GCE AS

wjec cbac

B520U20-1

S23-B520U20-1

eduqas
Part of WJEC

MONDAY, 22 MAY 2023 – MORNING

ECONOMICS – AS component 2
Exploring Economic Issues

2 hours

ADDITIONAL MATERIALS

In addition to this examination paper, you will need a calculator and a WJEC pink 16-page answer booklet.

INSTRUCTIONS TO CANDIDATES

Answer **all** questions.

Use black ink or black ball-point pen.Do not use gel pen or correction fluid.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

Answer **all** questions.

1. **Rise of Palm Oil**

Palm oil is an edible oil made from the fruit of a palm tree. Three-quarters of all palm oil output is used as a cheaper alternative to rapeseed or soybean oil in cooking or in processed foods, with the rest used in cosmetics, cleaning products and biofuels (fuel produced from living plant matter rather than fossil fuels).

Indonesia and Malaysia are the world's leading palm oil producers. Although palm oil production has brought jobs to remote rural areas, it has also created issues, with local communities losing access to land and resources as land is sold to private businesses for palm oil production.

Indonesia and Malaysia % of world supply of palm oil in 2018	85%
Value of palm oil industry to Indonesia and Malaysia 2018	$40 bn
Indonesia and Malaysia palm oil employment (direct) 2018	5 million jobs
Indonesia and Malaysia employment related to palm oil production (indirect) 2018	11 million jobs
Contribution to Malaysian GDP of palm oil production 2018	4% of annual GDP nearly 50% of all agricultural output
Structure of the Malaysian economy	• Agricultural output 9% of GDP • Industry output 38% of GDP • Services 53% of GDP

More than half of Indonesia's rainforest, the third largest in the world, has been burnt to make way for oil palm tree plantations. Scientific reports suggest that at their peak the forest fires released approximately 11.3 million tons of carbon dioxide per day, exceeding the 8.9 million tons of carbon dioxide per day in the European Union which are partly controlled by tradeable pollution permits.

Permission has been granted to convert up to 70% of Indonesia's remaining forest into palm plantations. These forests are also home to some of the most threatened species in the world, including the orangutan. As such palm oil can be said to have a negative impact, but if it is replaced by much larger areas of rapeseed, soy or sunflower fields, a greater amount of different species may suffer. If palm oil didn't exist, there would still be the same increasing global demand for vegetable oils.

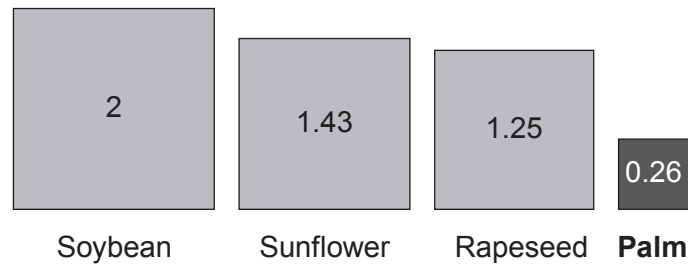**Land (hectares) required to produce 1 tonne of different oils**

Figure 1

Soybean	Sunflower	Rapeseed	**Palm**
2	1.43	1.25	0.26

Figure 2

All other vegetable oils 65%

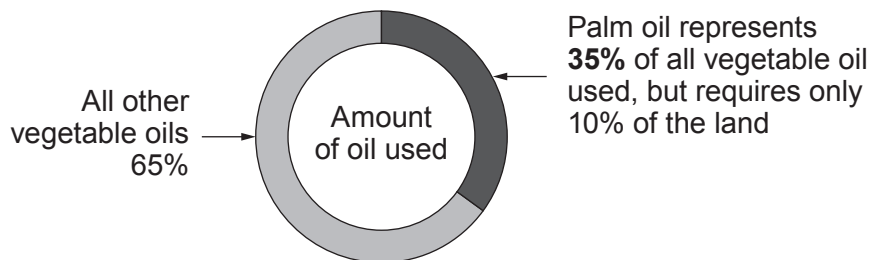Palm oil represents **35%** of all vegetable oil used, but requires only 10% of the land

