IB DIPLOMA PROGRAMME
PROGRAMME DU DIPLÔME DU BI
PROGRAMA DEL DIPLOMA DEL BI

ECONOMICS
HIGHER LEVEL
PAPER 3

Friday 17 May 2002 (morning)

2 hours

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Answer one question from Section A and one question from Section B.
- Use diagrams where appropriate.

SECTION A

*Answer **one** question from this section.*

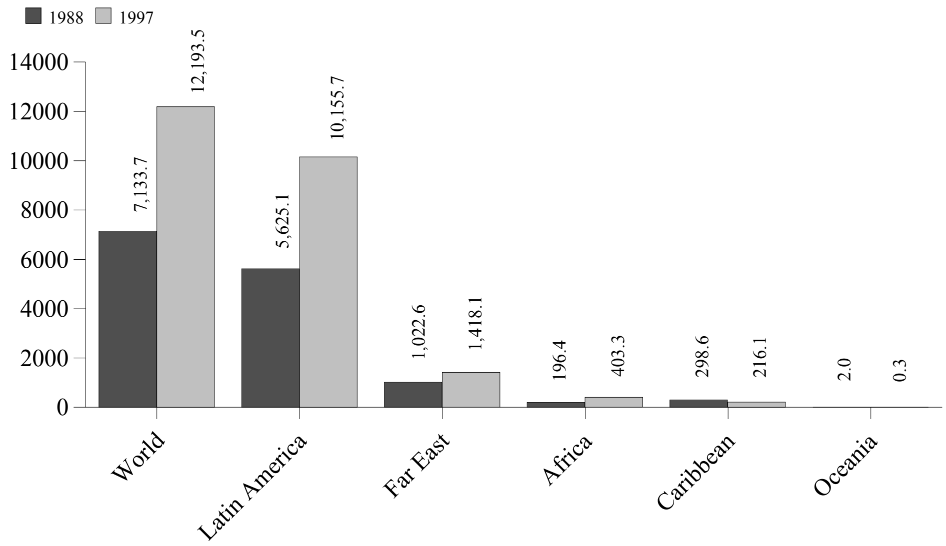
Question 1

Study the extract below and answer the questions which follow.

Bananas – The Facts

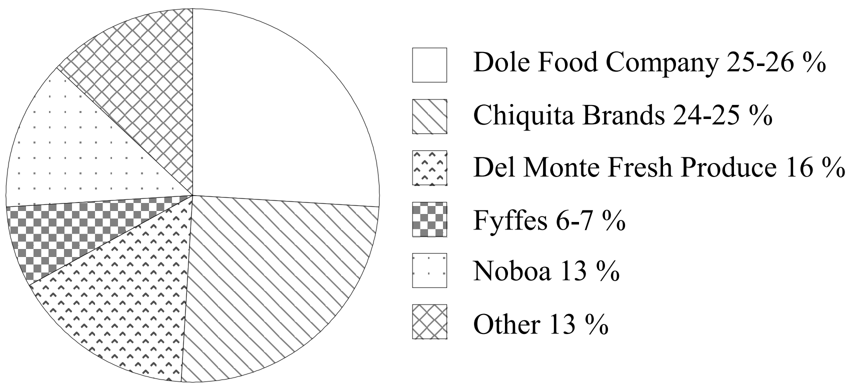
The banana trade is big business. It comes fifth in the terms of world trade in agricultural produce – after cereals, sugar, coffee and cocoa.

Item 1 — World Banana exports by region
Thousands of metric tons



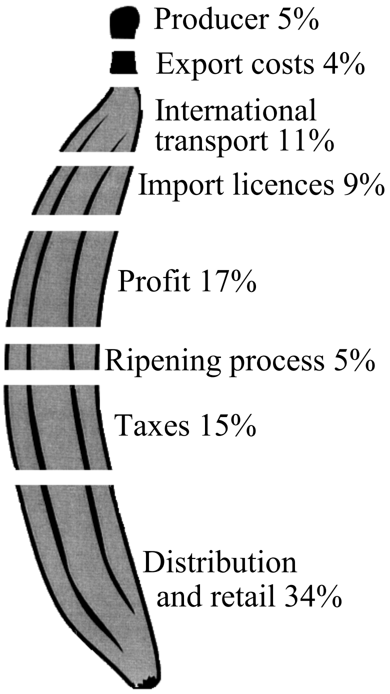
[Source: *Banana Statistics*, Rome, 1999]

Item 2 — Main companies, % share world production 1997



[Source: Anne Claire Chambron, "Bananas: the Green Gold of the TNC's" in *Hungry for Power*, UK Food Group, London, March 1999]

Item 3



Split

Who gets what from the price of a banana?

