Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/21**

Paper 2 Data Response and Essay (Core) **October/November 2014**

1 hour 30 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Section A
Answer this question.
Brief answers only are required.

Section B
Answer any **one** question.

You may answer with reference to your own economy or other economies that you have studied where relevant to the question.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages and **1** Insert.

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CAMBRIDGE International Examinations

Section A

Answer this question.

1 **The world coffee market**

Extract 1: Colombia losing ground in coffee market

Until the 1980s, Colombia was the second largest coffee producer in the world. Coffee cultivation contributed to a growth in incomes, a positive trade balance and employment. But at the end of the 1980s things started to change for the worse. Between 1989 and 2011, the country lost 7% of its share in the world coffee market, while Brazilian coffee producers increased exports. New producers entered the market and Colombia fell to fourth in the world in terms of the production of coffee.

Increased international competition is not the only reason that Colombian coffee producers are suffering. The harvest in 2011 was the smallest in 30 years, mostly due to heavy rains in the main coffee-producing regions. In addition, there are problems related to climate change, which cause increased coffee crop diseases that result in increased costs.

Source: All rights reserved © Worldcrunch – in partnership with AMERICA ECONOMIA

Extract 2: Nepalese farmers gain from global thirst for coffee

Nepal's hills are suitable for coffee growing and more farmers are turning to the crop, attracted by the high export prices. There is rapidly rising demand for coffee, especially in traditional tea-drinking countries such as China and India. Coffee growing in Nepal is booming. Total annual production is more than 30 times the crop in the early 1990s. Every year, 16% more land is being used for coffee and production is increasing by 20%. The industry now employs more than 25 000 people.

Coffee is one of the few industries in Nepal, other than tourism, that is thriving. Farmers are attracted to coffee as it is more profitable to grow than traditional crops such as maize and millet.

Most Nepalese coffee is exported. Coffee consumption is forecast to increase globally by about 3% per annum over the next decade, as it did over the past decade. Rising incomes, combined with advertising, is likely to encourage coffee drinking in countries such as China and India where coffee is not part of traditional culture.

Coffee exports are generating much-needed foreign reserves for the Nepalese government, and income for agricultural communities. In Nepal, too, demand is growing fast.

Source: The Guardian, newspaper 2012

Table 1: The annual average price of coffee (US cents per unit)

Year	Price
2007	107.68
2008	124.25
2009	115.67
2010	147.24
2011	210.39
2012	156.34

Source: International Coffee Organisation

(a) Describe the overall trend in coffee prices between 2007 and 2012 and identify **one** year in which supply was likely to have exceeded demand in the market for coffee. [2]

(b) Explain how coffee exports **and** a thriving tourism sector would contribute to Nepal's current account in the balance of payments. [4]

(c) With reference to Extract 2, explain how you would classify coffee using the concept of income elasticity of demand. [2]

(d) Using diagrams, explain how changes in demand and supply have affected the coffee market in Colombia and in Nepal. [6]

(e) Discuss the view that Nepal should specialise in the production of coffee and Colombia should specialise in some other product given the changes in costs that have occurred. [6]

Section B

Answer **one** question.

2 **(a)** Using a supply and demand diagram, explain how the imposition of a subsidy on a good would affect the surplus enjoyed by the producers of that good. [8]

(b) Discuss whether minimum price legislation or the imposition of an indirect tax is more effective in improving resource allocation when the consumption of a good causes negative externalities. [12]

3 **(a)** Explain the factors that determine whether the price elasticity of demand for a product has a high value or a low value. [8]

(b) Discuss whether it is both possible and beneficial for a business to change the price elasticity of demand for its product. [12]

4 **(a)** Explain how tariffs and an undervalued exchange rate can operate to protect a domestic market from foreign competition. [8]

(b) Discuss whether protectionism disadvantages most people in the protected country. [12]