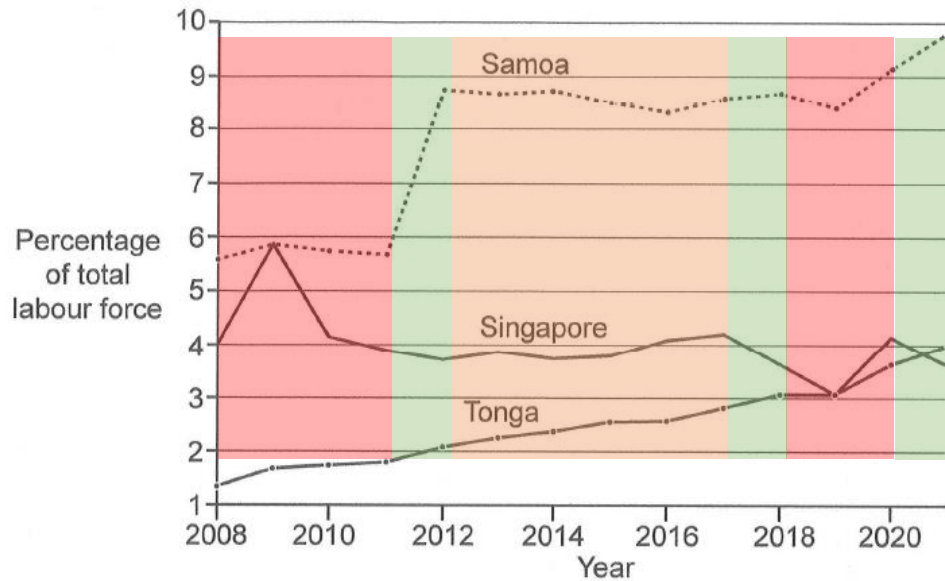


Suggested answer to 2024 A Level H1 Paper 1 CSQ 2

(a) Use the unemployment rate in Figure 2 and select one other economic indicator in Table 2. [4]

For each indicator, identify a time period in which Samoa and Singapore's performance differed significantly and explain your choice.

Figure 2: Unemployment rate for Samoa, Singapore and Tonga, 2008 to 2021



Red areas = similar performance

Orange area = differs but not in a significant manner

Green areas = differs and somewhat in a significant manner

Note: A few misunderstood the label on Figure 2, reporting changes in the total labour force, rather than the unemployment rate.

From 2011 to 2012 [1m], the unemployment rate in Samoa increased significantly from about 5.7% to 8.8% while the unemployment rate in Singapore decreased from about 3.9% to 3.7%. An increase or high unemployment rate represents poor economic performance. [1m]

Table 2: Economic growth and inflation in Samoa, Singapore

Year	Samoa		Singapore	
	Annual % change in real GDP	Annual % change in CPI	Annual % change in real GDP	Annual % change in CPI
2012	-4.1	6.2	4.6	4.6
2013	-0.3	-0.2	4.8	2.4
2014	0.1	-1.2	3.9	1.0
2015	4.3	1.9	3.0	-0.5
2016	8.1	0.1	3.6	-0.5
2017	1.0	1.3	4.7	0.6
2018	-1.2	3.7	3.7	0.4
2019	4.4	2.2	1.1	0.6
2020	-2.6	1.5	-4.1	0.2
2021	-8.1	-3.0	7.6	2.3
2022 ^e	0.0	8.3	4.0	3.5
2023 ^e	4.0	3.0	2.6	2.0

GDP = Gross Domestic Product

Another economic indicator in Table 2 is annual % change in real GDP.

In 2021 to 2012, Samoa experienced a recession as real GDP decreased by 8.1% while Singapore experienced actual economic growth as real GDP increased by 7.6%. A positive annual % change in real GDP represents positive economic performance.

Note: Some were confused between a reduction in the change in real GDP and a reduction in real GDP.

