

# 25

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## ECONOMICS DATA RESPONSE QUESTIONS



## CONTENTS

Carmakers Porsche and VW to merge.....	3
£14m boost for Michelin factory .....	4
Supermarkets in competition probe.....	5
Industrial action to cost GM \$2bn .....	6
Office supplies battle hotting up .....	7
Pound hits two-year low vs. dollar .....	8
BMI being taken over by Lufthansa .....	9
Supermarkets admit milk price fix.....	10
Growth in the US economy improves.....	11
Japan moves back into deflation .....	12
Nike profits rise on cost-cutting .....	13
German rail privatisation agreed.....	14
Weaker sales dent Disney profits .....	15
HK feels pressure over pollution .....	16
India inflation nears 4 year high .....	17
Japan surplus down as US weakens.....	18
Oil firms see big fall in profits .....	19
Unemployment reaches 11-year high .....	20
Wheat pushes world food prices up.....	21
Bank warns of flat growth ahead.....	22
Hunger in Niger.....	23
Indian interest rates unchanged.....	24
Increased Palm Oil production leading to deforestation.....	25
Zimbabwe inflation hits 165,000% .....	26
Solar panel farms in Carmarthenshire given green light.....	27

## CARMAKERS PORSCHE AND VW TO MERGE

Carmaker Porsche says it has agreed a merger with fellow German manufacturer Volkswagen (VW) after weeks of talks between the two firms' management.

The luxury carmaker said in a statement that it wanted to see the "creation of an integrated car manufacturing group".

VW hailed the decision of the Porsche and Piech families, owners of Porsche group, to create the **merger**. It means a Porsche **takeover** of VW will not happen. The format of the new group will be decided in the next four weeks. Talks will now take place between the two carmakers, VW's home state of Lower Saxony, and employee representatives.



The state's president Christian Wulff said in a statement: "We are ready for discussions, which must be carried out quickly."

### Brand independence

The move should unite 10 brands under one roof, Porsche said. Nine of the brands are owned by VW, and the other is the Porsche sports car brand.

"In the final structure 10 brands shall stand below an integrative leading company alongside each other, whereby the independence of all brands and explicitly also of Porsche shall be ensured," a Porsche statement said.

Adapted from BBC

## Questions

- 1 Explain the difference between a merger and a takeover [2]
- 2 Explain the problems that *Porsche-Volkswagen* may face in merging two different corporate cultures. [6]
- 3 With reference to *Porsche*, analyse the advantages **and** disadvantages of organizational growth through mergers and acquisitions. [8]
- 4 Evaluate methods of making mergers more successful by effective change management. [8]

## £14M BOOST FOR MICHELIN FACTORY

**Tyre manufacturer Michelin is investing £14m in its factory at Ballymena.**

More than 1,000 people are employed at the plant, which makes bus and truck tyres mostly for export to mainland Europe and North America.

The company said no new jobs would result from the investment, but it would help underpin existing employment levels and improve efficiency.

Invest Northern Ireland is contributing £2.6m towards the total cost of the investment in machinery and equipment.

Michelin has been established in Ballymena for almost 40 years, and Economy Minister Nigel Dodds said the investment "demonstrates the company's continuing commitment to the area".

He added: "If levels of **productivity** are to be increased in Northern Ireland, it is essential that local firms focus on adding greater value to their operations and increasing their **export** capability."



Source : BBC

## Questions

1. Define the following terms:
  - a. Productivity [2]
  - b. Added value [2]
  - c. Exports [2]
2. Explain what benefits might be gained by the local community in Ballymena because of this investment. [6]
3. Michelin is a multi-national company. Explain what is meant by a Multinational business. [3]
4. Identify the drawbacks to the country because of Multinational businesses [5]

## SUPERMARKETS IN COMPETITION PROBE

The UK grocery sector has come under the spotlight again because the UK's main supermarket groups have been accused by critics of driving local convenience stores from the High Street.

Between 2000 and 2004, 7,337 independent retailers went out of business.

Supermarket chains are moving into the convenience store market.

Last year, the OFT announced it would not trigger an inquiry into the grocery sector, but it was forced to reconsider its decision after the matter was referred to the Competition Appeals Tribunal.

In March, the OFT said it would consult again about the state of the grocery sector ahead of a possible investigation by the Competition Commission.



In referring the sector to the commission, the OFT said the evidence it had gathered suggested:

- The planning system acted as "a costly barrier to entry", making it difficult for new firms to enter the market.
- The major supermarkets had "significant" land holdings, which could block competition.
- Supermarkets had occasionally attached restrictive covenants when selling sites.
- The major supermarkets' power had increased, and "some aspects of their pricing behaviour - such as below-cost selling and price flexing - could distort competition".

