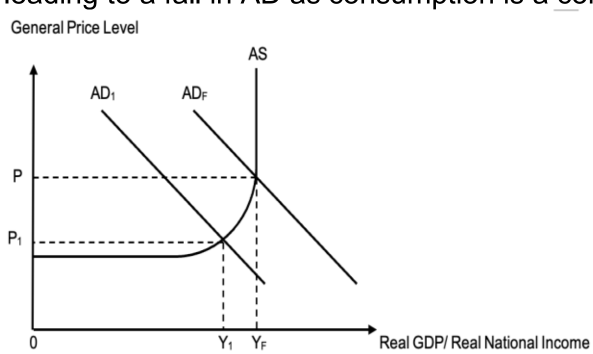
(a)	**(i) Explain the meaning of 'real' in the term 'annual percentage change in real GDP'.**	**[2]**
	Real means that the GDP growth rates have already eliminated the effects of inflation. Hence real GDP growth measured the rate of change in the output, keeping prices constant.	
	(ii) Using Table 1 and Table 2, identify the main features of Malaysia's economic growth performance, both over time and compared with the other given Asian Economies.	**[4]**
	Malaysia's has a positive annual percentage change in real GDP, indicating a positive economic growth from 2007 to 2018 except for 2009 of -1.5%. A general trend of positive growth implied that the economy is growing, resulting in a higher real national income, higher purchasing power and hence a higher material standard of living for its citizen. The forecasted economic growth rate of Malaysia is higher than the advanced economies of Japan, Korea and Singapore. This implies that the forecasted rate of an increase in the material Standard of living will be higher for Malaysia relative to the advanced countries. However, the forecasted economic growth rate is lower than Asia overall average, implying that many other developing countries like China and Vietnam is achieving a higher rate of economic growth relative to Malaysia.	
(b)	**Using AD/AS analysis, explain how variations in consumption could cause variations in the levels of unemployment and inflation in Malaysia during the period 2008-2010.**	**[6]**
	Unemployment increase in 2009 and decrease in 2010. Whereas inflation fall in 2009 and increase in 2010. From 2008 to 2009, due to the effect from the US sub-prime crisis, the **negative economic growth** might affect consumers' confidence to spend during that period. With a lower level of consumer confidence, there might be a fall in consumption leading to a fall in AD as consumption is a component of AD. [1]  **Figure 1: Economy of Malaysia**	

The fall in AD falls from ADf to AD1 as shown in Figure 1 illustrates the multiplied fall in RNY. With a fall in production, **the derived demand for all factors of production including labour falls**. This causes **increase in cyclical unemployment**. [1]

The fall in AD creates a **surplus** of goods at the initial GPL level (P). This creates downward pressure on price. Firms would then decrease production and factors of production are now no longer scarce. The decreased production results in less competition for scarce resources, **reducing factor prices**. Each unit of output becomes cheaper to produce and this results in downward pressure on price. Economy re-equilibrates at **lower GPL (P1).** This helps to bring down demand-pull inflation. [1]

From 2009 to 2010, the big jump in economic growth at 7.5% boost consumer confidence as a **strong recovery from the US sub-prime crisis** was seen in the national figures. This will then **increase consumption** leading to a rise in AD for Malaysia. [1]

The increase in AD from ADo to AD as shown in Figure 2 will lead to a multiplied rise in RNY. With a rise in production, the derived demand for all factors of production including labour rises and this will then lower cyclical unemployment.
[1]

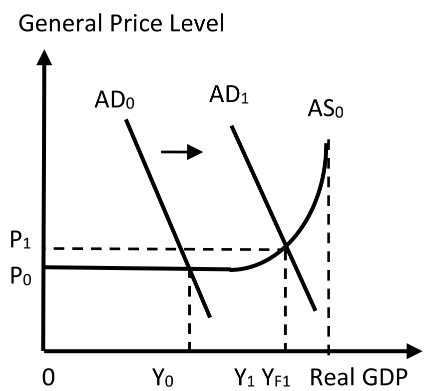


Figure 2: Economy of Malaysia

With a rise in AD from ADo to AD, this creates **shortages** of goods at the initial GPL level (Po). This will then create upward pressure on price. Firms increase production and **assuming the economy is close to full employment**, factors of production is now scarce. Increased production results in competition for scarce resources and **increases factor prices**. Each unit of output becomes costlier to produce. There will be upward pressure on price. Economy re-equilibrates at **higher GPL (P1). With a possible** persistent increase in AD, leading to further increases in GPL, hence resulting in **demand-pull Inflation. [1]**

