
ECONOMICS

9757/01

Paper 1

27 August 2018

2 hour 15 minutes

Additional Materials: Answer Paper, Cover Pages

READ THESE INSTRUCTIONS FIRST

Write your name and subject class on all the work you hand in.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, glue or correction fluid.
DO **NOT** WRITE IN ANY OF THE MARGINS.

Answer **all** questions.

Start parts (d) and (e) for both case studies on a new piece of paper.

Fill in the necessary information on the cover pages.

At the end of the examination, fasten all your work securely with the cover pages given.
The number of marks is given in brackets [] at the end of each question or part question.

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

Answer **all** questions.

Question 1

Transformation of Vietnam's Agriculture Sector

Extract 1: Thailand and Vietnam urge farmers to plant less rice

Falling global rice prices have caused an outcry in Thailand and Vietnam - the world's largest exporters behind India - prompting the government to rush out soft loans that help farmers withhold sales. But these falling prices are also making regional exporters consider planting less of the grain.

Thailand last month unveiled plans to plant corn on 320,000ha of rice fields over the next seven months. To nudge farmers to switch, the government is dangling interest-free loans and has guaranteed prices for the corn.

Vietnam, the world's third largest rice exporter, approved a strategy earlier in May to restructure its rice industry by integrating production and developing a national brand that can command higher prices. It also wants to convert 700,000ha to 800,000ha of its roughly 4 million hectares of rice fields to mixed or other uses. The idea is to earn more by dedicating less land to rice, so as to help paddy farmers weather the vagaries of the global commodity market.

Dam-building in the upper reaches of the Mekong River, the lifeblood of the region, is also disturbing the sensitive ecology that nourishes rice fields downstream. Earlier this year, a drought caused the loss of 1.29 million tonnes of Vietnam's crop. Vietnam's loss of arable land is also worsened due to Vietnamese government's motivation behind supporting agricultural land acquisition to promote the country's industrialisation and modernisation. The country is said to be working on the rules on how to attract more investors to their lands. Getting a license to operate as a manufacturer in Vietnam has become much easier as compared to Vietnam's Asian neighbours. These are efforts made by the government to welcome more foreign investments in the country, hence increasing the production of manufactured products as Vietnam witnesses a rising manufacturing share of its gross domestic product.

Rice specialist Pham Thi Kim Dung from Vietnam's Institute of Policy and Strategy for Agriculture and Rural Development, the agriculture ministry's think-tank, said: "Rice brings much lower profitability compared with other agricultural commodities when Vietnamese farmers receive little support from the government." In the long run, say experts, the solutions lie in higher-value grains and integrated and environmentally sensitive farming.

Source: *www.straitstimes.com*, 6 November 2016

Extract 2: Shrimp farming in Vietnam - the search for a healthy environment

Due to its favourable natural conditions, farmers in coastal communes of the southern Ben Tre Province started to switch from rice cultivation to shrimp farming 15 years ago. The rapid success and high income that the industry ushered in pushed many local people to invest in this sector.

After a few years, Thanh Phuoc transformed from a poor commune into a wealthy locality. Ngo Van Thu, a farmer in Thanh Phuoc commune, said the land had not yet been exploited at that time, so the water resources were abundant and the clean environment supported the production. Due to attractive profits, farmers in other areas of unfavourable natural conditions also did whatever it took to raise shrimp, including in Ben Tre, but the Ba Lai project area is filled with freshwater. Local people spontaneously drilled wells to bring in salt water and made ponds to raise shrimp.

The rapid growth of shrimp farming has led to disease outbreaks, shrimp kills and huge losses for farmers in many places. Similarly, the delta province of Tra Vinh, where the irrigation system is inefficient, experienced issues with diseased shrimp. Huynh Phuoc Hai, a farmer in Kien Giang Province, said, "It's clear that the farming environment is being seriously polluted. Along one canal, many households scrambled for water for use, and when shrimp got diseases, they discharged the contaminated waste, spreading the diseases."

Vo Hong Ngoan, a long-term shrimp farmer in Bac Lieu Province, said the environment was so polluted many farm owners were using antibiotics to prevent diseases. Besides its prophylactic purpose, antibiotics overuse will increase the cost of production and the seed source is no longer qualified. According to statistics of relevant agencies, in the last two years, 32,000 tonnes of aquaculture (mainly shrimp) of Vietnamese companies were returned after they were imported because of antibiotic contamination.

Source: *vietnamnews*, 17 January 2016

Extract 3: Vietnam - Sustainable Farming Increases Productivity and Improves the Environment

Since the introduction of economic reforms under "Doi Moi" in 1986, Vietnam's agriculture has made impressive progress. Nevertheless, problems of quality and food safety remain, resulting in low export prices and concerns among domestic consumers. At the time of the launch of the Agriculture Competitiveness Project (ACP), productivity growth was decelerating and there was a decline in real expenditures in agricultural research and extension.

The ACP aimed to strengthen the competitiveness of smallholder farmers in the select project provinces through strengthening agricultural technology, fostering the establishment of farmers' organisations and their linkages to agri-businesses, and provision of critical public infrastructure. It provided an opportunity for smaller companies and farmers in less developed areas to accelerate growth.

