2025 H1 A Level CSQ2

<u>Suggested Answers</u>

<table>
<tr><td>ai</td><td>State what is meant by a government budget balance.</td><td>[1]</td></tr>
<tr><td></td><td>A government budget balance refers to the difference between a government's total tax revenue and its total government expenditure over a given period, usually one fiscal year.[1]</td><td></td></tr>
<tr><td>aii</td><td>With reference to Figure 4, compare the government budget balances as a percentage of GDP in Singapore and the UK between 2013 and 2022.</td><td>[3]</td></tr>
<tr><td></td><td>Figure 4: Singapore and the United Kingdom (UK) Government budget balance as a percentage of each country's Gross Domestic Product (GDP), 2013 to 2022
<table>
<tr><th>Year</th><th>2013</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th></tr>
<tr><td>Singapore</td><td>1.3</td><td>0.1</td><td>–1.2</td><td>–1.2</td><td>0.3</td><td>0.4</td><td>–0.3</td><td>–10.8</td><td>–0.9</td><td>–0.3</td></tr>
<tr><td>UK</td><td>–5.8</td><td>–5.3</td><td>–4.3</td><td>–2.9</td><td>–2.9</td><td>–2.1</td><td>–2.7</td><td>–15.1</td><td>–5.4</td><td>–5.0</td></tr>
</table>
Source: Adapted from tradingeconomics.com, July 2023

The UK recorded a budget deficit throughout the entire period from 2013 to 2022, with budget balances remaining negative and ranging from approximately –2.1% to –15.1% of GDP. In contrast, Singapore's budget balance fluctuated between small surpluses and deficits over the same period, indicating a more balanced fiscal position. [1]

In terms of magnitude, the UK generally experienced larger budget deficits than Singapore. For example, in 2020, the UK's budget deficit reached 15.1% of GDP, significantly exceeding Singapore's deficit of 10.8% of GDP. [1]

Both countries' budget balances worsened sharply in 2020 followed by a gradual improvement in 2021 and 2022. [1]</td><td></td></tr>
<tr><td>b</td><td>With reference to Extract 5, explain two reasons why it might be misleading to use nominal household income data to infer changes in the standard of living in Singapore between 2017 and 2022.</td><td>[4]</td></tr>
<tr><td></td><td>[2 marks for 2 possible reasons. 1 mark for identification of point and 2nd mark for explanation.]

Using nominal household income alone can give a misleading picture of changes in the standard of living because it does not take into account changes in the general price level. [1] Even if nominal income rises, households may not necessarily be better off if inflation increases at an equal or faster rate. In such cases, the purchasing power of income falls, meaning households are able to buy fewer goods and services despite earning a higher nominal income. Therefore, real income is a more accurate indicator of living standards than nominal income. [1]

A second limitation is that nominal household income does not reflect changes in household size and composition. [1] An increase in total household income may simply result from more household members entering the workforce rather than an improvement in the economic well-</td><td></td></tr>
</table>

