Script A – Paper 2

1a The balance of trade in goods and services was in deficit between 2009 and 2011. The balance of trade in goods and services was in an increasing surplus between 2015 to 2017. This indicates that the real GDP growth of Vietnam is increasing from 2009 to 2018.

1bi As the balance of trade in goods and services increases, the real GDP growth increase which indicates a positive relationship. The positive relationship will increase the national income which will lead to economic growth.

1bii The balance of trade in goods and the real GDP growth have improved. As the balance of trade in goods and services improves from a deficit to a surplus the real GDP growth increase. The highest real GDP is in the year 2017 which also shows the highest balance trade of goods and services for Vietnam.

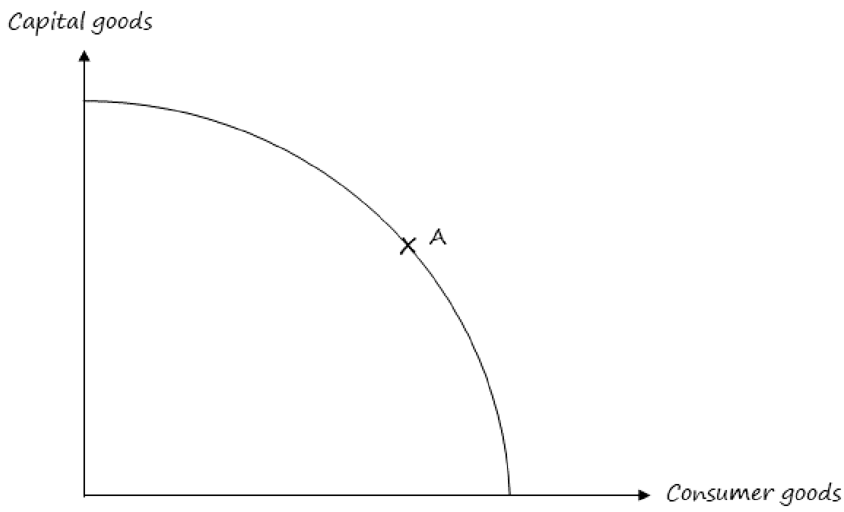
1c Supply-side policies are used to increase the aggregate supply of an economy. The government of Vietnam might increase spending on education and training. This will increase the productivity of labour as more skilled labour are present.

1d Exchange rate is the price of one currency in terms of another country. As Vietnam's export increase, the value of Vietnam's currency, the dong will increase as it is highly demanded. As the value of the dong increases, the value of other currencies will fall, leading to an increase in purchasing imported goods from the locals as imported goods are relatively cheaper. Vietnam's people will also have a better living standard. In the short run, the Vietnam producer will make a profit due to the high exchange rate as they will earn more profit. In the long run, the producers tend to lose competitiveness in the global market as the price of goods increases due to the increase in the exchange rate. This will cause an increase in the unemployment rate in the economy as the demand for goods is reduced so firms will not require more labour.

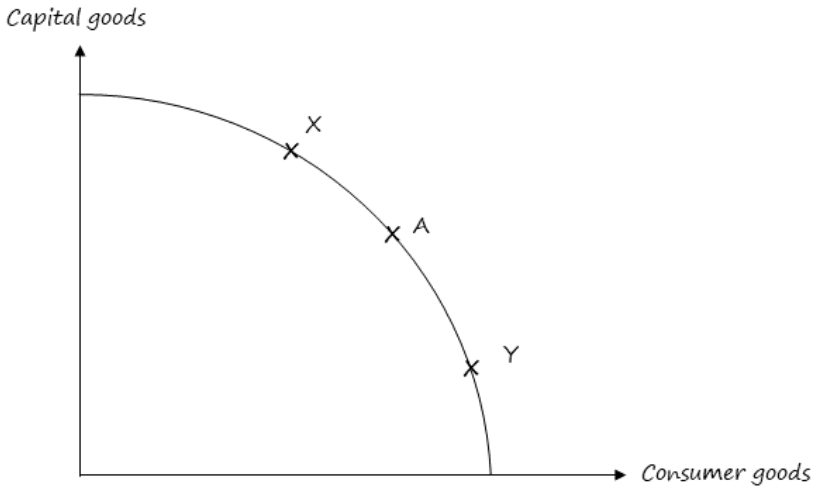
1e Vietnam's 'economic miracle' is likely to persist over the next few years. As there is an ongoing dispute between US and China, the US will be highly demanding exports from Vietnam which will increase the GDP value of Vietnam. This will lead to the economic growth of the economy. This will improve the living standard of people. Higher economic growth will also benefit the government's expenditure as more tax revenue will be collected.