Through the project, competitiveness of smallholder farmers has strengthened. A total of 154 technology extension packages were implemented. On average, where the technologies were applied, the farmers realised a 17 percent increase in yield and a 22 percent increase in the value of sales. The country has thus emerged as one of the world's leading exporters of agro-food commodities and is among the top five for aquatic products, rice, coffee, tea, cashews, black pepper, rubber, and cassava.

In addition, the project successfully established 98 demand-driven productive partnerships between farmer organizations and agribusiness companies. More than 95,000 farmers benefited from upgraded infrastructure, of which the large proportion was rural/market access roads. These investments resulted in reductions in post-harvest losses, transportation time and transportation costs.

Source: *www.worldbank.org*, 15 April 2016

Table 1: Vietnam's terms of trade (Index Points)

	2011	2012	2013	2014	2015	2016
Terms of Trade	99.5	99.8	99.9	102.2	102.2	103.4
Import Prices	120.2	99.7	97.6	99.0	94.2	105.4
Export Prices	119.6	99.5	97.6	101.1	96.2	109.0

Source: *tradingeconomics.com*

Questions

- (a) With reference to Table 1,
- (i) State the change in Vietnam's terms of trade from 2011 to 2016. [1]
 - (ii) Account for the change in Vietnam's terms of trade from 2011 to 2016. [2]
- (b) With reference to Extract 1, explain why Vietnam is likely to see a change in its comparative advantage away from the production of rice. [4]
- (c) With the aid of a diagram, explain how the rapid growth of shrimp farming might affect societal welfare. [5]
- (d) Discuss the factors that are likely to influence the decision of the farmers to switch from rice growing activity to shrimp farming business. [8]
- (e) Assess the possible impact of the launch of the Agriculture Competitiveness Project on Vietnam's economy. [10]

[Total: 30]

Question 2**Looming Threats to Globalisation****Extract 4: The potential impacts of Brexit on the global economy**

The markets were caught off guard by the UK's vote to leave the European Union (EU) on 23 June. The immediate reaction in the financial markets was swift and violent, and will feed into the far-flung macroeconomic consequences of Brexit (Britain's exit from the EU). For example, a sharp and sustained rise in the value of the US dollar versus the euro will put added pressure on the weak US manufacturing sector just as it seemed to find a new footing. This puts additional downward pressure on historically weak US growth momentum.

While it is uncertain how the Brexit vote will reverberate in the months and years to come, a few immediate consequences seem highly likely:

- The flight to safety away from the epicentre of this British-EU divorce will push capital away from the region and toward key safe-haven markets including the US and Japan.
- A higher US dollar and Japanese yen are negative to both economies' export sectors. In the case of Japan, this is particularly unhelpful to its efforts to reflate and reinvigorate the economy after decades of deflation.
- The higher US dollar also triggers additional pressure on China to float the yuan lower, as it is caught in the divergence between its two largest export markets – the EU and the US.
- For the US, the negative impact on exports is relatively small compared with trends in domestic demand, but the deflationary pressure on tradable goods will widen the divergence between reasonably strong inflation in the services sector vs. reasonably strong deflation in the goods sector.
- The European Central Bank will be compelled to raise its level of intervention yet again, as risk premiums across the region rise. Members of the Eurozone may be hard hit by the loss of investor confidence coupled with debt problems.

Source: *Forbes*, 29 June 2016

Extract 5: Why sterling suffered a “flash crash”

If a country's exchange rate represents international investors' confidence in its government's policies, the markets have given Britain the thumbs-down. On October 7th the pound sterling fell from \$1.26 to \$1.18 against the dollar within a few minutes. The sterling Effective Exchange Rate Index (EERI) – a measure of the value of the pound calculated according to UK's trade with different countries and in various currencies – is close to a record low.

Following the referendum in which Britain voted to leave the EU, the government appears to be pursuing a “hard Brexit”, in which economic aims (free trade and membership of the single market) are subordinated to the political priorities of legal sovereignty and reduced immigration. Analysts at UniCredit, an Italian bank, said that “investors are now perplexed by the country's vision on immigration, openness and business friendliness. This will be detrimental to the outlook for sterling given the global status that the UK has enjoyed for many years.”

Source: *The Economist*, 20 Oct 2016

Table 2: Quarterly Average Sterling Effective Exchange Rate Index (2005 = 100)

2014				2015				2016			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
85.6	86.9	88.0	87.3	89.4	91.2	92.9	92.2	87.0	85.5	78.8	76.6

Source: Office for National Statistics, United Kingdom

Extract 6: Trade, at what price?

Since the 1980s, America's economy has gradually opened up to cheap imports. This accelerated in 1993 with the signing of the North American Free-Trade Agreement (NAFTA) with Mexico and Canada. The deal eliminated most tariffs on trade between the three countries over a decade. Imports (excluding fuel) from Mexico grew by about five times between 1993 and 2013, according to the Peterson Institute.

In 2001 China joined the World Trade Organisation (WTO). Although this did not change any tariffs, a tsunami of cheap Chinese imports followed. "Made in China" labels became ubiquitous on clothes, toys, furniture and, eventually, electronics as Chinese imports surged from 1% of Gross Domestic Product (GDP) in 2000 to 2.7% by 2015.