As with almost all commodities produced in the South and consumed in the North, more than 90 % of the price paid by the consumer stays in the North and never reaches the producer. Most of the risks of producing a perishable fruit are, however, carried by the producer. The largest chunk of all is taken by the retailers – mostly the dominant supermarkets and chain stores.

[Source: Anne Claire Chambron, "Bananas: the Green Gold of the TNC's" in *Hungry for Power*, UK Food Group, London, March 1999]

Item 4

Price

Who pays for the cheap bananas?

The production of bananas imposes an enormous cost on the environment in terms of the waste generated, the cutting down of rainforests to make way for banana plantations, soil erosion and exhaustion of existing plantations. The poorly paid plantation workers also bear the costs.

Bananas from the plantations of Central and South America are "cheaper" than anywhere else – largely because the costs are externalised. If these costs were internalised the difference would disappear.

[Source: Adapted from *The New Internationalist*, October 1999]

(a) With reference to Item 1, briefly describe the main changes in the pattern of banana exports between 1988 and 1997. *[2 marks]*

(b) Use Item 2 to help you describe the market structure of the banana industry. *[2 marks]*

(c) With reference to Item 3, explain why “more than 90 % of the price paid by consumers stays in the North and never reaches the producer”. *[4 marks]*

(d) With reference to Item 4,

(i) explain what is meant by the sentence, “Bananas from the plantations of Central and South America are ‘cheaper’ than anywhere else – largely because the costs are externalised”; *[4 marks]*

(ii) how might the costs of banana production be internalised? *[6 marks]*

(e) Using the data provided and your own knowledge of economics, discuss the problems faced by economies dependent on the export of agricultural products. *[7 marks]*

Question 2

Study the extract below and answer the questions which follow.

Item 1

South American Trading Bloc Under Pressure

(1) Only a few months ago, Mercosur, South America's main **trading bloc**, looked to be near collapse. Argentina called for sanctions against the many firms that were closing their factories and rushing to Brazil, attracted by big subsidies and a devalued currency. Brazil for its part was threatening to take Argentina to the World Trade Organisation over the import quotas that Argentina had imposed against "dumped" textile exports.

(2) Mercosur went through a difficult time when the region slipped into recession in 1998, and intra-bloc trade slumped. It nearly collapsed after the January 1999 devaluation of the Brazilian currency made Argentina's goods up to 40 % dearer in their largest market. Brazil has since recovered from recession, helping Argentina: in the first three months of this year, Argentina clocked up a trade surplus with Brazil of $300 million. Even so, Argentina has been struggling to pull out of the recession – in part because the new government raised taxes in December in an effort to help cut the fiscal deficit.