	being of each individual. Measures such as per capita income or median household income adjusted for household size provide a more meaningful assessment of changes in living standards. [1] Therefore, nominal household income should be interpreted with caution when assessing standards of living, as it ignores both inflation and differences in household composition.	
c	**With reference to Extract 6, explain how changes to the tax rates can assist the government in maintaining fiscal sustainability over the long term.**	**[4]**
	What is fiscal sustainability? Fiscal sustainability refers to the government's ability to finance its expenditure and meet its financial obligations over the long run without accumulating unsustainable levels of debt. [1] **Explain how a rise in tax rates can help maintain fiscal sustainability** Changes in tax rates can influence fiscal sustainability by affecting the amount of tax revenue collected by the government. An increase in tax rates generally raises government revenue, assuming the tax base remains relatively stable. [1] Higher government revenue improves the government's fiscal position by reducing budget deficits or increasing budget surpluses. This allows the government to finance expenditure more sustainably without relying excessively on borrowing. [1] For example, higher indirect taxes such as the Goods and Services Tax (GST) increase the tax paid on consumption expenditure. As households and firms pay more tax, government revenue rises. [1] OR Similarly, increases in direct taxes such as income tax can boost tax collections from individuals and businesses, provided that the disincentive effects on work and investment are limited. [1]	
d	**With reference to Extract 7, explain how the supply-chain crises might have affected the UK's aggregate supply and how the international conflicts might have affected the UK's aggregate demand.**	**[4]**
	The supply-chain crises following the pandemic have led to shortages of raw materials and components which caused a rise in the prices of factor inputs. [1] This increases the cost of production for UK firms, particularly in the manufacturing industry and therefore reduced the SRAS, causing the SRAS curve to shift up. [1] The international conflicts, such as the Russia-Ukraine war, create global economic uncertainty. [1] This uncertainty damages business and consumer confidence. Firms may delay investment projects (I) as they expect business profitability to fall, and households may increase precautionary savings, reducing consumption (C). Since C and I are components of aggregate demand (AD = C + I + G + (X – M)), delayed investment and reduced consumption will lead to a fall in AD. [1]	

e	**With reference to Figure 3, comment on whether the data supports the expected relationship between GNI per capita and HDI.**	**[6]**

Expected relationship between GNI per capita and HDI

The expected relationship between Gross National Income (GNI) per capita and Human Development Index (HDI) is a positive one. A higher GNI per capita generally provides governments and households with greater financial resources to spend on healthcare, education and other merit goods, which are key determinants of HDI. Consequently, countries with higher incomes are expected to achieve higher levels of human development.

The data supports the expected relationship

The data largely supports this expected relationship. Countries with low GNI per capita, such as Mali (below US$500), record very low HDI values of less than 0.5. In contrast, countries with high GNI per capita, such as Singapore (above US$90,000), achieve HDI values exceeding 0.9. This suggests that higher incomes increase access to healthcare and education, improving life expectancy, educational attainment and overall living standards. Therefore, the data demonstrates a clear positive correlation between GNI per capita and HDI.

Comment: the data may not support the relationship in all instances

However, the data does not support the relationship in all instances. For example, the United States has a significantly higher GNI per capita (approximately US$65,000) than the United Kingdom and Australia (approximately US$45,000–50,000), yet its HDI is slightly lower than both countries. This indicates that higher income alone does not automatically translate into better human development outcomes. Since HDI is determined not only by income but also by health and education indicators, countries that do not effectively convert their economic resources into improvements in healthcare, education and life expectancy may record lower HDI values despite having higher incomes.

Conclusion

Overall, the data supports the expected positive relationship between GNI per capita and HDI. While a few anomalies exist, the general trend shows that countries with higher GNI per capita tend to achieve higher levels of human development. Therefore, the relationship is strong, although it is not perfectly linear.

Level 2 3-4m	Up to 4 marks for an analysis of the expected relationship and how the data supports it
Level 1 1-2m	Up to 2 marks for an analysis of the expected relationship OR how the data supports it
Evaluation 1-2m	Up to 2 marks for a relevant comment on how the data does not support the expected relationship

f	**Using the information provided, discuss the extent to which supply-side policies can be used to reduce structural unemployment in an economy.**	**[8]**

<table>
<tr><td>Comman d</td><td>Discuss the extent: Critically examine different perspectives and come to a reasoned stand</td></tr>
<tr><td>Content</td><td>Start Point:
- Supply-side Policy
End Point(s):
- Reduce Structual Unemployment

Start Point(s) Supply Side Policy → Tool of Analysis AD/AS framework → End Point(s) Reduce Structural unN</td></tr>
<tr><td>Context</td><td>An economy – give appropriate examples</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: SSPs reduce structural unemployment by addressing skill mismatches</td><td>Requirement 2: SSPs facilitate the reallocation of labour from declining industries to expanding industries</td></tr>
<tr><td>Evaluation: Limitations of SSP - reskilling programmes</td><td>Evaluation: Limitations of SSP – limitations of expansion of sunrise industries</td></tr>
<tr><td colspan="2">Conclusion: Stand, Substantiation, Something Special</td></tr>
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Introduction

