

Candidate Name: _____

CT Group: _____

Index number: _____

PIONEER JUNIOR COLLEGE
JC 2 Preliminary Examination 2011



ECONOMICS

8819/01

Higher 1

Paper 1

Monday 19 September 2011

3 hours

Additional materials: Writing Paper

READ THESE INSTRUCTIONS FIRST

Write your class, index number and name on all the work you hand in.

Write in dark blue or black pen on both sides of the paper.

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 **all** questions.

Section B

Answer **one** question.

At the end of the examination, fasten your answers for Questions 1, 2 and 3 or 4 separately.
The number of marks is given in brackets [] at the end of each question or question part.

This document consists of 10 printed pages and 2 blank pages.

[Turn over

Section A

Answer all questions in this section.

Question 1: A Sweet Deal Gone Sour**Extract 1: Sugar Prices Head Towards the Sky**

The price of raw sugar has increased to its highest level since 1981, as supply concerns grow. Growing demand for sugar to be turned into ethanol, coupled with a sharp fall in production, have both prompted worries.

Sugar production in India for 2008-09 fell 45% year-on-year and a "drastic fall" is expected for the coming Indian crop. India had less rain in the monsoon season and it was also uneven, damaging a number of agricultural crops. There are concerns that the pending sugar crop, which will be ready around November, will be inadequate.

As the world's largest consumer and second-largest producer, India's output swings, which move the country back and forth from the status of an exporter to an importer, are a key factor in prices.

Sources: The Financial Times, 28 July 2009
& BBC News, 10 August 2009

Extract 2: Food Companies Ask US Government to Boost Sugar-Import Quotas

A coalition of food companies including General Mills Inc., Kraft Foods Inc. and ConAgra Foods Inc. asked the U.S. government to increase sugar-import quotas after inventories fell to a 34-year low and prices surged. The Sugar Policy Alliance, which also includes Mars Inc., Krispy Kreme Doughnuts Inc. and Hershey Co., wants to import more from Brazil, the world's largest producer of the sweetener. Sugar prices in New York have jumped to the highest in 28 years.

"Without allowing additional imports to enter the market, consumers will pay higher prices and domestic food manufacturing jobs will be at risk," the alliance said today in a statement. Sugar is the only major U.S. crop under import restrictions. The U.S. limits shipments to benefit the domestic industry. Imports are managed through programs that limit purchases from almost all countries.

Source: Bloomberg, 7 August 2009

Extract 3: Shielding Sugar – Does Everyone Benefit

Protecting the US sugar industry from foreign competition is costing thousands of jobs, with confectionery companies emigrating to countries with lower sugar prices, according to a government report published on Tuesday. The report, by the Commerce Department, said efforts to shield domestic sugar producers from competition resulted in the loss of more than 10,000 jobs between 1997 and 2002. The industry is one of the most protected in the US, leading to sugar prices that are more than double the market rate.

"To compete and win in the world economy we must lift the price burden for US businesses that use sugar as a product ingredient," said Franklin Lavin, undersecretary at the Commerce Department. "For every sugar-growing and harvesting job saved through high sugar prices, approximately three confectionery manufacturing jobs are lost." Many confectioners have relocated to Canada, where sugar prices are less than half of those in the US.

Source: The Financial Times, 14 February 2006

Extract 4: The Everglades – Sugar And The Environment

Florida's politicians have debated for years with environmentalists over how to restore the Everglades wetlands to their natural state. The obstacles are huge, principally because a large swathe of valuable sugar-cane farmland lies in the middle of the proposed conservation area.