(c)	**Extract 7 states that Malaysia had a lower-than-forecast growth performance in 2018.** **Explain how supply-side policies could have been used to bring about a greater rate of growth in living standards in Malaysia after the relative slow-down of 2018.**	**[7]**
	The supply side policy of increasing government expenditure on infrastructure has an expansionary effect on the Malaysian economy. A direct increase in G resulted in an increase in AD from AD1 to AD. **Given that there is spare capacity available at the Keynesian or Intermediate range of AS curve**, firms increase employment of resources increasing RNY. This increases the household income and purchasing power causing further induced consumption. This resulted in a spending and respending effect, increasing AD further from AD2 to AD3. The final increase in RNY is greater than the initial increase in spending due to the **multiplier effect** allowing a stronger actual economic growth, stemming the **slower economic growth** than the forecast annual rate of less than 5% from extract 7. **<u>Benefit:</u>** **From Extract 6, Increasing G expenditure on public works like infrastructure** increased prospects for inflows of foreign direct investment and for enhanced trading relations with the regional economic partner. Spending on public works and investment can also bring about an increase in LRAS. The Increase in Expenditure on infrastructure makes Malaysia a better investment destination. There will be a greater flow of foreign direct investment into Malaysia investing in capital goods. This resulted in an increase in the quantity of capital resources in Malaysia and hence the productive capacity increased. The increase in AD and LRAS will therefore allow Malaysian economy to achieve sustained economic growth. **The second supply side policy is the spending on training and education and increased social mobility.** An initial rise in government expenditure to increase labour productivity will lead to a rise in the aggregate demand (AD) and subsequently, the country's real national income will rise. Government spending on improving labour productivity can lead to an increase in the productive capacity of the economy. Improvement in labour productivity, e.g. offering training programmes to workers, can help to improve the efficiency of workers and lead to a rise in output per hour, hence the quality of labour increases. This will increase the productive capacity of the economy and increase LRAS from AS1 to AS2. This causes an increase in the maximum level of national income that can be achieved when all resources are fully employed from YF to YF" (Fig.2). This constitutes potential economic growth. The government's spending to increase productivity can also lead to more inclusive economic growth. As unskilled workers become more equipped with up-to-date skills, they will be able to secure a higher-paying job. The increase in their wages helps to	

	reduce the income gap between the rich and the poor, thereby promoting inclusive economic growth, resulting in a higher material standard of living.	
(d)	**Extract 6 suggests that a possible concern arising out of Malaysia's good economic prospects was that the ringgit 'would likely strengthen'.**	
	Discuss how a strengthening of the ringgit might results in 'undesirable short-term consequences', with particular reference to the standard of living in Malaysia.	**[8]**

Introduction
Strengthening of the ringgit simply refers to the appreciation of the Malaysia currency. An appreciation of the ringgit can result in undesirable short-term consequences on living standards.

Main Body: Appreciation resulting in a fall in net exports (AD)

R1: there is a fall in mSOL
With the appreciation policy being used by the Malaysian central bank, the price of exports will become more expensive in terms of foreign currency and at the same time, the price of imports will be cheaper in domestic currency. Assuming demand for both exports and imports are price elastic, the rise in the price of exports will lead to a more than proportionate fall in export quantity. This will cause the export revenue to fall. At the same time, the fall in the price of imports will lead to a more than proportionate increase in imports quantity. The outcome will be an increase in import expenditure. With the fall in export revenue and rise in import expenditure, the worsening of net exports means that there will a fall in AD. With the fall in AD from ADf to AD1, there will be a fall in real national income via the reverse multiplier process as shown in Figure 3 below. The fall in real national income means negative economic growth and this is one of the undesirable short-term consequences for Malaysia.

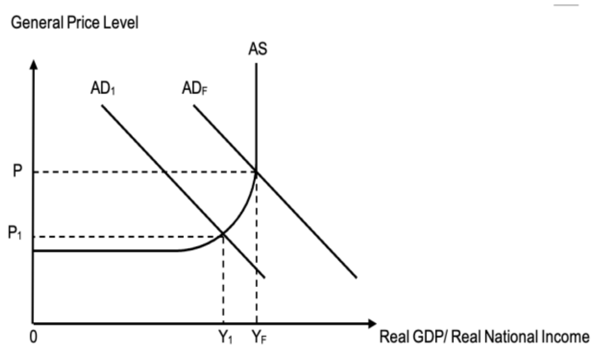


Figure 3: Economy of Malaysia

With the fall in national income, purchasing power of the residents will fall and leading to fall in ability to consume goods and services. This will then lower their material living standards.

EV1: appreciation of ringgit may lead to fall in GPL → rise in mSOL

However, an appreciation of ringgit can also lead to possible positive effects on the standard of living. Appreciation can lead to a lower price of imported raw materials. For e.g. lower oil prices. This will lead to a lower cost of production across the industry, thus increasing SRAS from AS1 to AS2. This creates a **surplus** at the prevailing GPL level **causing downward pressure on GPL as firms decrease prices.** The GPL decrease until the surplus is eliminated at a lower equilibrium GPL, P2.

