INTERNATIONAL BACCALAUREATE
BACCALAURÉAT INTERNATIONAL
BACHILLERATO INTERNACIONAL

ECONOMICS
STANDARD LEVEL
PAPER 2

Monday 13 November 2000 (afternoon)

2 hours

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Answer one question from Section A and one question from Section B.
- Use diagrams where appropriate.

SECTION A

*Answer **one** question from this Section.*

Question 1

Study the extract below and answer the questions which follow.

AFRICAN COFFEE EXPORTS TO BE CUT

(1) African coffee producers yesterday said they would propose an additional reduction in their exports in a bid to boost prices and smooth market volatilities.

(2) The Association of Coffee Producing Countries (ACPC) said recently that its 25 members would reduce exports in 1997-8 by 500,000 60kg bags to 11.5m bags.

(3) Yesterday, at its annual general assembly in Kampala, the Inter-Africa Coffee Organisation (IACO) said its members would seek to limit exports by a further 350,000 bags between December 1997 and May 1998.

(4) African coffee exports are in any case expected to be hit by El Niño, the abnormal warming of the Pacific Ocean, which periodically disrupts the world’s climate.

(5) The IACO said it would seek the co-operation of other coffee producers in a bid to develop **price support measures** and attempt to persuade India, the Philippines, Mexico and Vietnam to join both the ACPC and the IACO in an effort to tighten regulation of the global coffee market.

(6) The IACO said the moves were prompted by the current relatively low coffee prices and what it believes is **excessive volatility in global coffee markets**, at odds with the fundamentals of supply and demand and levels of stocks.

(7) One trader yesterday questioned whether the ACPC quota could be made to stick. “It’s a question of confidence,” he said. “If this amount of coffee really was not going to come onto the market, it would have a significant effect on prices. But there is no independent policing and the market is sceptical that it will actually happen.”

(8) Moreover, other producers will probably happily step in to make good any potential shortfall. In 1996 Brazil exported as many as 3m bags above its **self-imposed quota**.

[Source: adapted from *Financial Times*, 28 November 1997.]

(a) Explain the following words in bold in the text:

(i) price support measures (paragraph 5); *[3 marks]*

(ii) excessive volatility in global coffee markets (paragraph 6); *[2 marks]*

(iii) self-imposed quota (paragraph 8). *[3 marks]*

(b) Use a supply and demand diagram to explain the presumed effect of El Niño on the global coffee market. *[4 marks]*

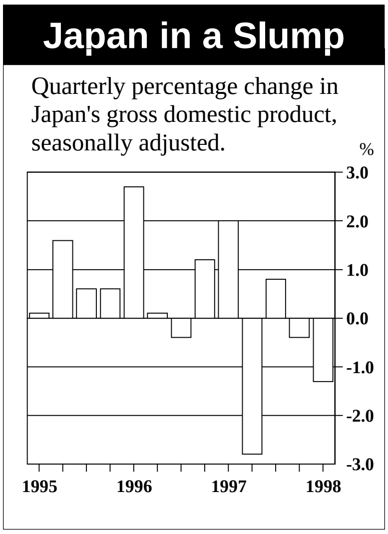
(c) IACO claims that low prices and excessive volatility are "at odds with the fundamentals of supply and demand and levels of stocks" (paragraph 6). Comment on this view. *[5 marks]*

(d) **Using the text**, evaluate the difficulties of maintaining international agreements to limit the supply of commodities. *[8 marks]*

Question 2

Study the extract below and answer the questions which follow.

Japan's First Recession in 23 Years



(1) The Japanese government has conceded that the world's second largest economy has sunk into recession, the first one it has acknowledged in 23 years and the worst in the post-war era. It also expressed concern that its falling currency could pose a challenge for the global economy.

(2) Such a dismal performance underlines the risk that recession in an economic giant like Japan – with an economy twice the size of the rest of the Asian economies put together – could further damage conditions around Asia and spread the virus from Asia to the United States and Europe.

(3) In addition, Japanese officials warned that the yen was falling too far and too fast. It now costs about 140 yen to buy one dollar, meaning that the yen has fallen 80% since its peak in 1995. There is much fear that this weaker yen will hurt the economies of countries such as South Korea, China and Thailand – and more distantly the U.S. and European nations.

(4) But the U.S. has joined forces with Japan to slow or reverse the yen's rapid decline. Treasury Secretary Robert Rubin announced that U.S. monetary authorities had operated in the exchange market in co-operation with the monetary authorities of Japan. The yen responded to close in European trading at 138.2 against the dollar, compared with 144.2 the previous day. Dealers estimated that the Federal Reserve spent $2 billion supporting the yen.

(5) Some economists believe Japan's economy may recover in the short-term, in part because of a huge fiscal stimulus package that will begin to be felt in the next few weeks. Others warn that Japan is on the edge of a much bigger fall.

[Adapted from the *Financial Times*, June 18th 1998 and the *International Herald Tribune*, 13th June 1998]

(a) (i) Use the graph to show when Japan slipped into recession. *[3 marks]*

(ii) What other indicators apart from GDP could be used to identify a recession? *[4 marks]*

(b) (i) State the possible components of the ‘fiscal stimulus package’ (paragraph 5). *[2 marks]*

(ii) Explain how these components might be expected to help the ailing economy. *[4 marks]*

(c) Use supply and demand analysis to explain how the U.S. is attempting to reverse the decline of the yen. *[5 marks]*

(d) How might a recession in Japan damage economic conditions in Europe and the U.S. (paragraph 2)? *[7 marks]*

SECTION B

*Answer **one** question from this section.*

Question 3

Discuss the view that government intervention in a mixed economy is both unnecessary and undesirable. *[25 marks]*

Question 4

(a) Briefly explain the main economic policy objectives of governments. *[10 marks]*

(b) Discuss the ways fiscal policy might be used to achieve these objectives. *[15 marks]*

Question 5

(a) Explain the factors which determine freely floating exchange rates. *[10 marks]*

(b) Discuss the view that an appreciation of the exchange rate is always beneficial and a depreciation is always harmful. *[15 marks]*

Question 6

(a) Explain **three** major barriers to the development of Less Developed Countries. *[12 marks]*

(b) Discuss possible strategies which could be adopted to overcome the previously identified barriers. *[13 marks]*