Source: BBC

## Questions

- 1 Do you think competition is desirable in an economy? Explain with reasons. [4]
- 2 Discuss whether governments should intervene to prevent restrictive practices adopted by Supermarkets. [6]
- 3 Local convenience stores can be categorised as small businesses. Discuss the importance of small businesses to the economy. [6]
- 4 Explain **two** problems faced by small businesses. [4]

## INDUSTRIAL ACTION TO COST GM \$2BN

Demand for larger vehicles in the US is on the wane.

**General Motors has said that industrial action will cost it about \$2bn (£1bn) in the three months to June.**

**Strikes** at some of its factories - and those at parts supplier American Axle - have dented production of large sport utility vehicles (SUVs) and pickups.

GM said it expected that much of the lost production would not be recovered because of the US economic slowdown and less demand for SUVs.

Shares slipped by about 5% though some of the losses were clawed back later.

GM had previously said it lost \$800m in the first three months of 2008, because of the American Axle strike - which began in late February.

However the dispute is expected to end next week after members of the United Auto Workers union approved a new deal on pay and conditions.



*Source: BBC*

## Questions

1. What is a trade union? [2]
2. State **two** advantages, to a worker, from joining a Trade Union? [2]
3. In the article above it is mentioned 'Strikes at some of its factories'. What is meant by Strike? [2]
4. Apart from Strikes, explain **one** other form of industrial action. [2]
5. Identify **two** reasons why Trade Unions may call for an industrial action? [4]
6. Do you think Trade Unions are beneficial for the economy? [8]

## OFFICE SUPPLIES BATTLE HOTTING UP

The Dutch office supplies company Corporate Express plans to buy its French rival Lyreco to fend off a hostile takeover by Staples.

Corporate Express will pay about 1.7bn Euros (\$2.7bn; £1.4bn) in cash and shares for Lyreco, which is more than its own market value of 1.4bn Euros.

The plan was announced in a joint statement by the two companies.

Last week, Corporate Express rejected a \$2.47bn **takeover** from Staples, saying it undervalued the company.

Corporate Express and Lyreco only deal with businesses while Staples also serves individuals through its stores.

If the **merger** is approved by shareholders and regulators, the new company will be bigger than Staples in business-to-business sales in the US, Europe and Asia.

"Although there is a strategic rationale to merge with Lyreco, it also illustrates Corporate Express' attitude toward the Staples offer and that it will do anything to avoid the takeover," said Fernand de Boer, an analyst at Petercam.



Source: BBC

## Questions

1. What is meant by:
  - a. Merger [2]
  - b. Takeover [2]
2. What form of integration does the merger illustrate? [3]
3. Explain **two** benefits which might be achieved by Corporate Express by this planned merger? [4]
4. What impact might this merger have on
  - a. People working for the two firms [3]
  - b. Customers [3]
  - c. Rival firms [3]

## POUND HITS TWO-YEAR LOW VS. DOLLAR

**The pound has hit its weakest levels against the dollar in more than two years, extending recent losses on fears about the health of the UK economy.**

Sterling dropped as low as \$1.8405 - it's weakest since July 2006.

Sterling has fallen sharply this month. As recently as mid-July, one pound bought two dollars.

The pound's losses gathered pace on Friday after news the economy stagnated in the second quarter, raising fears of a recession.

The euro also fell against the dollar, trading at \$1.4708 but above a six-month low of \$1.4630 hit last week.

The US currency has benefited as the economic outlook has darkened in the UK and Europe.

Investment guru Warren Buffett said on Friday that he had no bets against the dollar - underscoring the currency's strength.



Source: BBC

## Questions

1. What is meant by 'pound has hit its weakest levels against the dollar' [2]
2. From the article above, what is the reason for the 'fall in Sterling'? [4]
3. Apart from the reason stated in the article, identify **two** other reasons why the value of a currency might fall? [4]
4. What affect will the 'fall in Sterling' have on:
  - a. Exporters [3]
  - b. Holidaymakers travelling to US [3]
5. Explain **one** way through which the government can control the value of the currency? [4]



## BMI BEING TAKEN OVER BY LUFTHANSA

UK airline BMI is being taken over by Germany's Lufthansa.

BMI is Heathrow's second-biggest airline.

Lufthansa is buying the 50% of firm owned by BMI chairman Sir Michael Bishop, who forced the purchase under a long-standing agreement.