In any case, cheap imports were a windfall for American consumers. Excluding food and energy, prices of goods have fallen almost every year since NAFTA. More trade brought more choice, too. Robert Lawrence and Lawrence Edwards, two economists, estimate that trade with China alone put \$250 a year into the pocket of every American by 2008 due to cheaper goods. The gains from cheap stuff flowed disproportionately to the less well-off, because the poor spend more of their incomes on goods than the rich.

At the same time, trade created new markets for American firms. In 1993 America sold nearly \$10 billion-worth of cars and parts to Mexico, at today's prices. Many American firms have become tightly integrated across the southern border, with low-skilled work done in Mexico and more complex tasks done at home. Exports to China grew by almost 200% between 2005 and 2014, with agriculture and the aerospace and car industries leading the charge. Some workers have benefited from rising exports, because firms that export pay more. Outsourcing low-wage assembly has also increased the productivity of America's high-skilled workers. For example, Apple's ability to assemble its iPhones cheaply in China has made the work of its American designers much more lucrative.

Trade, however, has an acute image problem. Its benefits are hard to perceive directly, spread across various stakeholders: consumers, exporters, and workers. In contrast, its costs are highly concentrated. Cheap imports have been lethal for many American manufacturers, particularly in the mid-western rustbelt and in the South.

The impact of trade on jobs was a growing concern. The sharp decline in American manufacturing employment began in 2000, just as Chinese imports took off. A recent study by Daron Acemoglu, David Autor and others estimated that about 1 million of 5.5 million manufacturing jobs were lost between 1999 and 2011 to Chinese competition.

Many workers displaced by Chinese imports did not simply find another job. Mr Autor and his colleagues have shown that, at the local level, displaced workers are unlikely to move to seek new work. One reason for this immobility could be that the economy is now an unwelcoming place for jobseekers without a university degree.

Source: *The Economist*, 2 Apr 2016

Extract 7: How dairy farmers in Belgium held up a big EU trade deal

Christian Wiertz is a leader of a group of dairy farmers in the Wallonia region in Belgium that single-handedly threatened to derail a landmark accord to deepen commerce between Canada and the European Union. On 14 October, Wallonia's regional Parliament used its veto power to block Belgium from approving the Comprehensive Economic and Trade Agreement (CETA) with Canada, which requires consensus among the 28 nations of the EU.

"Global competition has squeezed small businesses dry," said Mr. Wiertz, a fifth-generation farmer. Selling milk at the world price, according to Mr Wertz, was not commercially viable for them due to their higher costs and taxes compared to the big multinationals.

Source: *The New York Times*, 28 Oct 2016

Table 3: Selected trade indicators (as percentage of GDP), 2016

Percentage of GDP	Belgium	United Kingdom	United States
Exports of goods and services (%)	82.9	28.3	11.9
Imports of goods and services (%)	81.5	30.3	14.7
Current account balance (%)	0.1	- 5.8	- 2.4

Source: World Bank

Questions

- (a) (i) State what happened to the British pound sterling Effective Exchange Rate Index between Q1 2014 and Q4 2016.
[2]
- (ii) Using a demand and supply diagram, explain the cause of the trend observed in the Sterling Effective Exchange Rate Index in 2016.
[4]
- (b) With reference to Table 3, calculate and compare the net income flow (including transfers) in the UK current account balance with that of the US.
[2]
- (c) Explain how a free trade agreement between the EU and Canada might affect a small dairy farmer in Belgium.
[4]
- (d) Given that membership in the EU means free movement of goods, labour and capital among member countries, assess the possible impact of Brexit on the UK economy.
[8]
- (e) Discuss the factors that determine the extent to which globalisation is beneficial to different countries.
[10]

[Total: 30]

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2018 SH2 H2 Economics Prelims

Paper 1 – Case Study Question 1

Questions & Suggested Answers		Marks
(a)	With reference to Table 1, (i) State the change in Vietnam's terms of trade from 2011 to 2016.	[1]
	Vietnam's terms of trade has increased (1m) from 2011 to 2016.	
	(ii) Account for the change in Vietnam's terms of trade from 2011 to 2016.	[2]
	The increase in Vietnam's terms of trade is due to a fall in Vietnam's import prices (1m) at a greater rate than the fall in Vietnam's export prices (1m).	
(b)	With reference to Extract 1, explain why Vietnam is likely to see a change in its comparative advantage away from the production of rice.	[4]
	There are changes in Vietnam's natural resource and climate due to public infrastructure such as dam-building in the upper reaches of the Mekong River (1m). In addition, Vietnamese Government's effort to increase foreign investment bring about an increase in new capital (1m). These factors bring about changes in Vietnam's factor endowment and cause Vietnam to incur a higher opportunity cost in the production of rice and a lower opportunity cost in the production of manufactured goods (1m). Hence Vietnam changes its comparative advantage from the production of agricultural products to manufactured products (1m).	
(c)	With the aid of a diagram, explain how the rapid growth of shrimp farming might affect societal welfare.	[5]
	<p>In a free market economy, individuals take into account its private cost and private benefit of production, producing at Q_p units where $MPB = MPC$ with reference to Figure 1. Marginal External costs (MEC) to society is not internalised by the price mechanism, examples of MEC are water pollution caused by contaminated waste discharged from shrimps with diseases (1m), affecting households using the water along the same canal. There is a divergence between MPC and MSC, actual costs to society is where $MSC = MPC + MEC$ (1m). Socially optimal level of output is at Q_s units where $MSB = MSC$. Here there is over-production of $Q_p - Q_s$ units (1m) leading to allocative inefficiency and deadweight loss indicated by the area $A E_s E_p$ (1m).</p> <p>Diagram (1m)</p> <p style="text-align: center;">Figure 1: Overproduction of shrimps</p>	

