



**HWA CHONG INSTITUTION**  
**C2 Preliminary Examinations**  
**Higher 2**

**CANDIDATE NAME**

**CT GROUP**

**23**

**ECONOMICS**

Paper 1 Case Study Questions

**9570/01**

**27 August 2024**

**2 hours 30 minutes**

Additional Materials: Answer Booklet

**READ THESE INSTRUCTIONS FIRST**

Read all instructions printed on the cover page of the 12-page answer booklet carefully.

Write all your particulars clearly on the cover page of the 12-page answer booklet.

Write in dark blue or black pen on both sides of the paper.

You may use a soft HB pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid and tape.

Answer ALL questions.

Write all your answers in the 12-page booklet and subsequent 4-page booklets (if required).

Do all your rough work in pen using the answer booklet and cross it through without making it illegible.

Do not tear out any part of this booklet.

Begin case study question 1 and question 2 on a new page within the answer booklet.

All work must be handed in. If you have used any additional 4-page booklets, please insert them inside the 12-page answer booklet.

The number of marks is given in brackets [ ] at the end of each question or part question.

You may use a calculator.

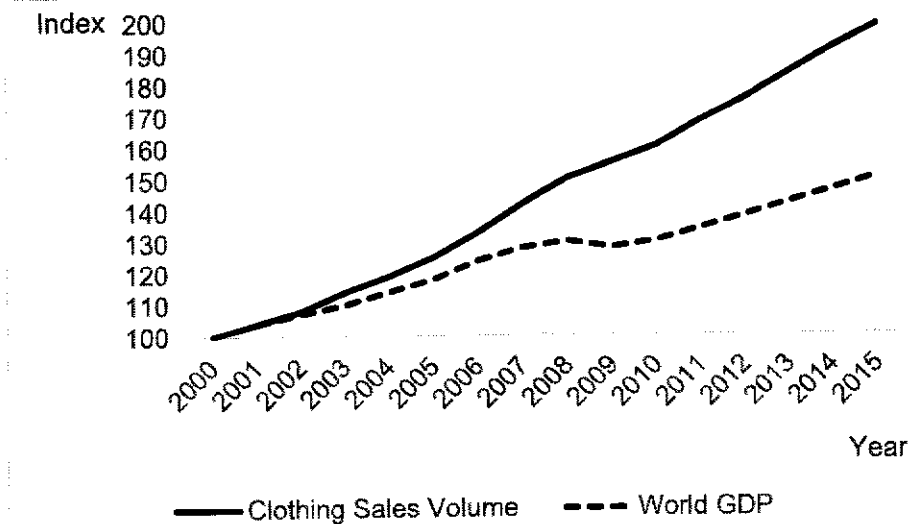
You are advised to spend several minutes reading through the questions before you begin writing your answers.

You are reminded for the need for good English and clear presentation in your answers.

This document consists of 7 printed pages and 1 blank page.

**[Turn over**

Answer all questions

**Question 1: Fast fashion and Food****Figure 1: Comparison of global clothing sales volume and world GDP indices (Base year 2000=100)**Source: *Earth.Org***Extract 1 Why Is Fast Fashion Bad?**

The term fast fashion refers to a large sector of the fashion industry whose business model relies on cheap and speedy production of low-quality clothing, which gets pumped quickly through stores in order to meet the latest and newest trends.

The fast fashion business model involves rapid design, production, distribution, and marketing, allowing brands and retailers to pull large quantities of greater product variety and allow consumers to get more style and product differentiation at a low price. Furthermore, manufacturers cut production costs even more by using synthetic and chemically treated materials rather than organic ones in order to lower prices and encourage more consumption. Fast fashion companies and retailers have no incentives to change the current business model when it's proven to be so profitable so far.

Globally, an estimated 92 million tonnes of textile waste is produced every year and that number is expected to soar up to 134 million tonnes a year by 2030. But textile waste is not the only environmental impact to come out from the fashion industry. Meeting the excessively high demand of clothing, especially the production of synthetic fibres, requires huge amounts of energy. The fashion industry accounts for nearly up to 10% of global carbon emissions, which is more than both the aviation and shipping sectors combined, and nearly 20% of global wastewater, or around 93 billion cubic metres from textile dyeing, according to the UN Environment Programme.

Much like the argument to switch to a plant-based diet to help reduce deforestation and carbon emissions, it is up to consumers to actively choose to avoid fast fashion brands, and to support more sustainable and socially conscious labels in order to alleviate the devastating environmental impacts of the industry.

Source: *Earth.Org***[Turn over**

### Extract 2 Green washing

Greenwashing presents a significant obstacle to tackling climate change. By misleading the public to believe that a company or other entity is doing more to protect the environment than it is, greenwashing promotes false solutions to the climate crisis that distract from and delay concrete and credible action.

Greenwashing undermines credible efforts to reduce emissions and address the climate crisis. Through deceptive marketing and false claims of sustainability, greenwashing misleads consumers, investors, and the public, hampering the trust, ambition, and action needed to bring about global change and secure a sustainable planet.

The boom in green claims reflects growing consumer attention: In one recent survey, 68 per cent of Americans said they would choose a more environmentally friendly product even if it cost more. That enthusiasm presents a big opportunity for advertisers, and a big challenge for regulators – who don't always have mechanisms in place to push back on incomplete claims.

