

Agricultural product prices at record levels on low supply, strong demand



The prices of agricultural products like coffee, durian, cocoa, and pepper have surged to record levels due to soaring exports and low supply. Coffee prices have risen significantly, reaching VND114,000 per kilogram. Durian and cocoa prices also hit all-time highs in the first quarter of the year. The global market reflects similar trends, with Arabica coffee prices reaching \$5,100 per ton. Vietnamese farmers are experiencing substantial profits, with coffee and durian being the most profitable. The increase in prices is attributed to low supply, drought conditions, geopolitical tensions, and shrinking cultivation areas. The Vietnam Coffee and Cocoa Association notes that coffee inventories are at their lowest. The Vietnam Fruit and Vegetable Association expects prices to remain high due to high global demand and decreasing supply. However, durian prices might temporarily decrease during the harvest season in May before rising again later in the year. An expected water shortage this summer is likely to maintain the upward trend in prices.

Source: <https://e.vnexpress.net/>

Question:

1. Define the term "export". [2]
2. Explain two reasons why agricultural product prices have risen to record levels. [4]
3. Analyse, using a supply and demand diagram, the impact of shrinking cultivation areas on the prices of agricultural products. [6]
4. Discuss whether or not the high prices of agricultural products are beneficial for the overall economy of a country. [8]

Suggested Answers

1. Define the term "export" [2]

In the context of agricultural products, "export" refers to the process of selling and shipping goods produced in one country to another country for sale or trade. It involves transporting products like coffee, durian, cocoa, and pepper from Vietnam to international markets where they are sold.

2. Explain two reasons why agricultural product prices have risen to record levels. [4]

- **Increased Global Demand:** There has been a significant rise in global demand for agricultural products like coffee, durian, cocoa, and pepper. As more countries and consumers seek these products, the heightened demand drives prices up.
- **Low Supply:** The supply of these agricultural products has been unusually low due to factors such as drought caused by El Nino and geopolitical tensions. Additionally, the shrinking cultivation areas for coffee and cocoa in Vietnam have contributed to the reduced supply, pushing prices higher.

3. Analyse, using a supply and demand diagram, the impact of shrinking cultivation areas on the prices of agricultural products. [6]

- **Answer:**
 - **Diagram Description:** In a supply and demand diagram, the vertical axis represents the price, and the horizontal axis represents the quantity of agricultural products. The supply curve (S) slopes upward, and the demand curve (D) slopes downward.
 - **Initial Equilibrium:** The initial equilibrium is where the supply curve (S1) intersects with the demand curve (D1), determining the original price (P1) and quantity (Q1).
 - **Impact of Shrinking Cultivation Areas:** When cultivation areas shrink, the supply curve shifts to the left (from S1 to S2), indicating a decrease in supply.
 - **New Equilibrium:** The new equilibrium is at the intersection of the new supply curve (S2) and the original demand curve (D1), resulting in a higher price.

4. Discuss whether or not the high prices of agricultural products are beneficial for the overall economy of a country. [8]

High prices of agricultural products can have both positive and negative effects on the overall economy of a country. While farmers and certain sectors may benefit, there are also potential drawbacks to consider.

Positive Effects:

1. Increased Income for Farmers:

- Higher prices lead to greater profits for farmers, improving their standard of living and enabling them to invest in better farming techniques and equipment.
- **Example:** Vietnamese coffee farmers making significant profits due to high coffee prices can reinvest in their farms, leading to increased productivity and long-term sustainability.

2. Boost to the Agricultural Sector:

- The agricultural sector can experience growth as farmers and businesses involved in the production and distribution of these products benefit from higher revenues.
- **Example:** Companies involved in processing and exporting agricultural products may see increased profits, leading to job creation and economic growth in rural areas.

3. Foreign Exchange Earnings:

- High prices for export-oriented agricultural products can lead to increased foreign exchange earnings, strengthening the country's balance of payments.
- **Example:** Increased export earnings from high-priced coffee and durian can improve Vietnam's trade balance and provide more foreign currency reserves.

Negative Effects:

Inflation:

- High agricultural product prices can contribute to inflation, raising the cost of living for consumers and reducing their purchasing power.
- **Example:** Increased prices for essential items like coffee and cocoa can lead to higher costs for food and beverages.

Income Inequality:

- While farmers benefit from high prices, other segments of the population, especially those not involved in agriculture, may face higher costs without corresponding income increases, leading to greater income inequality.

- Example: Urban consumers may struggle with higher prices for agricultural products while rural farmers benefit, widening the income gap.

Reduced Competitiveness:

- Prolonged high prices might make a country's agricultural products less competitive on the global market if other countries can produce and sell similar goods at lower prices.
- Example: If Vietnamese coffee becomes too expensive, global buyers might turn to other coffee-producing countries with lower prices.