(d)	Discuss the factors that are likely to influence the decision of the farmers to switch from rice growing activity to shrimp farming business	[8]
<p>Introduction:</p> <ul style="list-style-type: none"> From the perspective of farmers, their objective in the long run will be to maximise profit. Relevant information to support farmers' decision making will be both revenue and cost factors. In the decision-making process, farmers might be constrained by other factors. <p>Body:</p> <p>Revenue factors that impact farmers' decision making to switch</p> <ul style="list-style-type: none"> Falling global rice prices (Extract 1) would lead to a fall in price of rice in the domestic rice market. With reference to Figure 2, quantity demanded for rice would increase from Q_0 to Q_1. The demand for rice is relatively price inelastic due to it being a staple food and thus a high degree of necessity. Hence TR falls. Hence, farmers may switch from rice growing activity to other farming businesses. <div data-bbox="368 734 1321 1305" style="text-align: center;"> </div> <p>Figure 2: Domestic demand for rice</p> <ul style="list-style-type: none"> In Extract 2, there was rapid success and high income that the industry ushered in which indicated there was the presence of high profits to be made. This could be attributed to the growing demand for shrimps in Vietnam. With the increase in demand, TR increases. The higher profits to be earned as indicated by attractive profits in Extract 2 may have led to the switch to shrimp farming. <p>Revenue factors that impact farmers' decision making NOT to switch</p> <ul style="list-style-type: none"> With reference to Extract 2, the attractive profits have led to farmers in other areas of unfavourable natural conditions to switch to shrimp farming. However, the rapid growth of shrimp farming has led to disease outbreaks, shrimp kills and huge losses for farmers. This could lead to a large fall in revenue and profits for farmers and they may not switch to shrimp farming. <p>Cost factors that affect farmers' decision making to switch</p> <ul style="list-style-type: none"> With reference to Extract 1, the dam building in the Mekong river led to the disturbance of the sensitive ecology that nourished rice fields downstream. Hence, farmers may have to use additional fertilizers and freshwater from other sources to continue growing their rice crops. This would persuade them to switch to shrimp farming instead. 		

- Vietnam's loss of arable land is worsened due to Vietnamese Government's motivation behind supporting agricultural land acquisition to promote the country's industrialization and modernization as mentioned in Extract 1.
- Hence farmers should switch from rice farming to shrimp farming.

Cost factors that affect farmers' decision making NOT to switch

- In Extract 1, the Vietnamese government rushed out soft loans that help farmers withhold their sales amidst the falling global prices for rice.. Hence, this lowers the relative total cost and increases profits thus rice farmers may not need to switch over.
- In addition, shrimp farming has led to water pollution caused by contaminated waste discharged from shrimps with diseases (Extract 2).
- The increase in cost incurred and lower profits in shrimp farming will thus affect farmers' decision not to switch from rice farming to shrimp farming.

Conclusion:

- In deciding whether to switch from rice growing activity to shrimp farming business, farmers need to take into account their objective. Given that profit maximisation is the only objective in the long run, farmers will need to consider the various revenue and cost factors in affecting their profits in rice growing activity compared to shrimp farming.

Mark Scheme

Level	Descriptors
Level 2 4-6	<p>For an answer that demonstrates knowledge, understanding, application and analysis:</p> <ul style="list-style-type: none"> ➤ EXCELLENT breadth that considers the following economic concepts in explaining multiple and balanced perspectives, viewpoints, relationships and factors. ALL points chosen should be of relevance and significance in answering the question. ➤ EXCELLENT depth in economic analysis that reflects the following in ALL explanations. <ul style="list-style-type: none"> ✓ Accurate use of economic concepts, clear elaboration, and precise use of economic terminologies, language and phrasing. <p>The answer should also be supported by:</p> <ul style="list-style-type: none"> ➤ Well-labelled and well-referred to diagram(s) drawn with precision (where appropriate). ➤ Relevant examples and accurate use of facts. ➤ Logical structure.
Level 1 1-3	<p>For an answer that demonstrates knowledge, understanding, application and analysis:</p> <ul style="list-style-type: none"> ➤ GOOD breadth that considers the following economic concepts in explaining multiple and balanced perspectives, viewpoints, relationships and factors. ALL points chosen should be of relevance and significance in answering the question. . ➤ GOOD depth in economic analysis that reflects the following in ALL explanations. <p>The answer should also be supported by:</p> <ul style="list-style-type: none"> ➤ Diagram(s) that may not be well-labelled, may not be well-referred to and may not be drawn with precision (where appropriate). ➤ Example(s). ➤ Logical structure.

