

# **ECONOMICS**

## **HIGHER 2**

### **(Syllabus 9732)**

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## **AIMS**

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The syllabus is intended to provide the basis for a broad understanding of economics. Specifically, the syllabus aims to develop in candidates:

1. an understanding of fundamental economic principles, theories and concepts, and of the methods of analysis used by an economist;
2. the ability to use the tools of economic reasoning to explain, analyse and resolve economic issues, and evaluate policy decisions;
3. the habit of reading critically, from a variety of sources, to gain information about the changing economic activities and policies at the national and international levels;
4. the ability to use evidence in making rational arguments in economic context and understand the roles of various economic agents.

## **ASSESSMENT OBJECTIVES**

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Candidates are expected to demonstrate:

Understanding of

1. the main concepts, principles and theories employed within the field of economics
2. methods of analysis in economics

Ability to

3. understand and interpret economic information presented in textual, numerical or graphical form
4. select and apply economic concepts and principles to explain and analyse contemporary events at the micro and macro levels
5. recognise unstated assumptions
6. make interpretations and valid inferences from information presented and evaluate the reliability of information given
7. evaluate alternative theoretical explanations and perspectives of economic problems, issues and policy decisions
8. organise and communicate economic ideas and arguments in a clear, logical and appropriate form

# SYLLABUS

<p><b>1. Market System</b>          This theme provides an introduction to the nature of economics and examines the operation of markets for goods and services. It also focuses on how consumers and producers make decisions about the choices they face, recognising that in the market economy, both are motivated by self-interest. Candidates should be able to understand the price mechanism as a means of allocating resources and be able to apply demand and supply analysis to real world situations.</p>	
<b>Syllabus Content</b>	<b>Candidates should be able to:</b>
<p><b>1.1 Scarcity, Choice and Opportunity Cost</b></p> <ul style="list-style-type: none"> <li>▪ Scarcity, choice and resource allocation             <ul style="list-style-type: none"> <li>- Concept of scarcity</li> <li>- Inevitability of choices at all levels (individual, firm, government) and concept of opportunity cost</li> </ul> </li> <li>▪ Applications of concept of opportunity cost             <ul style="list-style-type: none"> <li>- Production possibility curve: shape and shifts</li> <li>- Comparative advantage and exchange</li> <li>- Specialisation and division of labour</li> <li>- Rational decision-making by consumers, firms and government</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Explain the problem of limited resources and unlimited wants</li> <li>▪ Explain the concept of opportunity cost and the nature of trade-offs in the allocation of resources using production possibility curve analysis</li> <li>▪ Apply the basic concept of comparative advantage in everyday living and explain its benefits in terms of specialisation, division of labour and exchange</li> <li>▪ Explain that economic agents make decisions to arrive at the best alternative based on their objectives</li> <li>▪ Understand that economic agents weigh the incremental benefits against incremental costs in decision-making</li> </ul> <p>[An awareness that equality between Price (P) and Marginal Cost (MC) may not hold in reality is required.]</p>

Syllabus Content	Candidates should be able to:
<p><b>1.2 Resource Allocation in Competitive Markets</b></p> <ul style="list-style-type: none"> <li>▪ Determinants of demand and supply for goods and services</li> <li>▪ Determination of equilibrium market prices</li> <li>▪ Role of price mechanism in resource allocation in a market based economy</li> <li>▪ Applications of demand and supply analysis to various markets               <ul style="list-style-type: none"> <li>- Concept of elasticity of demand and supply</li> <li>- Factors influencing the elasticity of demand and supply in the short-run and long-run</li> </ul> </li> </ul>	<p>[A broad understanding of why demand curve is generally downward sloping and why supply curve is upward sloping is required. A brief description without numerical illustration will be sufficient.]</p> <ul style="list-style-type: none"> <li>▪ Identify the main influences on demand and supply in product markets</li> </ul> <p>[Knowledge of the theoretical derivation of demand and supply curves is not required but the goals of consumers and producers in the market should be made explicit.]</p> <ul style="list-style-type: none"> <li>▪ Understand that consumers and producers use the marginalist principle in decision-making</li> <li>▪ Apply knowledge of basic model of demand and supply to various markets</li> <li>▪ Understand the significance of demand and supply factors in influencing the price and quantities traded</li> <li>▪ Explain elasticity concepts and its applications e.g. an understanding of why and how changes in prices of a product affect the business sales and revenue</li> </ul> <p>[Elasticity characteristics of straight line demand and supply curves are not required.]</p>