Source: *www.un.org*, and *The Straits Times*, 27 September 2023

### Extract 3 Why ultra processed food needs to be part of the inequalities agenda

Ultra-processed foods (UPF) are things like packaged snacks, fizzy drinks, sugary cereals and ready meals containing food additives. These products often contain high levels of added sugar, processed fat, and/or salt, but are low in nutritional value, vitamins and fibre.

It is reported that the daily calorie intake of adults in the UK is made up of 55 percent ultra processed food and drinks– which is higher than across the rest of Europe. What is even more concerning is that children consume even more UPF. A recent study of the diets of over 9,000 UK children and young people aged 7 to 24 years old found that one in five were consuming over 78 per cent of their daily calories from ultra-processed food and drinks.

A food desert has been defined as an urban area in which it is difficult to buy affordable or good quality fresh food. This links to health inequalities, people live in food deserts where there may be plenty of food available, but not much of it is healthy. UPF are offered at relatively low cost. While there may be a greater choice in supermarkets, the lower costs of UPF when compared with other healthier options may leave many low-income households with little choice than to consume large amounts of this type of food.

The speed with which UPF can be prepared in the home may also lead many working parents to choose these options for mealtimes. There may also be a lack of understanding and information as to what type of foods are “healthy” given that items regularly consumed such as mass-produced bread, most breakfast cereals, many pre-packed pasta dishes, and flavoured yogurts are actually UPF.

The food industry is the largest manufacturing sector in the country, employing 4 million people and generating around £121 billion annually.” This enables the food industry to exert a great influence on what we eat in the UK. The primary goal of the food industry is to make a profit rather than improve nutrition. In the US, a handful of powerful companies control the majority market share of almost 80% of dozens of grocery items bought regularly, new analysis reveals. For instance, 93% of the sodas in America are owned by just three companies. The same goes for 73% of the breakfast cereals – despite the shelves stacked with different boxes.

[Turn over

The size, power and profits of these mega companies have expanded thanks to weak regulation which enabled a wave of unchecked mergers and acquisitions. This matters because the size and influence of these mega-companies enables them to largely dictate what farmers grow, as well as what consumers eat and how much groceries cost. There have also been calls for these UPF producers to improve on the saliency of nutritional content of the products in terms of making information available and easy to understand.

Source: Adapted from *www.bdcpartnership.co.uk*, 14 August 2023 and *The Guardian*, 14 July 2021

### Questions

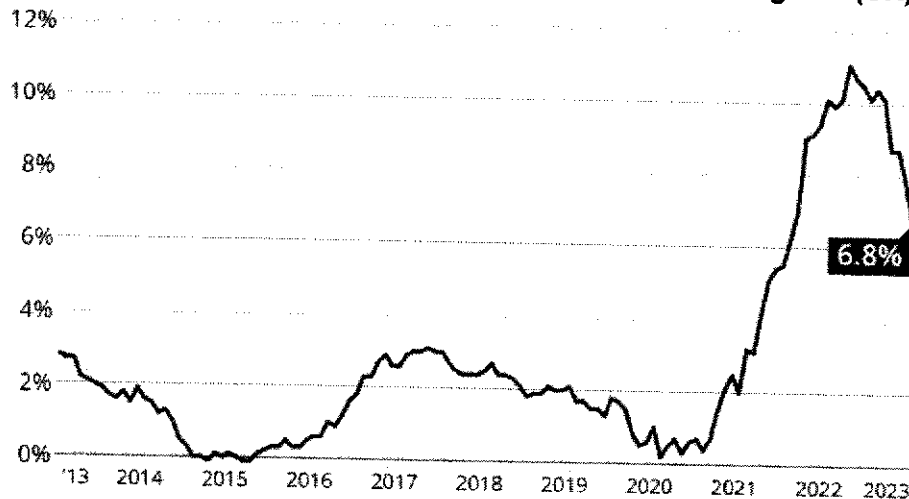
- (a) Explain the relationship between world GDP and clothing sales volume from 2000 to 2015. [2]
- (b) With reference to Extract 1 and using a diagram, explain how the trend in Figure 1 demonstrates that allocative inefficiency will worsen in the fast fashion market. [5]
- (c) Using a diagram, explain one revenue or one cost reason for “fast fashion companies and retailers (to) have no incentives to change its current business model when it’s proven to be so profitable so far” (Extract 1). [3]
- (d) With reference to Extract 3, explain the type of market structure ultra-processed food operates in. [2]
- (e) “It is up to consumers to actively choose to avoid fast fashion brands, and to support more sustainable and socially conscious labels in order to alleviate the devastating environmental impacts of the industry” (Extract 1). [8]
- Discuss whether consumers could ever make rational decisions regarding their consumption of sustainable fashion.
- (f) Discuss whether restriction of mergers and acquisitions in the UPF industry or regulation to improve saliency of the nutritional content of UPF is the better policy to improve the welfare of consumers. [10]

**[Total: 30]**

**[Turn over**

## Question 2: Inflation and Central Bank Responses

**Figure 2: Change in consumer price index in United Kingdom (UK)**



Source: Office for National Statistics

### Extract 4: High inflation in Britain

Consumer prices in Britain continued to jump higher in July, rising 10.1% from a year earlier. It was the fastest pace since 1982 and has intensified the pressure on household budgets being squeezed by surging energy and food costs.