	<p>Evaluation</p> <table border="1" data-bbox="360 226 1511 622"> <tr> <td data-bbox="360 226 512 468"> <p>E2 2 marks</p> </td> <td data-bbox="512 226 1511 468"> <p>For an evaluation that contains</p> <ul style="list-style-type: none"> ➤ A synthesis of earlier economic arguments to arrive at relevant judgements/decisions (i.e. answer the question). ➤ Well-explained criteria-based evaluative comments supported by accurate and clear analysis to provide fairness in views. ➤ A good summative conclusion. </td> </tr> <tr> <td data-bbox="360 468 512 622"> <p>E1 1 mark</p> </td> <td data-bbox="512 468 1511 622"> <p>For an evaluation that contains</p> <ul style="list-style-type: none"> ➤ Relevant but unexplained evaluative judgement(s) / statement(s) i.e. evaluative judgement(s) / statement(s) not supported by analysis. <p><u>OR</u></p> <ul style="list-style-type: none"> ➤ A relevant conclusion. </td> </tr> </table>		<p>E2 2 marks</p>	<p>For an evaluation that contains</p> <ul style="list-style-type: none"> ➤ A synthesis of earlier economic arguments to arrive at relevant judgements/decisions (i.e. answer the question). ➤ Well-explained criteria-based evaluative comments supported by accurate and clear analysis to provide fairness in views. ➤ A good summative conclusion. 	<p>E1 1 mark</p>	<p>For an evaluation that contains</p> <ul style="list-style-type: none"> ➤ Relevant but unexplained evaluative judgement(s) / statement(s) i.e. evaluative judgement(s) / statement(s) not supported by analysis. <p><u>OR</u></p> <ul style="list-style-type: none"> ➤ A relevant conclusion.
<p>E2 2 marks</p>	<p>For an evaluation that contains</p> <ul style="list-style-type: none"> ➤ A synthesis of earlier economic arguments to arrive at relevant judgements/decisions (i.e. answer the question). ➤ Well-explained criteria-based evaluative comments supported by accurate and clear analysis to provide fairness in views. ➤ A good summative conclusion. 					
<p>E1 1 mark</p>	<p>For an evaluation that contains</p> <ul style="list-style-type: none"> ➤ Relevant but unexplained evaluative judgement(s) / statement(s) i.e. evaluative judgement(s) / statement(s) not supported by analysis. <p><u>OR</u></p> <ul style="list-style-type: none"> ➤ A relevant conclusion. 					
(e)	Assess the possible impact of the launch of the Agriculture Competitiveness Project on Vietnam's economy.	[10]				
	<p><u>Introduction:</u></p> <ul style="list-style-type: none"> • According to Extract 3, Agriculture Competitiveness Project (ACP) aimed to strengthen the competitiveness of smallholder farmers in the select project provinces through strengthening agricultural technology, fostering the establishment of farmers' organizations and their linkages to agri-businesses, and provision of critical public infrastructure. • Through the launch of ACP, Vietnam's economy is likely to experience changes in its economic growth, unemployment level and BOP position. <p><u>Body:</u></p> <p>Impact on actual growth and cyclical unemployment (AD analysis)</p> <ul style="list-style-type: none"> • ACP has enormous progress on Vietnam agriculture sector according to Extract 3. It reduces post-harvest losses, improves supply, and food quality, hence increases Vietnam's export competitiveness. Vietnam is likely to experience an increase in export revenue. • The increase in Vietnam's export competitiveness will lead to an increase in its net exports, assuming ceteris paribus and thus increases. The increase in AD will bring about a more than proportionate increase in real national output via the multiplier effect, resulting in actual growth in Vietnam. • Increase in real national output will bring about a fall in cyclical unemployment. <p>Impact on inflation rate (AD analysis)</p> <ul style="list-style-type: none"> • If Vietnam's economy is approaching full employment, the increase in GPL due to an increase in AD is likely to cause Vietnam to experience demand pull inflation. <p>Impact on BOP</p> <ul style="list-style-type: none"> • The increase in Vietnam's net exports will thus have a favourable impact on its BOT and improve its BOP position, ceteris paribus. <p>Impact on actual and potential growth (AS analysis)</p> <ul style="list-style-type: none"> • Through the project, a total of 154 technology extension packages were implemented (Extract 3). In addition, the project increases the provision of critical public infrastructure in the rural areas. • The increasing adoption in technology brings about an increase AS, increasing real national output and full employment output, thus increase both actual and potential growth in Vietnam's economy. <p>Impact on structural unemployment</p> <ul style="list-style-type: none"> • At the same time, structural unemployment might worsen in Vietnam as it transforms its agriculture sector. Improvement in technology changes the way farmers manage farmland and farm such as the use of satellite driven geo-positioning systems and sensors that detect nutrients and water in soil. <p><u>Evaluative Conclusion:</u></p>					

The extent of the impacts of ACP on Vietnam's economy depends on the nature of the country, mobility of labour and fiscal position of government (elaborate).