Amount of oil used

Various certification schemes have been set up in recent years for palm oil producers in order to make the industry more sustainable by imposing clear standards and criteria for rainforest clearance and employee rights. The most widely used scheme is the Roundtable on Sustainable Palm Oil (RSPO). 35% of its members have been inspected and certified as sustainable producers, an outcome that had a cost to the business. The other members pay a fee to RSPO but have not been inspected or certified as sustainable as it is not a legal requirement. These 'second class' members gain by not having to pay high costs of achieving sustainability status but are still able to claim to be members. However, they lose in that they are not able to sell to businesses who have high standards of ethics which are becoming more important as customers increasingly demand goods from ethical businesses. Inspections are carried out by inspectors who are independent (not employed by RSPO).

In the European Union (EU) the fight against climate change is a priority. The EU wishes to reduce its reliance on palm oil by banning palm oil from biofuels in 2020, which would eliminate around half of EU palm oil imports. The EU is Malaysia's third largest market for palm oil exports after India and China. Malaysia's Government threatened retaliation against the EU if palm oil imports for biofuel are banned, threatening that free trade negotiations would be negatively affected. Malaysia has also threatened to cancel the purchase of expensive European fighter jets, stating that it would instead look to trade palm oil reserves with Russia, China or Pakistan in exchange for new military equipment. The EU and Indonesia are also in conflict over Indonesia's decision to subsidise biofuel production using palm oil, with the EU threatening to impose tariffs on Indonesian biofuel imports. Demand for biofuels in the EU is price elastic due to its substitutes.

Malaysia signed the 12-nation Trans-Pacific Partnership (TPP) free trade agreement in February 2016, although the future of the TPP remains unclear following the US withdrawal from the agreement. Malaysia is also a member of the Association of Southeast Asian Nations (ASEAN) economic community along with nine other Asian countries which aims to promote regional economic integration through free trade and intergovernmental cooperation.

(a) (i) Define the meaning of a subsidy.   [2]

     (ii) Using the data and a diagram, outline the likely impact of the subsidy on biofuel
          on the producer and consumer.   [6]

(b) Explain a possible external benefit of agricultural production.   [4]

(c) Analyse how a decrease in the price of tradeable pollution permits could lead to
     increased carbon dioxide (CO_2) emissions.   [5]

(d) Consider whether converting up to 70% of Indonesia's remaining forest into palm
     plantations is an efficient allocation of resources.   [8]

(e) Discuss whether sustainability regulations for palm oil should be made compulsory
     rather than being left to voluntary schemes such as the RSPO.   [6]

(f) To what extent do you think the EU's move to reduce its use of palm oil will harm
   Malaysian GDP, employment and trade?   [9]

2. **Woes of Argentina**

Mauricio Macri began his Argentinian Presidency in December 2015. A former businessman, he was a moderniser and his election was hailed as proof that Argentina, once Latin America's richest economy, was recovering after the economic policies of previous President Cristina Kirchner. Kirchner's economic policies had included:

- Stopping price rises by private sector firms in utilities including gas, electricity and water in 2002. This resulted in a collapse in investment by those utility firms, leaving the country's power networks in disrepair. From being an exporter of energy, Argentina became an importer.
- Energy subsidies to households.
- Reforms to pensions. Before Kirchner came to power, social security pay-outs, including pensions, took around one-third of the government's budget. By the end of her presidency they had increased to nearly half of the budget.
- Currency controls to stop the exchange rate of the peso (Argentina's currency) from falling.
- Protectionist policies and tariffs.

Macri promised to improve the economy. His first decision was to change the measurement of the country's official statistics, which had been distorted badly to hide the weak state of the economy. He then reduced tariffs on imports. Macri believed that the public finances were weak and decided to introduce cuts to government spending to reduce the budget/fiscal deficit.

