



## **Sixth Form Scholarship Examination**

### **Economics**

**Time allowed:** 1 hour 30 minutes

**Instructions:**

Answer **all** questions

You are permitted to use a calculator

Total number of marks for this paper = **60**.

Answer **all** questions.

Read **Item A** and then answer the questions that follow.

### **Item A – Rising food prices**

The prices of many essential food items in Britain have been rising. This is due to changes in demand and supply. The global demand for food is rising, because of the growing world population and increasing incomes of millions of people, for example in China and India. People in these countries are no longer content with the basic diets their parents had – they want and can now afford to eat more meat. This has led to a significant increase in the price of pork and chicken in China.

Global supply of food has also decreased. The European Union (EU) no longer has vast amounts of unsold beef and butter it used to. Global grain stocks are at their lowest levels for years. Demand frequently exceeds supply so that grain stocks are now equivalent to two months' demand. Reforms to the EU's agricultural policy have led to farmers reducing their production of wheat and milk and instead using their land for other purposes such as tourism. Another reason has been the increasing use of food crops, such as sugar and corn, as a source of bio-fuel in place of oil.

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 up tortillas, which make up the staple diet.

The Caribbean sugar industry is growing 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 rising oil prices. Sugar processors in Dominica and Jamaica are switching from producing refined sugar to producing ethanol for the US market.

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 more difficult. In a better world, government would subsidise the prices of essential food items to lessen the impact of price changes in global demand and supply.

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

- (i) .....
- (ii) ..... (2 marks)

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

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..... (2 marks)

(b) Use a diagram to show the opportunity cost involved in the choices facing the Caribbean sugar can processors. Explain your diagram.

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.....(6 marks)

**3** Using information from **Item A**:

(a) State and explain **two** reasons for the increased global demand for food

(i) .....  
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(ii) .....  
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.....(4 marks)

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

(i) .....  
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(ii) .....  
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.....(4 marks)

- 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 marks)











