



Rewarding Learning

ADVANCED SUBSIDIARY (AS)
General Certificate of Education
January 2012

Economics

Assessment Unit AS 1

Markets and Prices

[AE111]

THURSDAY 12 JANUARY, MORNING



TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer **Question 1** and **one** question from **Questions 2, 3 or 4**.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in all questions **except 1(a) and 1(b)**.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

Question 1: Data response

The following passage was written in June 2010.

Study it carefully and answer the questions which follow.

The highs and lows of the sugar rush



Fig. 1: World price of sugar

At the beginning of 2010, the prospect of a global sugar shortage gave food manufacturers a panic attack. Poor weather conditions in the world’s two biggest sugar producing nations, India and Brazil, meant that harvests were down in both 2008 and 2009. This falling crop, coupled with increased demand for sugar to be turned into ethanol, sent the price of the sweet stuff soaring on international markets. Things were so bad that US firms such as Kraft Foods and chocolate maker Hershey wrote a joint letter to the US Government calling in vain for the right to import more sugar tariff-free. (Paragraph 1)

However, since February 2010 the decline in the price of sugar has been dizzying. Favourable weather conditions have boosted yields, with both Brazil and India expecting the 2010/2011 harvest to be one of the best in recent years. (Paragraph 2)

Of course, Brazil’s sugar cane is, once crushed, more likely to end up in fuel rather than food. In recent years 60% of the country’s sugar cane has been turned into ethanol as Brazilian roads have seen a big increase in the number of “flex-fuel” cars running on a mix of petrol and ethanol. More than 90% of new cars in Brazil can handle ethanol as a fuel, thanks to a biofuel programme that began in the mid 1970s as a way for the government of the day to reduce its dependence on oil imports. (Paragraph 3)

For UK consumers the link between raw sugar prices and the cost of goods in the shopping basket is complicated by the European Union's Common Agricultural Policy (CAP). The EU hands out millions of euros each year in subsidies to EU sugar producers. The aim of this intervention is to protect European sugar growers and ensure that EU manufacturers have adequate supplies of sugar at stable prices. (Paragraph 1)

However, this policy of market intervention has been criticised by a number of aid agencies who argue that these subsidies make it difficult for poorer countries to compete. One spokesman said "EU subsidies encourage sugar production in unlikely climes such as Finland and Sweden; the result of this is poverty for sugar producers in developing countries who cannot gain access to EU markets." It is not just representatives of charities who feel this way. A prominent politician was even more critical of agricultural subsidies and stated that "latest figures show once again that the EU's CAP funnels money to the largest operators who least need it. All agricultural subsidies should be removed immediately, because they represent an inefficient use of scarce resources and, as with all market interventions, they simply don't work." (Paragraph 5)

Adapted from article "Sugar supplies in the bag as panic ends" by Robert Plummer © BBC News bbc.co.uk -2010

- (a) Using the information in **Fig. 1**, describe what happened to the price of sugar between January 2008 and June 2010. [5]
- (b) With the aid of an appropriate diagram in each case, explain:
- (i) The change in sugar price between January 2008 and February 2010. (Paragraph 1) [5]
- (ii) The change in sugar price between February 2010 and June 2010. (Paragraph 2) [4]
- (c) With the aid of an appropriate diagram, explain the impact on consumer surplus of the fall in sugar prices. (Paragraph 2) [6]
- (d) Analyse how changes in the price of sugar would be likely to affect other markets, including ethanol. [8]
- (e) Critically examine the view, outlined in paragraph 5, that all subsidies to EU farmers should be removed. [12]

Essays:

Answer **one** question from **Questions 2, 3 or 4**.

2 Employers criticise restrictions on migrant workers

- (a) Explain what is meant by the term scarce economic resources. [10]
- (b) Analyse how labour markets might be affected by a decrease in the supply of migrant workers. [15]
- (c) Critically examine the view that the government should not intervene in labour markets. [15]

3 Cost of hosting the Olympic Games keeps on rising

- (a) Explain what is meant by a merit good. [10]
- (b) Using appropriate examples, explain some of the methods a government could use to increase the consumption of merit goods. [15]
- (c) Evaluate the view that hosting the Olympic Games in 2012 represents a misuse of public money in the UK. [15]

4 Gap between rich and poor widens

- (a) Explain what is meant by the distribution of income. [10]
- (b) Analyse how government policy could reduce income inequality. [15]
- (c) Critically examine whether governments should attempt to reduce income inequality. [15]