Syllabus Content	Candidates should be able to:
<p><b>1.3 Firms and How They Operate</b></p> <ul style="list-style-type: none"> <li>▪ Objectives of firms <ul style="list-style-type: none"> <li>- profit maximisation</li> <li>- alternative objectives</li> </ul> </li> <li>▪ Costs of production <ul style="list-style-type: none"> <li>- short run vs long run</li> <li>- fixed cost vs variable cost</li> <li>- internal vs external economies of scale</li> </ul> </li> <li>▪ Spectrum of market competition <ul style="list-style-type: none"> <li>- features of the different market structures</li> <li>- barriers to entry</li> <li>- behaviour of firms <ul style="list-style-type: none"> <li>• price discrimination</li> <li>• price vs non-price competition</li> <li>• collusion vs competition</li> <li>• mutual interdependence in the case of oligopolies</li> </ul> </li> <li>- comparison on the basis of productive and allocative efficiency, equity, innovation and consumer choice</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand the concept of profit as the difference between total revenue and total cost</li> <li>▪ Understand that firms make price and output decisions based on the marginalist principle</li> </ul> <p>[An awareness of other possible objectives of firms is required.]</p> <p>[An understanding of the concepts of Average Revenue (AR), Marginal Revenue (MR), Average Total Cost (ATC) and Marginal Cost (MC) will be sufficient. Concepts on product curves and derivation of the cost curves are not required.]</p> <p>[An understanding that total cost incorporates a necessary minimum economic reward for firms to remain in the market is required.]</p> <p>[An understanding of the significance of variable costs and irrelevance of fixed costs in the pricing and output decisions of firms is required. The diagram to explain short-run shut-down condition is not required.]</p> <ul style="list-style-type: none"> <li>▪ Explain the key features of each of the market structures</li> <li>▪ Explain how firms compete in the respective market structures based on their features</li> <li>▪ Understand the relevance of barriers to entry in explaining differences between market structures</li> <li>▪ Apply these models in analysing and comparing markets and evaluate their usefulness as explanations of real world competitive behaviour</li> <li>▪ Use the concept of profits to illustrate real world competitive behaviour of firms (in protecting their profits)</li> </ul> <p>[The geometrical explanation of the kinked demand curve is not required.]</p>

<b>2. Market Failure and Government Intervention</b>	
This theme examines the nature of market failure, its causes and possible policy remedies. Candidates should be able to understand why markets may not allocate resources efficiently and the methods of dealing with market failure, together with an evaluation of their effectiveness.	
<b>Syllabus Content</b>	<b>Candidates should be able to:</b>
<p><b>2.1 Market Failure</b></p> <ul style="list-style-type: none"> <li>▪ Meaning of market failure and efficiency</li> <li>▪ Why markets may not work efficiently           <ul style="list-style-type: none"> <li>- Market imperfections</li> <li>- Positive and negative externalities</li> <li>- Public and merit goods</li> </ul> </li> <li>▪ Inequalities in the distribution of income and wealth</li> </ul>	<ul style="list-style-type: none"> <li>▪ Analyse why market dominance, imperfect information and immobility of factors of production can lead to inefficiency</li> <li>▪ Understand that externalities exist when there is a divergence between private and social costs/benefits</li> <li>▪ Illustrate positive and negative externalities in both production and consumption using simple demand and supply diagrams</li> </ul> <p>[An understanding of what is meant by deadweight loss is necessary when discussing market failure. However, the analysis of deadweight loss using the concepts of consumer and producer surplus is not required.]</p>
<p><b>2.2 Government Intervention in the Market</b></p> <ul style="list-style-type: none"> <li>▪ Rationale for government intervention</li> <li>▪ Methods by which government intervene in markets and the impact on market outcomes</li> <li>▪ Government failure</li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand what is meant by a cost-benefit approach in the context of externalities</li> </ul> <p>[Knowledge of the technical methodology of Cost-Benefit Analysis (CBA), including discounting is not required.]</p> <ul style="list-style-type: none"> <li>▪ Explain why governments intervene in the markets to correct market failures</li> <li>▪ Examine the various methods by which governments intervene in markets</li> <li>▪ Discuss how governments may create inefficiencies when they intervene in markets due to factors such as political objectives, administrative costs and lack of information</li> </ul>

### 3. National and International Economy

This theme provides an introduction to the key indicators of economic performance, the basic AD/AS and AE-Income analysis, and the main objectives and instruments of government policy. Candidates should be able to acquire a good knowledge of recent economic trends and developments in Singapore and the international economy. Candidates should also be able to appreciate the possible underlying causes of these trends and developments and to evaluate the effectiveness of government policies in the light of these events.

#### Syllabus Content

#### Candidates should be able to:

##### 3.1 Key Economic Indicators

- National Income Statistics [Gross Domestic Product (GDP) and Gross National Product (GNP)]
- Inflation rate
- Unemployment rate
- Balance of Payments (BOP)

- Understand the model of national income as a circular flow involving households, firms, government and the foreign sector
- Explain the significance of each of the key economic indicators
- Interpret statistical data
- Use the key indicators to assess the economic performance of an economy, including international comparisons
- Analyse the limitations of using the indicators to measure economic performance as well as standard of living of an economy including international comparison

[The construction of Consumer Price Index (CPI) is not required.]