The German carrier was already BMI's second-largest shareholder, with a stake of 30% minus one share.

The deal will give Lufthansa control of more flights from London Heathrow airport than any other airline except British Airways.

Lufthansa accepted that the deal would have an impact on competition at the UK's largest airport, but said it was for competition authorities to make a decision on whether to approve the deal.

The deal is set to be completed by 16 January - but the German firm would not confirm what it was paying for Sir Michael's stake. Reports suggest it is about £318m.



Source: BBC

## Questions

- 1 What is meant by
  - a) Shareholder [2]
  - b) Takeover [2]
- 2 Explain **two** benefits Lufthansa will achieve from this takeover. [4]
- 3 The article refers to 'competition authorities'. Explain their role. [6]
- 4 Do you think government should analyse the impact of this takeover. Explain your answer. [6]

## SUPERMARKETS ADMIT MILK PRICE FIX

Supermarket firms Sainsbury's and ASDA have admitted that they were part of a dairy price-fixing group that earned about £270m extra from shoppers.

The supermarkets, along with a number of dairy firms, have agreed to pay fines totalling some £116m after an Office of Fair Trading (OFT) probe.

Cases against Tesco and Morrisons will continue after no deal was struck.

The OFT said that in-store prices went up after the collusion, but the amount received by farmers did not increase.



However, the firms insist that the farm gate price paid for milk did rise and that they were not ripping off customers.

The OFT said the collusion saw customers being charged 3 pence extra for a pint of milk, 15p extra per quarter-pound of butter and 15p per half-pound of cheese, the watchdog said.

Source: BBC

## Questions

- 1 Examine the impact of this collusion on
  - i. the consumers. [4]
  - ii. the farmers
- 2 Do you think the government should intervene to prevent collusion between firms? [6]
- 3 Apart from the example given above, identify **two** other restrictive practices adopted by firms. [4]
- 4 Discuss the advantages and disadvantages of a competitive market. [6]

## GROWTH IN THE US ECONOMY IMPROVES

US economic growth accelerated in the last three months of 2010 to an annualised rate of 3.2%, corresponding to a 0.78% quarterly increase.

This compares with an annual **GDP** rate of 2.6% from the Commerce Department in the previous quarter.

A rise in consumer spending contributed to the growth, as did falling imports.

The Labor Department said that wages and benefits rose 2% in 2010, which is faster than 2009, but still the second slowest rate since records began.

The Labor Department has been collecting the figures for 28 years.

The fourth-quarter GDP figure is a first estimate, and could be revised either up or down in the coming months.

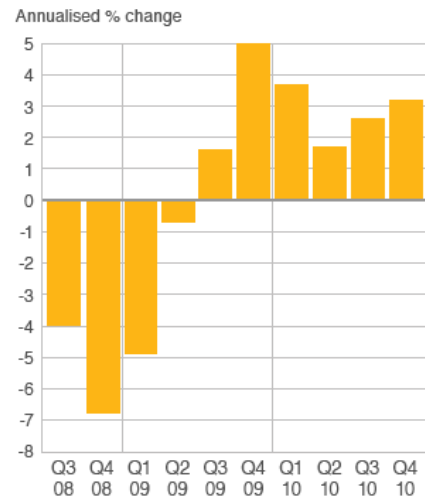
The US economy grew by 2.9% in the whole of 2010, which is the strongest year of growth since 2005.

The 4.4% rise in consumer spending had a particularly strong effect because such spending accounts for more than two thirds of US economic activity.

"Unfortunately we still need to see much stronger growth to begin to really make a dent in the **unemployment rate**," said Ryan Sweet at Moody's Analytics in West Chester, Pennsylvania.

Source: BBC.co.uk

US GDP (annualised % change)



Source: US Commerce Department

## Questions

- 1 Define the following terms indicated in bold in the text:
  - a) GDP [2]
  - b) Unemployment rate [2]
- 2 Explain what is meant by 'US economic growth'. [3]
- 3 With reference to the article and your knowledge discuss the factors that might lead to a growth in GDP. [8]
- 4 GDP is an indicator of living standards in a country. Discuss how useful this is in comparing the living standards between two countries. [7]

Total: 22

## JAPAN MOVES BACK INTO DEFLATION

Given below is an extract from a news article, which appeared on BBC, about the health of Japan's economy.

Japan's economy has fallen back into **deflation** for the first time in more than a year, new data for March shows. Gloomy figures also showed that the country's **unemployment rate** moved to a four-year high of 4.8% in the month. Meanwhile the number of available jobs in the world's second biggest economy has fallen to a seven-year low. On Thursday the Bank of Japan said **GDP** would shrink by 3.1% in the year to March 2010, compared to an earlier forecast of 2%, but it has argued that a recovery will begin in 2010. But in its latest update earlier this week it also warned that **consumer prices** will fall by 1.5%, pushing Japan into deflation.

