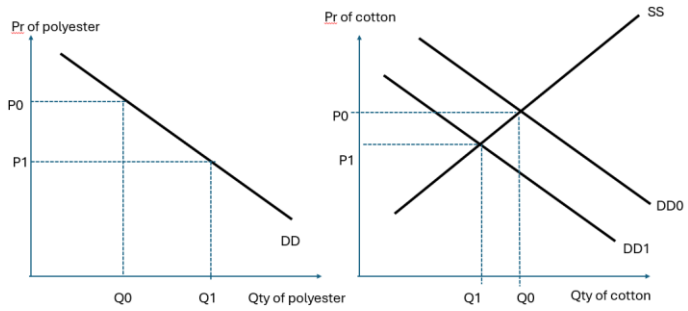
NYJC H2 Prelim Paper 1 Question 1 Suggested Answer

<table>
<tr><td>(a)</td><td colspan="2">With reference to Figure 1 and Extract 1,</td></tr>
<tr><td></td><td>(i)</td><td>Explain what can be concluded about the change in the world price of cotton in 2023. [2]

● [Evidence]

In 2023, cotton production rose to 116 mil bales while cotton consumption fell to 113 mil bales. [1]
● [Analysis]

The arising surplus would lead to a downward pressure on price leading to a fall world price. [1]</td></tr>
<tr><td></td><td>(ii)</td><td>Explain one demand and one supply factor that could impact world cotton prices. [4]
<u>Demand factor:</u>
● [Evidence]
○ “..shoppers have increasingly opted for alternative fibres, which are cheaper and quicker to produce” (Extract 1) [1].
● [Analysis]
○ Cotton and polyester are fibres which can be used to make fashion apparel.
▪ They are inputs in substitute demand (factor market) – because they serve the same purpose (to make fashion apparel)
○ The lower price of polyester leads to a rise in quantity demanded of polyester.
○ Since they are substitutes, the decreases the demand for cotton will fall as producers switch to buy the cheaper input (polyester).
○ Hence the demand for cotton falls leading to a fall in cotton prices. [1].

OR
○ The demand for cotton can be said to be derived from the demand of the final product (apparel cotton fibres are made into) – the 2 items are related via derived demand.</td></tr>
</table>

		○ Hence, the **demand for cotton fell** because the demand for the final product (cotton apparel) demand fell. [1] **<u>Supply factor:</u>** ● [Evidence] ○ "*Low prices for corn have pushed farmers to plant cotton instead" resulting in a sharp rise in cotton production*." (Extract 1) [1]. ● [Analysis] ● Low prices for corn reduces the revenue (**PED<1**) and profitability of producing corn. ● Profit-maximising producers will switch using their land from producing corn to producing cotton (Land is a scarce resource that can be used to produce alternative agriculture goods). ● Since cotton and corn are in **competitive supply**, the producer must reduce the supply of corn in order to increase the production of more cotton. ● This **increases the world supply of cotton** leading to a decrease in world cotton prices [1]. *[Note: The analysis should **focus on the agents in the factor market** as the focus in on the cotton as an input to fast fashion NOT to fast fashion apparel buyers (final product)].*
(b)	'Some governments thus implement programs such as minimum support price to support farmers.' (Extract 2) Explain how the above **price control** supports farmers and **one** possible unintended consequence of the policy. [4] 1. **How the above price control supports farmers** (Rise in total revenue) ● [Analysis] ○ [Definition] - A price floor is a government-set minimum price above the market equilibrium price. ● [Application] ○ <u>Objective of the policy</u> ▪ To provide an income safety net for producers – ensuring they receive a minimum level of income (total revenue) even when prices are low. ○ <u>Explanation of policy mechanism</u> [2] ▪ Since the demand for cotton (agriculture goods) is **price inelastic (PED<1), total revenue will rise when price rises.** ▪ With the implementation of the price floor, the price of cotton increases from P_E to P_{floor} (See Figure 1). ▪ Farmers must sell the goods at P_{floor} (instead of the equilibrium price). ▪ Quantity demand fell from Q_E to $QD_{floor,}$ and the quantity supplied increases from Q_E to $QS_{floor.}$ ▪ Initially the farmers' income was $0P_EEQ_E$.	

- As demand for cotton is price inelastic, the price rise leads to a **less than proportionate fall in quantity demanded**.
- The rise in revenue due to the price rise (area $P_EP_{floor}XW$) is greater than the revenue fall (area $QD_{floor}WEQ_E$)
- Net increase in the revenue (income) of farmers.