Rising prices have become an intense global problem troubling households and central bankers from Australia to the United States and are multiplying the challenges facing lawmakers. Many countries are experiencing multidecade highs in their inflation rates, with pandemic-related supply chain disruptions pushing up the price of traded goods, and then Russia's invasion of Ukraine setting off an energy crisis, particularly in Europe.

Still, Britain's inflation rate stands out. Prices are rising faster than in the United States (8.5%) and the eurozone's largest economies: Germany (8.5%), France (6.8%) and Italy (8.4%).

For now, the relentlessly rising rate of inflation is sounding an increasingly loud alarm about a cost-of-living crisis, as the price of more goods, including groceries and services rise. Households are being warned that the average energy bill could climb to £3,500 (about US\$4,240) a year in October, triple what it was a year ago.

Bubbling up as another risk is Britain's tight labour market. Companies are competing for staff by raising salaries and offering large bonuses, bringing wage growth above recent historical averages and adding to inflation pressures. The anger and stress over the rising cost of living has continued unabated. This week, train operators and rail staff across the country plan to strike again over pay and working conditions.

"The situation is miserable for UK consumers, who are currently being squeezed from all sides," Kallum Pickering, an economist at Berenberg Bank, wrote in a note. "Wages are not rising fast enough to offset surging inflation, but they are rising too fast for the central bank's liking", he added.

Nonetheless, the central bank is expected to keep raising interest rates as inflation marches higher, despite its warnings of a recession.

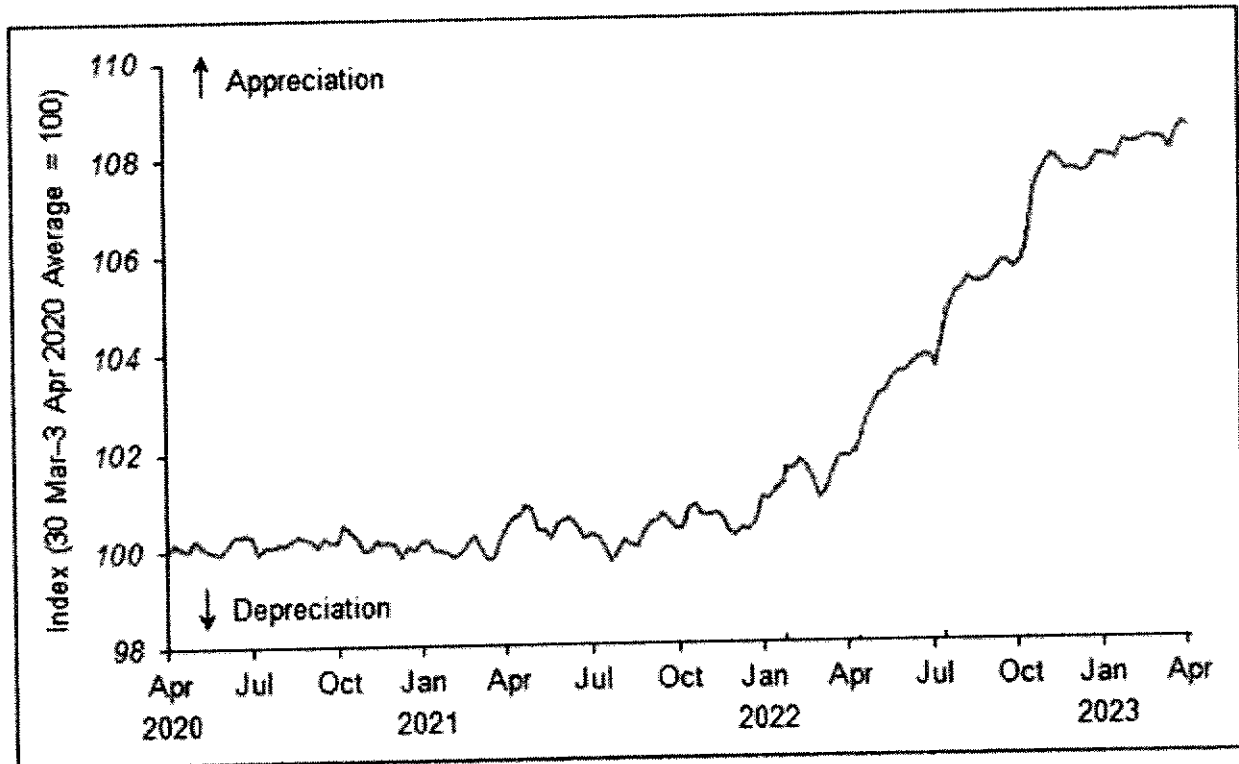
Source: Adapted from *The New York Times*, 17 August 2022

**[Turn over**

### Extract 5: Singapore's exchange rate centred monetary policy

In October 2022, Monetary Authority of Singapore (MAS) tightened its monetary policy for the fifth consecutive time within 12 months. While inflation is still elevated, MAS' five successive monetary policy tightening moves since October 2021 have tempered the momentum of price increases which could in turn erode Singapore's export price competitiveness given trade reliance. Although Singapore's GDP growth was expected to slow, MAS had assessed that a further tightening of monetary policy was needed to help dampen still-elevated inflation and ensure medium-term price stability. Singapore's GDP growth is projected to be slower in 2022. With intensifying risks to global growth, the domestic economic slowdown could be deeper than anticipated.