Argentina's Government Budget (% of GDP)
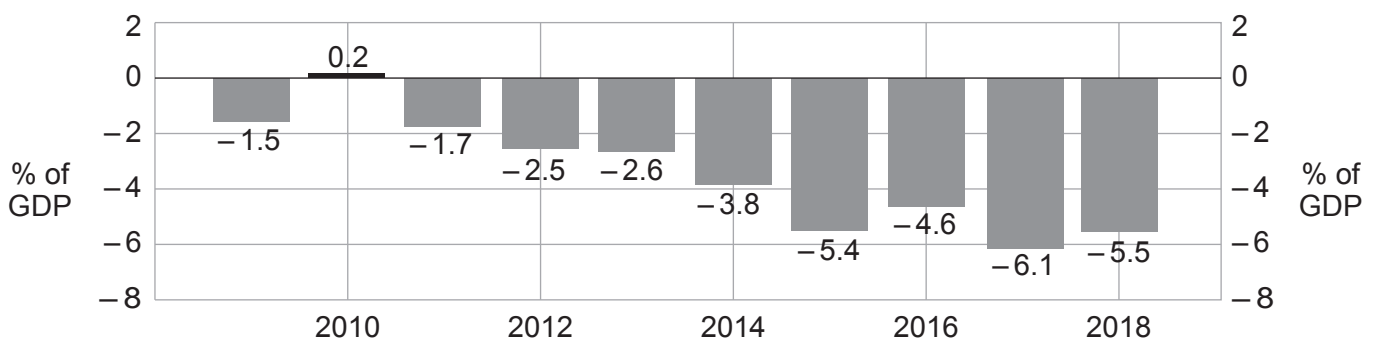
Argentina's Public Sector Debt as % of GDP (GDP measured in $ US Dollars)
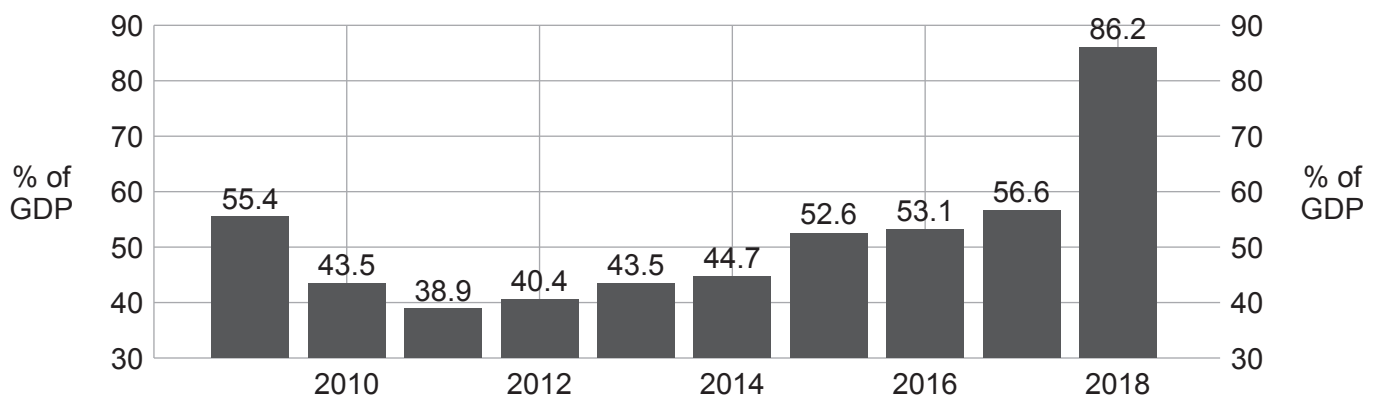
The government borrowed successfully by issuing bonds in June 2017 with an extended repayment period to finance its budget/fiscal deficit. International investors backed Macri's decisions by buying these government bonds, which was impressive for a country with a reputation for not repaying its public sector debt.