### Questions

1. Explain the following terms appearing in the extract:
  - a. Unemployment [2]
  - b. GDP [2]
  - c. Deflation [2]
  - d. Consumer prices [2]
2. How do you calculate a country's 'unemployment rate'? [2]
3. What is meant by the term 'GDP would shrink by 3.1%'? [3]
4. With reference to the information given in the extract, comment on the health of Japan's economy. [5]

[18 marks]

## NIKE PROFITS RISE ON COST-CUTTING

**Sportswear giant Nike has managed to report a slight rise in quarterly profits after cost-cutting work helped to offset a fall in revenues.**

Nike, world's largest sportswear manufacturer has made a net profit of \$513m (£322m) in the three months to 31 August, its fiscal first quarter. This compares with \$511m a year earlier. Nike's revenues declined 12% to \$4.8bn from \$5.4bn last year.



The firm said sales were continuing to fall, with global orders from retailers until the end of January 2010 down 6%. Future orders are down most in Eastern Europe, which they have fallen 28% from a year earlier. They have declined by 4% in the US and Canada, and by 8% in Western Europe.

### 'Right track'

However, the results were better than analyst expectations, and Nike's shares rose 3% in after-hours trading. Earlier this year Nike cut 1,750 jobs, or 5% of its workforce, in the biggest job reduction in its history. Nike's chief executive Mark Parker said the company was "on the right track".

Story from BBC NEWS

## Questions

1. What is meant by 'net profit'
2. Why are profits important to a firm? [3]
3. Identify **three** other objectives that a firm might set. [3]
4. How could Nike manage to achieve higher profits despite a decline in its sales revenue? [4]
5. Why do you think Nike's shares prices rose? [3]
6. What steps could Nike take to boost its sales? [7]

## GERMAN RAIL PRIVATISATION AGREED

A quarter of Germany's state rail firm is to be privatised after the country's politicians gave the go-ahead.

The share offering covers 24.9% of Deutsche Bahn.

The long-disputed plan will see a 25% stake in Deutsche Bahn's passenger and freight services arm sold to investors, raising between 5bn and 8bn euros.

But the country's tracks and stations will remain in public hands.

Some politicians hope to sell off 49% of Deutsche Bahn but this is opposed by other Bundestag members while unions oppose any form of privatisation.

A public offering has been expected for a number of years, but disputes between Germany's governing coalition parties have led to long delays.

The proposed sale of one of Germany's last state-owned assets has been a controversial one, with claims that the privatisation could lead to thousands of job cuts.



Source: BBC

## Questions

1. What is meant by privatisation? [3]
2. What are the economic arguments for and against privatising Deutsche Bahn. [8]
3. Why do you think trade unions are opposing privatisation? [4]
4. What impact could the privatisation of Deutsche Bahn's passenger and freight services have on travel industry in Germany. [5]

## WEAKER SALES DENT DISNEY PROFITS

Walt Disney has reported a fall in profits of more than a quarter as the downturn hit revenue at its film and theme park divisions.

Net profit between April and June came in at \$954m (£579m), down 26% on the \$1.28bn the entertainment giant made in the same period last year.

Revenues of \$8.6bn were down 7% from the \$9.2bn recorded a year ago.

The results failed to meet analysts' expectations and Disney shares fell in after hours trading by 3%.

Revenues at the Parks and Resorts division fell 9% to \$2.8bn, while those at the Studio Entertainment division fell by 12% to \$1.3bn. The company said visitors were spending less at its theme parks, both in the US and in Paris, France.

Despite the market's reaction, Disney said it was heartened by the results.

"While a tough global economy impacted our performance in the quarter, we remain encouraged by the relative strength of our business," said Disney president Robert Iger. Disney owns the ESPN and ABC television networks.



Source: BBC

1. Calculate:  
Last year's revenue for
  - a Parks and Resorts division [2]
  - b Studio Entertainment division [2]
2. Explain **two** reasons why Profits are important for Disney [4]
3. "Visitors were spending less at its theme parks". Identify **two** reasons for this phenomenon. [4]
4. Which form of business organisation is Disney? What evidence is available in the extract to support your answer? [3]
5. Do you think Disney is a diversified business? Justify. [5]

## HK FEELS PRESSURE OVER POLLUTION

**Concerned scientists and public policy experts in Hong Kong have formed a group to pressure the government into taking action over air quality.**

They say World Health Organization guidelines for air quality objectives, released in October, should be applied in Hong Kong. The government says it plans to set its own standards in two years time. Meanwhile, businesses are warning of the high cost to Hong Kong's economy caused by worsening air quality.