**Figure 3: S\$ Nominal Effective Exchange Rate (S\$NEER)**



Source: Adapted from Monetary Authority of Singapore

### Extract 6: Major central banks deliberate halt on interest rate hikes

The market has long been pricing in interest rate cuts from major central banks toward the end of 2023, but sticky core inflation, tight labour markets and a surprisingly resilient global economy are leading some economists to reassess.

#### Federal Reserve<sup>1</sup> in United States (US)

Stronger-than-expected US jobs figures and gross domestic product data have highlighted a key risk to the Federal Reserve (Fed) potentially taking its foot off the monetary brake. Economic resilience and persistent labour market tightness could exert upward pressure on wages and inflation, which is in danger of becoming entrenched.

[Turn over

The headline US consumer price index has cooled significantly since its peak above 9% in June 2022, falling to just 4.9% in April, but remains above the Fed's 2% target. Crucially, core CPI, which excludes volatile food and energy prices, rose by 5.5% annually in April.

As the Fed earlier this month implemented its 10th increase in interest rates since March 2022, raising the Fed funds rate to a range of 5% to 5.25%, Chairman Jerome Powell hinted that a pause in the hiking cycle is likely in the Fed's next meeting. However, minutes from the last meeting showed some members still see the need for additional rises, while others anticipate a slowdown in growth will remove the need for further tightening.

### The Bank of England<sup>1</sup>

The UK faces a much tougher inflation challenge than the US and the euro zone, and the UK consumer price inflation rate fell by less than expected in April. The annual consumer price index dropped from 10.1% in March to 8.7% in April, well above consensus estimates and the Bank of England's forecast of 8.4%. Meanwhile core inflation jumped to 6.8% from 6.2% in March, which will be of greater concern to the Bank's Monetary Policy Committee (MPC). With inflation continuing to prove stickier than the government and the central bank had hoped, now almost double the comparable rate in the US and considerably higher than in Europe, traders increased bets that interest rates will need to be hiked further in order to curtail price rises.

"Supply shocks, still high inflation expectations, fewer promotional discounting, and some potential margin building are likely keeping prices from normalising as quickly as traditional models would imply," explained Sanjay Raja, chief UK economist at Deutsche Bank. "We now expect a slower descent to target, and with price and wage inflation now likely to remain stronger than anticipated, we raise our interest rate forecast to 5.25%. Risk management considerations will, we think, force the MPC to push rates higher and further than previously intended." Deutsche Bank now sees monetary policy shifting "firmly" toward a "higher for longer" era, Raja added.

Source: Adapted from CNBC, 29 May 2023

<sup>1</sup> The Federal Reserve and the Bank of England are US and UK's central bank respectively.

### Questions

- (a) (i) With reference to Figure 2, describe how the general price level has changed in Britain since 2021. [2]
- (ii) Explain one reason why the consumer price index is a good measure of cost of living. [2]
- (b) "Wages are not rising fast enough to offset surging inflation, but they are rising too fast for the central bank's liking". Explain this statement from Extract 4. [4]
- (c) Using an exchange rate diagram, explain how the Monetary Authority of Singapore (MAS) can intervene in the foreign exchange market to tighten its monetary policy. [4]
- (d) Discuss whether the tightening of Singapore's monetary policy is the main reason behind its projection of slower GDP growth in Extract 5. [8]
- (e) Discuss whether it is appropriate for US and UK's central banks to continue with interest rate hikes. [10]

[Total: 30]

[Turn over

**Blank page***Copyright acknowledgments*

Question 1	Extract 1	© What is fast fashion?, 10 November 2021 <a href="http://www.earth.org">www.earth.org</a>
Question 1	Extract 2	© Greenwashing – the deceptive tactics behind environmental claims, accessed 10 May 2024 <a href="http://www.un.org">www.un.org</a> Regulators across the world crack down on greenwashing before it gets worse, The Straits Times, 27 September 2023
Question 1	Figure 1	© <a href="http://www.earth.org">www.earth.org</a>
Question 1	Extract 3	© Flaming hot addictions: why is America so hooked on ultra-process foods? The Guardian 23 June 2023 Why Ultra Processed Food needs to be part of the inequalities agenda, 14 August 2023 <a href="https://bdbcpartnership.co.uk">https://bdbcpartnership.co.uk</a>
Question 2	Figure 1	© UK Inflation Rate At Lowest Point Since February 2022, Statista, 17 August 2023 <a href="https://www.statista.com/chart/26208/uk-cpih-cpi-inflation-timeline/">https://www.statista.com/chart/26208/uk-cpih-cpi-inflation-timeline/</a>
Question 2	Extract 4	© Inflation in Britain Jumps to 10.1 %, pushed higher by food prices, New York Times, 17 August 2022 <a href="https://www.nytimes.com/2022/08/17/business/inflation-uk.html">https://www.nytimes.com/2022/08/17/business/inflation-uk.html</a>
Question 2	Extract 5 & Figure 2	© MAS Monetary Policy Statement - April 2023 <a href="https://www.mas.gov.sg/news/monetary-policy-statements/2023/mas-monetary-policy-statement-14apr23">https://www.mas.gov.sg/news/monetary-policy-statements/2023/mas-monetary-policy-statement-14apr23</a>
Question 2	Extract 6	© Major central banks were expected to pause rate hikes soon. Now it's not so clear cut, CNBC, 28 May 2023 <a href="https://www.cnbc.com/2023/05/29/major-central-banks-were-expected-to-pause-rate-hikes-soon-now-its-not-so-clear-cut.html">https://www.cnbc.com/2023/05/29/major-central-banks-were-expected-to-pause-rate-hikes-soon-now-its-not-so-clear-cut.html</a>

