UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay (Core) **May/June 2011**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

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READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A
Answer this question.
Brief answers only are required.

Section B
Answer any **one** question.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

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

This document consists of **3** printed pages and **1** blank page.

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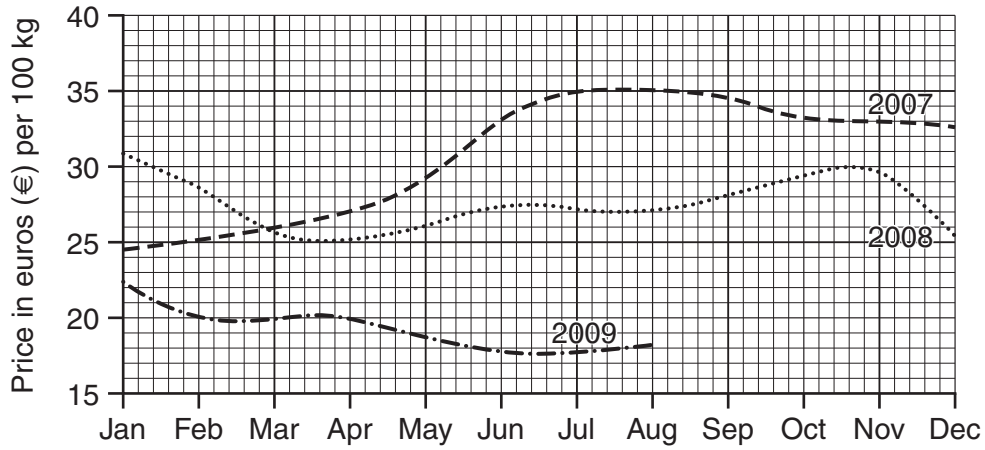
Section A

Answer this question.

1 **Problems for Dairy Farmers in the United States**

Milk is used to make a range of products, including butter, cheese and ice cream, as well as serving as a drink. This was of no help to US dairy farmers in 2009 when they faced a falling price for their milk. Fig. 1 shows the extent of the price change in recent years. While consumers purchase milk by volume (litres), farmers are paid by weight (kilograms).

Fig. 1: Average milk price paid to farmers in the US, Jan 2007 to August 2009



A price fall was also experienced by New Zealand as shown in Table 1.

Table 1: Average annual milk price (€ per 100 kg) in the US and New Zealand, 2007–2009

	2007	2008	2009
US	30.69	27.49	19.30
New Zealand	22.48	25.17	16.21

US farmers blamed their problems on the global recession, the strength of the US$ and high cattle feed prices. At the same time, New Zealand and Australia increased their exports and the European Union (EU) reintroduced its export subsidies on milk products.

The world milk industry has often had support from governments that have paid subsidies to farmers and supplied free milk to young children. US farmers were hoping for extra government intervention.

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(a) (i) Compare the average milk price paid to farmers in the US in August 2008 with that in August 2009. [2]

(ii) How far does Fig. 1 suggest that the price of milk is subject to regular seasonal influences? [2]

(b) (i) Compare the changes in milk prices in the US and in New Zealand between 2007 and 2009. [2]

(ii) Explain **two** possible reasons for the different level of milk prices in the US and New Zealand. [4]

(c) Explain how one group, other than dairy farmers, would lose from lower milk prices and how another group would gain from lower milk prices. [4]

(d) Discuss the case for the use of government subsidies for the production of milk. [6]

Section B

Answer **one** question.

2 (a) Explain the functions of an economic system. [8]

(b) Discuss possible reasons why mixed economic systems have replaced most of the former planned economic systems. [12]

3 (a) Explain how the effects of a devaluation on the level of economic activity differ from those of a deflation. [8]

(b) Discuss whether inflation can be both the cause and the result of fluctuations in an economy's exchange rate. [12]

4 (a) Explain how the different international transactions of a country are recorded in its balance of payments account. [8]

(b) Discuss the use of tariffs and quotas as policies to reduce a current account deficit. [12]

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Question 1 © Farmgate prices of milk USA; www.clal.it; 2 September 2009.

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