Bad air quality is costing Hong Kong millions of dollars a day in health care and other costs, says the newly formed Air Quality Objectives Concern group. Members of the group say more than half the particles causing the pollution and poor visibility come from factories across the border in China. The scientists and policy experts accuse the government of dragging its feet in formulating plans to improve air quality. They say the air quality guidelines recently released by the WHO should be made government policy now, because Hong Kong already has a health crisis caused by air pollution.

Meanwhile, the investment bank Merrill Lynch advised clients to sell stocks in Hong Kong land-owning companies because of the impact of bad air on land values. And business groups have warned that it is getting harder to attract professionals to live in Hong Kong because of the air pollution.

Story by Vaudine England  
BBC News, Hong Kong

### Questions

- 1 What is meant by social cost? [2]
- 2 Discuss the social cost faced by Hong Kong due to air pollution. [6]
- 3 'Concerned scientists and public policy experts in Hong Kong have formed a group to pressure the government into taking action over air quality'.
  - a What is the term used for these type of groups? [1]
  - b How do you think these groups could succeed in their mission? [4]
- 4 Identify the ways through which government could control pollution. [7]



## INDIA INFLATION NEARS 4 YEAR HIGH

**Inflation in India climbed to its highest level in March for almost four years driven by rising metal, food and oil prices, official figures show.**

The annual rate of consumer price growth was 7.4% last month, the highest rate since November 2004.

Concerned by rising food prices, India last week announced a ban on exports of non-basmati rice and removed duties on imports of crude edible oils.

On Friday, it banned cement exports and withdrew concessions for steel.

Trade Minister Kamal Nath said inflation control was a priority and more measures would follow.



### Poverty measures

Unlike many countries India calculates inflation on factory gate prices or wholesale prices.

Prices paid by consumers in retail shops are higher and the issue of price growth and inflation has become a sticky political problem with six Indian states going to polls in coming months.

The inflation figures came a day after Prime Minister Manmohan Singh said sharply rising food prices could "slow down poverty alleviation, impede economic growth and retard employment generation".

Officials in the Farm Ministry told the BBC that they expect inflation to come under control by the end of April when the wheat harvest picks up.

A harvest of about 75 million tonnes of wheat has been estimated.

Reports of a good harvest in Australia will further dampen world prices, which have been under pressure after extreme weather conditions damaged crops.

The Farm Ministry said that the government had ample rice stocks, and any increase in prices was a result of rice exporting nations announcing a ban.

There were no plans to provide rice at a lower cost to Sri Lanka or African nations.

Story from BBC NEWS

## Questions

1. What is meant by inflation. [3]
2. Discuss the affects of inflation on the economy. [5]
3. Officials in the Farm Ministry are looking forward to 'the wheat harvest' and 'good harvest in Australia'. Do you think that these factors can affect inflation. Give reasons [6]
4. If prices rise and people cannot afford to buy as many goods and services as before what effects will this have on unemployment? [6]

## JAPAN SURPLUS DOWN AS US WEAKENS

Japan's trade surplus shrank by more than expected in July, due to weaker US demand and an increase in oil imports.

The surplus fell to 91.15bn yen (\$830.5m; £444.2m), down 86.6% from the same period a year earlier.

China became Japan's biggest export destination, overtaking the US for the first time since World War II, on the back of demand linked to the Olympics.

But there are fears that Japan, which earlier this week kept interest rates on hold, could fall into **recession**.

Demand from **developing countries** such as Russia and the Middle East helped to increase exports.

But JP Morgan analyst Masamichi Adachi said the outlook for the Japanese economy "essentially hinges on a recovery in the US economy".

Exports rose 8.1% to 7.63 trillion yen while imports were 18.2% higher at 7.54 trillion yen.

"Imports are surging in value, which shows that high crude oil prices continue to hurt companies revenues and are leading to an outflow of income from Japan," said Yoshiki Shinke, economist at Dai-ichi Life Research Institute.

Oil prices are up sharply on a year ago, and hit a record above \$147 a barrel in July - although prices have fallen in recent weeks.



