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**ECONOMICS  
HIGHER LEVEL  
PAPER 3**

Thursday 11 November 2010 (morning)

2 hours

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**INSTRUCTIONS TO CANDIDATES**

- Do not open this examination paper until instructed to do so.
- Answer three questions.
- Use fully labelled diagrams and references to the text / data where appropriate.

1. Study the extract below and answer the questions that follow.

### Thailand calls for a rice cartel

- ❶ Poor harvests, rising **demand** from growing populations as well as hoarding due to the expectation of further price rises have all been blamed for soaring rice prices. The price of Thai rice rose above US\$1000 per tonne for the first time last month, up from US\$383 in January.
- ❷ At this time, Thailand, the world's biggest rice exporter, plans to talk to Laos, Burma, Cambodia and Vietnam about cooperating on prices. It wants to form a rice **cartel** similar to the oil cartel, Organization of the Petroleum Exporting Countries (OPEC). The rice cartel aims to ensure food stability and to address food shortages. A Laos government spokesman said his country would consider the idea, saying a cartel would give the group of countries bargaining power. "By forming an association, we can help prevent a future price war and exchange information about food security."
- ❸ The proposal has met with opposition from the Philippines, the world's biggest importer of rice. It argues that the formation of an oligopoly may deprive a large number of people of their right to basic food. "Almost three billion people are rice eaters," said a spokesperson. "It's a bad idea. It's against humanity."
- ❹ The Food and Agriculture Organization (FAO) also objects to the proposal arguing that, at a time when the global food market is experiencing continuous price increases, hoarding and panic buying, it may not be beneficial to the rice-exporting countries and their farmers in the long-term.
- ❺ Even inside Thailand, the Rice Exporters Association says that a rice cartel is impractical. It says that, unlike oil, rice is renewable and sustainable, and it can be grown almost anywhere. Furthermore, the rice-exporting countries cannot fix prices as OPEC does because they cannot control world production. Analysts say that even if the five countries agree on a broad price band in the style of a buffer stock scheme, it would be difficult to enforce, since buyers could purchase rice from other countries. Also, while maintaining rice prices would please large-scale rice farmers and traders in countries like Thailand and Vietnam, it would cause huge damage to nations which rely heavily on imported rice.
- ❻ The Asian Development Bank (ADB) also objected to the idea of setting up an OPEC-style rice cartel, suggesting that it would be better to allow market forces to operate freely.

[Source: adapted from [http://news.xinhuanet.com/english/2008-05/08/content\\_8131385.htm](http://news.xinhuanet.com/english/2008-05/08/content_8131385.htm), 8 May 2008 and <http://news.bbc.co.uk/2/hi/business/7379368.stm>, 2 May 2008]

*(This question continues on the following page)*

*(Question 1 continued)*

- (a) Define the following terms indicated in bold in the text:
- (i) demand (*paragraph 1*) *[2 marks]*
  - (ii) cartel (*paragraph 2*). *[2 marks]*
- (b) Using an appropriate diagram and evidence from the text, explain how “expectation of further price rises” has affected the price of rice (*paragraph 1*). *[4 marks]*
- (c) Using an appropriate diagram, explain how rice producers could implement a “broad price band in the style of a buffer stock scheme” (*paragraph 5*) to help stabilize prices. *[4 marks]*
- (d) Using information from the text/data and your knowledge of economics, evaluate the proposal to form a rice cartel. *[8 marks]*

[Question removed for copyright reasons]

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3. Study the extract below and answer the questions that follow.

**United Kingdom (UK) economy heads for recession as growth slumps**

- ❶ After years of boom, official figures on the UK economy published recently will show that actual economic growth has fallen to nearly 0%, leaving the nation close to recession.
- ❷ The Office for National Statistics' figures for economic growth during the second quarter of this year are forecast to show growth of between 0% and 0.3% in the first three months of 2008. That would push the average annual growth in the economy down from 2.3% to about 1.6% – the sharpest deceleration since 1995.
- ❸ The deputy governor of the Bank of England warned that “there is a risk that we are facing a deeper and more prolonged slowdown”.
- ❹ Especially bad retail sales figures for June, after surprisingly good figures in May, show that households are spending less and consumer confidence is weakening. Sales were down 3.9% compared to the previous month – the worst figure since figures began in 1986.
- ❺ The only positive sign comes from exports, helped by a massive 12% **depreciation** in the value of the pound sterling since last summer. However, that will not be enough to save the economy from further problems, as **consumption**, investment, the housing market and public finances are all set to worsen. Unemployment is already increasing, a critical factor in consumer confidence.
- ❻ Amit Kara, of UBS, an investment bank, believes Britain is “very close to a recession”, and Alan Clarke, a UK economist at another bank, BNP Paribas, said “I think there will be a recession from the third quarter of 2008 onwards. The survey data are consistent with stagnant GDP growth as of June. Rising costs and weakening demand have severely squeezed profits and this is expected to continue. This suggests bad news for the second quarter and worse news ahead”.
- ❼ Meanwhile, rapidly increasing inflation may force the Bank of England to raise interest rates from their current level of 5%, another blow to a housing and property market which is already in trouble.

[Source: Sean O’Grady, “Economy heads for recession as growth slumps”,  
The Independent newspaper, Friday 25 July 2008. Used with permission.]