Structural unemployment occurs when there is a mismatch between the skills possessed by workers and those demanded by employers. This mismatch may arise due to technological change, changing consumer preferences or the decline of traditional industries. Supply-side policies (SSPs) aim to improve the quality and quantity of factors of production, particularly labour. **A1: Address Qn**

R1: SSPs reduce structural unemployment by addressing skill mismatches

- SSPs can reduce structural unemployment because they directly tackle occupational immobility. Extract 7 highlights the use of subsidies for workers to reskill as part of an industrial strategy. Workers displaced from declining industries such as the steel sector can acquire new skills required in growth sectors associated with the "green transition" and "new technologies". This improves the quality of human capital and reduces the mismatch between the skills possessed by workers and those demanded by employers. As workers become qualified for available vacancies in these expanding industries, structural unemployment falls. **C1: Evidence of the SSP** **CD2: Effects of SSP on Skills Mismatches**
- Furthermore, the extract suggests that the private sector alone is unlikely to provide sufficient training. Training generates positive externalities as the benefits of a more skilled workforce extend beyond the individual worker and firm. Since the marginal social benefit (MSB) of training exceeds the marginal private benefit (MPB), firms may underinvest in

	worker training. Government-funded retraining programmes therefore help correct this market failure and reduce structural unemployment more effectively. EV1: Reskilling programmes may not always be effective • However, the effectiveness of retraining programmes depends on whether the government accurately identifies the skills that will be demanded in the future. Extract 7 notes that despite having "six finance ministers", the UK still lacks a proper industrial strategy. If workers are trained in skills that are ultimately not required by employers, significant public resources may be wasted, resulting in a high opportunity cost. • Furthermore, retraining takes time and workers may remain structurally unemployed in the short run while acquiring new qualifications and experience. Hence, the impact of SSPs may be limited if implementation is poor or if there are substantial time lags.	**EV1/2: Limitations of SSP**
	R2: SSPs facilitate the reallocation of labour from declining industries to expanding industries • SSPs can also reduce structural unemployment by supporting the growth of sunrise industries. Extract 7 refers to research grants and support for a "strong manufacturing sector". Such policies encourage firms in sectors linked to the green transition and new technologies to invest and expand production. As these industries grow, more vacancies are created for workers who have undergone retraining. This facilitates the reallocation of labour from declining industries to expanding industries, reducing the mismatch between labour supply and labour demand. Consequently, structurally unemployed workers are able to find employment in sectors that are better aligned with the changing structure of the economy. • In addition, the extract suggests that such policies can create "new, skilled jobs across the country". The expansion of these industries increases the derived demand for labour, improving employment opportunities for workers who were previously displaced by structural changes in the economy.	**C1: Evidence of the SSP** **CD2: Effects of SSP on reallocation of labour across sunset to sunrise industries**
	EV2: The expansion of sunrise industries may be insufficient • Nevertheless, the effectiveness of such policies depends on whether these industries expand sufficiently within the UK. Extract 7 suggests that the UK is "not really in the race" compared to competitors such as the US and the EU. The US is spending US$369 billion to support its green transition, while the EU has relaxed state-aid rules to support domestic industries. These incentives may attract firms and investment away from the UK. As a result, the growth of sunrise industries may be limited and insufficient vacancies may be created for retrained workers. Consequently, structural unemployment may persist despite improvements in workers' skills. **Conclusion** Stand: To a large extent, supply-side policies can reduce structural unemployment. Substantiation:	**EV1/2: Limitations of SSP**

[Situation] This is because they directly address the root cause of structural unemployment, namely the mismatch between workers' skills and employers' requirements, through retraining programmes and support for the expansion of sunrise industries.

