Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay (Core) **October/November 2015**

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.

This document consists of **4** printed pages and **1** Insert.

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Section A

Answer this question.

1 Increased cereal supplies push down prices and boost world trade

The Food and Agriculture Organisation's (FAO) forecast for world cereal production in 2013 has been adjusted upward by 8.5%, a record level of output. Early prospects for crops to be harvested in 2014 are also favourable. Overall prospects for wheat production in the northern hemisphere remain good. In the southern hemisphere, maize output is likely to rise in Brazil and Argentina. The prospects for the 2014 rice crop are mixed, with Brazil expanding output, while in the rest of South America, insufficient rainfall is limiting the supply of rice. The lack of water for irrigation is also limiting rice output in Australia and Sri Lanka.

FAO's forecast for world consumption of cereals in 2013 is forecast to rise by 1.7%. This is slightly larger than the predicted population growth. Other uses of cereals, apart from food and animal feed, are expected to show a strong growth in 2013/14.

Source: adapted from Food and Agriculture Organisation

Table 1: selected FAO food price indices
(Base year 2002–2004 (average of prices) = 100)

	The Total Food Price Index (meat, cereals, dairy, vegetable oils & sugar)	Cereals Price Index (includes wheat, rice & maize)	Dairy Product Price Index
2011	229.9	240.9	229.5
2012	213.3	236.1	193.6
2013	209.8	219.2	242.7
2014 January	203.4	188.4	267.7

Source: adapted from Food and Agriculture Organisation

India grain subsidy may only cause hunger elsewhere

India's battle against hunger might cause problems for the world's poorest. The Indian Government has said that 67% of India's population, over 800 million people, will have the right to buy up to 5 kilogrammes (kg) of rice, wheat and other cereals from the state each month at subsidised prices. This substantial food subsidy will worsen public finances. The total food subsidy expenditure is estimated to be US$25 billion.

When the production of rice in India is insufficient, the subsidy may destabilise the global rice market. India will be forced to import rice, which will lead to higher prices and rice shortages in other importing countries such as Nigeria, Bangladesh, Indonesia and the Philippines. India's good intentions may just push its rice shortages on to the rest of the world.

Source: adapted from Reuters Breakingviews 2013

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(a) **(i)** Calculate the percentage change in the price of cereals between 2011 and January 2014. [2]

(ii) Explain **two** possible reasons why the world price of cereals and the world price of dairy products moved in opposite directions between 2012 and January 2014. [4]

(b) Explain how an economist would decide whether cereals and dairy products are substitutes. [3]

(c) Use a diagram to illustrate how a subsidy will affect the price and quantity of rice produced in India. [3]

(d) Explain a likely opportunity cost of the Indian Government's spending on the food subsidy. [2]

(e) Discuss whether food subsidies are likely to solve the world's food shortages in the long run. [6]

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[Turn over

Section B

Answer any **one** question.

2 **(a)** Explain, using the concept of income elasticity of demand, how a fall in incomes affects the demand for inferior goods and necessary goods. [8]

(b) Discuss the policies that businesses might adopt to maintain sales when incomes are falling and consider which is most likely to be successful. [12]

3 **(a)** With the help of diagrams, explain how both cost-push and demand-pull inflation can be caused by a falling exchange rate. [8]

(b) Distinguish between the domestic and external consequences of inflation and discuss which are the more damaging to an economy. [12]

4 Assume, in a two-country, two-product world, that one economy is more efficient at producing both products.

(a) Explain how the efficient economy can benefit from specialisation and trade with the less efficient economy. [8]

(b) Evaluate the economic reasons that the less efficient economy might offer to justify protection of its industries. [12]

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