

DD side policy summary

	MP	ExΔ rate P	FP
C	<p>EMP: Decrease i/r → decrease COB esp for big ticket items like cars → increase DD for big ticket items → increase C Decrease i/r → decrease opp cost of C since rewards for savings is lower → choose to spend than save → increase C High i/r → ppl deterred from buying assets like houses → reduce DD for assets → fall in asset prices → people feel less well-off → reduce C due to wealth effect</p>	Appreciation → P of M fall → imports relatively cheaper compared to dom pd g/s → assuming closer substitutes, cr switch away from dom pd g/s to cheaper M → decrease C	EFP: Decrease PIT → increase Yd → crs have more purchasing power to spend on g/s → increase C
	CMP: Increase i/r → increase COB esp for big ticket items like cars → increase opp cost of C since rewards for savings is higher → choose to save than spend → increase C	-	CFP: Increase PIT → decrease Yd → crs have less purchasing power to spend on g/s → decrease C
I	EMP: Decrease i/r → decrease COB → projects that were previously unviable become viable since i/r less than expected rate of return → increase I	Appreciation → stronger currency → sign that an economy is doing well → given +ve outlook, expected rate of return higher due to better DD cond → attract investment → increase I	EFP: Decrease CIT → increase after tax profits → more funds to plough back into I → increase I
	CMP: Increase i/r → increase COB → projects that were previously viable are now unviable as i/r greater than expected rate of returns → decrease I	(Explain how stronger currency might ease DD pull infn) → achieve price stability → less uncertainty over ROI + firms btr able to predict cop → increase I Stronger currency → profits made overseas when converted to home currency worth more → encourage I → increase I Stronger currency → more FC to exchange for DC → more costly to set up biz → deter investment → decrease I	CFP: Increase CIT → decrease after tax profit → less funds to plough back into investment → decrease I
G	-	-	EFP: Increase in government consumption expenditure (hiring of civil servants) or increase in public investment expenditure (building highways) → increase G
	-	-	CFP: Decrease in government consumption expenditure or decrease in public investment expenditure (postponing construction of uncritical infrastructure) → decrease G
NX	EMP: Decrease i/r → increase short term capital outflow → increase SS of DC → depreciation of DC → price of X in FC decreases and price of M in DC increase → assuming MLC satisfied ($PED_X + PED_M > 1$) → increase NX	Depreciation of DC → price of X in FC decreases and price of M in DC increases → assuming MLC satisfied ($PED_X + PED_M > 1$) → increase NX	-
	CMP: increase i/r → increase short term capital inflow → increase DD of DC → appreciation of DC → price of X in FC increase and price of M in DC decrease → assuming MLC satisfied ($PED_X + PED_M > 1$) → increase NX	Appreciation of DC → price of X in FC increases and price of M in DC decreases → assuming MLC satisfied ($PED_X + PED_M > 1$) → decrease NX	-

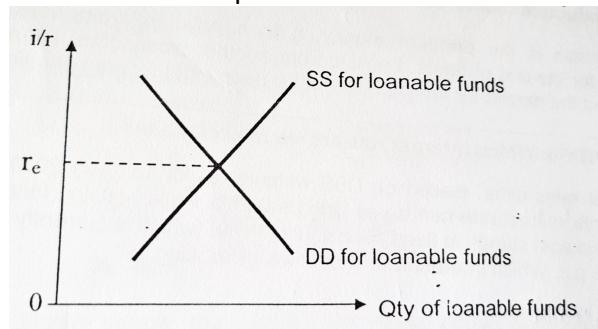
Monetary Policy		
Goal of SG MP: Maintain price stability to achieve sustained non-inflationary eco growth	Types	Macroeconomic Goals
<p>Means to influence MS:</p> <ol style="list-style-type: none"> 1. Reserve requirement 2. OMO 3. Discount Rate 4. Moral suasion 	Contractionary Expansionary	<p>Low UnE Low inflation Economic Growth Favourable BOP</p>
	<p>Effectiveness depends on:</p> <ol style="list-style-type: none"> 1. Effectiveness of monetary tools in controlling MS 2. Economic outlook 3. Interest Elasticity of MEI 4. Time lags (Recognition, Decision, Implementation, Impact lag) Judgement of CB 5. Size of multiplier 	<p>SG's choice of e/r as MP</p> <p>Relatively undeveloped securities market Ineffective in changing i/r More strategic to use exΔ rate Relatively weak impact of change in i/r on investment</p>