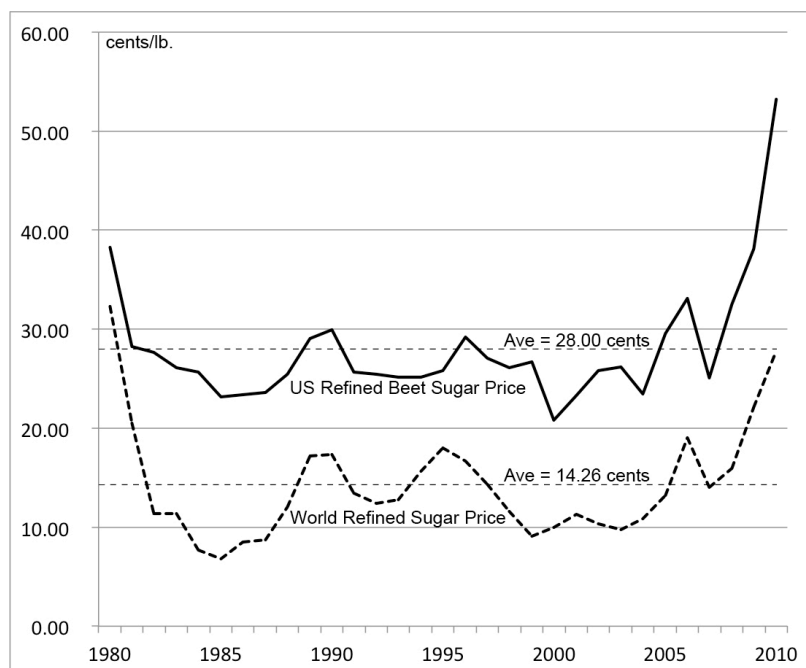
The growth of Orlando to the north, combined with intense agriculture and federally built drainage canals to prevent flooding, have in recent decades fatally disrupted and polluted the ecosystem of the Everglades. Experts have said for years that without drastic action America's largest subtropical wetland was in grave danger, along with endangered species such as the Florida panther and the American crocodile. Phosphorus-laden water has also seeped into the St Lucie and Caloosahatchee estuaries, poisoning oyster beds and causing harmful algae blooms.

But now, to the surprise of many, Florida's governor, Charlie Crist, has come up with a bold plan to buy 180,000 acres of land from one of the two main sugar producers, US Sugar Corp. The idea is to use this land to restore the natural flow of water from Lake Okeechobee into the marshy Everglades—the “river of grass”, as a leading environmentalist once called them. Good news for the alligators and all their advocates, but this will cost \$1.75 billion in taxpayer funds.

Environmental experts propose a different solution. U.S. Sugar, they suggested, was only able to farm profitably in the Everglades because of massive government subsidies of the sugar industry. Without government subsidies, the U.S. sugar industry might have gone out of business the old-fashioned way--bankruptcy. Thereby relieving pressure on the environment.

Adapted from: Forbes.com 30 June 2008 and
The Economist, 11 December 2008

**Figure 1: Refined Sugar Prices
U.S vs. World, 1980 - 2010**



Source: United States Department of Agriculture

Questions

- (a) (i) Describe the trend in world sugar prices between 1990 and 2009. [2]
- (ii) Using demand and supply analysis, account for the changes in the world price of sugar in 2009. [4]
- (b) (i) Compare the price of sugar in the US with that of the world market. [2]
- (ii) Comment on why the US government protects the domestic sugar industry. [6]
- (c) (i) Explain what is meant by negative externalities. [2]
- (ii) Explain how government intervention through subsidies leads to a worsening of market failure in the cultivation of sugar cane. [6]
- (d) Assess the policies proposed to the US government to correct market failure with regard to sugar production. [8]

[Total: 30]

