



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

ECONOMICS

9708/22

Paper 2 Data Response and Essay (Core)

October/November 2009

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.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

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.

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.

This document consists of **3** printed pages and **1** blank page.



Section A

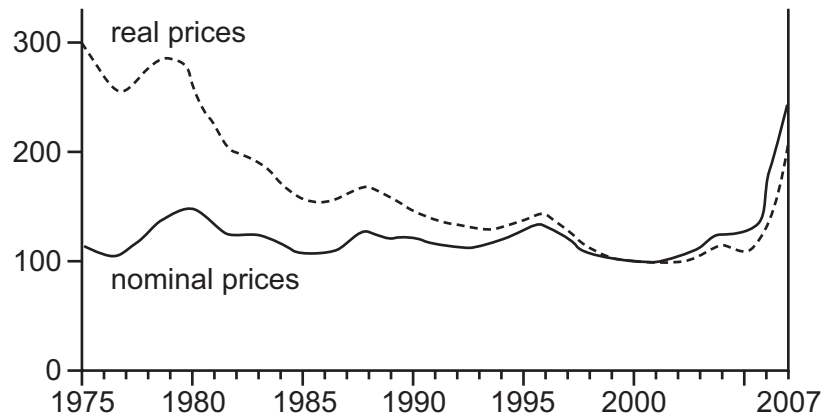
Answer this question.

1

World Food Prices

Between 1975 and 2007 the trend in world food prices changed significantly. Fig.1 shows indices of nominal and real food prices as measured by the International Monetary Fund (IMF).

Fig. 1 IMF World Food Prices Indices 1975-2007 (2000=100)



The importance of food within consumer spending patterns varies between countries. This is reflected in the weight given to food within a country's consumer prices index (CPI). Table 1 shows the CPI food weight for selected countries.

Table 1: Weight given to food (%) in CPI for selected countries

Country	Weight given to food in CPI (%)
UK	10
Australia	15
China	34
Kenya	50
Bangladesh	65

The International Food Policy Research Institute (IFPRI) calculated that a 10% rise in world food prices results in a 1% to 2% increase in world food supply. The effects of higher world food prices can benefit some countries and individuals but harm others.

- (a) (i) What is meant by nominal prices and real prices? [2]
- (ii) Compare what happened to nominal food prices and real food prices before and after the year 2000. [3]
- (b) (i) How might the differences in food weights shown in Table 1 be explained? [3]
- (ii) Contrast the effect on the rate of inflation in Kenya and in the UK if there were a 20% rise in food prices in each country. [2]
- (c) Explain **one** possible reason for the responsiveness of world food supply to changes in price reported by the IFPRI. [4]
- (d) Discuss the benefits and drawbacks of rising world food prices. [6]

Section B

Answer **one** question.

- 2 (a) With the aid of a diagram, explain how a government subsidy to producers of fuel will affect the producers and government expenditure. [8]
- (b) Discuss how reduced air fares on low-cost budget airlines might affect the air travel market and the markets for related goods and services. [12]
- 3 (a) Explain why a lighthouse is often given as an example of a public good while a light bulb is not. [8]
- (b) Discuss whether it is likely that the private costs and the social costs of production would be identical. [12]
- 4 (a) Compare the aims and features of a free trade area with those of an economic union. [8]
- (b) Discuss whether an improvement in a country's terms of trade always works to its benefit. [12]

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Copyright Acknowledgements:

Fig. 1 © *Food Prices, Cheap No More*; The Economist; 8/12/2007.
Table 1 © Mercer-Blackman et al; *Biofuel demand pushes up food prices* - Chart 2; IMF Survey Magazine; 17/12/07.

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