[Weighing] Furthermore, the limitation of focusing on training in the wrong courses may not be that severe if the government collects data and conducts studies in this area. Governments have access to economy-wide labour market data and can consult industry stakeholders when designing training programmes. The extract itself advocates a coordinated industrial strategy, suggesting that government intervention can help identify sectors with strong future growth potential.

EV4: Weighing

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 SSP and structural unemployment, 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 use of SSP in reducing structural 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

<u>**Evaluation**</u>

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

g	**Discuss the extent to which fiscal policies such as those adopted by Singapore can achieve inclusive economic growth.**	**[10]**

Command	Discuss the extent - Critically examine different perspectives and come to a reasoned stand
Content	Start Point: - **Fiscal Policies** End Point(s): - **Inclusive economic growth** Start Point(s) **Fiscal Policies** → Tool of Analysis AD/AS framework → End Point(s) **Inclusive economic growth**
Context	Singapore

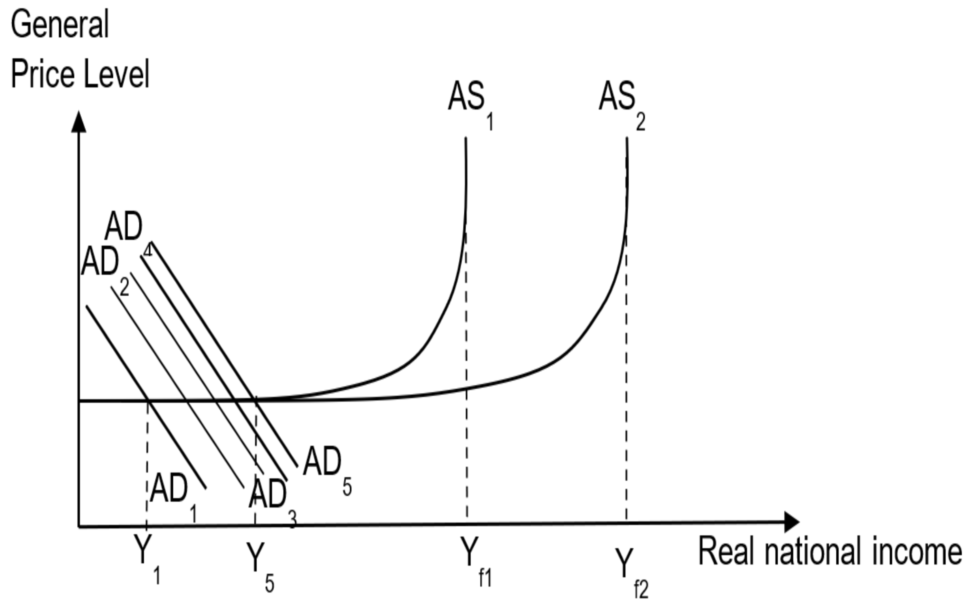
Approach	Intro: Key definitions of concepts. 1 liner overview.	
	Requirement 1: Fiscal policies can promote the achievement of sustained growth which is needed for inclusive growth	Requirement 2: Fiscal policies can achieve inclusive growth through the redistribution of income
	EV 1: Fiscal Policies may face fiscal sustainability constraints	EV2: Redistribution of income may be less effective in achieving inclusive growth if inflation remains high
	Conclusion: Stand, Substantiation, Something Special	

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. **A1: Address Qn**
- Fiscal policies such as taxation, government spending and transfers can promote both equity and economic growth. To a large extent, the fiscal policies adopted by Singapore can achieve inclusive economic growth, although their effectiveness is subject to certain limitations.