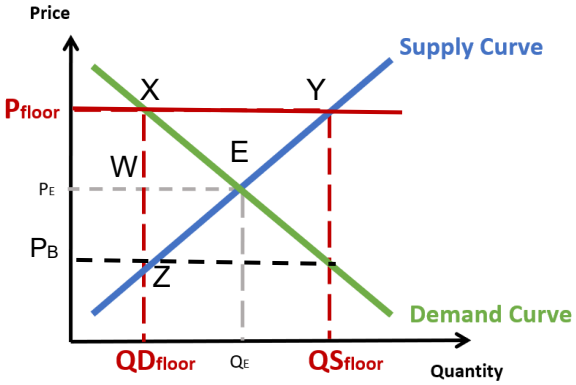


Figure 1: Impact of Price Controls (Floor) on Farmer Revenue

2. **Unintended consequence** (Choose ONE) [2m]

[Contextual possibilities]

1. Price rise would make cotton more expensive, making the final product (eg. clothes) **less price competitive** and may compel fast fashion producers to switch to other materials (like polyester) – adversely affecting the income of cotton producers.
2. If the price control support leads to the **government buying up the surpluses** (to add to their stockpile), the government would incur **storage costs** for unsold cotton bought. Depending on the storage conditions and duration, these stocks may run the risk of **cotton fibre degradation and loss of strength** (from moisture and humidity and contamination/oxidation) as well as pest infestation reducing the value and usability of the stored cotton.
3. To avoid incurring the higher storage costs (for unsold cotton surpluses), farmers may resort to **selling the surplus in the "black market"** at a lower price than Pfloor (anywhere between Pfloor and P_B).

[Theoretical possibilities]

4. There will be an ensuing surplus of $QD_{floor}QS_{floor}$.
5. Due to the higher P_{floor} price and the ensuing surplus, producers will incur storage costs – which may erode their already small profit margins.
6. Results in market failure (deadweight losses from under-production). deadweight loss (area EXZ).

(c) **(i)** 'Some have even called for governments to tax the industry to reflect the 'true cost' of fast fashion' (Extract 3)

Explain what is meant by 'true cost' of fast fashion. [2]

		● [Definition/Explanation] [1] ○ "True costs" refer to the **"actual" value of MSC** that takes into account all the costs incurred by all parties directly or indirectly affected by the fast fashion production action (including third parties due to negative externalities) not just the MPC. ○ The 'true cost' is the marginal social cost (MSC) which is the **sum of** Marginal Private Cost (**MPC**) and Marginal External Cost (**MEC**) [1]. ○ In a context where **external costs are**: ▪ **present**, true costs = MSC = **MPC + MEC** ▪ **absent/not incurred**, true costs = **MSC = MPC** ○ Hence "true costs" is the costs to society (MSC) whose value is dependent on (ie. changes with) the presence or absence of MEC. ● [Application & Evidence] [1] ○ In the production of fast fashion, ▪ the **MPC** is the cost of producing fast fashion (from the use of cotton or synthetic materials like polyester) by the firm and ▪ the **MEC** is the healthcare cost to third parties arising from the environmental effects of using cotton or polyester – those who suffer negative health effects arising from the: [Choose any **ONE** evidence -para 2] ○ *making polyester and cotton releases a large amount of carbon emissions - "have a much larger environmental toll"* (Ext. 1 para 3 or Ext 3 para 3) ○ *polyester that consists of toxic substances are released in the ocean when polyester degrades which harm marine life and marine ecosystems* (Ext 3 para 3) ○ *the microplastics released end up in the human food chain (by consuming seafood)* (Ext 3 para 3)
	(ii)	Discuss whether the government should tax fast fashion to ensure that the 'true cost' has been accounted for. [8]
		Introduction [Reason for the Intervention]: ● When a firm produces fast fashion, it will experience Cost and Benefit from **production**. ● The Cost incurred by the firm would include wages to the labour employed, rental of factory space, purchase of raw materials and machines etc. ● In return, the firm will be able to benefit from the sale of fast fashion it produced and generate Revenue. ● Weighing cost and benefit from production, rational firms would maximize profits or their Net Private Benefit by producing an output where MPB=MPC. From Figure 2, firms will choose to produce quantity **Qp**.