On the other hand, Vietnam's 'economic miracle' is likely to not persist over the next few years as the US might have to buy from other countries which will cause Vietnam's export revenue to decrease. This will cause a price inconstant to occur in the economy as demand for Vietnam's export decrease, the price will be needed to decrease to sell it out which will decrease the producer's revenue. The US might also impose a tariff on Vietnam's export which will increase the producer's expenditure. In the short run, the 'economic miracle' will bring more revenue for Vietnam as consumers find it hard to find a substitute good. In the long run, producers are able to find cheaper substitute goods to substitute Vietnam's products. It is not rational for Vietnam to depend on export as it is a risk that can't be minimised. As if the purchasing power of Vietnam's goods decreases it will affect the country's GDP value.

2a PPC shows the range of combinations of two products that may be produced if the existing level of resources in an economy is being fully used. Opportunity cost is the next best alternative being forgone. Below shows a PPC diagram.



The PPC curve indicate a certain amount of resources for production. As limited resources are available, producers have to choose to apply opportunity cost in the production of two goods.



Moving along the curve, when point A moves to point X, some resources of consumer goods are been used to increase the production of capital goods. This will lead to an increase in the production of capital goods. When point A moves to point Y, some resources from capital goods have been used in consumer goods causing more consumer goods to be produced.

Those resources least suited to agriculture will be redeployed first so there will be low opportunity cost. Opportunity costs will always rise as resources are increasingly reallocated from agriculture to industrial uses.

2b A free market is a market where most decisions are taken through market forces. There are two goods, public goods and private goods. Public goods are not provided by the private sector as they will set high prices to earn profit. Public goods are highly cost so they can only be borne by the government. It can also reduce income inequality as public goods such as public transport will provide employment opportunities which will decrease the economy's unemployment rate. Public goods are mainly free goods that will bring benefits to the consumer such as police services and national defence.

Private goods are produced according to the ability of consumers to pay. Private goods are also produced according to the needs of consumers. As the main purpose of producers is to maximise profit, they will tend to produce goods that are highly demanded by consumers even if it is a demerit good. A demerit good is a good that brings negative effects to consumers. For example, cigarettes will harm the consumer's health condition. Private goods also can be merit goods such as organic vegetables and fruits, which will benefit the consumer's health.

In the economy, merit goods are under-produced as the price mechanism does not fully recognise the benefit of the goods. Demerit goods are usually over-produced as the price mechanism does not fully recognise the harm of the good. To overcome this problem. Government should provide subsidies for merit goods to encourage production. As for demerit goods, the government should impose a tax on the product.

In conclusion, public goods are mostly provided by the government due to the high cost while private goods are produced due to the ability of pay consumers.

4a Unemployment is the state of being willing and able to work but without a job. Structural unemployment is unemployment as a result of changing structure of economic activity. It occurs when workers lose their job as a result of the changing conditions of demand in an economy. This creates a change in the country's economic structure, and the declining industries will not need to employ as many people, causing a loss of jobs. For example, technological unemployment is when people are unemployed due to the introduction of advanced technology. When labour-saving machines are introduced into the productive process, a firm can get rid of workers and produce the same amount of goods as before. Therefore, some workers can lose their job.

Cyclical unemployment is unemployment due to a lack of aggregate demand. During a recession, consumers have lower purchasing power and less disposable income to spend on goods and services, so aggregate demand falls. Therefore, firms will reduce their output levels as it is no longer profitable for them to produce that much. Hence, they will make some of their workers redundant to lower their costs of production.

Structural unemployment is more harmful if the country depends on that product. This is because a lack of demand will decrease revenue. Other than that, workers need to be trained and takes time, thus it is more harmful in the long run.

4b Expansionary monetary policy can be used as a low-interest rate and high money supply. Lower interest rates can attract more borrowing of money to undergo consumption. As the demand for money increases, borrowing is cheaper due to low-interest rates. More goods are produced due to the high demand for goods and services. Meantime, an increase in money supply can be achieved by the government buying bonds from commercial banks. This will inject more money supply into the economy.

Expansionary fiscal policy can also be used to reduce unemployment as the government reduce tax and increase government spending. Government reduce the tax to lessen the burden on the consumer to pay. If income tax decreases, consumers' disposable income increases. This will lead to an increase in consumption as they could afford more goods and services than before. At the same time, consumers will be more motivated to find a job. Increasing government spending could also mean that more unemployment benefits are paid to encourage them to find a job.

In the short run, expansionary monetary policy is effective to overcome unemployment as increasing the money supply will increase the purchasing power of consumers. In the long run, it will cause inflation as low-interest rates will not attract foreigners to invest their money. This will also cause the unemployment rate to increase as fewer foreign companies are in the country.

In conclusion, expansionary monetary policy will help to reduce unemployment in the short run but will cause inflation in the long run which will harm economic growth.

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