Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/23**

Paper 2 Data Response and Essay (Core) **May/June 2014**

1 hour 30 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

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.

The number of marks is given in brackets [ ] at the end of each question or part question.

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Section A

Answer this question.

1 European biofuel targets contribute to global hunger, says Oxfam

Governments throughout the world are under pressure to prevent global warming. One solution has been to adopt policies designed to switch from energy sources that rely upon fossil fuels, such as oil, and replace them with biofuels that are made from sugar and cereals. In the United States one policy introduced in 2006 was to subsidise biofuel production, but this was removed in 2011.

In 2009, European Union (EU) governments agreed to targets committing them to produce 10% of their transport energy from biofuels by 2020.

However, the targets designed to help fight climate change have become increasingly controversial. It is claimed by the charity Oxfam that the EU's biofuel policies are having a devastating impact on the world's poorest people through rapidly rising food prices and worsening hunger. It has calculated that the land required to meet the targets for one year could feed 127 million people.

Because of this increased demand for land to produce crops the adoption of targets to prevent global warming is being questioned. This demand for land to produce crops for biofuels is pushing food production on to land that is less suitable for agriculture, such as forests and grasslands. These had been acting as 'carbon sinks' absorbing greenhouse gases and as a result helping to prevent climate change. Estimates show that using this land to produce food crops could be as bad for the environment as putting an extra 26 million cars on Europe's roads.

The big problem is that the world's limited resources—land, water, soil—are being used to grow crops for biofuel production when they could be used to produce much-needed food.

Source: www.guardian.co.uk 2012

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(a) **(i)** Calculate the rate of food price inflation from 2003 to 2009. [1]

(ii) Calculate the rate of food price inflation from 2009 to 2012. [1]

(b) What evidence is contained in Table 1 to suggest that the adoption of biofuel targets in the EU had an impact on food prices? [2]

(c) Using diagrams, explain how the removal of the subsidy for biofuel production in the United States in 2011 would be likely to affect the market for:

(i) biofuels. [3]

(ii) fossil fuels. [3]

(d) **(i)** Use a production possibility curve to show the trade-off between the production of crops for biofuels and the production of food crops. [2]

(ii) Explain why the cost of food production is increasing as more land is used to grow crops for biofuels. [2]

(e) Carbon emissions are believed to contribute to global warming.

Discuss whether indirect taxes on fossil fuels might be a more effective way of preventing global warming than government commitments to biofuel targets. [6]

Section B

Answer **one** question.

2 **(a)** Explain the factors that might make the price elasticity of demand for a good highly inelastic. [8]

(b) Discuss why businesses might attempt to change the price elasticity of demand for their products and consider whether it is likely that they will be successful in their attempt. [12]

3 **(a)** Explain, using appropriate diagrams, the meaning of the term ‘externalities’. [8]

(b) Discuss the most appropriate policy that a government should adopt when the production of a good gives rise to a negative externality. [12]

4 **(a)** Explain the factors that might cause an economy to experience a current account deficit. [8]

(b) Discuss the policies available to a government faced with a current account deficit and consider which policy has the fewest disadvantages for the consumers in that economy. [12]

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Question 1 © www.fao.org; Table: 1 Food Price Index; Food and Agricultural Organization of the United Nations; 2012.
Question 1 © Felicity Lawrence; Extract: European biofuel targets contribute to global hunger; Guardian News & Media Ltd; 17 September 2012.

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