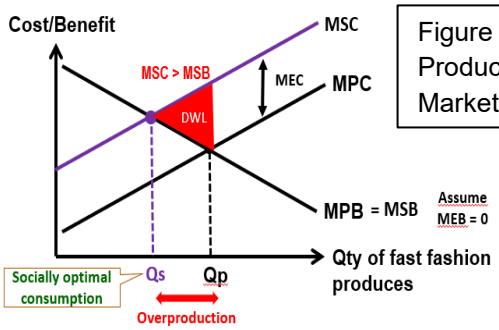


Figure 2: Fast Fashion Production leading to Market Failure

- However, these firms may impose a cost on third parties. E.g.: the microplastics released end up in the human food chain (by consuming seafood).
- These external cost on the local community (3rd party) from the increased medical expenses are not borne by the producers.
- These are all part of the ***external costs that the producer imposes on the third party who were not compensated***.
- The existence of a negative externality in production creates a divergence between the MPC and the MSC equal to the value of the externality (i.e. the MEC). **(MSC = MPC + MEC).** Assuming there are no external benefits from the production of paper, MPB=MSB.
- Society's welfare would be maximized (i.e **Net Social Benefit is maximum**) if production of paper takes place **at output Qs**, **where** Marginal Social Benefit = Marginal Social Cost (i.e **MSB = MSC**).
- Firms will produce the output Qp as they pursue their self-interest. However, society's welfare is maximised at output Qs. Since Qp is greater than Qs, there is **over-production** from a societal perspective. The market is said to have failed because the production level deviates from the socially efficient level. Due to the over-production by firms, society's welfare is not maximised.
- At output Qp, MSC>MSB, hence Net Social Benefit is not maximised. The output between Qp and Qs, adds more to social cost than to social benefit (i.e MSC>MSB).
- Hence society welfare could have improved by red shaded area (Figure 2) if production takes place at output Qs instead of output Qp. This area is known as the ***deadweight loss*** to society.

Body: Mechanism for Intervention (How using indirect taxation achieves AE)
[Note: Since question asks for aptness of policy, but since the cause of market failure was not established, it is essential to first explain how the market failure occurred.]

- The government should impose an indirect tax to coerce parties causing the EC to take responsibility/account for it.
- In principle, for the policy to be effective, the tax is equal to the MEC.

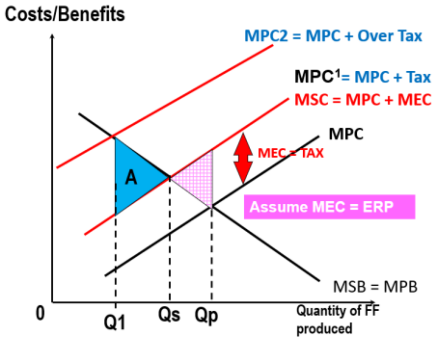


Figure 3: Impact of Indirect Taxation on Fast Fashion

- **If this tax accurately reflects the MEC**, the **firms will internalise the external cost (MEC)** i.e. pay/compensate society for the harm it caused to third parties.
- Taking account of the amount of the tax, the firm's MPC will rise from MPC to **MPC^1**, their **new MPC (i.e. MPC^1) will now coincide with the MSC.**
- To maximise its net private benefit the firm cuts production until MPC^1=MPB. This occurs at output Qs.
- With reference to Figure 3, the quantity being produced after the imposition of the indirect tax now corresponds to the socially optimal level, Qs.
- At output Qs, the deadweight loss to society ceases to exist and net social benefit is also maximised (i.e. At Qs: MPC^1=MPB=MSC=MSB). Hence there is allocative efficiency after the tax is imposed.

Limitations of tax (Choose 1):

- The value of the **external cost (EC) is mostly arbitrary and very difficult to estimate** due to the **EC being intangible** and the **EC valuation differs** between the various third parties.
- This makes it **difficult/challenging** for the government **to determine the right amount of taxation** to be imposed on the producers.
- There is a possibility that the government **may under or over-tax** the production of goods.
- If the government **overtaxes**, MPC will shift to MPC2=MPC+Overtax. There will be under-production at Q1 and a **bigger deadweight loss** of area A.

OR:

- Indirect taxation may lead to **tax avoidance.**

- Fast fashion is a global industry, with garments often designed in one country but manufactured in others with weaker regulations and cheaper labor (usually developing countries).
- If **only Vietnam** (among all developing countries production bases) **implement a carbon tax**, companies can easily shift production to nations with "*lax environmental regulation*" (Extract 3 para 2) to Vietnam's economic disadvantage.

Conclusion

[Short-Run]:

- A tax punishes unsustainable practices by increasing costs. It forces producers to bear the costs of their pollution, making cheap, unsustainable garments more expensive and potentially reducing overall production volume.

[Long-Run]:

- The tax revenue collected can be used to fund environmental cleanup, support sustainable initiatives - *"proceeds from carbon taxes and emission trading to fund or subsidise clean energy projects" (Extract 4 para 6).*
- As firms becomes more **incentivized to switch over to greener production methods**, there would be a reduction of environmental pollution. This green financing investment would lead to a fall in the MSC-MPC gap as MEC falls and the socially optimal output would be higher for fast fashion production than had an indirect tax been the only measure imposed.
- Hence, for a more sustainable approach, government intervention should have a combination of measures that would deter unsustainable practices while incentivizing the more sustainable ones (like financing green projects subsidy).

