INDIGO

Junior College 2

The Ultimate Exam Revision Notes

H2 Economics

- Market Failure
- Diagram Summary Sheet
- Factors of Globalisation

Use these notes to assess your comprehension of JC H2 Economics, identify weak spots, and evaluate if additional support could benefit you.

Start now and take the first step toward mastering JC Economics with insight and confidence.

Market Failure

INDIGO

Market fails when free market, operating without any government intervention, fails to deliver a socially efficient allocation of resources for goods and services. As a result, society's welfare is not maximised.

Public Goods

Traits:

- Non-rivalrous
- Non-excludable
- Example: Street lighting

Policies:

- Direct provision with full subsidy

Externalities

Positive

Explanation:

- In a free market, producers and consumers only weigh private costs (MPC) and benefits (MPB) and do not consider benefits enjoyed by third parties (MEB)
- MEB causes divergence between MPB and MSB
- Market currently consumes at MPC=MPB, but socially optimal is where MSB=MPC/MSC
- Hence there is underconsumption = deadweight loss = market failure

Policies:

Subsidies, Moral suasion/Education, Direct Provision

Negative

Explanation:

- In a free market, producers and consumers only weigh private costs (MPC) and benefits (MPB) and do not consider cost imposed on third parties (MEC)
- MEC causes divergence between MPC and MSC
- Market currently consumes at MPC=MPB, but socially optimal is where MSC=MPB/MSB
- Hence there is overconsumption = deadweight loss = market failure

Policies:

Taxes, Moral suasion/ education, Quota, Ban

Information Failure

Asymmertic Information

Moral Hazard:

One party has more information than the other. Once transaction is made, the more informed party changes his behaviour to benefit himself as the cost is borne by the other party

Policies:

- Law & Regulation
- Moral suasion/ education

Adverse Selection

When products of different qualities are sold at a single price because buyers/sellers are not sufficiently informed to determine the true quality at time of purchase

Policies:

- Universal coverage/full provision
- Laws & Regulation
- Screening & Signalling

Imperfect Information

Causes:

- Incorrect information
- Ignorance

Types of market where it may occur:

- Market for merit goods
- Market for demerit goods

Policies:

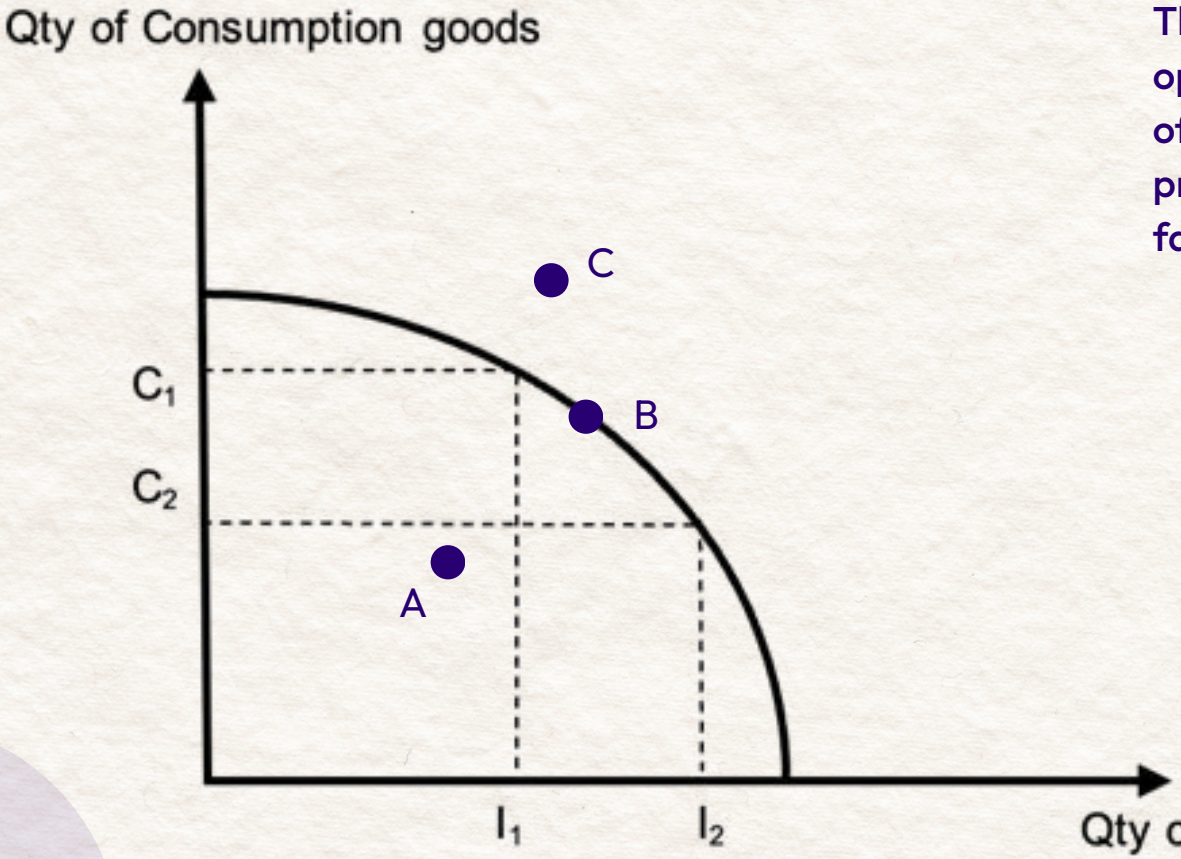
- Law & Regulation
- Moral suasion/ education