Initially there was some evidence that Macri's policies were working. Following periods of negative GDP growth between 2014 and 2016, Argentina's GDP grew continuously in the period between 2016 and 2018.

In early 2018 the economy started to face difficulties. Trade unions started resisting reforms to labour laws. The reforms which aimed to help businesses gain productivity and competitiveness made it easier for firms to sack workers. Historically the labour laws had been employee friendly and left employers facing high costs as a result of the strong protection afforded to employees.

Also in 2018, a drought affected some of Argentina's main exports due to a smaller harvest reducing production of processed plums and peaches, key agricultural exports. This worsened Argentina's current account balance.

After previous currency controls were lifted by Macri, the peso weakened against the US dollar. In August 2018 the peso lost nearly one-fifth of its value despite the central bank raising its interest rate to 60%, the 4th interest rate increase since May 2018 when interest rates were 27.5%. Interest rates were around 10% between 2008 and 2013.

A significant part of the Argentinian Government's borrowing is in US dollars. An estimated $100 bn of public sector debt was borrowed by the Argentinian Government during 2017 and 2018.

Argentina's Inflation Rate
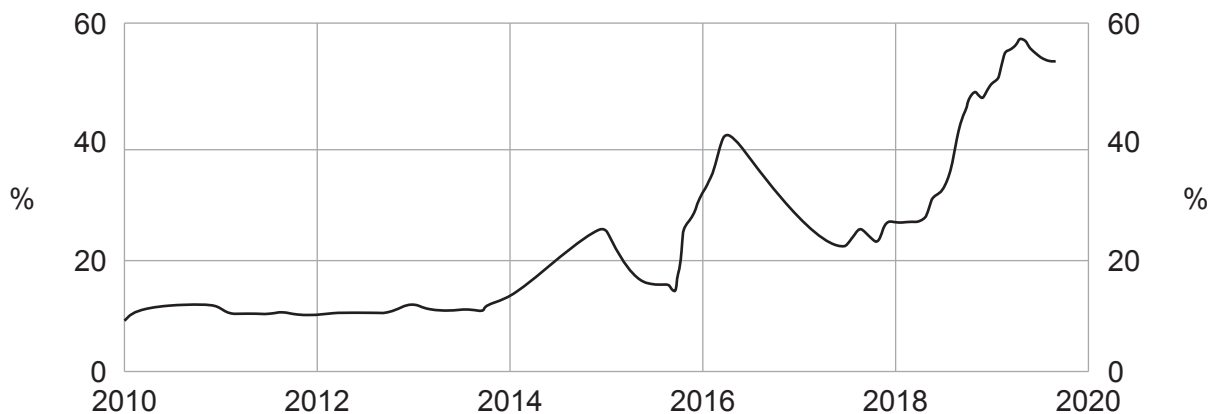
A period of relatively moderate inflation during the 2000 s was followed by an increased inflation rate from 2010 and an acceleration from 2014 onwards. In April 2019, trying to control continued inflation, Macri launched price controls on 60 essential products including food. Critics say that previous price control mechanisms failed, though the government insists that these price controls are different from previous controls as the prices were agreed with producers.

(a) Explain **one** reason for a drop in investment by utility firms during Kirchner's Presidency. [3]

(b) Using a diagram, explain the likely impact of the Argentinian drought on the price of processed plums and peaches. [4]

(c) (i) Explain the impact of a decrease in the exchange rate of the peso against the US dollar on the cost of Argentina's public sector debt. [4]

(ii) Given the increase in interest rates, discuss whether the change in the exchange rate of the peso in August 2018 is surprising. Use a diagram in your answer. [7]

(d) Using the data, consider whether Macri was right to cut government spending in order to improve the budget/fiscal deficit. [7]

(e) Using a labour market diagram, discuss the likely impact on wages of reforming labour laws. [6]

(f) Using a demand and supply diagram, discuss the extent to which price controls on the 60 essential products will be an effective tool to control inflation in Argentina. [9]

END OF PAPER