[Note: Analysis that focuses on negative externalities in consumption are deemed to be an error in selection/application of theory because the context is on fast fashion production.]

Level Descriptors		
L2	Answers in this level consider how tax as a policy works and a consideration of the effectiveness/limitations in implementing the policy to achieve allocative efficiency in the market for fast fashion.	4 - 6
L1	Answers in this level show limited understanding of the workings of the policy and its effectiveness/limitations.	1 - 3

Evaluation		
E	For an answer that makes some attempt at evaluation or a conclusion that answers the question but does not explain the judgement or base it on analysis	1 - 2

(d)	"Developing countries bear the burden of these environmental impacts from fast fashion pollution, while developed countries do most of the consumption". Discuss whether the circular economy approach is appropriate to achieve sustainable growth in developing countries such as Vietnam? [10]
	Intro: Address the statement (Interpretation) ● **Sustainable growth** is defined as strong and stable economic growth without causing significant environmental degradation or resource depletion for future generations. ● The **circular economy** - which emphasizes "*repair, reuse, redistribution, and recycling*" (Extract 4) – is increasingly seen as a potential solution to reconcile economic development with environmental sustainability. ● This essay evaluates whether the circular economy approach is appropriate for achieving sustainable growth in Vietnam by **weighing its potential benefits against the constraints and limitations**. **Thesis: Circular economy is appropriate to achieve sustainable growth** ● **Circular economy is appropriate to achieve sustained growth: AD & AS increase** ● [Evidences] o *"Vietnam has solidified its position as a major force in global textile and apparel manufacturing to become one of the largest garment exporters in Asia." (Extract 5 para 1)* o *"Global fashion brands have to invest in the transition, by leveraging the potential of renewable energy in the garment sector and diversifying into green industries and create jobs related to the repair, reuse, redistribution, upcycling, and recycling of garments" (Extract 4 para 3)* ● [Analysis] o In order to kickstart the circular economy, global fashion brands need to **investment in a robust infrastructure** to support its core principles of reduce, reuse, recycle, and recover. This includes infrastructure and/or facilities for waste collection and sorting, recycling plants, and infrastructure to facilitate reuse and repair. With this development, there will be a **job creation or opportunities** which demand for labour as environmental engineers and waste treatment specialists. o Additionally, **adoption of digital technologies** for tracking materials and optimizing logistics are essential for efficient circular systems. With this development, there will be a demand for labour as data analysts & digital platform managers. o When investment increase, AD increase as AD=C+I+G+(X-M) (via the multiplier effect) leading to actual growth.

	○ In addition, investment has the potential to increase the quality and quantity of capital, leading to an increase in productive capacity - hence increasing LRAS. ○ Hence, AD and AS increase and sustained growth is achieved. [Draw Sustained EG Diagram] ○ In addition, Circular economy activities like recycling, remanufacturing, and repair create new job opportunities in various sectors. This would create greater demand for labour (as stated above), improve the labour force employment prospects in the economy leading to potentially higher wages and improved material SOL. ● **Circular economy is appropriate to reduce water and carbon footprint to achieve sustainable growth** ● [Evidence] ○ *"Circular economy approach emphasizes practices like repair, reuse, redistribution, upcycling, and recycling (instead of the traditional "take-make-dispose" linear model) (Extract 4 para2)* ○ *Circular Research shows that "second-hand clothes trading has the potential to reduce carbon emissions from fast fashion consumption by a staggering 90% and save 33% of water consumption." (Extract 4 para2)* ● [Analysis] ○ A circular economy fosters sustainable growth by shifting away from the traditional "take-make-dispose" model to one that prioritizes resource efficiency, waste reduction, and the regeneration of natural systems. ○ By designing products for durability, reuse, and recyclability, hence minimizes the use of limited resources and the create of waste, reduces the need for new resource extraction, and mitigates environmental impacts. ○ CE reduces **negative externalities** (e.g. water pollution from textile dyeing, waste in landfills) and coerced responsible parties to internalize the external costs generated. ○ The higher MPC results in a **rise in MPC** leading to production cuts from market output (Qp) to socially optimal output (Qs) – hence reducing the over-production of textiles or fast fashion. ○ Net **social benefits** that ensue are reduced environmental degradation, improved public health outcomes, resources usage rate is reduced to a sustainable level and the need for remediation costs avoided. ○ Firms adopting green innovations would promote dynamic efficiency enabling a lowering of long-run **MSC** relative to **MPC (MEC gap)** leading to a more resilient growth base for future generations ○ Reduced pollution and waste contribute to **healthier living environments**. By promoting sustainable consumption patterns and

resource efficiency, the circular economy can enhance the overall quality of life.
    - This approach not only **protects the environment** but **also creates new economic opportunities, enhances resilience, and contributes to long-term societal well-being**.
    - In essence, the **circular economy offers a pathway to sustainable development** by promoting economic growth and reducing resource depletion and environmental degradation.
    - It's a **holistic approach** that integrates environmental, economic, and social considerations to create a more sustainable and resilient future.