Diagram Summary Sheet

INDIGO

Production Possibility Curve

The PPC shows all the different combinations of goods and services that can be produced in an economy, given the level of resources available.



The downward sloping curve will reflect the opportunity costs, where given the amount of resources available, an increase in the production of consumer goods will cause a fall in the production of capital goods.

A At A, resources are not fully employed.

B At B, allocative efficiency occurs and societal welfare is maximised.

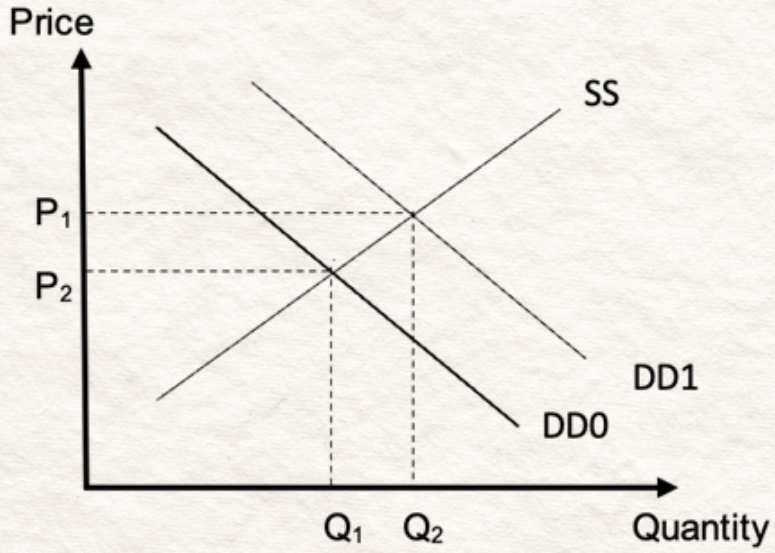
C At C, there is scarcity as the combination of goods cannot be produced.

Diagram Summary Sheet

INDIGO

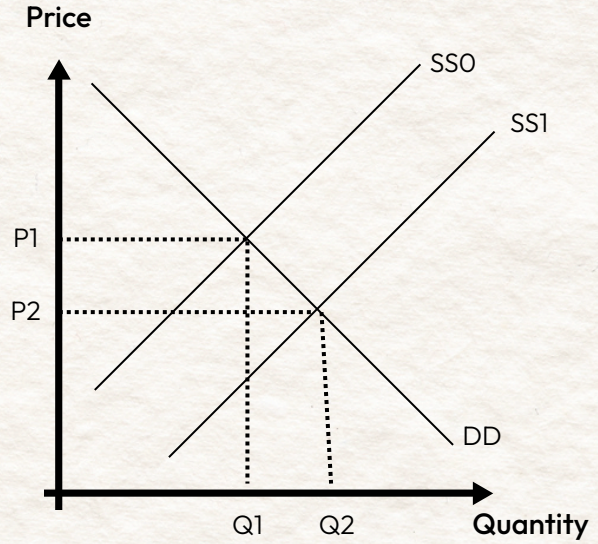
Demand and Supply

Increase in Demand



Demand curve shifts right from DD0 to DD1. P increases from P0 to P1 and Q increases from Q0 to Q1.