(b) With reference to Extract 4, use the concept of weights to explain Tonga's high estimated inflation rate of 6.1% for 2022 in Table 2. [4]

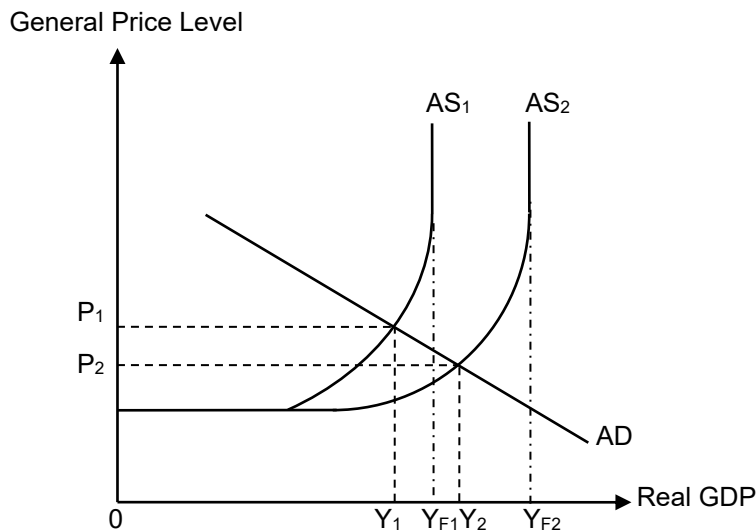
Many Pacific Island economies such as Samoa and Tonga are large net importers of oil and food. They are expected to be hit especially hard by rising inflation. Food and fuel price increases are particularly painful in these countries given their large share in the consumption basket of goods of a typical household. These price rises disproportionately affect the poor and most vulnerable in society.

	The inflation rate is calculated as the percentage change in the Consumer Price Index (CPI), which measures the average price level of a fixed basket of goods and services consumed by households. Each item in the basket is assigned a weight based on its relative importance in household expenditure. [1m] In Tonga's case, food and fuel are necessities that form a significant proportion of household spending, especially in lower-income economies. As such, these items are likely to have large weights in the CPI calculation. [1m] When prices of heavily weighted items like food and fuel rise substantially, they contribute more to the overall increase in the CPI than items with smaller weights. Thus, even if only a few categories experience large price increases, the overall inflation rate can still be high due to their strong influence on the index. [2m] Therefore, the sharp rise in food and fuel prices in 2022, combined with their large weights in Tonga's consumption basket, explains the high estimated inflation rate of 6.1% shown in Table 2.		
(c)	With reference to Extract 4:		
	(i)	Explain how a 'more progressive taxation system' could achieve the broad objective of the fiscal policy 'to protect the vulnerable from the effects of rising food and fuel prices'.	[3]
		A more progressive taxation system is one where individuals with higher incomes pay a larger proportion of their income in taxes while the lower incomes pay a lower proportion. This means the tax burden increases with income level, while lower-income groups have lower or even no tax liability or burden. [1m] With lower taxes, the disposable income of low-income households increases. If this rise in disposable income is greater than or at least matches the rate of increase in food and fuel prices, it leads to an increase in real income, the amount of goods and services they can afford. The tax revenue collected by the government could be used in transfer payments to assist the most economically vulnerable in coping with rising prices of food and fuel by increasing their real disposable income. [1m] As a result, even with rising prices of essential items like food and fuel, vulnerable households will still be able to maintain or improve their standard of living, as they can afford to purchase these necessities. This helps to shield them from the negative effects of inflation, aligning with the fiscal policy objective of protecting the vulnerable. [1m]	
	(ii)	Explain how 'supply-side reform' could be used to improve the mobility of labour and hence achieve the 'broad long-term aim of inclusive economic growth'.	[5]
		in society. Supply-side reform such as improved access to education and training, and investment in infrastructure will also be needed to support the broad long-term aim of inclusive economic growth, especially in those Pacific Island economies suffering the greatest and most unequally distributed impacts on standards of living.	

Supply-side reforms such as improved access to education and training and investment in infrastructure can help to improving labour mobility and promoting inclusive economic growth.