- Definitions
 - Monetary policy is a deliberate attempt to regulate AD and the economy through the change in money supply or interest rate.
 - A contractionary MP involves reducing MS or increasing interest rate so as to reduce AD (adopt when eco exp high infln).
 - An expansionary MP involves increasing MS or reducing interest rate so as to increase AD (adopt when eco exp recessn).
 - The central bank is a financial institution that controls the country's MP. It is responsible for overseeing the health of financial markets.
 - Interest rate is the price of money; it is a payment from borrowers to lenders for the use of funds and also represents the reward for saving.
 - Time lags refer to the time period between the onset of an economic problem and the full impact of the policy intended to correct the problem.
 - An asset bubble occurs when the px of an asset like stocks, bonds, real assets, or commodities rises at a rapid pace without underlying fundamentals, which can be caused by low interest rates, asset shortage, etc.

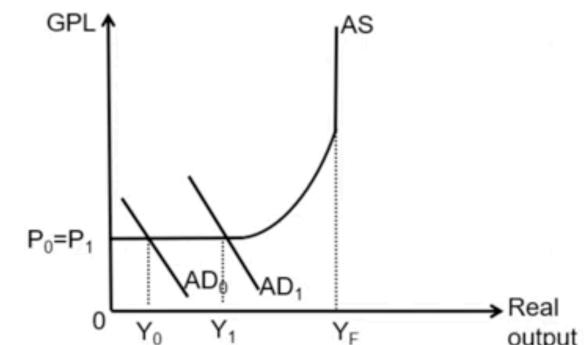
Competitive devaluation are a series of deliberate attempts to reduce the value of DC as a result of 2 nations making tit for tat moves in order to gain an edge in international export mkts.

 - Currency manipulation refers to the intervention by CB in forex market to keep the e/r weak.
- Ways for CB to influence MS
 1. Reserve requirement
 - CB stipulates by law that all financial institutions must set aside a % of their deposits as reserves
 - Higher reserve requirement → increase reserves commercial banks have to hold → reduce ability for commercial banks to make more loans → decrease MS
 2. Open Market Operation
 - Involve sale or purchase of government securities by CB in the open market
 - OMS (sell govt security) → buyers pay for the securities with cheques drawn on comm banks → reduce cash reserve for comm bank → reduce ability for comm bank to provide loan → decrease MS
 - OMP (buy govt security) → CB pays for securities with cheques drawn on itself which are eventually deposited in comm banks → cash reserve of comm bank increase → increase ability for comm bank to provide loan → increase MS
 3. Discount rate
 - Rates at which CB lends to comm bank on short term basis
 - Discount rate decrease → COB decrease → cheaper for comm bank to borrow → more loans can be made → increase MS

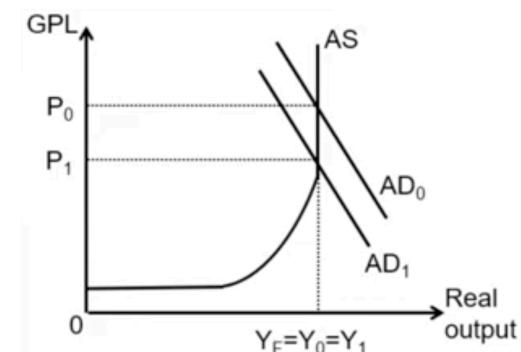
4. Moral suasion
- CB attempts to talk banks into being more conservative or liberal in granting loans
 - Being more conservation \rightarrow hold more reserves \rightarrow reduce ability to make loans \rightarrow decrease MS
 - Higher the i/r , lower the Q_d for loanable funds & greater the incentive to save and to purchase bonds



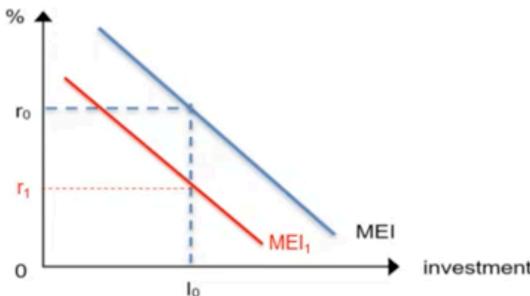
- Monetary Policy
- 1. Contractionary MP
 - Increase MS/ decrease $i/r \rightarrow$ encourage C,I,G,(X-M) \rightarrow raise AD \rightarrow increase NY by multiple + increase in employmt lvl