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**Question 1: Fast fashion and Food**

(a)	<p>Explain the relationship between world GDP and clothing sales volume from 2000 to 2015. [2]</p>	
	<p>Explain the <b>positive/direct</b> [1] relationship between world GDP and clothing sales (Q):                  Demand for clothes is positive YED (normal good). As GDP increases implies increase in income and hence demand for clothes, quantity (Q) increase. [1]</p>	
(b)	<p>With reference to Extract 1 and using a diagram, explain how the trend in figure 1 demonstrates that allocative inefficiency will worsen in the fast fashion market. [5]</p>	
	<p>Figure 1 shows rising clothing sales i.e. increase demand.</p> <p>Production of fast fashion generates negative externalities. In extract 1, carbon emission and water pollution from textile dyeing cause external costs on third parties eg. Lower crop yield for farmers (reduced profits) due to climate change, health problems for residents (increased healthcare costs) around waterways. [1]</p> <p>These external costs are not factored in by producers and consumers of fast fashion. They will consume and produce up to <math>MPB=MPC</math> at <math>Q_m</math> where they only consider their own cost and benefit. [1]</p> <p>The external cost however causes a divergence between <math>MSC</math> and <math>MPC</math>. The society is better off at <math>MSC=MSB</math> at <math>Q_{se}</math> where allocation of resources is efficient. [1]</p> <p>There is over allocation of resources to fast fashion as at <math>Q_m</math>, the cost to the society outweighs the benefit causing the deadweight loss, area A. [1]</p> <p>As the demand <math>MPB</math> to <math>MPB_1</math> for fast fashion increases, the deadweight loss grows even larger, area A to area B. [1]</p>	

		$Q_{se}$ $Q_m$ $Q_{se_1}$ $Q_{m_1}$ Output	
		Fail to draw diagram, max 4m.	
(c)		Using a diagram, explain one revenue or one cost reason for "fast fashion companies and retailers (to) have no incentives to change its current business model when it's proven to be so profitable so far" (Extract 1).	[3]
		<p>Cost/revenue diagram expected.</p> <p>1 diagram to show AR/MR increase resulting in increased profit due to 'rapid design and marketing' to appeal to taste and preference of consumers + explain [3]</p> <p><b>Or</b></p> <p>1 diagram to show AC/MC fall resulting in increased profit due to 'cutting production costs by using synthetic and chemically treated materials' to reduce variable cost + explain [3].</p> <p>If students failed to link to increase profit, max 2m</p> <p>Can accept answers which show profit of firms will fall if the firm changes its business model.</p>	
(d)		With reference to Extract 3, explain the type of market structure ultra-processed food (UPF) operates in.	[2]
		Oligopoly [1]. A few large firms dominate the industry with high MCR evidence in Extract 3 eg. MCR for Soda is 93% for 3 firms [1]. (can accept other egs. in the case)	
(e)		<p>"It is up to consumers to actively choose to avoid fast fashion brands, and to support more sustainable and socially conscious labels in order to alleviate the devastating environmental impacts of the industry" (Extract 1).</p> <p>Discuss whether consumers could ever make rational decisions regarding their consumption of sustainable fashion.</p>	[8]
		<p>R1: How consumers can make rational decision regarding consumption of sustainable fashion.</p> <p>Consumers find info on sustainable fashion regarding constraints, benefits and costs.  Eg. of constraints – budget constraints, availability of sustainable fashion  Eg. of benefits – clothes can last longer, better for the skin</p>	