By improving access to education and training enhances occupational mobility as workers gain relevant and transferable skills, especially **Lower-income workers would be 'upskilled' as mentioned in Extract 4.** [1m]

This leads to improvement in the quality of labour which raises labour productivity, productive capacity of the economy increases which results in potential growth as AS increases from AS₁ to AS₂ and full employment output increases from Y_{F1} to Y_{F2}. [1m]



Figure

Potential growth also leads to actual growth as real GDP increases from Y₁ to Y₂. [1m]

As real GDP increases, assuming ceteris paribus, unemployment rate will decrease and real GDP per capita will increase, and these will benefit those who gain employment and higher income, usually the low income, leading to a more inclusive growth. [1m]

As GPL decreases, the low income will benefit as their real income will increase, leading to a more inclusive growth. [1m]

In conclusion, increasing access to education and training and investment in infrastructure can improve labour mobility, promoting actual, potential and inclusive growth.

[Bonus Point 1]

By improving access to education and training enhances occupational mobility as workers gain relevant and transferable skills that enable them to switch between jobs

	or industries more easily, especially in response to structural changes in the economy. For example, training schemes in digital skills can help workers in declining manufacturing sectors transition into growing industries such as information technology. This helps reduce structural unemployment. [Bonus Point 2] Improvement in education and infrastructure can also improve geographical mobility. As the labour force will be more willing and able to relocate to other areas with suitable job opportunities. As unemployment decreases, GINI coefficient will decrease in income inequality will be reduced, resulting to more inclusive growth. [Bonus Point 3] Increase investment in education, training and infrastructure can also lead to increase in $G \rightarrow AD \text{ increase} \rightarrow \text{Real GDP increase} + \text{lower DD unemployment}$.	
(d)	With reference to Extract 5, comment on the validity of the assertion that ‘the decision by the Federal Reserve to increase the interest rate makes no sense’.	[6]
	Most candidates tended to utilise an aggregate demand/aggregate supply diagram and gave a developed explanation of the impact of increasing the interest rate on consumption and investment and on the general price level. Many also showed an awareness of a multiplied impact on national income. Most candidates were able to answer the evaluative part well by saying that the assertion was valid. Many argued that increasing interest rates would not tackle the root cause of this inflation and referred to Extract 5 where the decrease in energy supply is identified as the cause of cost-push inflation. Other candidates opined that the higher rate of interest would also cause recession.	
	<u>Assertion is invalid</u> The Federal Reserve of the US has increased the interest rate as a contractionary monetary policy to address inflation in the US. With a rise in interest rate, the cost of borrowing becomes higher. This discourages households from purchasing big-ticket items that is financed by credit. Also a rise in interest rate means that the returns of savings and opportunity cost of spending increases, this will encourage savings and discourage consumption. To firms, the increase in cost of borrowing means that the number of investment projects that are profitable decreases as the expected rate of returns stay constant. As both C and I decrease, aggregate demand of US economy falls. The fall in AD will create a surplus of goods at the initial GPL, thus creating a downward pressure on price. In response to lower prices, firms’ decrease production. The reverse multiplier process amplifies the initial decrease in AD due to a fall in consumption throughout the economy. This creates additional surplus in goods and services, reinforcing the deflationary pressure. Decrease production results in less competition for scarce resources, reducing factor prices. Firms would therefore be willing to sell additional units at a lower price (shown by a movement down along the AS curve). Thus, the economy re-equilibrates at lower GPL. This mitigates inflation arising from demand side. <u>Assertion is valid</u>	