R1: Fiscal policies can promote the achievement of sustained growth which is needed for inclusive growth

- Fiscal policies can also achieve inclusive economic growth through targeted government expenditure. Extract 6 highlights government support for younger families and programmes that help older workers reskill and remain employed. Such spending directly benefits vulnerable groups, improving equity and reducing disparities in opportunities. **C1: Evidence**
- Assuming the economy is not operating at full capacity, the increase in AD = C+I+G+(X-M), causes it to shift right from AD1 to AD2. Due to the multiplier process where one's spending becomes another's income, the initial rise in AD will cause further rises in consumption, output and income resulting in multiple increases in AD which decreases with each subsequent round until AD5 as shown in the diagram below. This would result in a multiple increase in national income via the multiplier process from Y1 to Y5.
- Furthermore, increased government subsidies on training, especially for "older workers" (extract 6) means that the workers will be more skilled. Workers will be more productive and this means that there will be more output per unit of input. The quality of labour, where labour is a factor of production, will increase. This would increase the productive capacity of the economy which means that the economy is able to produce more goods and services. When LRAS increases, the LRAS curve shifts right from AS1 to AS2. This causes the economy to experience an increase in the potential output from Yf1 to Yf2, therefore there is potential growth. **CD2: causal links to sustained EG**



- Together, the increase in actual growth and potential growth enables the economy to achieve sustained economic growth, as higher levels of real output can be maintained over time without generating significant inflationary pressures.

EV1: Fiscal policies may face fiscal sustainability constraints

- However, there is a limit to the extent that government expenditure can be used to achieve inclusive growth. Extract 6 notes that healthcare costs are expected to continue rising as Singapore's population ages. Sustained increases in government spending require sufficient revenue to finance them. Excessive expenditure may worsen the budget balance or require higher taxes, which could reduce incentives to work, save and invest. Consequently, the government's ability to continue financing transfers, subsidies and reskilling programmes may be constrained in the long run.

EV1/2: Limitations of Fiscal Policies

R2: Fiscal policies can achieve inclusive growth through the redistribution of income

- Fiscal policies can promote inclusive economic growth by reducing income inequality. Extract 6 states that Singapore's tax system is becoming more progressive, with higher buyer's stamp duties on expensive properties and higher registration fees on higher-end cars. These measures increase tax revenue from higher-income groups, allowing the government to provide transfers to lower-income households.
- The effectiveness of such redistribution is evident from Extract 5. The Gini coefficient before taxes and transfers fell from 0.437 to 0.378 after accounting for government transfers and taxes in 2022. This demonstrates the redistributive effect of fiscal policy in narrowing income inequality. Furthermore, lower-income households generally have a higher marginal propensity to consume (MPC) than higher-income households. Hence, transfers increase consumption expenditure among lower-income groups, improving their standard of living while supporting aggregate demand (AD). As a result, fiscal policy promotes both equity and economic growth, thereby contributing to inclusive economic growth.

C1: Evidence

CD2: causal links to inclusive EG

	EV1: Redistribution of income may be less effective in achieving inclusive growth if inflation remains high • However, there may be an unintended consequence of progressive taxes. Higher income taxes for higher income groups may cause a brain drain from Singapore as talented locals leave Singapore for other countries where income taxes are lower. Overall quality of labour falls, causing productive capacity to fall and LRAS to fall. This causes negative potential growth. **Conclusion** Stand	**EV1/2: Limitations of Fiscal Policies**
	To a large extent, Singapore's fiscal policies can achieve inclusive economic growth. Substantiation of Stand	**EV3: Stand**
	[Weighing] While limitations exist to reduce the effectiveness of fiscal policy, these limitations are unlikely to outweigh their benefits. Although a budget deficit of S$3 billion was projected in 2022, Extract 6 suggests that Singapore may record a budget surplus in 2023. This indicates that Singapore's fiscal position remains strong, allowing the government to continue funding transfers and reskilling programmes sustainably. Therefore, the benefits of fiscal policies in reducing inequality and promoting economic growth are likely to outweigh their limitations. Something special [Recommendation] To sustain inclusive economic growth in the long run, the government should continue investing in education and reskilling programmes while maintaining a prudent budget position. This will ensure that workers remain productive and employable, while allowing support measures and redistribution policies to remain financially sustainable.	**EV4: weighing**

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 use of fiscal policy in the context of achieving inclusive EG, 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 use of fiscal policies in achieving inclusive EG. There may be some basic content errors and limited or no application of economic concepts,	1-3

		theories and principles to the context at hand.	

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