Anti-Thesis: Circular economy has limitations & constraints to achieve sustainable growth

- **Shift towards circular economy may result in structural unemployment**
- [Evidence #1]
    - *"While cost-effective labour remains an advantage, automation is transforming workforce needs. There is a growing emphasis on technical training to support advanced machinery, digital systems, and sustainability protocols."*
- [Analysis]
    - A transition to a circular economy, while beneficial for the environment and potentially creating new jobs, may also lead to **structural unemployment**.
    - This is because some jobs in the current linear economy may become obsolete as industries shift towards resource efficiency, reuse, and recycling.
    - However, with proper planning and investment in reskilling and upskilling (Extract 5), the negative impact on employment can be minimized, and the transition can lead to a more sustainable and equitable future.

- [Evidence #2]
    - *Textiles make up only 10% of exports for Vietnam (Figure 2)*
    - *Computer electronics products (15%) and Other machinery (12%) make a larger contribution to Vietnam's GDP.*
- [Analysis]
    - Despite being a major force in global textile and apparel in Asia, textiles make up only 10% of exports for Vietnam.
    - Despite its apparent growing CA, its **current contribution is not large enough** a sector to create a significant boost to Vietnam's GDP and generate confidence to spearhead the drive to achieve sustainable growth in Vietnam.
    - **Other major industries** like "Phone and accessories" and "Computer, Electronic Products and Accessories" are bigger and more important

sectors, and may appear to be **a better prospect** to drive/spearhead sustainable growth compared to the textiles industry.

Other points e.g.:

- Lack of funds/funding: Investments in circular economy requires huge sum of money. The Vietnamese government may not have the fiscal means and resources (or adequate incentives) to do so.
  - However, opening "doors for collaboration and Vietnam's status as a foreign investment magnet" (Extract 5), may have a potential to act as an incentive and go a long way to offset the fiscal constraints the government faces.
- Lack of information: Exports as a percentage of GDP is also not given.

Conclusion

[Scope of Impact]

Though the current the signs suggest that Vietnam's quest may be at its infancy, it can achieve sustainable development through a circular economy, supported by strong government commitment, alignment with international climate goals, and a growing awareness of its benefits. However, it faces significant hurdles on its journey including limited comprehensive policies, scattered recycling infrastructure, outdated industrial technology, and regulatory complexities that hinder progress and require substantial investment and market reforms.

[Judgement]

circular economy is appropriate but requires (i) international burden-sharing (in financial and technological support), (ii) complementary tools (tax/carbon pricing, regulation, green finance) for a more significant impact, and (iii) phased adoption to balance short-run adjustment with long-run sustainability efforts – which the government and the developed countries must work in tandem towards as a community.

Knowledge, Understanding, Application and Analysis		
L2	● A **clear** and coherent answer that is **relevant** to the question requirements and case study material. ● Answer covers sufficient **scope** with clear analysis whether the circular economy approach is appropriate to achieve sustainable growth in developing countries such as Vietnam: ● Answer is **accurate** and has sufficient **depth**: o Detailed and accurate explanation of economic concepts. ● Economic analysis is applied to the context of the case study and supported by accurately labelled and explained diagrams (i.e. ADAS framework) and contextual evidence.	5–7
L1	● Answer is mostly **relevant** to the question requirements but **lacks scope** (e.g. one-sided). ● Explanation of economic concepts may be incomplete or **inaccurate**, with limited application to the question. ● Explanations tended to be **descriptive** with the lack of economic analysis or framework.	1–4

		● Lack of diagrams or diagrams are **not accurately** explained or applied to support analysis. Limited use of contextual evidence.	
	Evaluation		
	E	● Provided **relevant justification** to support the stand with **clarity and insights**. ● **Attempt to provide relevant justification** but lack clarity and depth (insights). ● Overall **relevant stand** provided.	3 2 1

Question 2:

Suggested Answers:

(a) Describe Singapore's general price level from 2020 to 2023. [2]