	However, in the US, some economists argued that raising interest rate makes no sense as inflation is not caused by rising AD (does not address root cause). Instead, inflation arises from rising energy price due to supply shocks caused by COVID-19 pandemic and the Russia-Ukraine war. As such, cost of production increases and SRAS decreases as firms will only be willing and able to produce a given output at a higher price level. Hence, the fall in SRAS results in higher general price level and lower real GDP. Under such circumstances, the rise in interest rate to dampen AD will aggravate the problem of recession as real GDP decreases. Hence the assertion that the increase in interest rate makes no sense is valid.													
(e)	Using Extract 6 and aggregate demand and aggregate supply analysis, discuss the extent to which the decision to undertake the discretionary fiscal policy is likely to affect the long-term economic growth of Singapore.	[8]												
	Most candidates used an appropriate diagram to offer developed economic analysis of the likely impact of the discretionary fiscal policy on aggregate demand and long-term economic growth. For many, they showed an awareness that an increase in AD has a multiplied effect on national income. Most also explored the information in Extract 6, analysing the potential impact of the policy on long run aggregate supply, though this tended to be less well developed. Stronger responses offered economic analysis beyond the immediate impact of increased government expenditure to include economic analysis of the indirect impacts of increased tourist expenditure on the long-term economic growth. Most also made some evaluative comments on the extent of long-term economic growth in relation to the uncertainties surrounding the operation of the F1 SGP, commenting on the importance of external factors, or the ‘once a year’ nature of the race and, therefore, the primarily short-term effects. Few fully developed these evaluative thoughts.													
	<table><tr><td>Command</td><td>Discuss the extent</td></tr><tr><td>Content</td><td>Start Point: - Discretionary fiscal policy End Point(s): - Long-term economic growth Start Point(s) discretionary fiscal policy ➔ Tool of Analysis AD/AS framework ➔ End Point(s) long-term economic growth </td></tr><tr><td>Context</td><td>Singapore</td></tr><tr><td>Approach</td><td><table><tr><td colspan="2">Intro: Key definitions of concepts. 1 liner overview.</td></tr><tr><td>Requirement 1: Discretionary fiscal policy can promote long-term economic growth through increasing AD</td><td>Requirement 2: Discretionary fiscal policy cannot promote long term economic growth through increasing LRAS</td></tr></table></td></tr></table>	Command	Discuss the extent	Content	Start Point: - Discretionary fiscal policy End Point(s): - Long-term economic growth Start Point(s) discretionary fiscal policy ➔ Tool of Analysis AD/AS framework ➔ End Point(s) long-term economic growth	Context	Singapore	Approach	<table><tr><td colspan="2">Intro: Key definitions of concepts. 1 liner overview.</td></tr><tr><td>Requirement 1: Discretionary fiscal policy can promote long-term economic growth through increasing AD</td><td>Requirement 2: Discretionary fiscal policy cannot promote long term economic growth through increasing LRAS</td></tr></table>	Intro: Key definitions of concepts. 1 liner overview.		Requirement 1: Discretionary fiscal policy can promote long-term economic growth through increasing AD	Requirement 2: Discretionary fiscal policy cannot promote long term economic growth through increasing LRAS	
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Evaluation: Limitations of increasing AD

Evaluation: Limitations of increasing LRAS

Conclusion: Stand, Substantiation, Something Special

Introduction:

Singapore government has decided to incur government expenditure of US\$100 million a year on F1 race for seven years from 2022 to 2028. It is a form of discretionary fiscal policy by deliberating adjusting the level of government expenditure to boost the aggregate demand of the economy.

R1: Explain how discretionary fiscal policy can achieve long-term economic growth

Government expenditure of US\$100 million to finance and host Singapore F1 race will directly increase the G component of aggregate demand. As F1 is an international motor racing sport, the event will attract tourists to visit Singapore, leading to an increase in X of services associated with tourist industry. This ranges from hotel accommodation, F&B and other tourist-related revenue from tourist attractions. Furthermore, global visibility of Singapore's "organizational expertise, developed infrastructure and stable government" serves to promote Singapore as a conducive investment destination for MNCs. This can potentially attract foreign direct investment, raising the level of investment in Singapore. With G, X and I increase simultaneously, AD rises and AD curve shifts rightwards from AD₁ to AD₂, as shown in Figure 1 below:

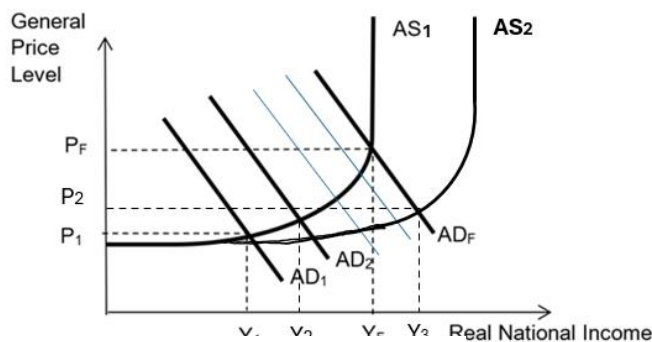


Figure 1

Assuming the economy is not at full capacity, the initial increase in AD triggers successive rounds of increases in national income and induced consumption, and AD. At each round, the increase gets smaller until it finally stops. This results in a multiplied increase in RNY from Y1 to Y5. Actual economic growth takes place.

Evaluation for R1:

Given an expansion of the LRAS, long term growth requires the rise in AD to be sustained so that RNY can increase over time. However, since F1 is a once-off event, the AD effect quickly fades away and is short lived. It seems unlikely that this fiscal spending can sustain the boost in AD.

A1: Address Qn

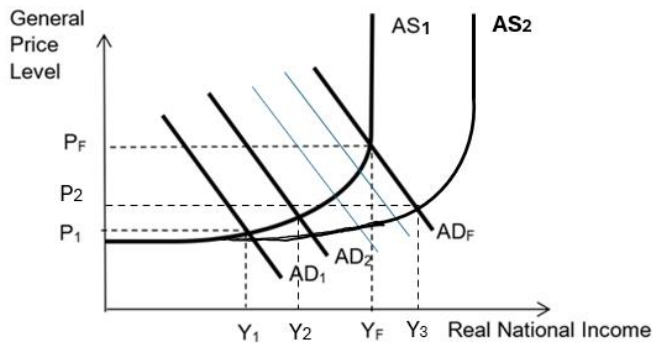
C1: Evidence of the Fiscal Policy

CD2: Effects on increased AD on long term growth

EV1/2: Limitations of achieving long term economic growth

R2: Explain how discretionary fiscal policy can achieve long-term economic growth

Extract 6 mentions global visibility and inward investment. The strategic government spending on F1 can encourage private sector investment, contributing to capital accumulation, causing a rightward shift of long run aggregate supply curve from AS₁ to AS₂. This expands the productive capacity of the economy, increasing the maximum output that the country can produce, as shown by the increase in Y_f. As the LRAS rise, there can be further actual growth as real GDP increases further from Y_F to Y₃.



Hence, as LRAS increases together with the rise in AD, real national income continues to rise over time. Long-term economic growth can be achieved.

Evaluation for R2:

Achieving long term growth depends on whether the fiscal spending can generate lasting impact on the LRAS. As the spending on F1 remains as a once-off event (once a year), long run effects are small. There is also high opportunity cost as the funds could be deployed to education, R&D, or green infrastructure which may have more certain LRAS enhancing effects.

Other possible evaluations

- Effectiveness of hosting F1 race to raise publicity of Singapore's developed infrastructure and stable government to attract foreign direct investment is uncertain. Though a US survey of business owners suggests that their understanding of Singapore has improved through media coverage of F1 race and some are keen to conduct business in Singapore, such benefits may change over time. Once the awareness of Singapore as a FDI destination is well established, the incremental benefits arising from media coverage to promote Singapore as a FDI destination may be limited.
- Decisions to invest by MNCs on investment overseas depend on many other factors such as global economic outlook and firms' performance. If the global economic conditions are bleak due to uncertainties and other global events such as supply-chain disruptions, the extent of increase in FDI will be limited.

Evaluative Conclusion Stand

All in all, while discretionary fiscal policy can achieve actual economic growth through AD in the short run, the effect on long-term economic growth is likely to be limited and uncertain.

**A1: Address
Qn**

**C1: Evidence
of the Fiscal
Policy**

**CD2: Effects
on increased
AS on long
term growth**

**EV1/2:
Limitations of
achieving long
term economic
growth**

EV4: Weighing

Substantiation – Situation

To bring about long-term economic growth, the productive capacity of the economy needs to be expanded in tandem with rising aggregate demand. This in turn depends on whether the discretionary fiscal policy results in an increase in the quantity and quality of resources available in the economy. In the context of hosting F1 race in Singapore, the government expenditure of US\$100 million once a year could be primarily spent on the temporary set up and publicity, there is no significant direct impact on the productive capacity of the economy. Instead, it is the indirect effect on attracting FDI through global publicity that will allow for long-term economic growth.

