

- 4) In 2011, private spending by consumers in Singapore played a much bigger role than the external sector in powering economic growth as people here were less troubled by rising global uncertainty.

Adapted from the Straits Times, 1 May 2012

- a) What are the factors affecting the level of consumption? (10)
b) To what extent should Singapore depend on domestic consumption to achieve sustainable economic growth? (15)

Suggested Answer for Part (a)

1. Define Consumption
2. Explain factors affecting consumption

Income Determinant

- Income (purchasing power), rising affluence

Non-Income Determinants

- a. Wealth of households
- b. Expectations about future income level
- c. Expectations about future GPL
- d. Interest rate and availability of credit
- e. Re-distribution of income
- f. Government Policy (eg. expansionary fiscal policy)

L1	For an answer that shows some knowledge of the factors affecting consumption but are weakly explained and/or with conceptual errors.	1 - 4
L2	For an answer that shows good understanding of the factors affecting the level of consumption but lacking in examples and elaboration.	5 - 6
L3	For an answer that shows good understanding of the factors affecting the level of consumption and are well supported by examples. (Max : 9 marks if income determinant is not given)	7 - 10

Suggested answer for part (b)

1. Briefly state the characteristics of Singapore economy – small & open economy & heavy reliant on trade and FDI.
2. Define economic growth – actual and potential growth.
3. Thesis : Explain that Singapore should depend on consumption for economic growth
 - a. In view of the global recession, there is a fall in external demand and this has an adverse impact on Singapore's growth rate. Hence, the government should implement expansionary fiscal policies (increase G & reduce T) to boost domestic consumption to increase real NY (actual growth).
 - b. With a more balanced growth, both consumers and investors will be more confident in the Singapore's economy in the face of external shocks and will not reduce their spending expenditures drastically. Hence, Singapore's economy will not be so adversely affected by external shocks.
4. Anti-Thesis : Explain that Singapore should not depend only on domestic consumption for sustainable economic growth
 - a. Small domestic market → domestic consumption is too small to absorb what is produced in the country → slow down economic growth rate. It is also not sustainable in the LR because of ageing population which will lead to falling consumption.
 - b. Due to the small domestic market , government should continue to depend on her export-driven strategy for growth. Government should sign FTA with both high growth countries , emerging economies and ASEAN to promote trade and investment. A well diversified external markets will help to minimize our external shocks.
 - c. Increase in consumption will only lead to an increase in actual growth. If it is not accompanied by any increase in productivity, & if the economy is at near full employment, this may lead to an increase in GPL. Hence, the growth may not be sustainable.
 - d. Explain how government expenditure on R&D and infrastructure on communication and transportation network will boost our competitiveness and promote sustainable economic growth (supply side policies).
5. Conclusion : Singapore is a small and open economy with no natural resources, she cannot depend just on consumption to promote sustainable economic growth. To achieve a stable and sustainable economic growth, government should promote domestic spending through her expansionary fiscal policies and at the same time use supply side and trade policies to strengthen her export competitiveness and diversify her markets.

L1	For an answer that shows some knowledge of how increase in consumption can help to achieve economic growth but unsupported by economic framework.	1 - 5
L2	For an answer that shows understanding of why Singapore should or should not depend on consumption for sustainable growth but lacked depth / examples / elaboration or largely theoretical. Or for an answer that shows depth of analysis but is lop-sided in discussion.	6 - 8
L3	For an answer that shows thorough analysis and with relevant examples why Singapore should or should not depend on consumption for sustainable economic growth. Must explain how supply side policies help Singapore to achieve sustainable growth	9 - 11
E1	Evaluation is not well explained/weak	1 - 2
E2	Evaluation is thorough and based on analysis	3 - 4