Source: BBC

## Questions

1. What is meant by:
  - a. Trade Surplus [2]
  - b. Recession [2]
2. How do you think 'high crude oil prices continue to hurt companies' revenues'? [6]
3. State **two** factors which differentiate a developing country from a developed country? [4]
4. Explain why specialisation in international trade might benefit a country. [6]

## OIL FIRMS SEE BIG FALL IN PROFITS

Royal Dutch Shell and Exxon Mobil have both reported a big fall in quarterly profits, due to the sharp decline in oil prices since mid-2008.

April-to-June profits at Anglo-Dutch group Shell slumped 70% from a year earlier, to \$2.3bn (£1.4bn).

Exxon's **profits** for the same period declined 66% to \$3.95bn.

Global crude prices hit a record \$147 a barrel last year, before falling back as the world recession took hold. US light crude is currently about \$67.

Shell's **sales** for the quarter totalled \$63.9bn, down 51% on a year earlier, while Exxon's declined 46% to \$74.5bn.

### Cost cutting

Looking ahead, Shell's chief executive Peter Voser said global demand for oil remained "weak".

"There is ample supply and not enough demand. Quite a turnaround from a year ago.

"Shell is adapting to this new situation, and we must do more. We are sharpening our focus on delivery and affordability," he said.

The company said it would continue to cut costs after achieving savings of \$700m in the first half of 2009. It said it had now trimmed 20% of senior management positions.

Despite the fall in profits, Shell said it would be maintaining its **dividend** to \$0.42 per share, an increase of 5% from a year ago.



## Questions

- 1 What is the difference between profits and sales? [2]
- 2 Why are profits important for businesses like Shell and Exxon. [4]
- 3 What is meant by 'dividend' [2]
- 4 Draw a demand-supply graph portraying the 'new situation' in the 'global oil market'. *Hint: "There is ample supply and not enough demand. Quite a turnaround from a year ago."* [4]
- 5 What evidence is available from the article that Shell has taken steps to cut costs? [2]
- 6 Exxon and Shell are example of Multinational businesses (MNC).
  - a Identify **three** advantages a MNC might have over a business much smaller in scale. [3]
  - b Recently many MNC are starting operations in developing countries. Discuss the advantage and disadvantages these countries might have due to MNCs operating there. [6]

[23 marks]

## UNEMPLOYMENT REACHES 11-YEAR HIGH

The number of people out of work in the UK in the three months to September jumped by 140,000 to 1.82 million - the highest in 11 years.

The unemployment rate rose to 5.8%, up from 5.4% in the previous quarter, according to official figures.

The number of people claiming the Jobseeker's Allowance rose by 36,500 to 980,900 in October - the highest monthly increase since 1992.

Economists say unemployment could top two million within months.

These latest jobs figures came shortly before the Bank of England produced its gloomiest set of forecasts for in more than a decade.

The Bank said Britain's economy had probably already entered recession and was likely to contract further in 2009.

On Tuesday news came of more than 5,000 cuts by firms including Virgin Media, Yell and GlaxoSmithKline.

TUC general secretary Brendan Barber said: "The signs are that redundancies are coming even faster since these figures were collected. Countering unemployment must be public policy priority number one."

Source: BBC



## Questions

- 1 What is meant by unemployment? [2]
- 2 'Britain's economy had probably already entered recession'. What type of unemployment is caused under these conditions? [2]
- 3 Discuss the cost of unemployment for an individual and the economy. [8]
- 4 According to TUC general secretary 'countering unemployment must be public policy priority number one'. Discuss the ways through which government could counter unemployment [8]

## WHEAT PUSHES WORLD FOOD PRICES UP

The UN Food and Agricultural Organization (FAO) says that world food prices have risen to their highest level in two years.

It says the increase is due partly to a drought in Russia, which has led to government **export** restrictions and a shortage of supply of wheat.

Meat prices have been particularly hit and are at their highest in 20 years.

The Rome-based agency says that its overall food price index rose by 5% alone between July and August.

However, this is 38% down from its peak in June 2008.

The UN agency says there are sharp differences between the current situation and the spring of 2008, when the price of oil and **demand** for biofuels pushed world food stocks to their lowest levels since 1982.

But meat prices are pushed by two forces - rising price of wheat and other grains which make producing it more costly - and also increasing demand for the meat itself from emerging markets like China.

It also reduced its forecast for global production of food staples in 2010.

The FAO now thinks that world cereal production will be 1.8% lower than its June forecast.

The wheat production forecast has been revised for the second time in a month. It is expected to be 5% lower than in 2009.

But despite these falls, world cereal and wheat production levels would still be the third highest on record, the UN agency said.

Rice production is also expected to be lower. Much of the revision was due to floods in Pakistan and lower expectations in China, Egypt, India, Laos and the Philippines.