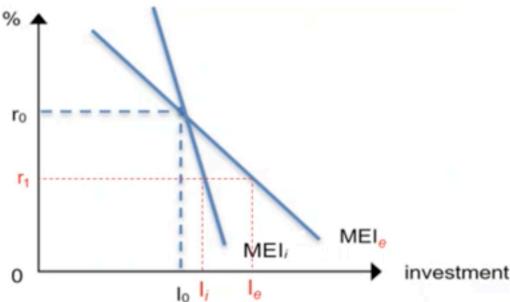
- 2. Expansionary MP
 - Decrease MS/ increase $i/r \rightarrow$ discourage C,I,G,(X-M) \rightarrow decrease AD \rightarrow decrease GPL



- Factors influencing the effectiveness of MP:
 - Effectiveness of monetary tools in controlling MS
Relatively undeveloped/ inactive securities market
 \rightarrow CB may not be able to conduct OMO at scale substantial enough to create desired change in MS \rightarrow unable to bring about consequent change in i/r
 - Economic outlook
 Poor eco outlook \rightarrow decrease IRR \rightarrow **fall in interest rate may no effect on lvl of investment**
 - Interest Elasticity of MEI
More interest elastic the MEI curve, more effective MP will be, c.p
 - Time lags
 Affect effectiveness of MP in correcting the (current) economic problem
 Necessitates that judgements have to be made to **manage future economic conditions**
 - Recognition Lag**
 Takes time to recognise an economic problem, as it takes time to compile data as economic variables that track business cycles are reported monthly and quarterly
 - Decision Lag**
 Times time to decide on the suitable course of action to take (e.g. extent of change of i/r)
 - Implementation Lag**
 Takes time to implement the policy
 - Impact Lag**
 Takes time for an economy to respond (e.g. multiplier effect)
 Consumers and businesses may lack confidence in eco \rightarrow even with lower i/r \rightarrow look at probability of future growth prospects before taking advantage of lower i/r
 - Judgement of CB
 Depends on **availability of information and time lags**
 - Size of multiplier
 Small k \rightarrow expansionary MP may not bring about subs impact on NY \rightarrow have to complement with other policy/ reduce i/r by much mor



3. Interest Elasticity of MEI
More interest elastic the MEI curve, more effective MP will be, c.p



Question: Explain why Singapore chooses exchange rates rather than interest rates as its main tool of monetary policy (10m).

Why SG cannot use i/r:

Openness to capital flow, Ineffective MP tools, i/r inelastic MEI

Why SG need to use e/r:

Compulsory point- More strategic to use e/r

Firstly, being very **open to capital flow** implies that any **small difference between Singapore's interest rate and the world interest rate will lead to quick and large movement of financial (or hot money) flows**. As such, we **do not have much power to set our interest rates to deviate too much from that of the bigger economies**. For example, if MAS tries to **increase interest rate** to curb inflationary pressures, the **higher interest rate relative to other countries** will **attract hot money inflows into SG**. This increases money supply which in turn lowers interest rate. This fall in domestic i/r continues until it **equalises the world interest rates**. As seen, any attempt to change interest rates (relatively to the world interest rates) will be **negated** by hot money inflows or outflows, thus rendering any initial change ineffective.

