation
2 2m	A reasoned judgment that is sufficiently explained and contextualised

Examiners' Comments

This question was generally poorly done.

- Poor/Inaccurate grasp of question requirement
Many candidates did not understand the requirements of the question which was to make inferences from the composition of the expenditure components of GDP on current and future SOL.
- Many responses failed to make accurate and well-considered use of the composition of the expenditure component of GDP. Such responses framed their answer by explaining an increase in AD, however this is not reflected in Table 3. Table 3 merely provided information about the projected composition of Malaysia's GDP in 2020. It is erroneous to infer if Malaysia's AD was increasing or not, and as a consequence, expounding at length about the multiplier effect is totally unnecessary.
- Others made a poor use of the data in Table 3. Some inferred that the government consumption share of GDP is high, when it is clearly not the case at just 12.9%!
- Still others referred to the "Total GDP" data in Table 3, which was bewildering, when the question clearly steered the candidate to the composition of the expenditure components of GDP.
- Unclear link to specific aspect of SOL
Weaker responses lacked explicit link to whether the expenditure component affected current or future SOL, as well as, whether it affects material or non-

material SOL. Such responses were often content to refer broadly to the concept of SOL.

- Better responses clearly appreciated the possible trade-off between current and future SOL when discussing the C vs I relative shares of GDP.
- All too often, candidates were cherry picking certain familiar phrases in the question e.g., SOL and regurgitating previously learnt content. It is important that candidates take the time to accurately grasp the phrasing of the question and craft their response aligned to what the question requires.

(d) Discuss how COP26 may affect Malaysia's ability to achieve sustainable growth. [10]

Suggested Answer

Sustainable growth – comprises 3 elements

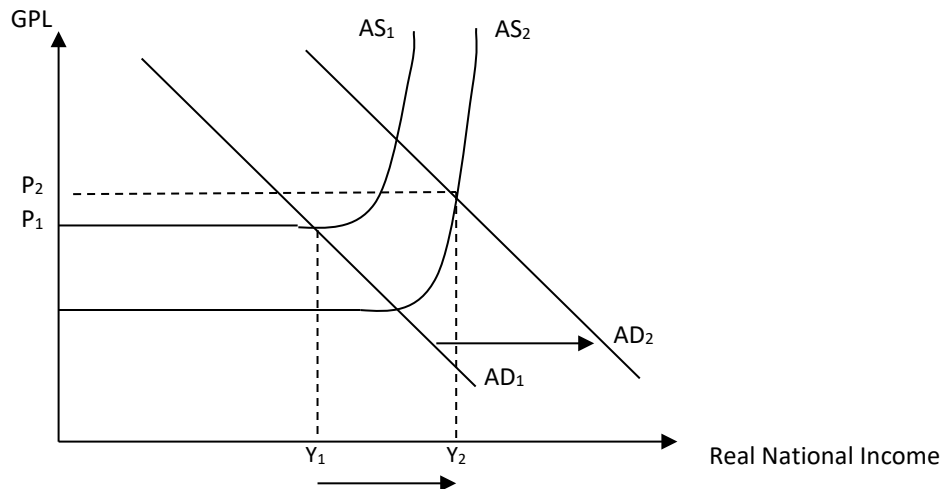
- Sustained economic growth – actual and potential growth
- Environment sustainability
- Inter-generation equity

Introduction

- Sustainable growth is growth of real national output that meets the needs of the present without compromising the ability of future generations to meet their own needs. It attempts to balance the ability to achieve sustained growth while achieving environmental sustainability.
- Sustained growth comprises actual growth and potential growth

Thesis: COP26 can help Malaysia to achieve sustainable growth

- Malaysia is committed to reduce methane emissions. One of the ways is to tackle its third largest source - solid waste disposal - through development of new technology to more efficiently break down solid waste.
- Malaysia will reduce their reliance on coal and make 'the switch to clean energy' which also necessitates increased spending on investment on clean technology. Hence Malaysian government to increase government spending on building the infrastructure.
- Policies may be implemented to encourage Malaysian businesses to 'rethink how they innovate... in the process, how they design, produce and distribute their goods' so that the firms will spend on R&D on product innovation to improve the design of goods using more environmentally friendly recyclable material and also how they distribute the goods in terms of reducing unnecessary packaging so as to reduce solid waste disposal → Increase in investment expenditure.
- Actual growth: The rise in G & I will lead to an increase in AD which will result in a more than proportionate increase in RNY via multiplier → actual growth as the economy moves closer to Y_f with increased resource utilization - 'create new jobs and better growth... thanks to the big investments needed in green infrastructure.' (Extract 6 para 2)
- Actual growth: "Supporters of such changes hope that it will pave the way for better labour productivity" (Extract 6 para 4) → reduction in unit labour cost → fall in COP → shift AS curve downwards



- Potential economic growth: The development of clean and more advanced technology and infrastructure will also increase AS due to improvement in productive capacity
- Environmental sustainability: by promoting use of renewable and cleaner sources of energy, the usage and hence rapid depletion of resources, especially non-renewable resources is reduced → reduces the extent of fall in AS in future
- Moreover, this infrastructure will allow Malaysia to cut emissions which can also help prevent further environment damage in the future in the form of floods that Malaysia has recently experienced. This will help to prevent future SS side shocks to the economy (Ext 6 para 3 “The floods have led to substantial damages to property, other assets and products as well as disruption to production and supply chain operations.”) → helps to prevent severe fall in AS → supports ability to sustain growth and preserve resources for the future generation.