	<p>Eg. of cost – price of the good</p> <p>If constraints can be overcome then consumers will weigh costs vs benefits. Will buy sustainable fashion up to <math>MPB=MPC</math>.</p> <p>R2: Consumers are not able to make rational decision regarding consumption of sustainable fashion.</p> <p>Consumers' demand is often clouded by the marketing tactics of the fashion brands and green washing. <math>MPB_{perceived} &gt; MPB_{actual}</math> hence they may end up consuming from brands which are not sustainable but make unsupported claims on the sustainability of their brands.</p> <p>SC: Given that fast fashion companies are able to mislead the consumers into believing that the company is doing more to protect the environment. Unless governments can act to eliminate these false advertising, consumers may not be able to discern between the sustainable vs unsustainable brands.</p> <table border="1" data-bbox="359 920 1283 1323"> <tr> <td data-bbox="359 920 448 1093">L2: 4- 6m</td> <td data-bbox="448 920 1283 1093"> <ul style="list-style-type: none"> <li>Explains how rational decision is made.</li> <li>Explains how <math>MPB_{actual}</math> deviates from <math>MPB_{perceived}</math> leading to overconsumption of fast fashion or underconsumption of sustainable fashion.</li> <li>Answers in this level will make good use of case data</li> </ul> </td> </tr> <tr> <td data-bbox="359 1093 448 1193">L1: 1- 3m</td> <td data-bbox="448 1093 1283 1193">Lacking in any of the L2 criteria</td> </tr> <tr> <td data-bbox="359 1193 448 1323">E: 1- 2m</td> <td data-bbox="448 1193 1283 1323"> <ul style="list-style-type: none"> <li>No stand or stand is made but <u>no attempt to justify</u></li> <li>Stand is made <u>with an attempt to justify</u></li> <li>Stand is made and <u>well-justified</u></li> </ul> </td> </tr> </table>	L2: 4- 6m	<ul style="list-style-type: none"> <li>Explains how rational decision is made.</li> <li>Explains how <math>MPB_{actual}</math> deviates from <math>MPB_{perceived}</math> leading to overconsumption of fast fashion or underconsumption of sustainable fashion.</li> <li>Answers in this level will make good use of case data</li> </ul>	L1: 1- 3m	Lacking in any of the L2 criteria	E: 1- 2m	<ul style="list-style-type: none"> <li>No stand or stand is made but <u>no attempt to justify</u></li> <li>Stand is made <u>with an attempt to justify</u></li> <li>Stand is made and <u>well-justified</u></li> </ul>	
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(f)	<p>Discuss whether restriction of mergers and acquisitions in the UPF industry or regulation to improve saliency about the nutritional content of UPF is the better policy to improve the welfare of consumers.</p>	[10]						
	<p>R1: Restrict M&amp;A to reduce monopoly power of UPF</p> <p>i) Reducing monopoly power of the firms/increasing competition will force firms to improve the quality of product. In this context, it is the nutritional value of the products.</p> <p>ii) Consumer surplus may increase with less monopoly power, firms cannot charge high prices.</p> <p>EV1: However, the large firms are able to charge low prices due to scale (iEOS) and control over supply chain. Helps low income to be able to have access to food.</p>							

**R2: Regulate to improve information about nutritional content**

To address the information gap so that consumers can make more informed choice on what they are consuming and how healthy/unhealthy it is. In Extract 3, many regularly consume UPF without the knowledge that they are consuming UPF, eg. breakfast cereal and yogurts. It pushes the MPC perceived closer to the MPC actual of UPF. Or unaware of the nutritional value in UPF MPBperceived is higher than MPBactual. Information will allow MPBperceived to decrease going closer to MPBactual.

**EV2:** Even with nutritional information, some consumers may still be unaware of what it means and the corresponding impact on their health. Hence more importantly there needs to be more education on helping the consumers understand the meaning of the information on their health. Low income consumers rely on UPF due to the low prices hence even with information, they will still consume as they have no choice given that healthier options are unaffordable.

**SC:**

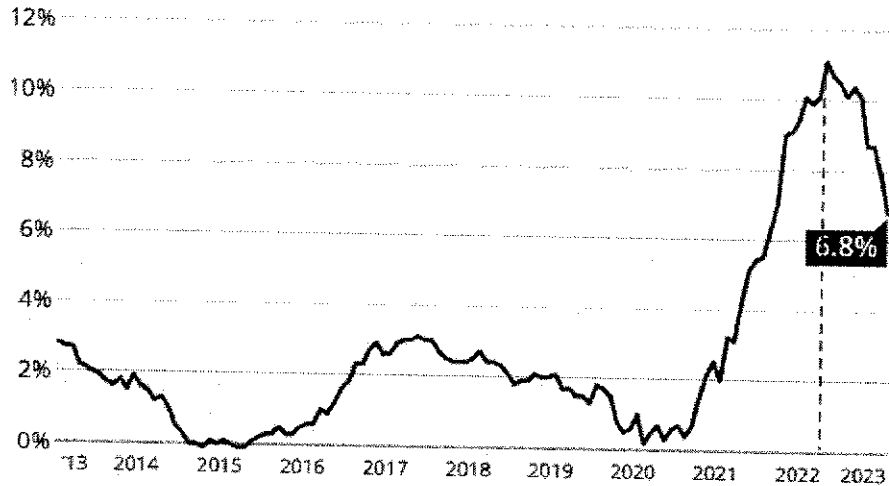
Restricting M&A is not the best policy. The industry is already dominated by large companies, to reduce the monopoly, government needs to break up these companies. In addition, these big companies are able to produce food at a low cost and price them cheaply which actually helps the low income. Thus, regulating the information on nutrition may be a better policy as it forces the firms to improve on the nutritional content if they are forced to reveal it. This can help every consumer (be it high or low income households) to make more informed choices so as to have better health.