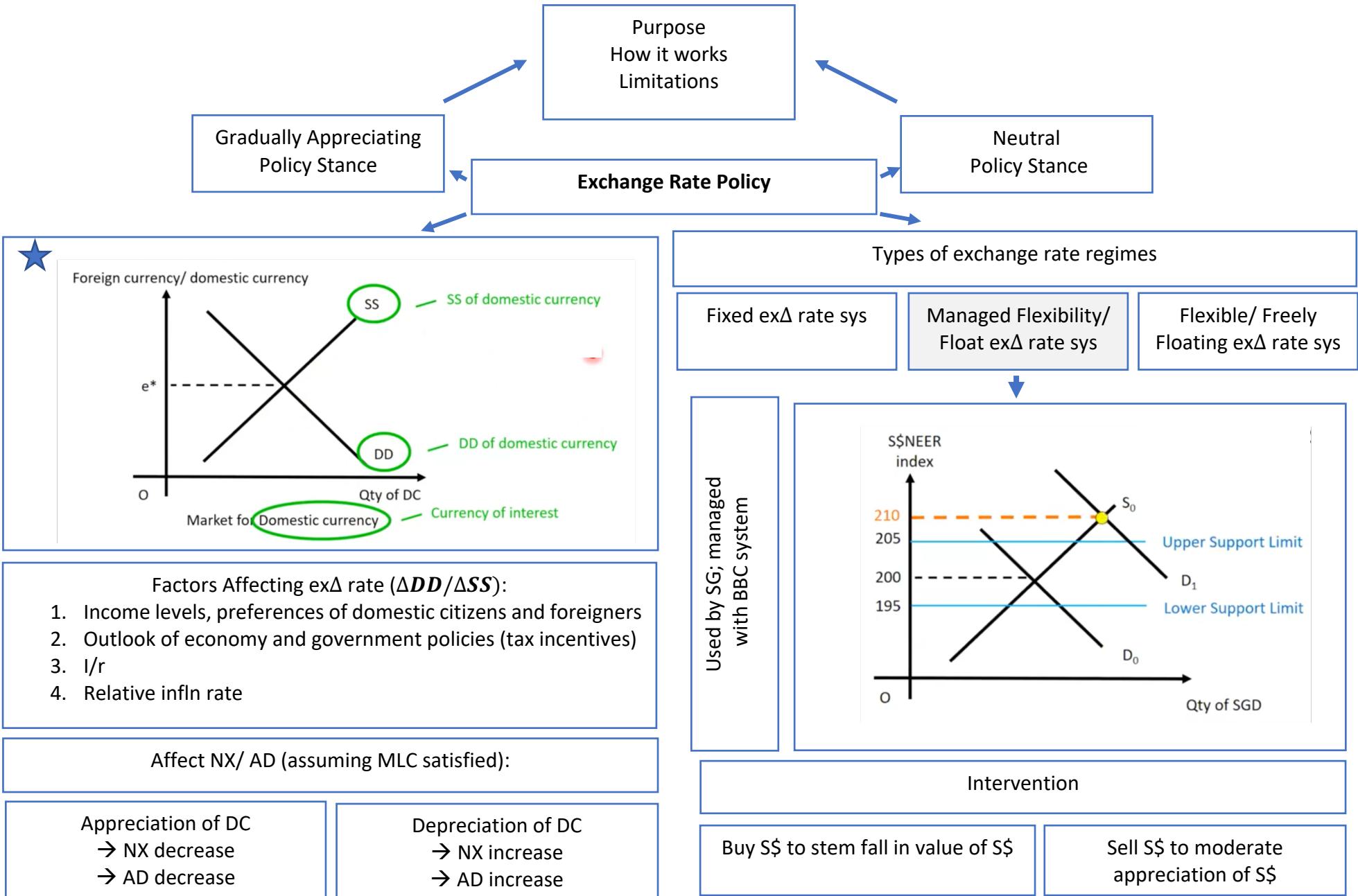
Secondly, SG **does not have effective MP tools**. Our securities market is relatively undeveloped/ inactive compared to other countries. Our **bond market is inactive** (i.e. little buying/ selling takes place), because there has been **no need on the part of the SG govt to issue bonds to finance her expenditure**. Moreover, any government bonds issued tends to be held by statutory bonds such as CPF or other financial institutions **till maturity**. In view of this, any attempt

Other countries may experience negation in $i/r\Delta$, albeit to a lower extent due to restrictions on money flow.

to do an open market purchase by the MAS is **ineffective** given the **limited number of bonds available for MAS to buy**. As such, it is not possible for MAS to make use of open market operations to effect a substantial change in our money supply and hence i/r.

Thirdly, even if we are able to change our interest rates, the impact on the economy is likely to be minimal, thus making it less attractive as a tool for MP. For example, even if we are able to lower our interest rates, this may not bring about a substantial increase in investment i.e. SG's **marginal efficiency of investment (MEI)** is **relatively interest inelastic**. This is because SG's investment comprises largely FDI, financed by retained profits or funds from their source country. As such, they do not need to rely too much on Singapore banks for funds nor be affected by the domestic i/r.

Lastly, Singapore's **lack of natural resources and heavy reliance on imports** of both final goods and raw materials means that it is more important and perhaps **more strategic for us to manage our exchange rate rather than the interest rate/ money supply**. This is because, managing the e/rs is a better way for us to **keep our costs manageable** since this directly helps us to **control the prices that we need to pay for our imported i/p**s, which in turn **affects our export competitiveness**, given the high import content in our exports. It will also help us to attain **price stability** since the **exchange rate determines the price we pay for imports of final goods**. Moreover, managing the exchange rate also **affects the price that foreigners pay for SG exports**, and this is important since it **affects our export related industries**- a key growth engine in Singapore.