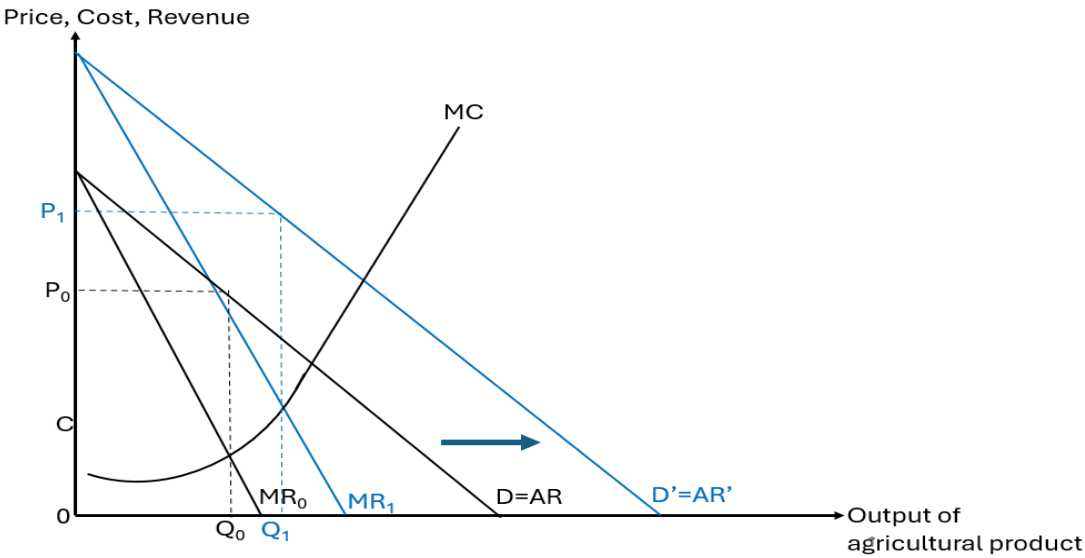
- GPL generally increasing. [1]
- Fall in GPL in 2020. [1] or
- GPL increase at a decreasing rate in 2023. [1]

(b) With reference to Extract 6, explain why core inflation is a better measurement of inflation in Singapore compared to headline inflation. [4]

- Difference between core inflation and headline inflation: Core inflation = Headline inflation – changes in Accommodation cost and private transportation cost [Extract 6] [1]
- Accommodation costs include actual and imputed rental costs where the former does not apply to majority of households in Singapore who do not incur rent or rent their house hence not reflective of their monthly expenditure.
- Private transportation costs include the cost of COE which is highly volatile and does not affect majority of households in Singapore who do not own cars and mainly take public transportations.
  [3 for both points or 2 for either 1 point]
- Hence, core inflation is a better measurement to reflect the effects of inflation on the general population.

(c) With the use of a diagram, explain how 'expectations of persistently high inflation' might affect the revenue of the firms in the agricultural industry. [4]

- If consumers expect prices to increase in the future, they will bring forward their purchase, especially necessities, which will increase current demand for goods and services. [1]
- With the increase in demand for agricultural produce, demand faced by the agricultural firm will increase and shift the demand curve to the right from D=AR to D'=AR'. [1]
- With the corresponding increase in MR from MR to MR' and assuming the objective of the firm is to maximise profits, the firm will produce where MC=MR. The equilibrium output will increase from Q_0 to Q_1 and equilibrium price will increase in P_o to P_1 leading to increase in TR. [1]
- Well-labelled diagram. [1]
  [If DD-SS diagram is used to illustrate, maximum 3m]



(d) Expla
ASEA

- From Extract 8, it is mentioned that Singapore has 'modern infrastructure and skilled labour force'. These developed infrastructure and highly skilled workforce imply Singapore economy and labour has **higher level of efficiency and productivity** [1] which lower the costs of production.
- The lower costs of production will imply **higher expected profits** for firms, assuming no change to firms' revenue, which enable Singapore to attract more FDI inflow into the country. [1]

(e) Discuss whether MAS stance on maintaining Singapore dollar appreciation is an appropriate policy to address her persistently high core inflation rate. [8]

Introduction:

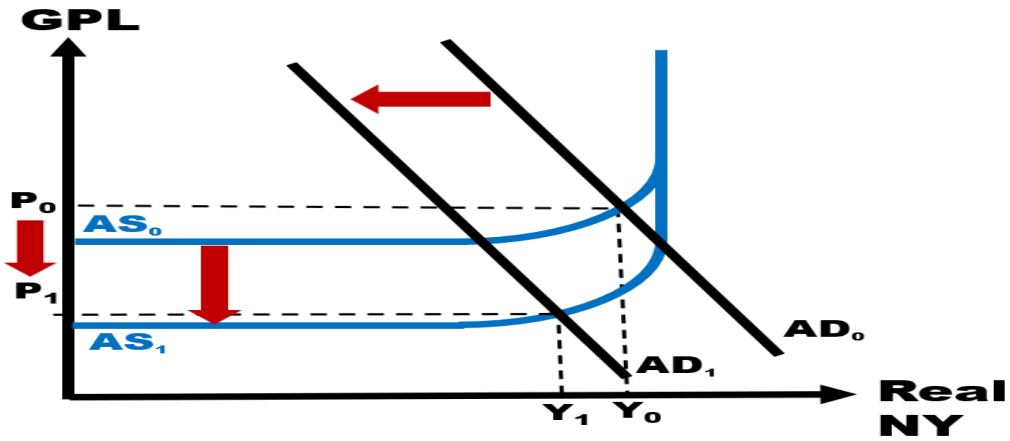
- Causes of inflation in Singapore include [Extract 6]:
  - Increase in export demand due to global recovery from covid will lead to increase in AD, hence causing **demand-pull inflation**.
  - Increase in energy and commodity prices due to adverse weather condition and geopolitical conflicts will lead to increase in prices of imported crude oil, grains and commodities causing **imported inflation**. Tight labor market will lead to higher wages causing **wage-push inflation**.

Body:

Thesis: Explain how SGD appreciation can address demand-pull and imported inflation, hence policy is appropriate.

- With the appreciation of SGD, **prices of SG's exports will increase in foreign currency**. This will lead to a **fall in demand** for exports and a **fall in SG's export revenue**. At the same time, **SG's imports will be cheaper in SGD**, leading to an **increase in quantity demanded** for SG's imports. Assuming **PED of imports is price elastic**, SG's **import expenditure will increase**. Net exports of SG will fall leading to a **fall in AD** from AD_0 to AD_1 to ease the shortages on goods and services in SG.

- On the other hand, with SGD appreciation and **cheaper imported commodities**, this will **lower the costs of production** in SG, mitigating imported inflation as well as **SRAS will increase** from AS_0 to AS_1.
- Fall in AD accompanied by the increase in SRAS will cause GPL to **fall from P_0 to P_1**, **addressing both demand-pull and cost-push inflation**.



Anti-T

- (compulsory saving scheme such as CPF) and MPM (SG lack resources due to her small land space), the fall in AD will be limited. Hence, the fall in GPL will not be significant, not effectively addressing demand-pull inflation.
- Also, **SGD appreciation does not target the root cause of high wage cost** due to tight labor market conditions. Tight labour market conditions due to the slow flow of foreign workers into SG at the initial stage of covid recovery had caused labour shortage, hence increasing wages. The increase in wages, not accompanied by an increase in labour productivity, will increase the cost of production, leading to wage-push inflation. However, **SGD appreciation does not tackle the root cause of labour shortage,** hence the policy might not be appropriate.

Summative Conclusion:

- **[Stand] SGD appreciation is appropriate** to address SG's inflation.
- **[Justify]** SGD appreciation is most appropriate to address imported inflation, but **might not address the root cause of demand-pull inflation due to domestic reasons.** However, SGD appreciation can dampen SG's demand-pull inflation nonetheless given her **reliance on external demand**. At the same time, the fall in AD would reduce demand for domestic goods and services which would reduce demand for derived demand for labour. The consequent **fall in derived demand for labour will reduce wages, in turn mitigating wage-push inflation**.

Mark Scheme:

Knowledge, Understanding, Application and Analysis		
L2	• A **clear** and coherent answer that is **relevant** to the question requirements and case study material. • Answer covers sufficient **scope** with *at least two* distinct points of analysis: ○ Explain the appropriateness of SGD appreciation in addressing SG's core inflation.	4–6

	○ Explains the limitations of SGD appreciation to address demand-pull inflation and inappropriate to solve wage-push inflation directly. ● Answer is **accurate** and has sufficient **depth**: ○ Detailed and accurate explanation of economic concepts. ○ Economic analysis is applied to the context of the case study and supported by accurately labelled and explained diagrams (i.e. ADAS framework) and contextual evidence.	
L1	● Answer is mostly **relevant** to the question requirements but **lacks scope** (e.g. only considered either thesis or anti-thesis). ● Explanation of economic concepts may be incomplete or **inaccurate**, with limited application to the question. ● Lack of diagrams or diagrams are **not accurately** explained or applied to support analysis. Limited use of contextual evidence.	1–3
Evaluation		
E	An evaluation that are well-explained with a clear, overall relevant stand in the conclusion. Overall relevant stand stated.	2 1

(f) With reference to the data, discuss the most significant challenge faced by Philippines when ASEAN embark on the ambitious plan of further integration. [10]

Introduction:

- While ASEAN are working towards further integration to increase regional trade, freer movement of businesses and people, enhanced transparency and regulatory practices as mentioned in Extract 8. There are numerous challenges and obstacles that may impede such efforts and the less developed member countries such as Philippines are likely to face greater obstacles.