Source: BBC.co.uk



## Questions

- 1 Define the following terms
  - a. Export [2 marks]
  - b. Demand [2 marks]
- 2 With the help of a diagram, explain the reasons for the 'surge in the price of wheat'. [6 marks]
- 3 Explain two ways through which government can restrict the export of wheat. [4 marks]
- 4 Do you think that putting restriction on the export of wheat would help the government achieve its macro-economic objectives? [8 marks]

## BANK WARNS OF FLAT GROWTH AHEAD

**The Bank of England says it expects the UK economy will not grow at all over the next year or so.**

In the Bank's gloomiest assessment yet, governor Mervyn King said that he expected growth "to be flat" and did not rule out a **recession**.

He warned **inflation** would peak at 5%, making it hard for the central bank to cut interest rates in the near future.

However, he said that the slowing economy would eventually curb inflationary pressures.

"I think with broadly flat output, it's bound to be the case that there is a possibility of a quarter or two of negative growth," Mr King said.

In a technical definition of a recession, the economy contracts for two consecutive quarters.

The economic picture has worsened since the Bank's last inflation report in May, which forecast growth to fall to about the 1% mark at the end of this year.

And the Bank's prediction is worse than the government's official forecast of growth in 2009 of 2.25% to 2.75%.

Earlier on Wednesday, figures had shown that the number of people unemployed in the UK rose by 60,000 to 1.67 million in the three months to June, taking the unemployment rate to 5.4%.

The gloomy outlook in the Bank's inflation report hit the pound, which fell to 22-month lows against the dollar.

*Source: BBC*

1. What is meant by the term
  - a. Inflation [2]
  - b. recession [2]
2. Describe how Inflation is measured in an economy? [3]
3. Identify **two** functions of the Central Bank of a country. [4]
4. The article says 'government's official forecast of growth in 2009 of 2.25% to 2.75%'. What is meant by 'Economic growth'? [3]
5. An aim of government policy is to achieve economic growth. Explain what benefits economic growth can bring to a country. [6]



## HUNGER IN NIGER

Niger is a country where millions are suffering from severe hunger. In fact, the Government of Niger has estimated at least 2.5 million people don't have enough to eat. Some 80,000 children are at risk of becoming severely malnourished in the country's east and north.



Two things happened last year to trigger the current hunger crisis:

1. Heavy rains that ended earlier than expected
2. Swarms of locusts moved in devouring crops

Niger is a poor, dry, landlocked country along the Sahara desert.

Most of its 11.9 million people live off the land. According to estimates, 84% of men and 97% of women grow crops or raise livestock.

Countries like Niger—poor, situated in dry, desert areas, where most of the population mostly lives off farming—are most vulnerable to food shortages.

During last year's rainy season, heavy rains fell across the Sahel and northwest Africa. But the rain stopped abruptly, causing this year's harvest to be lower than expected. Then the locusts came, destroying part of the harvest.

"So the existing malnutrition, rain and locusts led to the situation we have today," explains Vincent Turbat, World Bank country manager for Niger.

Heavy rains had created conditions for a locust explosion: Four generations of the insects were able to breed in rapid succession. It was the worst locust plague in more than a decade.

Swarms can contain billions of insects, so the locust is a serious threat to both crops and grazing land.

Article source: <http://youthink.worldbank.org>

1. After reading the article above, do you think Niger is a less developed country? Explain. [3]
2. Which sector of the economy is more prominent in a less developed country? [2]
3. Explain **three** other differences that you might find between the population of a developed country and a developing country. [3]
4. Why do some countries have lower standards of living than others? [6]
5. If Niger had good natural resources, would the standard of living of its population necessarily be high? [6]

## INDIAN INTEREST RATES UNCHANGED

India's central bank has kept interest rates on hold at 7.75%, disappointing those who were hoping for a cut.

Economists said that rising food and fuel prices were more worrying for the Reserve Bank of India (RBI) than the impact of the sub-prime crisis.

Indian interest rates rose five times between June 2006 and last March and have been on hold since then.

Some economists thought a cut likely, particularly after the US Federal Reserve slashed rates last week.



### Rupee concerns

But the RBI indicated that it was ready to cut interest rates if there was any sign of a slowdown.

"Developments in global financial markets in the context of the sub-prime crisis would warrant more intensified monitoring and swift responses with all available instruments to preserve and maintain macroeconomic and financial stability," it said.

The current gap between US interest rates and Indian interest is the largest in three years.

There is some concern that the disparity could push the rupee higher and make Indian exports less competitive on the world market.