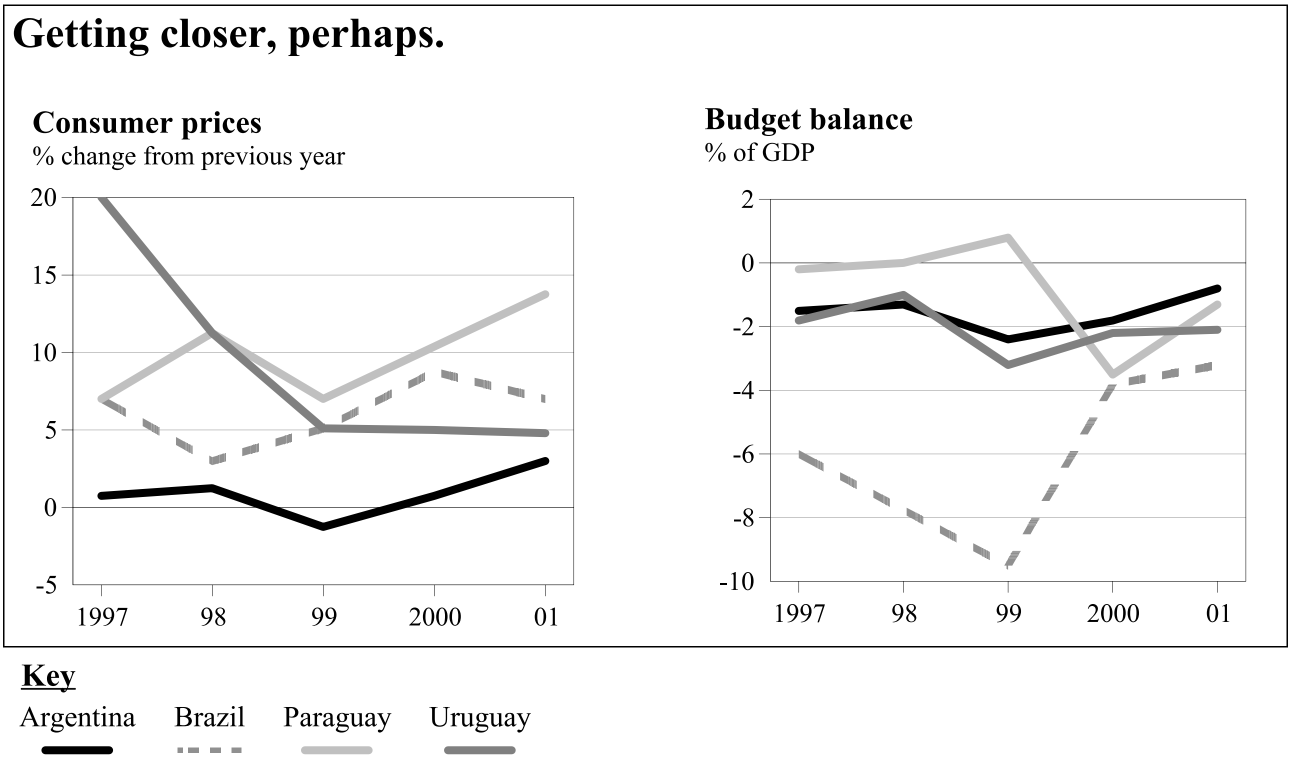
(3) But hysteria has given way to common sense. Argentina and Brazil have agreed to bring their economies into closer harmony. They have set a timetable for a set of **economic-convergence** targets similar to those in the Maastricht treaty that led to the euro. The first targets will cover public debt, government borrowing and inflation. Others, such as the balance of payments, may come later. In the long term, the aim is supposed to be a common currency.

(4) Where does that leave Mercosur's smaller members? Shut out of a market dominated by the giants, Uruguay has so far refused to back the Argentine-Brazil car deal, which imposes a 35 % tariff on non-Mercosur cars from 2006.

(5) Further progress is likely to depend on economic performance. Meeting the convergence targets will involve keeping to unpopular austerity programmes, and approving difficult domestic reforms. Neither Argentina nor Brazil may find that very appealing.

[Source: adapted from *The Economist* May 27th 2000]

Item 2



[Source: Economist Intelligence Unit]

(a) Explain the meaning of the following terms which are in bold in the text:

(i) trading bloc (paragraph 1); *[2 marks]*

(ii) economic convergence (paragraph 3). *[2 marks]*

(b) Item 1 suggests that Mercosur was near to collapse. Briefly explain **two** of the factors that led to this situation. *[3 marks]*

(c) (i) Draw a diagram to show the effects of the tariff on cars imported from outside the trading bloc (paragraph 4). *[3 marks]*

(ii) Explain briefly what your diagram shows will happen. *[3 marks]*

(d) With reference to the graphs in Item 2, assess some of the problems that Mercosur members may face in achieving the convergence targets mentioned in paragraph 3. *[5 marks]*

(e) Using the data and your own knowledge of economics, discuss the relevance of trading blocks in the context of a global economy. *[7 marks]*

SECTION B

*Answer **one** question from this section.*

Question 3

Discuss and evaluate the proposition that perfect competition is a more efficient market structure than monopoly. *[25 marks]*

Question 4

(a) What are the consequences of unemployment in an economy? *[10 marks]*

(b) Examine the strategies that may be used to reduce unemployment, referring to more developed countries and less developed countries in your answer. *[15 marks]*

Question 5

(a) Explain the various factors that could cause a change in the terms of trade for a country. *[10 marks]*

(b) Discuss, with reference to less developed countries, the possible consequences of a deterioration in the terms of trade. *[15 marks]*

Question 6

(a) Using examples, explain the difference between economic growth and economic development. *[10 marks]*

(b) Is economic growth always a desirable policy objective for a government? *[15 marks]*