L2: 4-7m	<ul style="list-style-type: none"> <li>• Explains how restricting M&amp;A helps consumers' welfare.</li> <li>• Explains how information helps consumers' welfare.</li> <li>• Answers in this level will make good use of case data</li> </ul>
L1: 1-3m	Lacking in any of the L2 criteria
E: 1-3m	<ul style="list-style-type: none"> <li>• No stand or stand is made but <u>no attempt to justify</u></li> <li>• Stand is made <u>with an attempt to justify</u></li> <li>• Stand is made and <u>well-justified</u></li> </ul>

## Question 2 Answers

(a) (i) With reference to Figure 1, describe how the general price level has changed in Britain since 2021. [2]

Figure 1: Change in consumer price index in United Kingdom (UK)



**General trend [1m]**

Since 2021, the general price level has been **increasing**.

*1m (have correct timeframe): Since 2021, the general price level has been **increasing**.*

*1m (no explicit timeframe, give BOD): the general price level has been **increasing**.*

*0m (have explicit BUT wrong timeframe): the general price level has been **increasing from 2013 to 2023**.*

**Refinement point about rate of increase [1m]**

**It increased at an increasing rate till around the towards the end of 2022 where it increased at a decreasing rate thereafter.**

OR

**But it increased at a slower/decreasing rate from the end of 2022 onwards.**

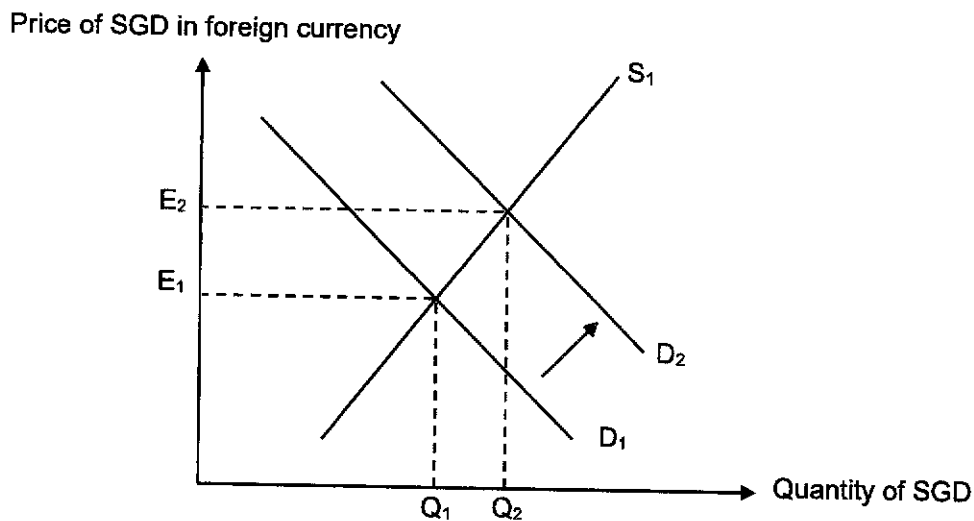
OR

	<p><b>GPL increased at a faster rate from 2021 to 2022 compared to 2022 to 2023.</b></p> <p><i>Note: since the timeline in Figure 1 is not very detailed, any other reasonable description of timeline is acceptable. E.g. rate of increase fell in 2023 / from start of 2023.</i></p>	
(ii)	<p><b>Explain one reason why the consumer price index is a good measure of cost of living.</b></p>	[2]
	<p>The consumer price index is a <b><u>weighted index</u></b> of the <b><u>prices of a basket of goods and services purchased by a typical household</u></b> in an economy.</p> <p><b><u>Reason 1 [2m]</u></b></p> <p>The consumer price index <b>tracks</b> the <b><u>prices of a basket of goods and services purchased by a typical household</u></b> in an economy, hence it is a <b>good measure of the cost of living of the average/typical household/person.</b></p> <p>OR</p> <p><b><u>Reason 2 [2m]</u></b></p> <p>As the CPI is a <b><u>weighted index</u></b>, where <b><u>goods or services</u></b> that take a <b><u>bigger proportion of household expenditure</u></b> are given a <b><u>larger weight</u></b>, it is able to <b><u>more accurately reflect how changes in price</u></b> of goods or services with a <b><u>bigger weight</u></b> would <b><u>have a bigger impact on the cost of living</u></b> (of the average household).</p>	
(b)	<p><b>"Wages are not rising fast enough to offset surging inflation, but they are rising too fast for the central bank's liking". Explain this statement from Extract 1.</b></p>	[4]
	<p><b><u>Explain "Wages are not rising fast enough to offset surging inflation": [2m]</u></b></p> <p>"Wages are not rising fast enough to offset surging inflation" means that while <b><u>nominal wages</u></b> are <b><u>rising</u></b>, the <b><u>general price level</u></b> is <b><u>rising even faster</u></b>, such that <b><u>real wages</u></b> are <b><u>falling</u></b> [1m], causing households to have <b><u>lower purchasing power</u></b> and are able to <b><u>buy less goods and services</u></b> (and have lower material SOL) despite higher nominal wages. [1m]</p>	

**Explain "but they are rising too fast" for the central bank's liking": [2m]**

"but they are rising too fast for the central bank's liking", means that the **central bank does not like the rate at which wages are rising** and it **adds to existing cost-push inflation pressures** from rising food and energy cost [1m] **\*(as wage is the cost of labour inputs)**, and hence makes it **harder** for the central bank to **achieve its inflation target / worsening the inflation problem that the central bank is concerned about** (lenient marking) [1m] **OR** may require the central bank to **increase interest rates further** (increasing cost of borrowing and reducing consumer spending and investments) and **risk recessionary consequences** on the economy (as aggregate demand falls and causes real GDP to contract) [1m].