Increase in Supply



Supply curve shifts right from SS0 to SS1. P decreases from P1 to P2 and Q increases from Q0 to Q1.

Diagram Summary Sheet

INDIGO

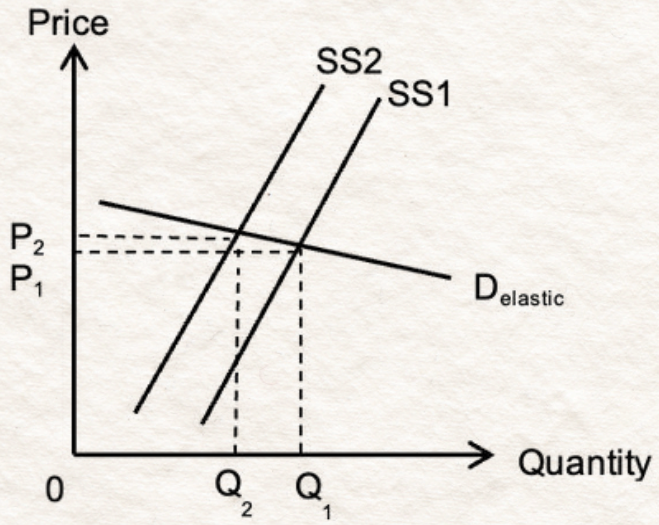
PED Analysis

(Fall in Supply)

Vice versa for PES!
(Shift in Supply)

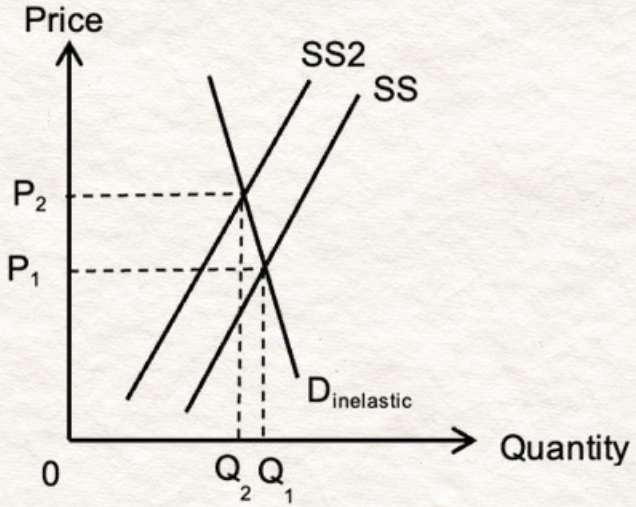
At market equilibrium, price is P0 and quantity is Q0. The consumer expenditure / producer revenue is given by P0 x Q0

Elastic Demand



When demand is price elastic, price increases to P2 which leads to a more than proportionate decrease in quantity demanded to Q2. The consumer expenditure / producer revenue decreases to P2 x Q2

Inelastic Demand



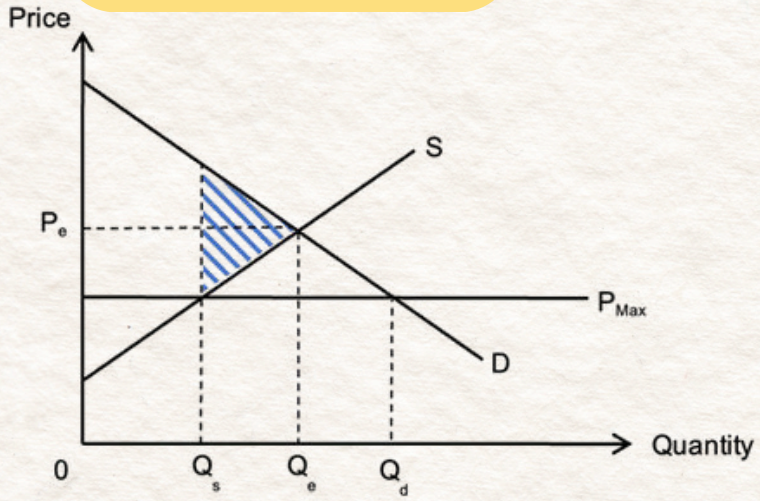
When demand is price inelastic, price increases to P2 which leads to a less than proportionate decrease in quantity demanded to Qi. The consumer expenditure / producer revenue increases to P2 x Q2