With the lowering of the cost of living in Malaysia, this increased the ability of consumers to consume more goods and services and thus rising their material standard of living.

R2: there is a fall in nmSOL

Fall in AD and fall in economic growth can also result in unplanned inventory accumulation. In the next period, firms will produce less. As labor is a derived demand, there will be a fall in the demand for labor, resulting in cyclical unemployment. Higher unemployment and the loss of income will lead to a fall in material Standard of living. Additionally, higher unemployment can results in social anxiety and result in a lower non material standard of living.

EV2: there might not be a fall in nmSOL

If appreciation leads to a fall in exports → fall in industrial output → reduction in negative externality → quality of air improves → nmSOL improves

Evaluative conclusion – Using Situation – Size of multiplier (Context)

Stand: Overall, the strengthening of the Malaysian ringgit will lead to negative economic growth and the lowering of material living standards. However, it may not necessarily be as big of a problem here.

Substantiation: [situation] The extent of the fall in AD will depend on the multiplier value. Due to the Asian culture of thrift, the marginal propensity to consume is likely to be smaller, hence leading to a smaller multiplier value and a **smaller extent of negative effects** on the economy.

Mark scheme:

Level	Descriptors	Marks
L2	Balanced answer with good application of economic analysis. Good reference made to the case material. One sided answer – max 4m	4-6
L1	Superficial analysis or only theoretical analysis without application to context.	1-3
	Evaluation	
E2	Judgment is based on economic analysis and adequately substantiated.	2
E1	For an unexplained assessment, or one that is not supported by economic analysis.	1

(e)	**Using Figure 2 and Figure 3, comment on the perception in Extract 8 that 'the gap between the rich and the poor in their country (Malaysia is getting wider and it is a big problem.'**	**[8]**

Introduction
This question required views on whether the gap between the rich and poor in Malaysia is getting wider and whether it is a big problem or not.

Main Body
As shown in Figure 2, the Gini coefficient is improving from above 0.50 in 1965 to around 0.40 in 2014. This means that the income distribution has improved over the past few decades and Figure 2 supports that the gap between the rich and the poor in Malaysia is not getting wider. Thus, income has become more evenly distributed in Malaysia over time.

As for whether it is a big problem or not, we need to look at two differing views.

Perspective 1
Income inequality is not a big problem as shown in Extract 8, only 0.60% of the Malaysian people are deemed to live below the national poverty line. Plus, if everyone earned the same amount, there might be a serious lack of incentives to drive the increase in productivity which is the engine of growth. Hence, income inequality serves a purpose for workers to work harder and contribute to economic growth.

Perspective 2
On the other hand, income inequality might be a serious problem for Malaysia. Using Figure 3, in comparison with 8 other ASEAN countries, Malaysia is ranked top 3 in terms of the Gini coefficient for income. Malaysia's income inequality problem is considered high amongst the ASEAN countries and this shows that they have a more serious problem with income inequality in comparison to other countries.

Evaluative Conclusion – Using Situation
In terms of the income distribution, Malaysia has improved as shown by the lowering of their Gini coefficient over the past few decades. From a peak of 0.56 to a Gini Coefficient of 0.40 by 2015. Hence, the gap between the rich and the poor is not a

	big problem. Whether the income gap between the rich and poor constituted a big problem depends also on the perspective taken. For example, if we **only considered Figure 3 and compared Malaysia with other countries;** Malaysia seems to be having a bigger problem relative to other ASEAN countries. However, if we only considered the income gap problem **within Malaysia**, the 0.60% of people living below the national poverty line seems to be a smaller and insignificant problem.	

Mark scheme:

Level	Descriptors	Marks
L2	Balanced answer with good application of economic analysis. Good reference made to the case material. One sided answer – max 4m	4-6
L1	Superficial analysis or only theoretical analysis without application to context.	1-3
	Evaluation	
E2	Judgment is based on economic analysis and adequately substantiated.	2
E1	For an unexplained assessment, or one that is not supported by economic analysis.	1

(f)	**Using material about Malaysia in the case to illustrate your answer, discuss the view that more inclusive but slower economic growth is preferable to growth that is a higher rate but is less inclusive.**	**[10]**

Structure of answering the question:
Thesis: More inclusive but slower growth is better

- Benefit of inclusive growth
- Cost of non-inclusive growth
- Cost of high economic growth

Antithesis: Higher rate of economic growth that is less inclusive is better

- Benefit of high economic growth

Evaluation

- Make a stand that inclusive but slower economic growth is better in the LR.

Introduction

Inclusive Growth indicates a rate of growth that is sustained over a period of time and is **broad-based across economic sectors for the majority of the country's population**. Economic growth considers income distribution and does not contribute to income inequality. Gains in income are enjoyed by the majority of the population.