Something Special – Recommendation

Given that discretionary fiscal policy in hosting F1 race has primarily short-term effect on economic growth, it requires some fine-tuning in the allocation of government expenditure in hosting such events. To bring about long-term economic growth through hosting events, government expenditure can be targeted towards infrastructural development that have more prolonged effect on efficiency and productive capacity of the economy.

Marking Scheme

Knowledge, Understanding, Interpretation, Application and Analysis			
Level	Analysis Level	Descriptors	Marks
L2	A+A A+C C+C C+K A	Responses in this level will provide detailed analysis of the R1 and R2 in the context of (X), showing excellent ability to describe and explain relevant economic concepts, theories, and principles in a precise, logical and reasoned manner, with good use of extract evidence.	4-6
L1	C K+K K	Responses in this level will have some limited understanding of the benefits of the government achieving economic growth and/or addressing inflation. There may be some basic content errors and limited or no application of economic concepts, theories and principles to the context at hand.	1-3

Evaluation

Level	Descriptors	Marks
E2	One well explained evaluative statement or two weakly explained evaluative statements and a short summative conclusion that addresses the question.	2
E1	One evaluative statement that may be generic, weakly explained or not supported by the arguments presented in the answer.	1

- | | | |
|-----|--|------|
| (f) | Using material from the case to illustrate your answer, discuss the effects of high inflation on sustainable economic growth and unemployment. | [10] |
|-----|--|------|

The quality of responses to this question was mixed. Stronger responses provided developed economic analysis of the potentially positive impact that high inflation could have on sustainable economic growth and unemployment (in the short run), if the inflation was caused by increasing aggregate demand. They also included economic analysis of the likely negative impacts if the inflation was cost push in nature or resulting from government policies to tackle inflation.

These stronger responses tended to provide some effective evaluation, such as the impact on sustainable economic growth and unemployment would depend on the underlying cause of the inflation and the extent to which the expenditure switching towards more energy-efficient appliances caused by the high inflation took place. Weaker responses tended to offer cursory analysis that lacked depth or made limited or no evaluation. Some weaker responses were very brief and did not use the extract materials effectively.

Command	Discuss	
Content	Start Point: - High inflation End Point(s): - Sustainable economic growth - Unemployment Start Point(s) High inflation ➔ Tool of Analysis AD/AS framework ➔ End Point(s) Sustainable economic growth Start Point(s) High inflation ➔ Tool of Analysis AD/AS framework ➔ End Point(s) Unemployment	
Context	No specific context	
Approach	Intro: Key definitions of concepts. 1 liner overview.	
	Requirement 1: Negative effects of high inflation on sustainable economic growth	Requirement 2: Negative effects of high inflation on unemployment

EV 1:
Positive effects of high inflation on sustainable economic growth

EV2:
Positive effects of high inflation on unemployment

Conclusion: Stand, Substantiation, Something Special

Introduction

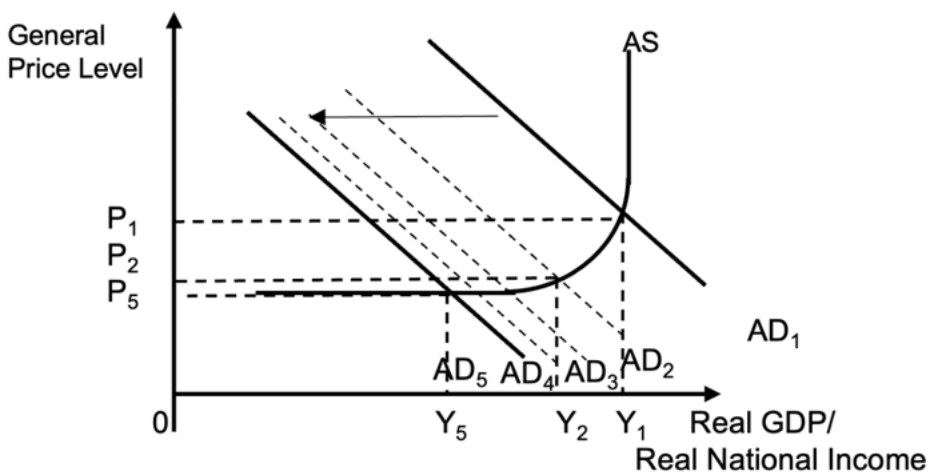
Inflation is the sustained increase in the general price level (GPL) of an economy, over a period of time, usually a year. Sustainable growth implies a stable and positive growth rate over an extended period, sustained economic growth that does not cause problems for future generations.

