



GCE AS/A level

1132/01

ECONOMICS – EC2

A.M. WEDNESDAY, 19 January 2011

2 hours

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a 12 page answer book.

INSTRUCTIONS TO CANDIDATES

Use black ink or ball-point pen.

Answer **all** the questions in Section A.

Answer **one** question from Section B.

Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Insert the numbers of the questions you have answered in Sections B and C on the front of your answer book.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in Section B part (*b*) and Section C part (*b*).

SECTION A

Answer all the questions in Section A.

1. Study the information below and then answer the questions that follow.

Struggles of Ivory Coast's cocoa farmers are set to force up the price of chocolate

A cocoa farmer lays out beans to dry



Cocoa prices hit a 30-year high yesterday as poor weather threatens to drive the price of chocolate up again for Western consumers. Cocoa hit \$3,412 a tonne in New York yesterday as concerns deepened about demand exceeding supply for the first time since 1968. This was the highest price for cocoa since June 1979.

Production in the Ivory Coast, which provides about a third of the world's cocoa beans, has fallen as a result of poor weather and under-investment after the 2002-03 civil war. This year's harvest has been damaged by dry weather, pests such as the Pod Borer moth and swollen-shoot disease. Western consumers have already seen the price of chocolate rise at the start of this year, and the cost of a standard 49g bar could climb even higher in 2010 if the high cocoa prices continue.

Laurent Pipitone, senior statistician at the International Cocoa Organisation, said: "We have now had three consecutive years of supply declining. Production in the Ivory Coast has peaked. Farmers don't use many chemicals and pesticides there and they need to use more. They need to invest more in chemicals and other farming techniques to increase their yields."

Demand for cocoa is growing, in Europe by 16.5 per cent year-on-year to 406,080 tonnes in the third quarter of 2009, according to the European Cocoa Association. The fashion for more upmarket chocolate has helped to boost demand as it typically has a higher cocoa content. Companies such as Cadbury and Nestlé buy their cocoa about three months in advance, so the recent high prices will not have had an effect on their costs yet, but will be felt early in 2010. Nestlé, the maker of Kit Kat, plans to spend £67 million providing millions of disease-resistant plantlets to cocoa producers and retraining farmers, in an attempt to increase the output and reduce the price of cocoa.

The Government of the Ivory Coast is trying to address the problem by starting to assist cocoa bean farmers. A previous system, under which the Government sold most of the nation's cocoa production on to the world market and set guaranteed prices for farmers, was abandoned in 1999. The Fair Trade Association recommends setting a minimum price for cocoa so that farmers are less vulnerable to market volatility. A spokesman for the Association said: "In our experience, whatever the current upturn in prices, little may go back to the farmers. And, even if they are benefiting somewhat at the moment, they could soon be once again at the mercy of low prices. The wild fluctuations in the price of cocoa make life extremely unstable for farmers."

The Times, 24 October 2009

- (a) (i) With the aid of a diagram, explain why the price of cocoa rose in 2009. [6]
- (ii) Using the data and with the aid of a diagram, explain what could be done ‘to increase the output and reduce the price of cocoa’. (Lines 22-23) [4]
- (b) Explain why the price of cocoa is subject to ‘wild fluctuations’. (Line 31) [6]
- (c) Cocoa is priced in dollars on world markets. To what extent would a rise in the value of the pound against the dollar help to reduce the price of bars of chocolate such as Kit Kat in the UK? [6]
- (d) Using the data evaluate the case for specialisation and free trade between countries. [8]
- (e) With the aid of a diagram, discuss the Fair Trade Association’s policy suggestion of setting a minimum price for cocoa. [10]

SECTION B

Answer one question from this section.

2. **FIRMS RELUCTANT TO RAISE PRICES DURING RECESSION**

- (a) Define price elasticity of demand and explain the factors which determine it. [8]
- (b) Using diagrams, discuss the view that a firm can only raise its revenue by increasing its prices. [12]

3. **ALL 13 YEAR-OLD GIRLS TO BE OFFERED INJECTION AGAINST CERVICAL CANCER**

- (a) Distinguish with examples, between private goods, public goods and merit goods. [8]
- (b) Discuss the view that merit goods should be provided free at the point of consumption by the Government. [12]

4. **WATER COMPANIES PUMP SEWAGE INTO THE OCEAN**

- (a) Define market failure and using economic analysis explain why UK water companies pump sewage into the sea. [8]
- (b) Evaluate the policies that could be introduced to reduce sea pollution of this kind. [12]

TURN TO PAGE 4 FOR QUESTIONS IN SECTION C

SECTION C

Answer one question from this section.

5. UK INVESTMENT DROPS SHARPLY DURING THE RECESSION

- (a) Explain the factors influencing investment in an economy. [8]
- (b) To what extent are high levels of investment always good for an economy? [12]

6. TAX INCREASES ON THE WAY IN THE UK AS BUDGET DEFICIT WORSENS

- (a) Explain why governments impose taxes. [8]
- (b) Should the Government raise a greater proportion of its revenue from indirect taxes rather than direct taxes? [12]

7. POUND FALLS TO ALMOST £1 = 1 EURO

- (a) With the aid of a diagram, explain the factors that could have led to the fall in the value of the pound. [8]
- (b) To what extent is a fall in the value of the pound against the euro likely to benefit the UK economy? [12]