Mark Scheme

Level	Descriptors
L2 5-7 marks	<p>For an answer that demonstrates knowledge, understanding, application and analysis:</p> <ul style="list-style-type: none"> ➤ EXCELLENT breadth that considers the following economic concepts in explaining multiple and balanced perspectives, viewpoints, relationships and factors. ALL points chosen should be of relevance and significance in answering the question. ➤ EXCELLENT depth in economic analysis that reflects the following in ALL explanations. <ul style="list-style-type: none"> ✓ Accurate use of economic concepts, clear elaboration, and precise use of economic terminologies, language and phrasing. <p>The answer should also be supported by:</p> <ul style="list-style-type: none"> ➤ Well-labelled and well-referred to diagram(s) drawn with precision (where appropriate). ➤ Relevant examples and accurate use of facts. ➤ Logical structure.
L1 1-4 marks	<p>For an answer that demonstrates knowledge, understanding, application and analysis:</p> <ul style="list-style-type: none"> ➤ GOOD breadth that considers the following economic concepts in explaining multiple and balanced perspectives, viewpoints, relationships and factors. ALL points chosen should be of relevance and significance in answering the question. ➤ GOOD depth in economic analysis that reflects the following in ALL explanations. <p>The answer should also be supported by:</p> <ul style="list-style-type: none"> ➤ Diagram(s) that may not be well-labelled, may not be well-referred to and may not be drawn with precision (where appropriate). ➤ Example(s). ➤ Logical structure.

Evaluation

E2 2 marks	<p>For an evaluation that contains</p> <ul style="list-style-type: none"> ➤ A synthesis of earlier economic arguments to arrive at relevant judgements/decisions (i.e. answer the question). ➤ Well-explained criteria-based evaluative comments supported by accurate and clear analysis to provide fairness in views. ➤ A good summative conclusion.
E1 1 mark	<p>For an evaluation that contains</p> <ul style="list-style-type: none"> ➤ Relevant but unexplained evaluative judgement(s) / statement(s) i.e. evaluative judgement(s) / statement(s) not supported by analysis. <p>OR</p> <ul style="list-style-type: none"> ➤ A relevant conclusion.

Paper 1 – Case Study Question 2

Questions & Suggested Answers		Marks
(a)	(i) State what happened to the British pound sterling effective exchange rate between the Q1 2014 and Q4 2016.	[2]
	The British pound sterling effective exchange rate depreciated in value between Q1 2014 and Q4 2016. [1 mark]. However, it was rising over the period Q1 2014 to Q3 2015 [1 mark] before decreasing thereafter.	
	(ii) Using a demand and supply diagram, explain the cause of the trend observed in the Sterling Effective Exchange Rate Index in 2016.	[4]
	The main cause was a loss of investor confidence due to Britain's decision to exit from the EU (Brexit). [1 mark] This resulted in capital flight from the UK. This caused an increase in SS of sterling pound [1 mark] from S_0 to S_1 in the foreign exchange market. At the same time, as fewer foreign investors would want to invest in the UK. This means a decrease in the demand for UK sterling pounds from D_0 to D_1 . [1 mark]	
	<p style="text-align: center;">Figure 1: Market for Sterling Pound</p>	
(b)	With reference to Table 3, calculate and compare the net income flow (including transfers) in the UK current account balance with that of the US.	[2]
	UK's current account balance is -5.8% of GDP while its balance of trade is -2% of GDP. Hence, its net income flow should be -3.8% of GDP. US's current account balance is -2.4% of GDP while its balance of trade is -2.8% of GDP. Hence its net income flow should be +0.4% of GDP. This shows that UK experienced a net income outflow, while US had a net income inflow.	
(c)	Explain how a free trade agreement between the EU and Canada might affect a small dairy farmer in Belgium.	[4]
	Since a free trade agreement would mean a removal or reduction of tariffs on imports, dairy farmers in Belgium will now have to compete with cheaper imports from Canada, thus forcing them to lower their price as well ie. "selling their milk at world price". [1 mark] Given that the demand for milk is likely to be price inelastic, the revenue of dairy farmers will fall [1 mark] as price decreases, resulting in a decline in profit. Moreover, small dairy farmers tend to have higher costs compared to large multi-nationals, due to their lack of economies of scale. [1 mark] Coupled with the higher taxes in Belgium, the small dairy farmers may end up incurring losses [1 mark].	
(d)	Given that membership in the EU means free movement of goods, labour and capital among member countries, assess the possible impact of Brexit on the UK economy.	[8]
	Introduction:	

- The departure of UK from the EU (Brexit) would mean that firms in UK would no longer have free access to European markets and that labour and capital might not be allowed to move freely between UK and EU countries.

Body:

Negative Impact

- Loss of confidence and capital outflow – One of the major effects of Brexit is the loss of investor confidence, as mentioned in Extract 4. Brexit means that UK firms would no longer have free access to European markets and may thus face tariff barriers in exporting to EU countries. This could cause a fall in exports. This also cause investors to have a pessimistic outlook of the UK economy. The fall in exports as well as capital flight would thus cause a worsening of UK's Balance of Payments.
- Fall in AD and economic growth –The fall in X and I leads to a fall in AD, which results in a fall in real output and hence economic growth. With the fall in real output, less labour will be needed, and an increase in unemployment. As shown in Fig 2 below, the fall in AD due to fall in X and I causes real output to decrease from Y_0 to Y_1 , resulting in lower or even negative economic growth.