Body:

- **Challenge 1: Differences in trade balance**
  From Extract 8, it is mentioned that less developed member countries such as **Philippines might experience trade deficit** in view of her difficulties in meeting the standards of more developed trade counterparts which restricted her exports to the these member states. Trade deficit in Philippines will **deplete her foreign reserves**. As mentioned in Extract 8, **non-tariff measures** are prevalent in ASEAN. If Philippines were to adopt such non-tariff measures to restrict the imports from other ASEAN members, **retaliation by these members** may follow suit which could restrict Philippines exports and further **worsen her trade deficit**.

- **Challenge 2: Differences in domestic policies among countries**
  From Extract 6, Singapore's policy of SGD appreciation to address inflation will lead to an increase in export prices. Given ASEAN's FTA, Philippines is likely to import advanced technology and machineries for her economic growth needs as these

imports from Singapore are likely to be relatively cheaper than other non-ASEAN countries. Given the further integration of ASEAN which further removes any forms of tariffs and possibly non-tariff measures, Philippines is more likely to import from SG. This **increase in prices of imported advanced manufactured and intermediate goods would increase Philippines costs of production** which will **fuel imported inflation** and further **worsen her inflation situation**.

- **Challenge 3: Disparity in economic growth**
  - As mentioned in Extract 8, further integration of ASEAN will **encourage more FDI** into Philippines from other more advance ASEAN countries. With the entry of more efficient and financially stronger MNCs from wealthier member states, this could lead to an **increase in the level of competition** for domestic firms. If the local firms are unable to compete, this would cause **closures of small domestic businesses** leading to **structural unemployment** when the lower skilled workers are unable to seek jobs in more advanced industries due to **skills mismatch**.
  - From figure 3, Philippines GDP is one of the lowest compared to Indonesia, Thailand, Singapore, Vietnam and Malaysia. With freerer **labour movement,** as mentioned in Extract 8, within ASEAN, Philippines might experience **brain drain** which could **impede her potential economic growth** since local talents are more likely to seek employment in more developed and richer economies, such as Singapore due to higher wages (nursing and IT industries). These would also compromise the domestic healthcare and economic development needs in Philippines, **reducing their current and future material and non-material SOL.**

[Any other possible challenges inferred in data]

Summative Conclusion:

- **[Stand] Philippines trade deficit could be the most significant challenge** in view of the further integration of ASEAN.
- **[Justify]** As mentioned in Extract 6 that Philippines's **inflation is mainly due to strong domestic demand, imported inflation is not the main cause** of her inflation. Also, as Philippines is not at the advanced stage of economic development yet, her policy objective is likely to be **focused on achieving actual economic growth**. As such, **the issue of brain drain would not be a concern** in the short run.
- While possible trade deficit would not be a domestic concern, the **depletion of Philippines reserves** could **inhibit her ability to influence the Peso in times of need**. If the currency is under speculative attack causing Peso to be at risk of severe depreciation, the Philippines government would not be able to intervene in the foreign exchange market to support her currency. This could result in the repeat of the 1997 Asian Financial Crisis where the economy experienced recession and high unemployment when **FDI exit the economy and hot money outflow due to the lack of confidence in the value of Peso**.

Mark Scheme:

Knowledge, Understanding, Application and Analysis		
L2	● A **clear** and coherent answer that is **relevant** to the question requirements and case study material.	5–7

	● Answer covers sufficient **scope** with clear analysis of *least two* distinct challenges: ● Answer is **accurate** and has sufficient **depth**: o Detailed and accurate explanation of economic concepts. o Economic analysis is applied to the context of the case study and supported by accurately labelled and explained diagrams (i.e. ADAS framework) and contextual evidence.	
L1	● Answer is mostly **relevant** to the question requirements but **lacks scope** (e.g. only considered 1 challenge). ● Explanation of economic concepts may be incomplete or **inaccurate**, with limited application to the question. ● Explanations tended to be **descriptive** with the lack of economic analysis or framework. ● Lack of diagrams or diagrams are **not accurately** explained or applied to support analysis. Limited use of contextual evidence.	1–4
Evaluation		
E	Provided **relevant justification** to support the stand with **clarity and insights**. **Attempt to provide relevant justification** but lack clarity and depth (insights). Overall **relevant stand** provided.	3 2 1