Diagram Summary Sheet

INDIGO

Price Control

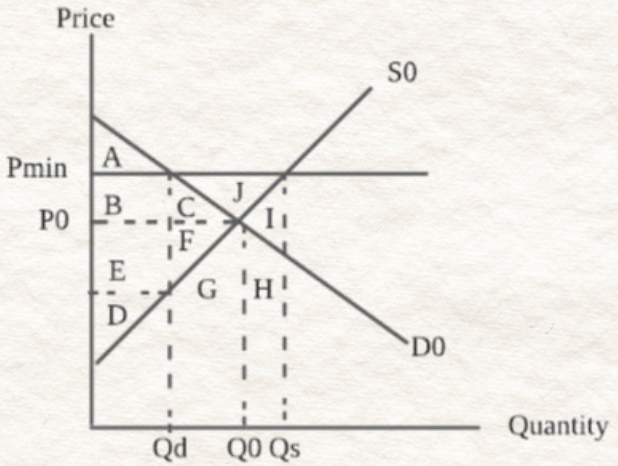
Maximum Price



At market equilibrium, price is P0 and quantity is Q0. When price ceiling Pe is imposed:

- At Pc, producers are willing and able to produce at Qs, while consumers are willing and able to consume at Qd.
- Since Qd < Qs, there is a shortage.
- Policies such as US Rent Control are price ceilings which cause deadweight loss (blue)

Minimum Price



At market equilibrium, price is P0 and quantity is Q0. When price ceiling Pmin is imposed:

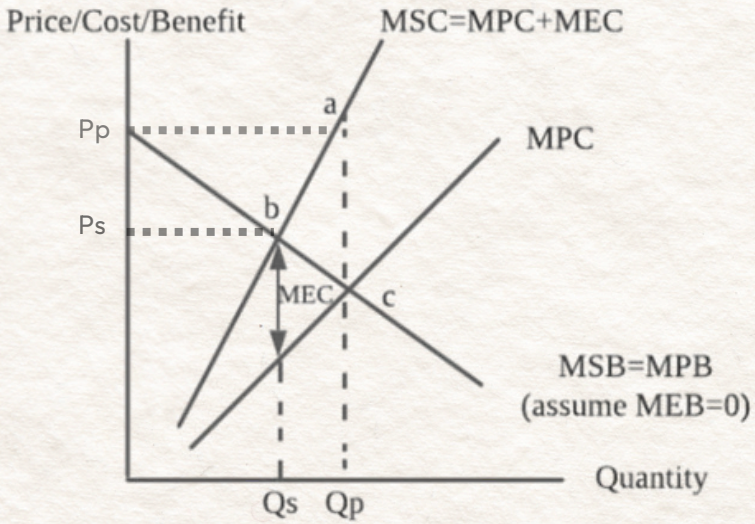
- At Pmin, producers are willing and able to produce at Qs, while consumers are willing and able to produce at Qd.
- Since Qs > Qd, there is a surplus.
- Policies such as Minimum Wages are price floors which can cause deadweight loss (area CF)