Thesis: **More inclusive but slower growth is better**

	Explain why countries should focus on inclusive growth and slower growth by explaining the costs of non-inclusive growth and the benefits of focusing on inclusive growth. **When there is non-inclusive growth, there would be an uneven distribution of income between the rich and the poor, resulting in rising income inequality. This brings about costs to the economy.** In Extract 8, it was mentioned that “rising income inequality may cause social unrest and serious hardship for those at the lower end of the income distribution. Furthermore, non-inclusive growth may also lead to political instability and a fall in non-material living standards as it damages trust and social cohesion. For example, there might be a rise in crime rates or even riots that worsens security levels for a large proportion of the population. Therefore, **more inclusive growth at a slower rate is better for Malaysia**. From Table 1, we can see that economic growth is generally stable, but Gini Coefficient remain a pertinent issue from Figure 3. Thus, a broad-based growth across economic sectors can help create productive employment opportunities for the majority of the population and is better. **<u>Thesis:</u> More inclusive but slower growth is better (Undesirable benefit of high economic growth that is non-inclusive)** High economic growth that is non-inclusive may worsen the non-material SOL. For instance, workers may be expected to put in more hours and may experience a higher level of stress, thus such hectic lifestyles with less leisure hours will lower the non-material SOL of the residents. The rising cost of living may also adversely impact the lower-income households in the respective economies and possibly increase social problems such as crimes. Economic growth may be concentrated in some industries only hence worsening income inequality among different groups of people which is undesirable. There is also a **trade-off between achieving high economic growth and protecting the environment.** With a fast pace of industrialization in certain countries in hope of achieving high economic growth at all costs, this may worsen the **non-material SOL** due to rising levels of carbon emissions and wastes, increasing pollution levels. Additionally, a **possible limitation of achieving high economic growth would be the lack of resources available** for Malaysia due to issues of scarcity, reducing the ability to increase productive capacity. Without an increase in the long-run aggregate supply, Malaysia may be faced with overheating as aggregate demand increases without AS increasing in tandem. **Anti-thesis: Higher rate of economic growth that is less inclusive could be better. (Benefit of a high rate of economic growth)** **On the contrary, Malaysia may prefer a higher rate but less inclusive growth.** From figure 2, Malaysia’s Gini coefficient has already significantly declined but the	

new problem is that the economy **grew less than forecast during 2018**; with an annual rate of less than 5%.

Pursuing a high rate of economic growth that is non-inclusive may be desirable as it may improve investors' confidence and investment climate in a particular sector, creating dynamic efficiency, promoting a sustainable culture of innovation, allowing the economy to move towards a higher value sector despite the non-inclusive growth. FDI will be attracted in this **sunrise industry for Malaysia.** With an increase in I, AD will increase which will bring about multiplied increase in real national income, leading to an increase in material SOL. Since demand for labour is derived from the demand for final goods and services, demand for labour will increase, hence increasing employment. However, workers in the sunrise industry earned more income, while workers in the sunset industry go out of jobs, the high rate of economic growth is non-inclusive.

Evaluative conclusion

Stand: In a developing economy, like Malaysia whereby citizens have not yet achieved a basic level of living standards, the government must focus on achieving a high rate of economic growth in the short run first, before moving on to achieving inclusive growth at a slower rate.

Something special: However, the global pandemic due to Covid19, lockdowns and 'work-from-home' trends have also worsened the divide between high and low-skilled labour. This is worsened by the acceleration of digitalization and the use of technology that disadvantages low-skilled workers who also cannot work from home. As such, during such a situation, it is pertinent to level up the skillsets of these workers first to reduce income inequality. However, training workers to use more sustainable methods of production will require the strong cooperation of the private sector as well. The government will need to design strategies and policies for firms to be incentivized to choose such methods of production. Firms should be given incentive to send their workers for training and retraining to increase their occupational mobility and productivity.

Level	Knowledge, Application/Understanding, and Analysis	Marks
L3	For a well-developed answer that ● has good balance – benefit and cost of inclusive growth ● Illustrate on the benefit and cost of high economic growth ● has good use of the case material.	5 – 7
L2	For an underdeveloped answer that ● lacks balance – either benefit or cost of inclusive growth ● lacks balance – benefit and cost of inclusive growth ● Illustrate on the cost of high economic growth ● has some use of the case material. AND/OR lacks scope – only 1 policy discussed; AND/OR lacks use of the case material;	3 – 4

	L1	For an undeveloped answer that shows major conceptual inaccuracies or that largely does not answer the question.	1 – 2	
	Level	**Evaluation**	**Marks**	
	E	Up to 3 additional marks for a valid evaluative comment on whether more inclusive but slower economic growth is preferable to growth that is a higher rate but is less inclusive.	1 - 3	
			[Total: 45]	