(c) **Using an exchange rate diagram, explain how the Monetary Authority of Singapore (MAS) can intervene in the foreign exchange market to tighten its monetary policy.** [4]



*Correct exchange rate diagram showing rightward shift in demand for SGD, with the appropriate labels and axis [1m]*

MAS can **tighten its monetary policy by buying** the Singapore dollar (SGD) in the forex market (using foreign currencies), causing the **demand for SGD to rise** from  $D_1$  to  $D_2$  [1m], causing the SGD to **appreciate** [1m] from  $E_1$  to  $E_2$  as **more units of a foreign currency are needed to exchange for a unit of SGD** **OR** as price of SGD in foreign currency is now higher [1m].

(d)	<p><b>Discuss whether the tightening of Singapore's monetary policy is the main reason behind its projection of slower GDP growth in Extract 5.</b></p>	[8]						
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td data-bbox="271 436 829 526" style="width: 50%; padding: 5px;"> <p><b>R1: How it is due to appreciation of SGD</b></p> </td> <td data-bbox="829 436 1380 526" style="width: 50%; padding: 5px;"> <p><b>R2: How it is due to other causes</b></p> </td> </tr> <tr> <td data-bbox="271 526 829 1366" style="padding: 5px;"> <p><b>Graph:</b> AD falling to reduce Y.</p> <p>Explain how appreciation of SGD would reduce NX of AD. (Must use PEDm)</p> <p><i>Note: Reverse k explanation not encouraged here due to time constraint &amp; mark allocation.</i></p> </td> <td data-bbox="829 526 1380 1366" style="padding: 5px;"> <p><b>Graph:</b> AS falling to reduce Y.</p> <p>Explain how cost-push inflation has contractionary effects</p> <p>or</p> <p>Explain how monetary tightening in other countries reduces Singapore's X too &amp; hence Y.</p> <p>Or</p> <p>Explain how fall in other components of SG's AD reduces Singapore's Y too.</p> <p><i>*Use of case evidence is expected.</i></p> </td> </tr> <tr> <td colspan="2" data-bbox="271 1366 1380 1545" style="padding: 5px;"> <p><b>Justified Stand:</b> take a stand about whether the appreciation of the SGD is the main factor causing Singapore's projection of below trend GDP growth. Can make use of Extract 5 &amp; Figure 2 to substantiate.</p> </td> </tr> </table>			<p><b>R1: How it is due to appreciation of SGD</b></p>	<p><b>R2: How it is due to other causes</b></p>	<p><b>Graph:</b> AD falling to reduce Y.</p> <p>Explain how appreciation of SGD would reduce NX of AD. (Must use PEDm)</p> <p><i>Note: Reverse k explanation not encouraged here due to time constraint &amp; mark allocation.</i></p>	<p><b>Graph:</b> AS falling to reduce Y.</p> <p>Explain how cost-push inflation has contractionary effects</p> <p>or</p> <p>Explain how monetary tightening in other countries reduces Singapore's X too &amp; hence Y.</p> <p>Or</p> <p>Explain how fall in other components of SG's AD reduces Singapore's Y too.</p> <p><i>*Use of case evidence is expected.</i></p>	<p><b>Justified Stand:</b> take a stand about whether the appreciation of the SGD is the main factor causing Singapore's projection of below trend GDP growth. Can make use of Extract 5 &amp; Figure 2 to substantiate.</p>	
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(e)	<p><b>Discuss whether it is appropriate for US and UK's central banks to continue with interest rate hikes.</b></p>	[10]						
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<p>Explain how higher cost of borrowing would reduce household spending on durables and firms' spending on capital goods □ reduce C and I to dampen demand-pull pressures as the economies recover from the pandemic.</p> <p>Extract 3 also mentions that US has had some success lowering inflation rate with previous hikes</p> <p>UK shows signs of disinflation in Figure 1 after employing policy □ some degree of effectiveness as well</p> <p><b>Evaluate:</b> Inflation rate is still not at their targets so technically there is room to hike.</p> <p>Inflation remains especially high in UK relative to other economies despite previous hikes □ appropriate to continue hikes since consequences of the rising inflation would be more significant.</p> <p>If uncertain, central banks can always pause and observe before next move □ strength of interest rate policy i.e. flexible tool as since by their multiple hikes in incremental manner to observe before acting more strongly</p>	<p>economies are facing □ other policies like SSP more appropriate for those causes</p> <p>Conflict of goals – weaken economic growth and in turn reduce derived demand for labour (with reference to graph)</p> <p>Extract 4 and 6 mentions risks of recession</p> <p><b>Evaluate:</b> US seems to have resilient data with growth and employment so conflict is not as significant yet relative to UK.</p> <p>Time lags in effects of MP</p>	
<p><b>Justified Stand:</b> Severity projected of the continued inflationary pressures / resilience of the economy such the risk and consequences of worsened growth or employment those do not outweigh the problem of rising inflation that determines whether to continue with hikes.</p>		