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*(Question 3 continued)*

- (a) Define the following terms indicated in bold in the text:
- (i) depreciation (*paragraph 5*) *[2 marks]*
  - (ii) consumption (*paragraph 5*). *[2 marks]*
- (b) Using an AD/AS diagram, explain the likely impact on the UK economy of falling consumer confidence (*paragraph 4*). *[4 marks]*
- (c) Using a business cycle diagram and information from the text, explain in which phase of the business cycle (trade cycle) the UK economy appears to be. *[4 marks]*
- (d) Using information from the text/data and your knowledge of economics, evaluate the consequences for the UK economy if the Bank of England were to raise interest rates from 5% as suggested in paragraph 7. *[8 marks]*

4. Study the extract below and answer the questions that follow.

**Costs up, so dry cleaners want their hangers back**

- ❶ If American people think that their dry cleaning bills are high now, they will not be happy. Wire coat hangers are getting more expensive due to import tariffs on cheaper hangers from China. So dry cleaning companies are asking customers to return their coat hangers to help keep costs down.
- ❷ A flood of cheap Chinese coat hanger imports in recent years forced all but one major United States (US) coat hanger manufacturer out of business. In 2007, the US imported 2.7 billion wire coat hangers from China – up 52% from 2006.
- ❸ The president of M&B, a US coat hanger company, complained to the US Commerce Department that Chinese manufacturers were **dumping** coat hangers in the US. In March 2008, the government responded by imposing a **tariff** on all wire coat hangers from China.
- ❹ “I had almost come to the conclusion that we couldn’t make coat hangers in this factory anymore,” the president of M&B said. However, M&B is currently doing very well. It makes more than a million coat hangers a day, and M&B expects to double its workforce in two years.
- ❺ Since the tariff was imposed, nearly every dry cleaner in the US has had to pay more for coat hangers, on average about US\$4000 a year. But the president of M&B says most customers probably won’t notice it. “If I pay US\$12.95 to have my suit cleaned and the increased cost of the hanger increases the price by two cents, that’s US\$12.97,” he says. “It’s not a factor that will affect me when I get my suit dry cleaned.”
- ❻ Bill Fisher, an analyst with the Drycleaning & Laundry Institute, an industry trade group, says that a number of former US coat hanger manufacturers have made a comeback since the tariff ruling. One company has reopened a plant in Wisconsin and opened another in California.
- ❼ The increased supply of domestic coat hangers will not help the dry cleaners much. Fisher says that “the cleaners are really struggling right now”. Hangers aren’t the only source of increased costs. Higher energy prices have also had a negative effect on profits.

[Source: National Public Radio (US).]

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*(Question 4 continued)*

- (a) Define the following terms indicated in bold in the text:
- (i) dumping (*paragraph 3*) *[2 marks]*
  - (ii) tariff (*paragraph 3*). *[2 marks]*
- (b) Using a demand and supply diagram, explain why dry cleaners might have to increase the price of their services (*paragraph 5*). *[4 marks]*
- (c) Using a cost/revenue diagram, explain how increased costs are having a negative effect on profits of dry cleaners (*paragraph 7*). *[4 marks]*
- (d) Using information from the text/data and your knowledge of economics, evaluate the decision to impose a wire coat hanger tariff. *[8 marks]*

5. Study the extract and data below and answer the questions that follow.

### Promised food yet to appear amid crisis

- ❶ Food riots across Haiti have left at least six Haitians and a UN peacekeeper dead. They also resulted in a large increase in international promises of food and agricultural aid, but only a small fraction of the food has been delivered – less than 2% as of early July 2008.
- ❷ According to aid workers, the poorest families need immediate help, and little of the promised emergency food has reached them. Most of what has reached Haiti is stuck in ports or in warehouses. It has not been possible to distribute the food aid due to high fuel prices, poor **infrastructure** and a weak and corrupt national government.
- ❸ A World Food Programme spokesman said that it is difficult to get food into Haiti, and that his agency is focusing on urban areas that are easiest to reach. “We’re trying to help as much as we can, but that doesn’t mean we’ll solve everything,” he said.
- ❹ Emergency food aid programmes are only temporary measures. Programmes to create jobs and help Haitian farmers increase production are more critical to ending the country’s chronic hunger and helping both urban and rural Haitian households to break out of the poverty cycle.
- ❺ As a means of addressing Haiti’s development problems, Spain is proposing a different aid model. Spain has promised US\$100 million to help revitalize agriculture in Haiti and rebuild roads and schools. The **bilateral aid** will be provided from 2009 to 2012. However, the Deputy Prime Minister of Spain urged Haiti to improve its security so Spain could continue investing in the Caribbean nation.

[Adapted from: ‘Slow aid delivery, failing farms deepen hunger crisis in Haiti’, available at [http://www.nydailynews.com/latino/2008/07/21/2008-07-21\\_slow\\_aid\\_delivery\\_failing\\_farms\\_deepen\\_h-1.html](http://www.nydailynews.com/latino/2008/07/21/2008-07-21_slow_aid_delivery_failing_farms_deepen_h-1.html).]

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*(Question 5 continued)*

- (a) Define the following terms indicated in bold in the text:
- (i) infrastructure (*paragraph 2*) *[2 marks]*
  - (ii) bilateral aid (*paragraph 5*). *[2 marks]*
- (b) Using an appropriate diagram, explain why it remains difficult for “Haitian households to break out of the poverty cycle” (*paragraph 4*). *[4 marks]*
- (d) Using information from the text/data and your knowledge of economics, evaluate aid as a means of achieving economic development in Haiti. *[8 marks]*
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