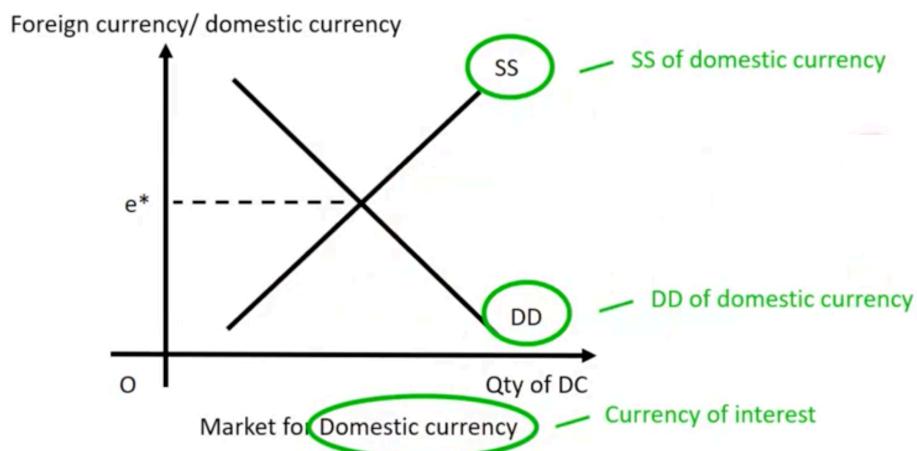


Definitions:

- The exchange rate of a country's currency is the amount of one currency that can be exchanged for the currency of another country.
- The S\$ Nominal Effective Exchange Rate is the relative value of SGD to other major currencies traded.

Determination of Exchange Rate:

	Demand	Supply
Source	Demand for a SGD comes from <u>foreigners buying SG's exports, services and assets</u> → <u>need to buy SGD</u> to pay for their purchases or investments	Supply for SGD comes from <u>domestic resident's demand for imports, services and assets of foreign countries</u> → <u>Need to sell SGD to buy foreign currency</u> to pay for their purchases or investment
Link to DD/SS curve	Weaker SGD (depreciated) → less <u>USD required to buy 1 SGD</u> → SG g/s and assets become <u>cheaper</u> → <u>encourage</u> foreigners to buy SG g/s and come to SG for holiday → rise in Qd for SGD , vice versa	Weaker SGD (depreciated) → less <u>USD required to buy 1 SGD</u> → foreign g/s and assets become <u>more expensive</u> → <u>deter</u> Singaporeans from buying foreign g/s and travelling to US for holiday → fall in Qs of SGD , vice versa



** Axes of the diagram is important in helping you understand if a currency has appreciated or depreciated (e.g. SGD could have depreciated w.r.t USD, but could have appreciated w.r.t to MYR)

Factors that affect exchange rate:

1. Income levels, preferences of domestic citizens and foreigners → affect **NX** → affect exΔ rate
2. Outlook of economy and government policies (tax incentives) → affect **FDI** → affect exΔ rate
3. Interest Rate
4. Relative Inflation Rate (i.e. rate of change of GPL)
 - Higher inflation rate in Japan relative to SG → prices of g/s made in Japan increasing faster than g/s made in SG
 - Japanese consumers buy more m/p from SG instead → increase DD for X frm SG → increase DD for SGD → SGD appreciates
 - Singaporean consumers buy less m/p from Japan → decrease DD for M from Japan → decrease DD for JPY → JPY depreciates

Be careful when determining if it is the **SS or DD of currency that has changed

↓ extent of govt interv'n, ↑ role of mkt forces Types of exchange rate:

- 1. Fixed Exchange rate system → Devaluation and Revaluation
- 2. Managed Flexibility/ Managed Float system (Singapore) → Depreciation and Appreciation
- 3. Flexible/ Freely Floating exchange rate system

Basket-Band-Crawl (BBC) System (never really tested in Alvl):

Basket

- S\$ managed against undisclosed basket of currencies → **prevent speculation and reduce volatility**
- Increased SG trade exposure to that currency → currency is assigned heavier weight (trade weighted exchange rate is known as S\$NEER)
- Revised periodically to take into account changes in SG trade pattern

Band

- S\$NEER is allowed to float within an undisclosed policy band → **prevent speculation and provides flexibility** for the system to accommodate short term fluctuations in foreign exchange market
- MAS intervenes in Forex mkt to maintain exchange rate within this band
- Higher the volatility of international finance markets → **widen band to accommodate fluctuations in S\$**

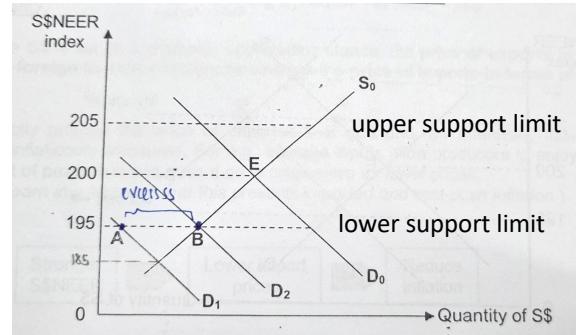
Crawl

- MAS allows S\$ to crawl by adjusting slope of the band and the level at which it is centred
- Expect inflationary pressures → **strengthen S\$ to stave off imported inflation** → set S\$ on gradually appreciating path → make policy band steeper