[Turn over

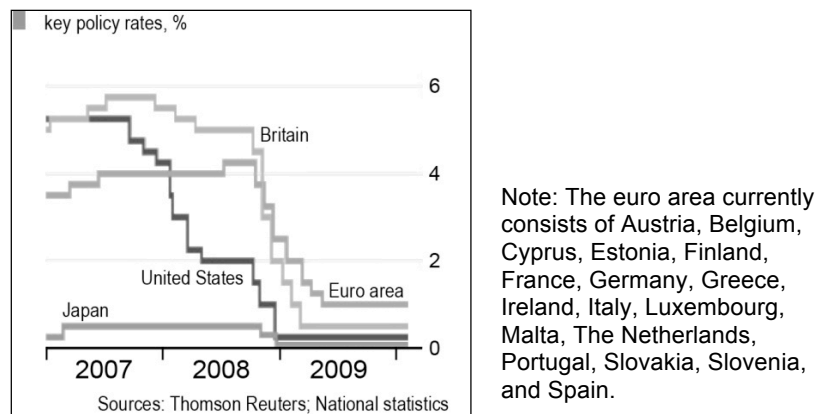
Question 2: The Price of Green Shoots

Extract 5: Deeper recession ahead says IMF

The International Monetary Fund (IMF) projects a deeper recession ahead as the world's major economies like US, UK, Germany, Japan and Italy shrunk by between 4 to 6 % in 2009. The prospects for world trade are even gloomier, with the IMF now forecasting world trade volumes to decline by 11% in 2009. After 60 years as the engine of world growth, the sharp fall in trade is now hitting many of the leading exporting nations, particularly in Asia. In response, the world economy has been injected with the biggest Keynesian cocktail yet seen in peacetime. In the past 18 months, Central banks have slashed interest rates while Finance ministries have cut taxes and boosted public spending to fight financial seizure and recession.

Source: Adapted from news.bbc.co.uk, 22 April 2009

Figure 2: Interest Rates (Selected Economies)



Source: Adapted from www.economist.com, 11 February 2010

Extract 6: Spanish Illness: Europe's Worst Unemployment Problem

The huge signs are up in town squares and city parks where men in overalls dig holes, lay pavements or spruce up public facilities. Work is being paid for by Plan E, the Spanish stimulus package which included €8 billion (US\$11 billion) for immediate spending as it was meant to keep Spaniards working. Yet the latest unemployment figures show that it is not enough. In April 40,000 more people joined the dole queues for unemployment benefits. That was a slower rise than in previous months, but it still leaves Spain with a 17.4% unemployment rate, the highest in the European Union and twice the EU average. The European Commission predicts that unemployment will hit 20.5% next year. It also says Spain will struggle longer than other countries to recover, getting into positive growth only in 2011, a full year after the EU as a whole. Perhaps the most worrying thing is that Plan E has, in part, worked. The government says it has created some 280,000 jobs, even if few are permanent and unemployment may climb again. Spain is lucky that strong social networks held up by the underground economy helped to prevent civil unrest.

Source: Adapted from The Economist, 7 May 2009

Table 1: Selected Key Economic Indicators

GDP Growth (%)	2005	2006	2007	2008	2009	2010
Italy	0.66	2.04	1.48	-1.32	-5.22	1.30
Spain	3.61	4.02	3.57	0.86	-3.72	-0.14
Unemployment Rate (%)						
Italy	7.73	6.78	6.09	6.74	7.79	-
Spain	9.16	8.51	8.26	11.34	18.01	-
Budget Balance (% of GDP)						
Italy	-3.52	-2.34	-1.33	-2.35	-4.88	-
Spain	1.31	1.98	2.43	-2.04	-8.58	-

Source: www.worldbank.org

Extract 7: Great Clean-Up - Can Economic Rescue Plans also Save Planet?

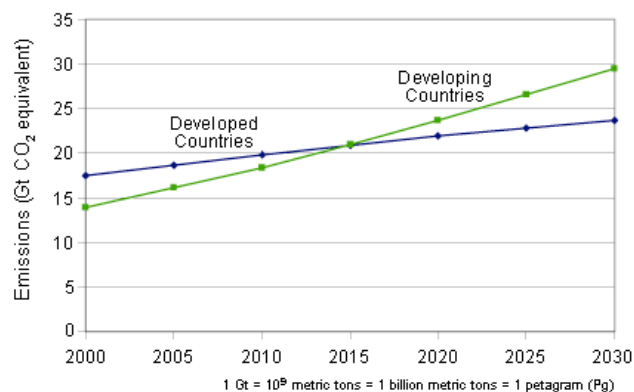
With governments around the world continuing to pump colossal sums of money into their plunging economies, a grand global experiment is under way: can the unprecedented spending provide not only a quick fix for the economic catastrophe but also the measures vital for dealing with global warming? The G20 leading industrialised states will be grappling with those choices when it meets in London in April.