Diagram Summary Sheet

INDIGO

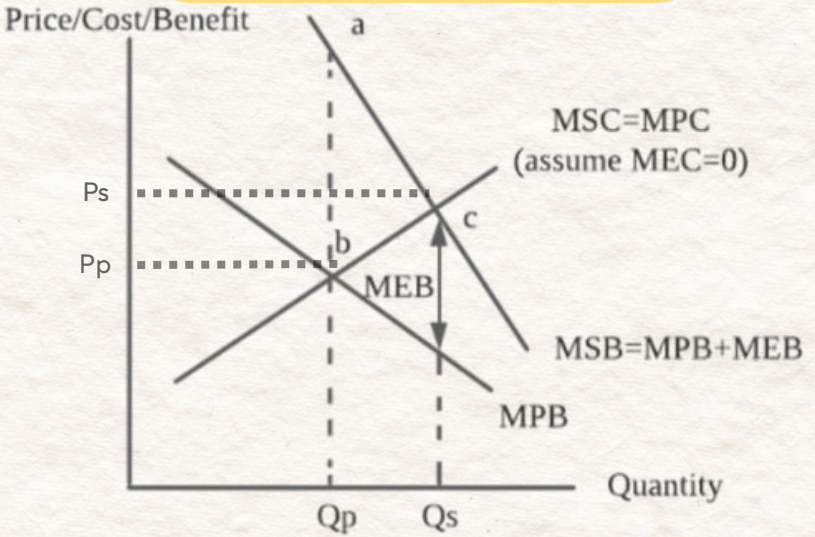
Market Failure

Negative Externality



- MSC = MPC + MEC
- The free market equilibrium is given where demand is equal to supply and were quantity demanded is Qp while price is Pp
- However, the socially optimal level of output is given by MSB = MSC where quantity demanded is Qs while price is Ps
- Since Qs < Qp, there is an overconsumption/production of the good and market failure occurs with deadweight loss (area ABC)

Positive Externality



- MSB = MPB + MEB
- The free market equilibrium is given where demand is equal to supply and where quantity demanded is Qp while price is Pp
- However, the socially optimal level of output is given by MSB = MSC, where quantity demanded is Qs while price is Ps
- Since Qs > Qp, there is an underconsumption/production of the good and market failure occurs with deadweight loss (area ABC)

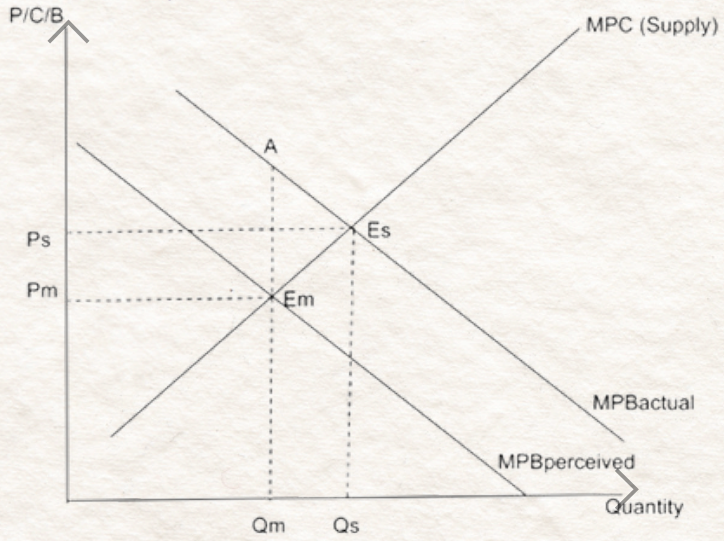
Diagram Summary Sheet

INDIGO

Imperfect Information

Merit Goods

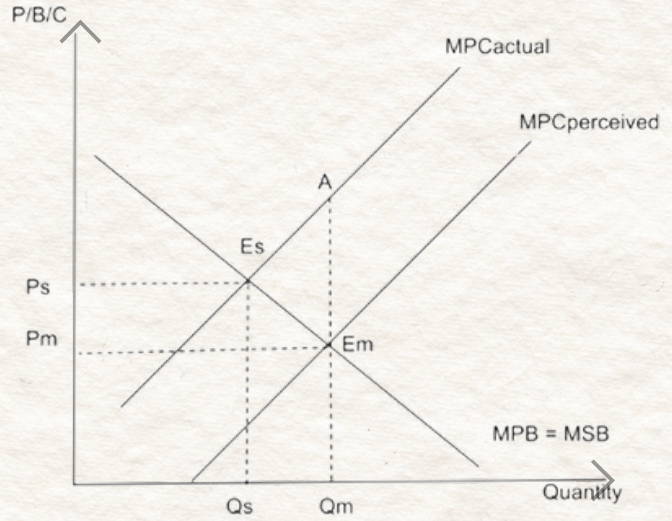
E.g. education and healthcare



- MPBperceived is lower than MPBactual due to underestimation of the benefits.
- Consumption occurs at Qm based on MPBperceived instead of basing on MPBactual at Qs.
- Since Qs > Qm, there is an underconsumption of the good and market failure occurs.