R1: Negative effects of high inflation on sustainable economic growth

Extract 4 highlights how “confidence among consumers and investors weakened” following cost pressures. This can depress both consumers’ and investors’ confidence to fall, hence both C and I will fall and AD falls. A fall in AD will trigger successive rounds of decreases in national income and income-induced consumption, causing a multiplied decrease in real national income, resulting in negative actual growth.

A1: Address
Qn

C1: Evidence



With lower investment expenditure, fall in the quantity and quality of resources such as capital and labour. Hence, this leads to negative potential economic growth assuming rate of capital depreciation exceeds accumulation. Thus, sustained and stable growth becomes harder to achieve. Future generations inherit an economy with lack of growth opportunities, inhibiting the increase in MSOL for future generations.

CD2: causal links to sustainable EG

Moreover, high inflation reduces consumers’ purchasing power especially fixed income earners, creating changes in consumer behavior such as purchasing cheaper goods which tends to be

non-environmentally friendly products, causing greater carbon footprints, reducing NMSOL of future generations, further compromising efforts to achieve sustainable economic growth.

EV1: Positive effects of high inflation on sustainable economic growth

However, Extract 5 notes that inflation has changed spending patterns: households turned to eco-friendly appliances to stretch their dollar. If such eco-friendly spending pattern persists, this could possibly stimulate investment into these green goods, which not only boosts AD but also enhances LRAS through capital accumulation. Greener consumption reduces environmental damage, safeguarding future generations' quality of life. Yet, these benefits are marginal compared to the broad cost-push drag on investment and confidence.

Requirement 2: Negative effects of high inflation on unemployment

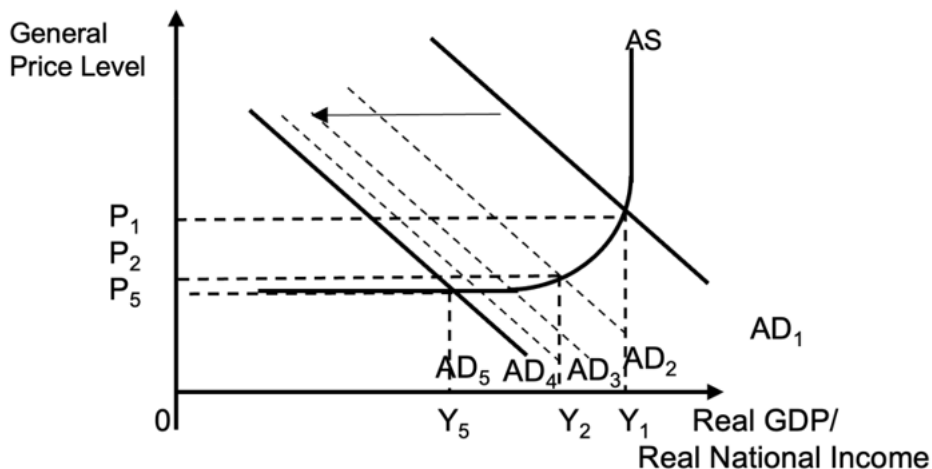
High inflation may also lead to an increase in unemployment, namely demand deficient unemployment which is caused by the fall in aggregate demand. As mentioned earlier, high inflation results in lower confidence, leading to reductions in C and I. A fall in AD trigger successive rounds of decreases in national income and income-induced consumption. Due to the multiplied decrease in real national income and real output, leads to reduced derived demand for labour, increasing demand deficient unemployment.