"A lot of countries will be watching the green component of the Obama plan because they are very interested in quick wins," said Ed Barbier, a University of Wyoming economist. In a recent report led by economist Nick Stern, green measures should account for 20% of global economic recovery plans. But apart from China who has allocated a third of its \$580bn recovery plan to green measures, the EU and the US have all fallen short of this target.

"I suspect that one reason some governments, including European ones, are reluctant to adopt green stimulus initiatives is that they are still stuck in the 'old school' thinking that we have to revive the economy first before thinking about long-term low-carbon strategies," said Barbier.

The American plan meets Stern's prescriptions for an effective green stimulus - a concentration on building efficiency and renewable energy. Efficiency measures, such as insulation, sealing, and double glazing, account for the largest share of the \$100bn. It is also thought to score well on its most basic purpose: rapid job creation. It is projected to create 2m jobs over the next two years, half of the 4m total envisaged by the package.

Source: Adapted from guardian.co.uk, 24 February 2009

Figure 3: World Carbon Emissions

Source: www.epa.gov

Extract 8: Job Losses From Obama Green Stimulus Foreseen in Spanish Study

Switching to renewable energy in the US may destroy two jobs for every one created if Spain's experience with windmills and solar farms is any guide. Spain embarked on their green plan in 2000. The premiums paid for solar, biomass, wave and wind power are passed on to users resulting in higher energy prices.

"The loss of jobs could be greater if you account for the amount of lost industry that moves out of the country due to higher energy prices," said Gabriel Calzada, an economics professor at Madrid's King Juan Carlos University.

Spain's Acerinox SA, the nation's largest stainless-steel producer, blamed domestic energy costs for deciding to expand in South Africa and the US. "Microsoft and Google moved their servers up to the Canadian border because they benefited from cheaper energy there," said the professor of applied environmental economics.

Source: Adapted from bloomberg.com, 27 March 2009

Extract 9: Climate Change the Biggest Loser of G20 Summit

The \$1.1 trillion stimulus package agreed by G20 leaders yesterday risks locking the world into a high-carbon economy in which greenhouse gas emissions continue to rise, environmental groups have warned. Campaigners agreed that the summit's biggest loser was the fight against climate change. There were fears, particularly among emerging economies, that environmental requirements might act as an impediment on trade and the speed of recovery. "The buzzword 'low-carbon recovery' triggers fears of protectionism being introduced through the back door," said Lord Malloch Brown. The concern is that countries would impose import tariffs on goods from nations with lower environmental standards.

Source: Adapted from guardian.co.uk, 3 April 2009

Questions

- | | | |
|------------|---|-------------|
| (a) | (i) Compare the trends in unemployment between Spain and Italy. | [2] |
| | (ii) Account for the high rates of unemployment in Spain. | [4] |
| (b) | To what extent does the data suggest that Spain's standard of living has fallen? | [5] |
| (c) | (i) Define recession. | [1] |
| | (ii) Using economic analysis, explain why countries' budget balances will worsen during a recession. | [4] |
| (d) | Compare the use of demand management policies in reviving the British economy. | [6] |
| (e) | Assess the view that a "low carbon recovery" would be beneficial to the global economy. | [8] |
| | Total | [30] |

[Turn over

Section B

Answer **one** question from this section.

- 3** (a) Using demand and supply analysis, explain the use of price controls to prevent excessive price changes. [10]
- (b) Discuss the view that price control is the most effective way to reduce inflation in an economy. [15]
- 4** (a) Explain the key determinants of aggregate demand. [10]
- (b) Discuss the view that economic growth is determined by a rise in aggregate demand. [15]