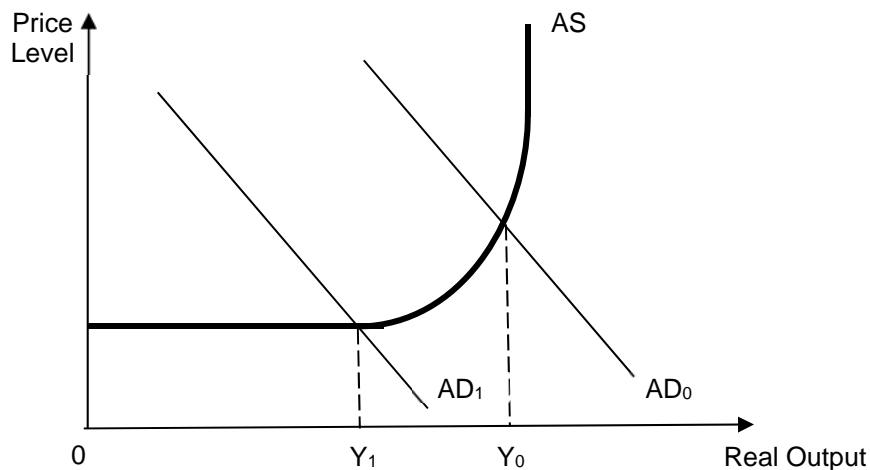


Figure 2

- Labour outflow – In addition, the loss of confidence and negative outlook could also cause people in UK to relocate to the EU. The fall in LRAS can lead to a rise in general price level in the long term, as productive capacity becomes a constraint.
- Currency depreciation and cost of imports – With the capital outflow due to pessimistic outlook and fall in net exports, the exchange rate of the sterling pound will depreciate, causing imports to be more expensive in SGD, leading to cost-push inflation

Positive Impact

- Fall in exchange rate and improvement in BoT –This leads to an improvement in Balance of Trade and increase in AD, resulting in a more than proportionate increase in real national income via the multiplier effect, and hence an increase in economic growth rate.
- Greater autonomy to establish Free Trade Agreements with other countries. This can allow UK to tap new opportunities in other foreign markets and expand its trade with the rest of the world. This can help to boost its exports and hence spur economic growth.
- While the movement of UK firms to Europe or other countries may worsen its balance of payments in the short run, it can generate higher profits which are repatriated back to UK in future, thus improvement in its Balance of Payments.

- Brexit also means that UK can now restrict the influx of immigrants into the country. This reduces the social problems caused by migrant workers, thus contributing to an improvement in non-material aspect of standard of living.

Conclusion

- As discussed above, Brexit can have both positive and negative impact on the UK economy. In the short term, the impact is likely to be more negative as the loss of investor confidence as well as increase in barriers to trade with the EU could lead to a decline in UK's economic growth and worsen its balance of payments position.

Mark Scheme

Level	Descriptors
Level 2 4-6	<p>For an answer that demonstrates knowledge, understanding, application and analysis:</p> <ul style="list-style-type: none"> ➤ EXCELLENT breadth that considers the following economic concepts in explaining multiple and balanced perspectives, viewpoints, relationships and factors. ALL points chosen should be of relevance and significance in answering the question. ➤ EXCELLENT depth in economic analysis that reflects the following in ALL explanations. <ul style="list-style-type: none"> ✓ Accurate use of economic concepts, clear elaboration, and precise use of economic terminologies, language and phrasing. <p>The answer should also be supported by:</p> <ul style="list-style-type: none"> ➤ Well-labelled and well-referred to diagram(s) drawn with precision (where appropriate). ➤ Relevant examples and accurate use of facts. ➤ Logical structure.
Level 1 1-3	<p>For an answer that demonstrates knowledge, understanding, application and analysis:</p> <ul style="list-style-type: none"> ➤ GOOD breadth that considers the following economic concepts in explaining multiple and balanced perspectives, viewpoints, relationships and factors. ALL points chosen should be of relevance and significance in answering the question. ➤ GOOD depth in economic analysis that reflects the following in ALL explanations. <p>The answer should also be supported by:</p> <ul style="list-style-type: none"> ➤ Diagram(s) that may not be well-labelled, may not be well-referred to and may not be drawn with precision (where appropriate). ➤ Example(s). ➤ Logical structure.

Evaluation

E2 2 marks	<p>For an evaluation that contains</p> <ul style="list-style-type: none"> ➤ A synthesis of earlier economic arguments to arrive at relevant judgements/decisions (i.e. answer the question). ➤ Well-explained criteria-based evaluative comments supported by accurate and clear analysis to provide fairness in views. ➤ A good summative conclusion.
E1 1	For an evaluation that contains