[A broad understanding of the role of foreign direct investment, as a component of BOP, in the Singapore economy is relevant.]

[The construction and computation of BOP account is not necessary but candidates should have a broad understanding of the main accounts such as current and capital accounts, and reserves.]

Syllabus Content	Candidates should be able to:
<p><b>3.2 How the Macroeconomy Works</b></p> <ul style="list-style-type: none"> <li>▪ Income and Employment Determination           <ul style="list-style-type: none"> <li>- Key determinants of aggregate demand (AD) and aggregate supply (AS)</li> <li>- Determination of equilibrium level of output and price</li> <li>- Meaning, components of Aggregate Expenditure (AE) and their determinants</li> <li>- Income determination using AE-Income approach</li> </ul> </li> <li>▪ Macroeconomic Aims, Issues and Policies           <ul style="list-style-type: none"> <li>- Aims and issues               <ul style="list-style-type: none"> <li>• Inflation</li> <li>• Unemployment</li> <li>• Economic growth</li> <li>• Balance of Payments</li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Explain what is meant by equilibrium in the macroeconomy using the circular flow of income and how the equilibrium output is determined</li> <li>▪ Explain the Multiplier Effect and recognise its limited effects in the Singapore economy</li> <li>▪ Use AD/AS or AE-Income analysis to determine equilibrium level of output and price</li> </ul> <ul style="list-style-type: none"> <li>▪ Explain government macroeconomic objectives in relation to inflation, employment, economic growth and the balance of payments</li> <li>▪ Analyse the causes of economic problems in these areas, including the significance of cyclical fluctuations in the level of economic activity, and the economic consequences of failure to achieve these objectives</li> <li>▪ Use AD/AS or AE-Income analysis to illustrate macroeconomic problems in an economy</li> </ul> <p>[Labour productivity should be discussed as one of the influences on macroeconomic outcomes.]</p>

Syllabus Content	Candidates should be able to:
<ul style="list-style-type: none"> <li>- Macroeconomic policies               <ul style="list-style-type: none"> <li>• Fiscal policy</li> <li>• Monetary Policy in the context of Singapore</li> <li>• Supply-side policies</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Explain how the AD/AS or AE-Income approach may be used to analyse the way fiscal, monetary and supply side policies, can affect the levels of employment, rate of inflation, economic growth and the balance of payments position</li> <li>▪ Define monetary policy in a broader context whereby interest rates and exchange rates are alternative instruments</li> <li>▪ Understand monetary policy framework in a small open economy such as Singapore (i.e. openness to trade and capital flows)               <ul style="list-style-type: none"> <li>- Explain objectives of monetary policy (inflation versus growth)</li> <li>- Explain Singapore's choice of using exchange rates rather than interest rates as an instrument for its monetary policy</li> <li>- Explain the causes and effects of changes in exchange rates and interest rates on the economy</li> </ul> </li> </ul> <p>[An understanding of the exchange rate as a key indicator for a small open economy like Singapore is required. Introduce the concept of exchange rate as a price of foreign currency linked to balance of payments.]</p> <ul style="list-style-type: none"> <li>▪ Discuss the possible conflicts in government objectives and the links between macroeconomic problems and their inter-relatedness</li> <li>▪ Evaluate the effectiveness of government's macroeconomic policies using the AD/AS approach or AE-Income approach, especially with reference to the Singapore economy</li> </ul> <p>[Interest rate determination and graphical illustration of the transmission mechanism are not required. A descriptive explanation of how monetary policy works will be sufficient.]</p>

Syllabus Content	Candidates should be able to:
<p><b>3.3 International Economics</b></p> <ul style="list-style-type: none"> <li>▪ Benefits from trade</li> <li>▪ General pattern of trade between Singapore and the rest of the world.</li> <li>▪ Free trade and barriers to trade</li> <li>▪ Globalisation and capital flows</li> <li>▪ Free Trade Agreements (FTAs)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Explain the gains from international trade using the concept of comparative advantage</li> </ul> <p>[Theory of absolute advantage is not required.]</p> <ul style="list-style-type: none"> <li>▪ Use demand and supply analysis to explain pattern of trade between countries</li> <li>▪ Explain Singapore's pattern of trade with the rest of the world and recent developments (e.g. FTAs)</li> <li>▪ Explain why protectionism exists</li> <li>▪ Explain the trend towards globalisation and examine its impact on trade in goods, capital flows and international movement of labour</li> </ul> <p>[An awareness of the role of World Trade Organisation (WTO) in promoting free trade is required.]</p>

