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CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS **9708/02**

Paper 2 Data Response and Essay (Core)

October/November 2003

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate 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.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

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.

This document consists of **4** printed pages.

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Section A

Answer this question.

1 **The World Coffee Market**

The recent expansion of Asian coffee producers in the world market has caused major price changes. The Association of Coffee Producing Countries (ACPC), led by Brazil, agreed a coffee retention scheme in 2000. Under the scheme, members undertook to hold back 20% of their exports.

The coffee crop for 2000/2001 was 113 million bags and world consumption was 102 million bags, with supply growing at 3.5% per annum and demand at 1.5% per annum. Alternative measures to reduce this surplus were under discussion.

The 'Fairtrade' organisation has been set up in western coffee-consuming countries to guarantee fair prices to coffee producers in an effort to raise their living standards. At the end of 2000 the guaranteed price was more than three times the current world market price. 'Fairtrade' buys directly from growers, who would otherwise have to sell through a chain of dealers. These dealers might be expected to seek profits for themselves. However, in 2000 only 0.5 million of the world's 10 million coffee growers were part of the scheme. Sales of 'Fairtrade' coffee in countries such as the UK have been growing rapidly despite the higher price charged for the retail coffee.

Figures 1 and 2 show aspects of the world coffee market between 1997 and 2000.

The world market price of coffee

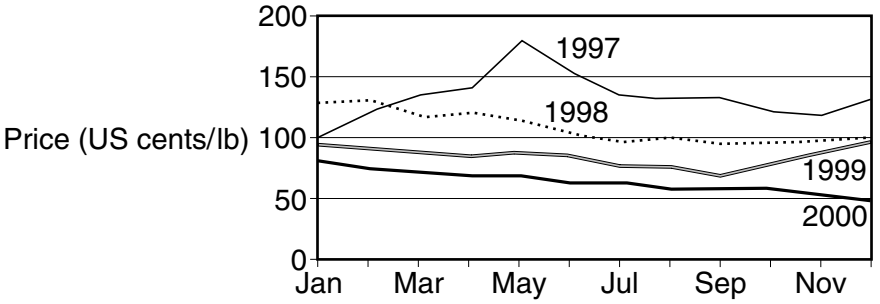


Fig. 1

Coffee production and consumption

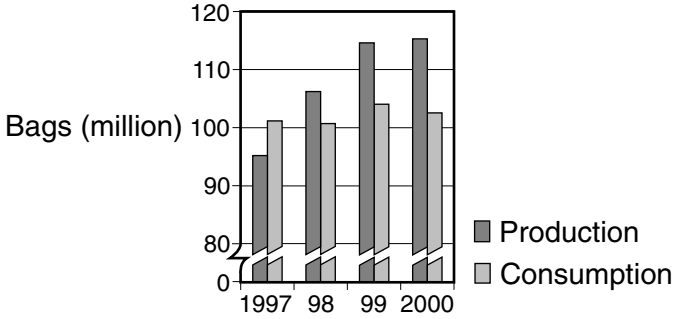


Fig. 2

(a) (i) What, according to Figure 1, happened to the price of coffee between the start of 1997 and the end of 2000? [2]

(ii) How does the data in Figure 2 help to explain the behaviour of the price of coffee between 1997 and 2000? [3]

(b) (i) With the help of a diagram, explain how the coffee retention scheme was intended to affect the market for coffee. [4]

(ii) Suggest **two** problems of operating a successful retention scheme. [2]

(iii) Identify **one** alternative measure to reduce the surplus and explain how it might operate. [3]

(c) Discuss how far the 'Fairtrade' scheme may solve the problems of coffee growers. [6]

Section B

Answer **one** question.

2 (a) Explain what is meant by labour productivity, and show how changes in labour productivity may affect an economy's production possibility curve. [8]

(b) Discuss whether increased division of labour among workers and nations brings only benefits. [12]

3 (a) Explain the effect of the removal of an indirect tax upon the market for a product. [8]

(b) Discuss whether an indirect tax is a satisfactory way to tackle a negative externality, such as air pollution. [12]

4 (a) Explain what may cause a country's terms of trade to change. [8]

(b) Discuss whether a worsening in a country's terms of trade will cause a worsening of its balance of trade. [12]

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