

THIS IS A NEW SPECIFICATION



**ADVANCED SUBSIDIARY GCE**  
**ECONOMICS**  
 Markets in Action

**F581**

Candidates answer on the question paper

**OCR Supplied Materials:**  
 None

**Other Materials Required:**  
 None

**Friday 16 January 2009**  
**Morning**

**Duration: 1 hour 30 minutes**



Candidate Forename		Candidate Surname	
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Centre Number						Candidate Number				
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**INSTRUCTIONS TO CANDIDATES**

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- Write your answer to each question in the space provided, however, additional paper may be used if necessary.

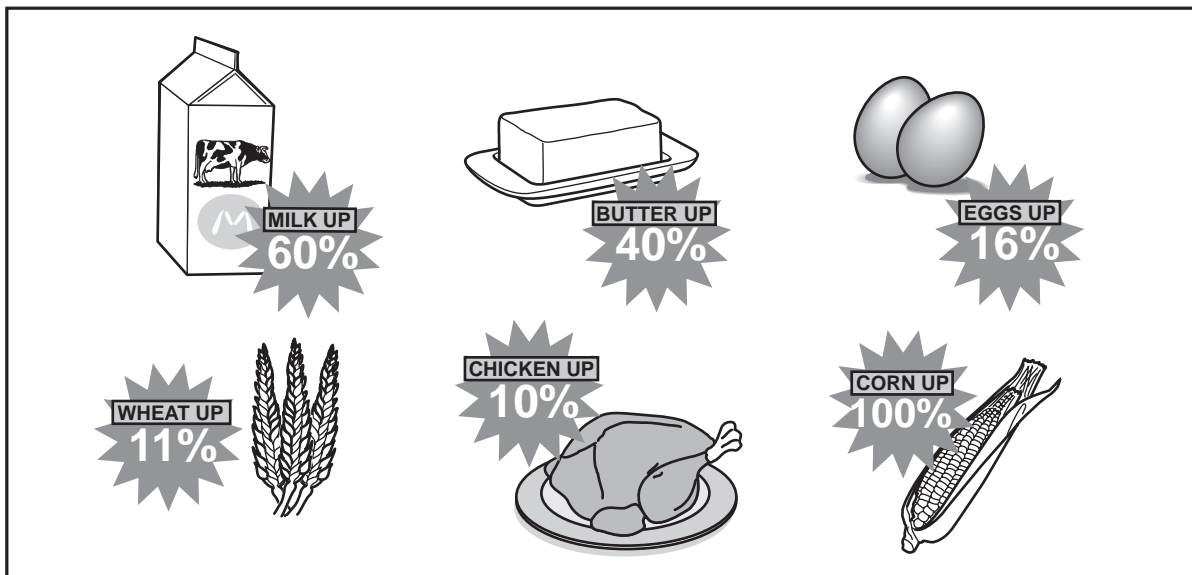
**INFORMATION FOR CANDIDATES**

- The number of marks is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is **60**.
- This document consists of **12** pages. Any blank pages are indicated.

### Rising food prices are bad news for the world's rich and poor

Most people in Britain may not yet have noticed but on supermarket shelves the retail prices of many essential food items have been increasing (See Fig. 1).

**Fig. 1 Annual food price increases, June 2006 to May 2007**



Why is this? The simple answer is due to demand and supply. The global demand for food is increasing. This is not only because the world population is rising but also due to the growing affluence of millions of people in, for example, China and India who are no longer content with the basic diets their parents had – they want and can afford to consume more meat. This has led, for example, to a significant increase in the price of chicken and pork in China.

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There are a number of reasons why the global supply of food has decreased. The European Union (EU) no longer has the vast amounts of unsold beef, butter and powdered milk that it once had. Globally, world grain stocks are at their lowest level for years. In six out of the last seven years demand has exceeded supply to such an extent that grain stocks are now equivalent to less than two months' demand. Reforms to the EU's agricultural policy have resulted in farmers reducing their production of wheat and milk and instead using their land for other purposes such as tourism. A less obvious reason has increasingly been the use of food crops, such as sugar and corn, as a source of bio-fuel in place of oil. In many countries, bio-fuel is now being used in increasing quantities.

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All of this is good news for Caribbean and Mexican farmers but bad news for consumers, including many millions in Mexico who have rioted recently over the doubling in price of the corn used to make tortillas which make up the staple diet.

The Caribbean sugar industry is now looking a lot sweeter again after years of decline. Sugar cane is a source of ethanol, an alternative fuel that is being increasingly manufactured locally to export to the USA as an answer to rocketing oil prices. Sugar processors in Dominica and Jamaica are switching from producing refined sugar to producing ethanol for the US market.

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These trends are bad news for the world's poor. Since food aid programmes usually have fixed budgets, increased food prices reduce the amount such programmes can afford to buy. This makes poverty relief all the more difficult. In a better world, governments would subsidise the prices of essential food items to lessen the impact of changes in global demand and supply.

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**3**

Answer **all** questions.

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**1** Identify **two** factors of production which might be used in the processing of Caribbean sugar cane.

1 .....

2 .....[2]

**2 (a)** Define the term 'opportunity cost'.

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.....[2]

**(b)** Using a production possibility curve diagram, explain how knowledge of opportunity cost can be used to explain the choices facing Caribbean sugar cane processors.

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.....[6]

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3 Using information from the case study:

(a) state and explain **two** reasons for the increased global demand for food products;

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2 .....

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.....[4]

(b) state and explain **two** reasons for the fall in the global supply of food products.

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2 .....

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- 4 Using a demand and supply diagram, comment on the extent to which changes in the global demand and supply of food may have affected the market equilibrium.

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..... [6]

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5 In China, the estimated income elasticity of demand for chicken is +1.5 and for pork it is +2.5.

(a) Define the term 'income elasticity of demand'.

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..... [2]

(b) Comment on the relevance of these estimates for meat producers in China.

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