## Questions

1. Identify **four** functions of a Central Bank in the economy? [4]
2. How will a cut in the interest rate affect the economy. Discuss. [8]
3. 'The current gap between US interest rates and Indian interest is the largest in three years'. Discuss the possible consequences of this situation. [8]



## INCREASED PALM OIL PRODUCTION LEADING TO DEFORESTATION

Demand for palm oil is growing and fast. At the moment, most of it ends up in hundreds of food products - from margarine and chocolate to cream cheese and oven chips - although it's also used in cosmetics and increasingly, for use in biodiesel. But the cost to the environment and the global climate is devastating - to feed this demand, tropical rainforests and peatlands in South East Asia are being torn up to provide land for oil palm plantations.



Our consumption of palm oil is rocketing: compared to levels in 2000, demand is predicted to more than double by 2030 and to triple by 2050. Over 70 per cent ends up in food, but the biofuels industry is expanding rapidly. Indonesia already has 6 million hectares of oil palm plantations, but has plans for another 4 million by 2015 dedicated to biofuel production alone.

But this phenomenal growth of the palm oil industry spells disaster for local communities, biodiversity, and climate change as palm plantations encroach further and further into forested areas. This is happening across South East Asia, but the problem is particularly acute in Indonesia which has been named in the 2008 Guinness Book of Records as the country with fastest rate of deforestation. The country is also the third largest emitter of greenhouse gases, largely due to deforestation.

*Source: Greenpeace*

1. What is the meant by Opportunity cost? [2]
2. Identify and explain **one** example of opportunity cost from the above extract. [2]
3. With the help of a labelled diagram show the positions of demand curve for palm oil for different years stated in the article. [5]
4. (a) Identify **three** stakeholders who might be affected by 'growth of the palm oil industry'. [3]  
(b) In what way the stakeholders identified in (a) might be affected? [3]
5. You are asked to investigate the economic arguments for and against production of palm oil. Discuss how helpful you would find the above extract and what further information you would seek. [10]

**Total marks: 25**

## ZIMBABWE INFLATION HITS 165,000%

Zimbabwe's soaring inflation hit an annual rate of almost 165,000% in February, official figures show.

Continuing shortages of food and fuel helped to push up inflation from January's rate of 100,000%.

Government officials say the shortages make it hard to work out inflation with any degree of accuracy.

About 80% of the country's population lives in poverty and it is estimated that three million people have left the country for a new life in South Africa.



### New notes

The economy has been in trouble for several years, with supplies of basic foodstuffs, cooking oil and petrol all running low. The central bank has introduced new banknotes to cope with the spiralling prices. Last month it issued a 10 million Zimbabwe dollar note.

*Source: BBC News*

1. What type of inflation is being referred to in the article? [2]
2.
  - a) From the article above, what do you think is the main reason for inflation? [2]
  - b) Apart from the reason stated in 2 (a), Identify and explain **two** other reasons for inflation in a country. [4]
3. Identify **two** adverse effects of inflation on the economy of a country? [4]
4. Discuss the ways through which the Government could control inflation in Zimbabwe. [8]

## SOLAR PANEL FARMS IN CARMARTHENSHIRE GIVEN GREEN LIGHT

**Plans for solar farms of up to 10,000 panels on two sites in Carmarthenshire have been approved.**

The development on *Ffos Las* horse racing course and the former Cynheidre Colliery near Five Roads could power up to 1,000 homes.

Councillors approved the planning application on Thursday.

Made up of rows and rows of individual ultra solar panels, the electricity generated will be fed into the National Grid.

In January neighbouring Pembrokeshire became the first council in Wales to approve a solar farm when planning grant permission was granted for land at Rhos-Y-Gilwen Mansion, a country retreat near Cardigan.

Entec, acting as an agent for developers, said the two sites in Carmarthenshire had been chosen as they were well positioned and well screened from surrounding areas.

To encourage low carbon electricity generation schemes to feed in to the National Grid, the UK Government currently pays operators a **subsidy** guaranteed for 25 years.

But due to the number of applications it said it planned to "tweak" the system next year.

Energy Secretary Chris Huhne said big solar farms threatened to use up the available cash for homes and small businesses who want to use the system.



**Source: BBC.co.uk**

- 1 What is meant by the term 'subsidy'? [2 marks]
- 2 With the help of a diagram, show the impact of subsidy on the supply of the solar panels. [4 marks]
- 3 While doing a cost benefit analysis for this project, what factors should government consider before approving the project? [8 marks]
- 4 Do you think government should provide subsidies to solar panel farms? Discuss [8 marks]

[22 marks]