## ASSESSMENT FORMAT

The assessment format for the H2 syllabus comprises 2 papers:

<b>H2 Economics (4 hours 30 minutes) (100%)</b>	
<p style="text-align: center;"><b>Paper 1</b></p> <p style="text-align: center;"><b>2 hrs 15 min</b></p> <p style="text-align: center;"><b>(40%)</b></p>	<p><b>Case Study Questions</b></p> <p>Candidates will be given 2 sets of questions based on 2 condensed write-ups of about 2-3 pages each on a multi-faceted economic issue or policy decision, including a set of data. Questions pertaining to each of the cases will comprise data response type questions based on quantitative data and higher order type questions which will require candidates to apply economic principles in analysing, synthesising, evaluating or solving the economic problem. Each set of case study questions will consist of 20% of the total marks, of which 8% of this will be allocated to data response type questions and 12% will be allocated to higher order type questions. Candidates may also be asked to assume a role in resolving the economic problem of the case.</p> <p>Each set of questions will carry 30 marks.</p>
<p style="text-align: center;"><b>Paper 2</b></p> <p style="text-align: center;"><b>2 hrs 15 min</b></p> <p style="text-align: center;"><b>(60%)</b></p>	<p><b>Essay Questions</b></p> <p>Candidates are required to answer a total of 3 essay questions. They are required to answer at least one question each from Section A and Section B. The third question can be chosen from either section.</p> <p>Each question will carry 25 marks.</p> <p><u>Section A</u></p> <p>Three essay questions focusing mainly on microeconomics. <b>Candidates must answer at least one question from this section.</b></p> <p><u>Section B</u></p> <p>Three essay questions focusing mainly on macroeconomics. <b>Candidates must answer at least one question from this section.</b></p>

**Note:**

Paper 1 and Paper 2, taken as a whole, should incorporate a good balance of questions on microeconomics and macroeconomics.

## RECOMMENDED READING LIST

S/N	Author	Title	Year	Publisher
<b>General Texts</b>				
1	Sloman, John	Economics 6 <sup>th</sup> ed	2005	Pearson
2	Sloman, John	Essentials of Economics 4 <sup>th</sup> ed	2006	Pearson
3	McEachern, William A.	Economics 8 <sup>th</sup> ed	2006	South-Western College Publishing
4	Miller, Roger	Economics Today 14 <sup>th</sup> ed	2007	Pearson
5	O'Sullivan, Arthur; Sheffrin, Steven M.; Lim, K.L. & Seevaratnam, Vijayakala	Principles of Economics	2007	Pearson
6	O'Sullivan, Arthur & Sheffrin, Steven M.	Economics: Principles and Tools 5 <sup>th</sup> ed	2006	Pearson
7	Mankiw, N. Gregory	Principles of Economics (International Student Edition)	2009	South-Western College Publishing
8	Quah, Euston; Wilson, Peter & Mankiw, N. Gregory	Principles of Economics: An Asian Edition	2007	Cengage Learning
9	Grant, Susan J.	Stanlake's Introductory Economics 7 <sup>th</sup> ed	2000	Pearson
10	Bamford, Colin; Brunskill, Keith; Cain, Gordon; Grant, Sue; Munday, Stephen & Walton, Stephen	Economics: AS Level and A Level	2002	Cambridge University Press
11	McConnell, Campbell R. & Brue, Stanley	Economics 18 <sup>th</sup> ed	2008	McGraw Hill
12	Case, Karl E. & Fair, Ray C.	Principles of Economics 8 <sup>th</sup> ed	2008	Pearson
13	Ison, Stephen & Wall, Stuart	Economics 4 <sup>th</sup> ed	2006	Pearson
14	Ekelund, Robert; Ressler, Rand & Tollison, Robert	Economics: Private Markets and Public Choice 7 <sup>th</sup> ed	2006	Pearson
15	Lipsey, Richard & Chrystal, Alec	Economics 11 <sup>th</sup> ed	2007	Oxford University Press
16	Beardshaw, John; Brewster, Dave; Cormack, Paul & Ross, A.	Economics: A Student's Guide 5 <sup>th</sup> ed	2001	Pearson
17	Begg, David; Fischer, Stanley & Dornbusch, Rudiger	Economics 8 <sup>th</sup> ed	2005	McGraw Hill
18	Frank, Robert H. & Bernanke, Ben	Principles of Economics 4 <sup>th</sup> ed	2008	McGraw Hill
19	Parkin, Michael	Economics 8 <sup>th</sup> ed	2007	Pearson
20	Sexton, Robert	Exploring Economics 4 <sup>th</sup> ed	2008	South-Western College Publishing
<b>Journals</b>				
1	-	Economic Review (quarterly)	-	Philip Allan
2	-	Economics Today (quarterly)	-	Economics Today Ltd