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

ECONOMICS **9708/23**

Paper 2 Data Response and Essay (Core) **October/November 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 The World Potato Market

2008 was the International Year of the Potato. The Swiss Government even celebrated the event by issuing a postage stamp showing a picture of a potato.

In recent years there have been considerable changes in the international market for potatoes. Table 1 shows changes in the supply of potatoes from developed and developing countries.

Table 1: World potato production 1991–2007 (million tonnes)

	1991	1999	2007
Developed countries	183.13	165.93	159.89
Developing countries	84.86	135.15	165.41
World total	267.99	301.08	325.30

Different regions of the world produce and consume different quantities of potatoes as shown in Table 2.

Table 2: Regional production and consumption of potatoes

	Production (tonnes per hectare, 2007)	Consumption (kilos per head, 2005)
Africa	10.8	13.9
Asia & Oceania	15.7	23.9
Europe	17.4	87.8
Latin America	16.3	20.7
North America	41.2	60.0

The nature of the trade in potatoes has also changed as the growth of trade in processed products, such as frozen and dehydrated potatoes, has overtaken trade in fresh potatoes. Processed potatoes are used by fast food, snack and convenience food industries and sell at higher prices than fresh potatoes.

Tariffs, food health standards and technical regulations are used by some countries to protect domestic potato markets. Potatoes provide a good example of 'tariff escalation', where a country imposes higher tariffs on processed products than it does on raw materials. For example the average world tariff on fresh potatoes was 29%, while that on some processed potato products ranged from 38% to 109%.

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(a) Use Table 1 to identify the main changes in world potato production between 1991 and 2007. [3]

(b) With reference to Table 2, what might explain the different production per hectare in North America and Africa? [3]

(c) Explain **two** possible reasons for different levels of potato consumption. [4]

(d) Consider the likely cross elasticity of demand between fresh potatoes and processed potatoes. [4]

(e) Discuss the effect on world trade and welfare of the spread of 'tariff escalation'. [6]

Section B

Answer **one** question.

2 **(a)** Explain, with the help of a diagram, how an economy can in the short run and long run enjoy consumption beyond its current production possibility curve. [8]

(b) Discuss the effectiveness of free market economies in raising the level of welfare. [12]

3 **(a)** Explain the significance of a rise in the terms of trade for a country. [8]

(b) Discuss whether government action is the most likely cause of a current account surplus on the balance of payments. [12]

4 **(a)** Explain, with the help of a diagram, the effect of a depreciation of a country's exchange rate on that country's rate of inflation. [8]

(b) Inflation affects an economy both domestically and internationally. Discuss which effect is likely to be more significant. [12]

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Copyright Acknowledgements:

Question 1 © International Year of the Potato; Hidden Treasure; Potato World; pp. 1-2; United Nations (FAO); http://www.potato2008org/en/world/index.html; 17 September 2009.

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