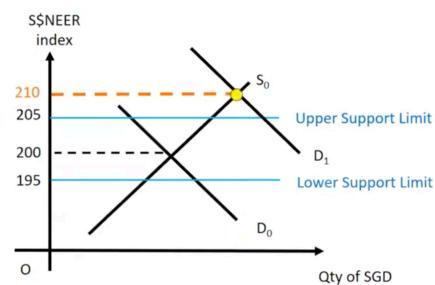
For a graph of S\$NEER index against time, width of policy band, slope of policy band and level at which policy band is centred can be changed.

Intervention (when policy band is breached):

- Buy S\$ to stem the fall in value of S\$
Decrease tourist arrival into SG → fall in DD for SGD → DD shift leftward from D₀ to D₁ → lower limit of band is breached → CB buy up excess supply of SGD in forex mkt by selling FC → increase DD from D₁ to D₂ → SGD appreciates to lower support limit



- Sell S\$ to moderate appreciation of S\$
Increase DD for SG X → Increase DD SGD D₀ to D₁ → upper limit of the band is breached → CB sell more to satisfy the excess DD → sell SGD to buy FC → increase SS from S₀ to S₁ → SGD depreciates back to the upper support limit



Gradually Appreciating Policy Stance (adopted by SG in most situations):

- Purpose (due to SG heavy reliance on M):
 - Price stability**
 - Sustained EG**
$$MLC (PED_X + PED_M > 1) \rightarrow \text{appreciation} \rightarrow NX \text{ decreases} \rightarrow AD \text{ decreases}$$

(moderate increase in AD)
- How it works:

P of X in FC increase
X from SG more expensive → foreigner buy less → moderate external DD → less competition for resources like industrial space and labour to pd X → decrease COP → **decrease inflationary pressures**

P of M in DC decrease
Cheaper i/p pxes → decrease COP → cost savings pass on to consumers in the form of lower prices → **decrease inflationary pressure**

Lower pxes → conducive envn for I → attract FDI → increase qty/qly of FOP → increase LRAS and increase AD
Taken together, **increase LRAS and increase AD → sustained (non-inflationary) EG**

- Limitations
 - (Transaction invoicing procedures) Time consuming and cumbersome to renegotiate new contracts → importers may not be able to make use of stronger S\$ due to presence of LT contracts → dom prices may continue to remain high for a period of time even though S\$ is now stronger
 - Responsiveness of DD to prices (MLC)
 - Unlikely to be effective if higher inflation rates have set in due to reasons other than high import pxes

Neutral/ Zero Appreciation Policy Stance:

- Purpose:
 - Achieve actual economic growth
MLC ($PED_X + PED_M > 1$) → depreciation → NX increase → AD increase → increase NY, decrease UnE
- How it works:
 - Explain how depreciation works
P of X in FC decrease, P of M in DC increase
 $PED_X > 1$ in SG as exports largely electronic products with many substitutes
 $PED_M < 1$ due to SG heavy reliance on M (necessity as SG lack natural resources)
→ MLC ($PED_X + PED_M > 1$) holds → NX increase → AD increase
 - Make a remark
MAS usually does not go to the extreme of depreciating the currency but instead adopts a neutral stance
- Limitations:
 - Countries that depreciate currency/ adopt neutral stance during recession have to ensure trading partners do not retaliate by depreciating their currencies → lead to currency war w/o significant impacts on NX
 - Even as px of SG X cheaper in FC → poor C/I outlook → foreigner likely to save > spend → unlikely lowering exchange rate will be sufficient to effect full recovery during eco downturn unless world economic outlook improves

Exchange rate policy in SG:

- Effective anti-inflation tool owing also to prudent fiscal policy, flexible product and factor markets, sound financial system and robust dom corporate sector
- Effects only evident in LR due to relatively short implementation lag, long impact lag
Does not take very long for MAS to increase e/r, but takes time for changes in e/r to work its way through economy (i.e. transaction invoicing procedures).
- Free market might be able to correct problem → intervention not req
- Most economic problems are addressed with policy mix.

CSQ Glossary

Remember to make reference to CSQ material!