Demerit Goods

E.g. smoking and gambling

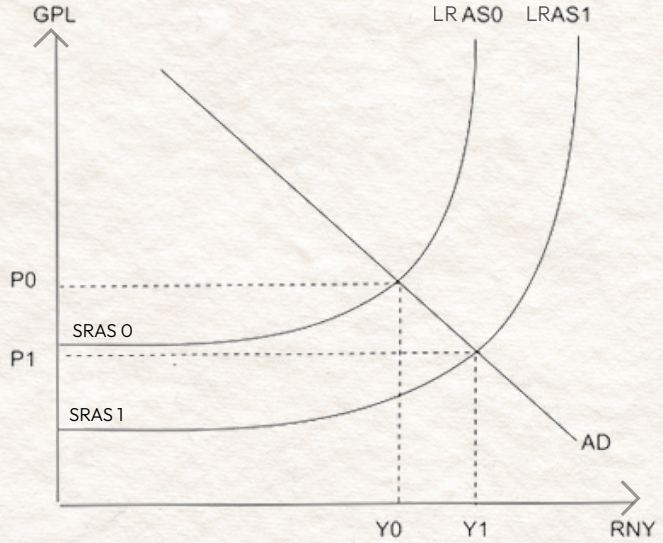


- MPCperceived is lower than MPCactual due to the underestimation of the costs.
- Consumption occurs at Qm based on MPCperceived instead of basing on MPCactual at Qs.
- Since Qs < Qm, there is an overconsumption of the good and market failure occurs.

Diagram Summary Sheet

Macroeconomics

Shift in AS



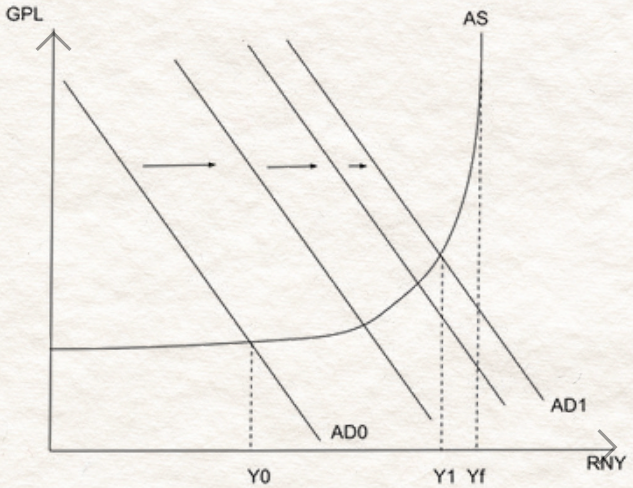
Increase in LRAS (LRAS0 → LRAS1):

- More training programmes that increase productivity, hence productive capacity

Rise in SRAS (SRAS0 → SRAS1):

- Decrease in the price of factors of production such as oil

Shift in AD



Rise in AD:

- Increase in government expenditure such as increased spending on public works

Factors of Globalisation

Factor	What it is	Which flows it drives and why	Examples
Economies of Scale	Firms reduce their average costs by producing on a larger scale, spreading fixed costs and benefiting from specialisation	• Trade Flows: Firms seek larger global markets to sell excess output and maximise efficiency • Capital Flows: MNCs invest overseas to set up cost-efficient production bases	• Toyota builds car factories worldwide to produce at scale and reduce per-unit cost. • Nestlé manufactures products in centralised locations for global export.
Technological Advancement	Improvements in ICT, robotics, automation, and software make it easier to communicate, produce, and manage activities globally.	• Trade Flows: Enables efficient coordination of global supply chains and real-time transactions. • Capital Flows: Supports remote control of overseas investments and digital FDI. • Labour Flows: Facilitates remote work and international hiring.	• Amazon uses data systems and AI to manage cross-border logistics. • Zoom enables virtual work, teaching, and collaboration across countries.
Containerisation	Standardised containers that move seamlessly between ships, trucks, and trains dramatically lower shipping costs and time.	• Trade Flows: Enables low-cost, large-scale movement of goods across borders — essential for global supply chains.	• Evergreen and Maersk operate mega-ships carrying 20,000+ containers. • Port of Rotterdam and Port of Singapore processes millions of containers annually.