Anti-thesis: COP26 may not help Malaysia achieve sustainable growth

- COP26 pledges are not legally binding
Extract 6 para 4: “some leaders and campaigners say it does not go far enough as much of it is not legally binding.” Without a legally binding framework to implement effective and substantial cutting of emissions, government spending may not be sufficient to go far enough that effectively reduces environmental damage → Malaysia would still experience supply-side shocks in the future → hinders ability to achieve sustained growth
- Ability to achieve sustained growth does not only depend on COP26
Extract 5 para 4: “key drivers to the nation’s growth would be a higher consumption level, an influx of infrastructure spending that has been on hold for the last two years, as well as buoyant foreign direct investment”

Ability for Malaysia to sustain its growth is also dependent on both internal and external demand-side factors → which affects its ability to increase AD, RNY and actual growth

Malaysia’s ability to attract FDI would also impact its ability to expand its productive capacity, increase LRAS and hence achieve potential growth

- Trade-off in the short run

Phasing out of subsidies for traditional fuel and reducing emissions via heavier taxes on pollution → COP increases → fall in AS → RNY falls → fall in actual growth

This trade-off between better environment sustainability and actual growth will occur in the short run provided Malaysia is able to effectively channel resources away from the polluting production methods to clean production methods, and retrain its workers in using the new methods. If they are unable to do so, Malaysia may either not choose to adopt any of the COP26 recommendations, or be stuck with the trade-off in the longer term.

Reasoned Conclusion

- Present a clear overall judgement: Although COP26 initiatives to cut emissions will help in some way to promote sustainable growth, it is not sufficient to do so alone
- Go on to substantiate the overall judgement made:
 - With or without COP26, Malaysia already facing issues in sustaining its economic growth, will face even larger issues especially in the short-run.
 - This need to be supported by relevant government policies to overcome the limitations of COP26 initiatives and also to support actual and potential growth in the post-pandemic world, especially given the rising importance of climate change
 - However, their government may not have the capabilities to implement effective policies to achieve the positive outcomes → more likely for the government to focus on short-term priorities, especially given Malaysia's reliance on industries such as palm oil, and long running subsidies on items such as petrol → to make the switch will have significant negative impact on their economy and will likely be politically unpopular

Students can also consider other possible approaches, e.g. recognise the sustainable growth with its elements of achieving sustained growth and environmental sustainability is not a zero-sum game, matter of prioritising and purposefully balancing it in the context of COP26 initiatives and the economic challenges Malaysia is facing.

Level	Knowledge, Understanding, Analysis, Application
1 1-4m	• One-sided analysis • Grasp of sustainable growth is not evident • Descriptive analysis, weak/no use of economic framework
2 5-7m	• Ability to provide a balanced discussion on how COP26 affects Malaysia's ability to reduce environmental damage and achieve actual and potential growth • Good use of AD-AS framework for analysis • Good use of case evidence to support analysis

Evaluation	
1 1m	A clear judgment is provided but is briefly explained.
2 2 - 3m	A clear overall judgment is made. A reasoned judgment is sufficiently explained and contextualized, showing ability to synthesize key points of analysis leading to a well-reasoned conclusion.

Examiners' Comments

This question was in the main poorly attempted.

- **Lack of scope**

Many candidates did not include the concepts of actual and potential growth in their responses. Actual growth should be analysed as an increase in real national income while potential growth should be analysed as an increase in production capacity.

Weaker scripts tended to focus the explanation of sustainable growth solely on environmental sustainability and did not explain or had a cursory explanation on how actual and potential growth are also being achieved.

- **Omission of AD-AS framework**

Many candidates also did not use the AD-AS framework to anchor their analysis. Many candidates merely cited relevant case material but failed to analyse the material using the AD-AS framework.

In order to access higher-end L2 marks for this question, candidates must 1) cite/make use of relevant case material, 2) value-add by analysing this material using the AD-AS framework, 3) making explicit analyses which link to actual, potential and sustainable growth.

- **Lack of elaboration**

Weaker responses were lacking detailed elaboration that clearly explains how COP26 leads to actual and potential growth, merely stating that there is an increase in AD and AS.

- **Poor attempt at evaluation**

The attempts at evaluation were as a whole disappointing. The following were observed:

- Repeating points already made in the analysis, with no clear judgement, this is at best a summative instead of an evaluative conclusion.
- Making a stand, that is either not substantiated or poorly done. Such responses made little to no attempt at appreciating the context, attempts at synthesizing points of analysis were also not evident or at most cursory.

*****END*****