	mark	<ul style="list-style-type: none"> ➤ Relevant but unexplained evaluative judgement(s) / statement(s) i.e. evaluative judgement(s) / statement(s) not supported by analysis. OR ➤ A relevant conclusion. 	
(e)	Discuss the factors that determine the extent to which globalisation is beneficial to different countries.		[10]
	<p>Introduction:</p> <ul style="list-style-type: none"> • Explain that globalisation refers to the increasing integration of national economies in terms of financial flows, trade, movement of factors of production, flow of information and technology. <p>Body:</p> <p>Possible benefits of globalisation include:</p> <ul style="list-style-type: none"> • Increase AD due to increase in net exports and FDI → economic growth and fall in unemployment • Lower prices due to cheaper imports and increased variety of goods → increase in consumer welfare • Outsourcing and offshoring increases profitability of firms → higher profits and higher wages in home country • Technology and labour flows improve efficiency and reduce costs in recipient countries. <p>The extent of benefit to different countries depends on various factors</p> <p>1. Nature of economy</p> <ul style="list-style-type: none"> • Globalisation allows countries to gain access to foreign markets → increase in exports → BoT improve and (X-M) increases → AD increases → more than proportionate increase in real output. • Moreover, the increase in real output → fall in unemployment. • One key factor determining the extent to which globalisation is beneficial to a country is the nature of its economy. • Being small in size and population, Singapore has a relatively small domestic market. This means there is limited scope for domestic firms in the country to expand if they were to focus only on the domestic market. With globalisation, Singapore is able to export its goods and services to the rest of the world. The increase in export revenue is a key driver of growth, as AD increases leading to an increase in real output and hence economic growth. • Globalisation also benefits consumers as it allows a country to import goods at lower prices (compared to domestic goods) and increases the variety of goods available to consumers. <p>2. State of economy or state of development</p> <ul style="list-style-type: none"> • Globalisation also cause increase in FDI flows between countries. Developing countries like China and Vietnam experience FDI inflow → increase in AD → increase in real output. Increase in capital also leads to increase in productive capacity → increase in LRAS → potential growth • Countries like Mexico operating in the Keynesian range where there is substantial spare capacity, will likely benefit more from globalisation, as the increase in AD due to the increase in X and I, will lead to an increase in real output. • By contrast, developed countries which operate near full employment will gain less from globalisation, as the increase in AD will lead to demand-pull inflation. <p>3. Terms of Trade/Type of goods that the country has comparative advantage</p> <ul style="list-style-type: none"> • While globalisation increases the volume of trade between countries and allows a country to increase its exports and imports, the extent to which a country gains from trade depends on its terms of trade, which is the ratio between its export price to import price. • Countries may face unfavourable terms of trade if the price of their exports is much lower compared to prices of imports. The revenue earned from exports may be lower than the expenditure on imports which are much more expensive, leading to a deficit in the country's balance of trade. <p>4. Trading relations / Trade policies</p> <ul style="list-style-type: none"> • The extent to which countries benefit from globalisation also depends on its trade policies and trading relations with other countries • Countries that embrace free trade will benefit more in terms of allowing more imports into the country, thus enabling consumers to enjoy wider variety of goods as well as possibly cheaper 		

goods. As mentioned in Extract 6, “trade with China alone put \$250 a year into the pocket of every American by 2008 due to cheaper goods.”

- Conversely, if the country imposes tariff barriers on imports, it will result in higher prices of imports, thus reducing the welfare of consumers as well as increasing the cost of imported inputs for producers.

Conclusion / Overall Evaluation:

- As discussed above, globalisation can be beneficial to some countries but can also cause challenges to other countries. The extent to which globalisation is beneficial to different countries depends on various factors such as the nature of the economy, the state of development, the terms of trade, the trade policies of countries concerned.

Mark Scheme

Level	Descriptors
L2 5-7 marks	<p>For an answer that demonstrates knowledge, understanding, application and analysis:</p> <ul style="list-style-type: none"> ➤ EXCELLENT breadth that considers the following economic concepts in explaining multiple and balanced perspectives, viewpoints, relationships and factors. ALL points chosen should be of relevance and significance in answering the question. ➤ EXCELLENT depth in economic analysis that reflects the following in ALL explanations. <ul style="list-style-type: none"> ✓ Accurate use of economic concepts, clear elaboration, and precise use of economic terminologies, language and phrasing. <p>The answer should also be supported by:</p> <ul style="list-style-type: none"> ➤ Well-labelled and well-referred to diagram(s) drawn with precision (where appropriate). ➤ Relevant examples and accurate use of facts. ➤ Logical structure.
L1 1-4 marks	<p>For an answer that demonstrates knowledge, understanding, application and analysis:</p> <ul style="list-style-type: none"> ➤ GOOD breadth that considers the following economic concepts in explaining multiple and balanced perspectives, viewpoints, relationships and factors. ALL points chosen should be of relevance and significance in answering the question. ➤ GOOD depth in economic analysis that reflects the following in ALL explanations. <p>The answer should also be supported by:</p> <ul style="list-style-type: none"> ➤ Diagram(s) that may not be well-labelled, may not be well-referred to and may not be drawn with precision (where appropriate). ➤ Example(s). ➤ Logical structure.

Evaluation

E2 2 marks	<p>For an evaluation that contains</p> <ul style="list-style-type: none"> ➤ A synthesis of earlier economic arguments to arrive at relevant judgements/decisions (i.e. answer the question). ➤ Well-explained criteria-based evaluative comments supported by accurate and clear analysis to provide fairness in views. ➤ A good summative conclusion.
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	E1 1 mark	For an evaluation that contains ➤ Relevant but unexplained evaluative judgement(s) / statement(s) i.e. evaluative judgement(s) / statement(s) not supported by analysis. <u>OR</u> ➤ A relevant conclusion.	
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