- When you want to illustrate a change in magnitude of data, might need to make comparisons wrt percentage (else no credit).
- We know that ... increase in AD → increase NY. To link to UnE, ... increase in AD → increase DD for labour → decrease UnE
- MP/ ExΔ rate P/ FP may not always be aligned for some countries. This would **decrease the effectiveness of policies to expand/ contract the economy, as policies may conflict.**
- **Decrease in GPL may not be a good thing.** It depends on the cause.
 - If decrease in COP leading to decrease in SRAS, leading to decrease in GPL and increase in NY, this is **desired**.
 - If decrease in AD leads to decrease in GPL and NY, this is **undesirable**.

	Gradually appreciating stance	Neutral stance
Benefit	Control inflation 1. Imported inflation 2. DD pull inflation	Will not prevent SG from expanding Explain from perspective gradually appreciating stance → negative impact on NX and implications on AD, NY. Neutral stance can avoid this.
Cost	Prevents SG from expanding	Less effective in keeping m/p prices under control If dim global outlook and low oil prices → price of m/p unlikely to be high → low threat of inflation → cost of neutral stance is low

- Why might EMP not be effective?
 1. i/r nearing 0 → little room for i/r to decrease further → ineffective to stimulate the economy
 2. Corporate bankruptcies at record high → firms have neither funds nor access to capital due to poor credit worthiness → cannot make use of cuts in CIT → no increase in I
 3. UnE at record high → poor economic outlook → HH expect Y to fall/ already fall → HH do not make use of cuts in PIT → no increase in C
 4. HH UnEd → not earning income → cannot make use of cuts in PIT → no increase in C
- Importance of tackling incautious lending by banks:
 Bankruptcies → unable to pay back loans → decrease profitability of banks → lead to banks failing → bank panics + paralyse banking sector, crippling I/C and EG

- When discussing currency manipulation, can use terms: devaluation and revaluation
- Why might a country **not** be considered a currency manipulator?
 1. Foreign reserves has not increased
 2. Implementing EMP
 3. Currencies of a currency that a DC is being compared to has strengthened
 4. Currency in consideration has not remained at a fixed rate over the time period concerned

N.B. Do elaborate on these main points. Also, if a country revalues its currency, it will likely not be seen as a currency manipulator. It is only seen as one, if it **devalues** its currency to gain an advantage in NX.

- Why might a depreciation of currency not increase X:
 1. $|PED| < 1 \rightarrow$ businesses did not lower pxes of g/s in FC \rightarrow pocket the increase in profits
 2. Biz cld have outsourced factories to lower cost areas/ moved their pdtn to markets where they sell g/s to save on transport cost \rightarrow g/s not manufactured in Japan \rightarrow not counted as Japan's X \rightarrow depreciation does not increase X
 3. Trading partners' currency cld have depreciated \rightarrow Yen might not have depreciated against these currencies \rightarrow no increase in X

Types of Macro EQ:

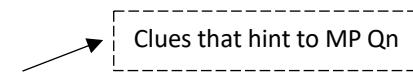
- (1) Examine the **impact of policy on economy**
- (2) Examine the **effectiveness of policies in correcting economic problems**

Glossary of EQs attempted

- (1) Explain why Singapore chooses exchange rates rather than interest rates as its main tool of monetary policy (10m).

Structure:

- Why SG cannot use i/r: Openness to capital flow, Ineffective MP tools, i/r inelastic MEI
- Why SG need to use e/r: More strategic to use e/r (Compulsory Point)



- (2) On 22 January 2015, the European CB announced a policy known as QE. At least **1 trillion euros would be pumped into the Eurozone economies**. This was accompanied by **record low levels of interest rates**.

Necessary to produce **2POV**: +ve/-ve impacts and judgement

No need to explain k process. **k process only need when qn focus on NY.**

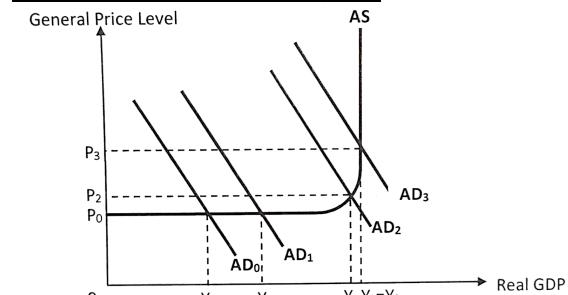
BOP, EG, UnE, Infn (GPL)

Assess the potential impact of this type of policy on an economy and its trading partners (25m).