EV1/2:
Relevant
alternative
perspective

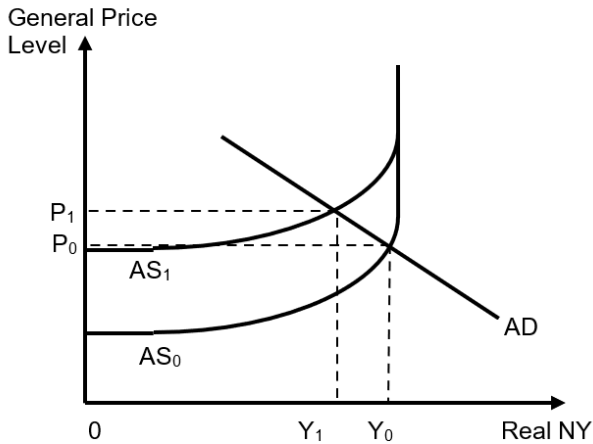
A1: Address
Qn

C1: Evidence

CD2: causal
links to
unemployment



Further, with high inflation, workers may demand for higher wages to prevent a fall in real wages leading to a wage-price spiral. This cycle of rising wages and prices increases costs of production leading to a fall in short run aggregate supply (SRAS). Due to the fall in real national output from Y_0 to Y_1 , resulting in further reduction in derived demand for labour, increasing joblessness. The unemployment inevitably increases.



EV2: Positive effects of high inflation on unemployment

However, if the high inflation is a result of rapid economic expansion, such as recovery from the Covid 19 pandemic (Extract 4). The rise in the AD stemming from recovery would lead to higher output of goods and services, allowing an increase in the derived demand for labour. The demand-deficient unemployment falls.

Evaluative Conclusion

Stand:

Overall, high inflation is more likely to harm sustainable economic growth and worsen unemployment, even if there are some niche cases (e.g. demand for green appliances in Extract 5) where inflation indirectly encourages environmentally friendly investment.

Substantiation:

The net effect depends on (i) whether inflation is demand-pull or cost-push, (ii) how persistent it is, and (iii) whether households and firms retain confidence. If inflation is largely cost-push (as suggested by Extract 4 with rising energy and input prices), then both actual and potential growth are constrained and unemployment pressures mount. This undermines intergenerational sustainability because reduced investment and productivity weaken long-run capacity, with higher joblessness.

Recommendation:

Thus, governments should focus on containing high inflation through credible policy (e.g. exchange-rate appreciation, prudent monetary/fiscal stances) while complementing it with supply-side reforms (Extract 4: infrastructure, training) that restore productivity and LRAS. This combination helps to safeguard both sustainable growth and employment, while avoiding the long-term risks of inflation eroding future generations' living standards

EV1/2:
Relevant
alternative
perspective

EV3: Stand

EV4: weighing

Knowledge, Understanding, Interpretation, Application and Analysis

Level	Analysis Level	Descriptors	Marks
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	L2	A+A A+C C+C C+K A	Responses in this level will provide detailed analysis of the positive effects of high inflation on sustainable economic growth (R1) and negative effects of high inflation on unemployment (R2) in the context, showing excellent ability to describe and explain relevant economic concepts, theories, and principles in a precise, logical and reasoned manner, with good use of extract evidence.	4-7	
	L1	C K+K K	Responses in this level will have some limited understanding of the effects of high inflation on sustainable economic growth and unemployment. There may be some basic content errors and limited or no application of economic concepts, theories and principles to the context at hand.	1-3	
Evaluation					
	Level	Descriptors		Marks	
	E3	One well-reasoned evaluative statement, one weakly explained evaluative statement and a summative conclusion that addresses the question.		3	
	E2	One reasoned evaluative statement or two weakly explained evaluative statements.		2	
	E1	One evaluative statement that may be generic, weakly explained or not supported by the arguments presented in the answer.		1	