Factors of Globalisation

Factor	What it is	Which flows it drives and why	Examples
Trade Liberalisation	Reduction or removal of tariffs, quotas, and subsidies via FTAs or multilateral agreements.	• Trade Flows: Lower trade barriers make it easier and more profitable to import/export. • Capital Flows: Often paired with rules allowing foreign firms to invest more freely.	• EU Single Market allows free movement of goods and capital. • USMCA and ASEAN FTAs significantly reduced intra-regional trade barriers.
Rise of Multinational Corporations (MNCs)	Large global firms operate in multiple countries to optimise production, market access, and cost.	• Capital Flows: MNCs inject foreign direct investment (FDI) into host countries. • Trade Flows: MNCs ship components and finished goods across borders. • Labour Flows: Employees are transferred or hired internationally.	• Apple designs in the US, manufactures in China, sells globally. • McDonald's adapts menus to local tastes, but sources from global suppliers.
Improved Transport Infrastructure	Advances in physical infrastructure (highways, airports, railways, shipping lanes) and logistics systems.	• Trade Flows: Makes it faster and cheaper to move goods globally. • Labour Flows: Easier international travel encourages migration, tourism, and business mobility. • Capital Flows (indirect): Improved infrastructure attracts FDI.	• High-speed rail between China and Europe supports Belt & Road trade. Dubai International Airport is a major global labour and trade hub. • Panama Canal expansion facilitates larger trade vessels across oceans.

Factors of Globalisation

Flow	Consumers	Producers	Government Considerations
Trade Flows	✅ Benefits: Access to a wide variety of cheaper imported goods (e.g. electronics, food, clothing). ❌ Costs: Vulnerable to imported inflation when global supply chains are disrupted (e.g. COVID-19 shipping crisis; war-related oil spikes).	✅ Benefits: Export markets increase firm revenues (e.g. Singapore's pharmaceuticals and electronics), economies of scale from producing for global markets. ❌ Costs: Local SMEs face intense price competition from foreign firms (e.g. small retailers competing with Taobao, Shopee imports).	✅ Benefits: Net exports (X-M) AD , real GDP and employment . ❌ Challenges: Exposure to external shocks (e.g. US-China trade war, 2025 Trump tariffs). 📌 Policy Responses: Diversification of trade partners (e.g. ASEAN, EU FTAs), Build strategic reserves (e.g. rice, oil), Encourage local production of essentials (e.g. "30 by 30" food resilience goal).
Capital Flows (especially FDI)	✅ Benefits: Foreign firms improve product quality and bring job opportunities (e.g. Google, Dyson in SG). ❌ Costs: FDI into property markets may inflate housing prices (e.g. private residential sector).	✅ Benefits: MNCs bring in technology, management expertise, boost productivity (e.g. biomedical firms in Tuas). ❌ Costs: Risk of capital flight if business environment weakens (MNCs can leave, unlike SMEs), Local firms may be crowded out.	✅ Benefits: Investment (I) AD & AS sustained growth, productivity improvements. ❌ Challenges: Volatility of investment flows. 📌 Policy Responses: Focus on "quality FDI" (e.g. EDB screening, support for R&D intensive industries), Support SMEs to complement MNCs (e.g. SME Go Digital), Infrastructure investment to retain FDI (e.g. Jurong Innovation District).
Labour Flows	✅ Benefits: Availability of foreign domestic workers, healthcare assistants, construction workers lowers household and service costs. ❌ Costs: Increased competition for low-skilled jobs can depress wages or worsen inequality.	✅ Benefits: Large pool of low-cost foreign labour boosts cost efficiency (e.g. in construction, food services). ❌ Costs: Firms may over-rely on cheap labour disincentive to automate or upgrade.	✅ Benefits: Fills labour shortages in key sectors (e.g. F&B, eldercare, construction), Increases potential output in the short run. ❌ Challenges: Social tensions or political backlash over foreign worker numbers, Structural unemployment for citizens. 📌 Policy Responses: Progressive Wage Model (PWM) to raise baseline wages while allowing foreign hiring, Workfare Income Supplement and SkillsFuture to upskill local workers, Foreign Worker Quotas and Levies to reduce dependency.

INDIGO

Found our notes useful?

Scan here for more!

https://indigo.com.sg/indigo-education-app/

6634 2208

contact@indigogroup.com.sg

indigo.com.sg

INDIGO

Want more resources to supercharge your revision?

Scan the QR code below to request for the complete set or to sign up for a FREE TRIAL!

Register Now!

indigo.com.sg/jc-econs-revision/

Located conveniently across 6 locations islandwide, find us at your nearest neighbourhood.

Beauty World | Bukit Timah | Newton | Parkway Parade Office Tower | Tampines | United Square Office Tower