Structure:

- Explain how EMP affects the economy
Effect of decrease in i/r on C, I, G, (X-M), then NY, UnE, BOP, GPL
- Explain how EMP affects the trading partners
Increase/ lower inflationary pressure, increase/ decrease (X-M)

Maximize utility out of your graph:



Impact on trading partners:

- Increase inflationary pressure
 - Lower i/r in Eurozone → trading partners will have a relatively higher i/r → if trading partners very open to capital flow → hot money flow from Eurozone economies into non-Eurozone economies in **search of assets like property** → if "too much money is chasing too few assets" → inflationary pressure
- Lower inflationary pressure
 - Weaker Euro → trading partners who m/p from Eurozone economies enjoy cheaper g/s → **cheaper final g/s and raw materials** → lower risk of GPL rising economies of trading partners
- Increase NX
 - Increase NY of Eurozone economies → increase **purchasing power** → increase in DD for m/p → increase DD for g/s X from trading partners to Eurozone economies → increase DD labour → decrease UnE + assuming cp → improve BOP of trading partners
- Decrease NX
 - Weaker Euro → increase P of M in Euro → decrease DD for M of g/s from trading partner → if MLC hold → decrease NX, AD

Always seek to **maximize variety of points** be it Ex or Ev

When explaining be careful what is your DC what is FC (i.e. whose perspective you are taking).

Evaluation:

- **Economic outlook**
 - Availability and cost of credit are not the only determinants of C/I. EMP is usually implemented during periods of poor/ -ve economic growth → bleak economic outlook → Cr expect income to fall, firms expect to sell less → adopt “wait and see attitude” → C and I may not increase despite fall in i/r
- **Elasticity of DD for X and M**
 - Does MLC hold?
- **Complementary/ counter policies taken together with QE**
 - For economies experiencing low growth/ recession → ample unemployed resources → government may have complemented with other DD mgmt policies like EFP → reinforce effects of EMP → larger increase in AD, NY → larger increase in DD labour → larger decrease in UnE
 - For economies that have adopted austerity measures due to huge debt → decrease G/ increase T act against QE in stimulating AD → CFP negate impact of EMP
- **State of different member EU economies**
 - Extent of increase in NY from increase in AD due to EMP depends on percentage of industries in an economy which are labour intensive → if economy capital intensive → increase real o/p → increase DD for capital goods → UnE may not decrease as much
 - For economies nearing Y_F like Germany → increase in AD leads to little/ no increase in real GDP → little/ no decrease in UnE. In fact, increase in DD for scarce resource → increase GPL → inflnry pressure
 - Besides, if QE is implemented for too long/ too large intensity → unintended consequences of infln
- **Actions of other CBs**
 - The analysis here assumes that only ECB has adopted QE. H/w, in reality, many major economies have also adopted QE. As such, the Euro might not weaken or weaken that significantly and the impacts explained may not be as significant.

	\$ billion
Private consumpn expd	129
Gross fixed cap formtn	77
Govt consumpn expd	34
X of g/s	531
M of g/s	444
GDP	327

2POV: +ve/ -ve impacts Contextualize to SG context (e.g. MLC)

- (3) Discuss the likely effects on Singapore's national income and its components when its exchange rate appreciates (15m).

N.B. Part (a) was done in ITME Tutorial

Elaboration must stem from appreciating e/r

Typically don't link e/r to C/ I/ G for e/r, unless specified by qn

Structure:

- How stronger SGD affects C, I, X, M
 - How change in C, I, X, M affects AD/AS and the impact on NY
- N.B. Effects we likely to arrive at are increase AD and SRAS.

Evaluation:

- Cannot EV facts** (i.e. MLC is definitely satisfied in SG)
- Capital outlay is just one of the many factors affecting level of investment.**
Singapore has always been an attractive destination for investment due to the availability of skilled labour, strong protection of intellectual property, connectivity with the rest of the world, etc. As such, it is likely that overall "I" might increase, given the positive economic outlook usually associated with a stronger SGD.
- To support AD cutting AS at intermediate/ classical range**
It is likely that the economy is nearing Yf or at Yf, as MAS usually adopts a gradually appreciating stance for the Singdollar to achieve price stability.
- Challenge ceteris paribus assumption**
Given that the change in C and I is debatable, the ultimate effect on NY depends on whether AD increase or decrease, as well as whether the shift in AD or AS dominates.
Difficult to state conclusively how SG NY will be affected because many factors in an economy are changing simultaneously. Example: Change in global conditions like US China trade war → poor biz outlook → affect C and I. Another example: SG enjoy rise in productivity → fall in X pxes that may offset loss of competitiveness from appreciating SGD → analysis may not reflect reality
- Change in C, I, NX will likely be small given small change in e/r and small k**
 $\Delta NY = k \Delta AD$. MAS usually adopt modest and gradual appreciation stance for SGD → magnitude of appreciation of SGD small → impact on internal and external sector due to appreciation of SGD will be limited → together with small k means small changes in NY

Give example to substantiate EV