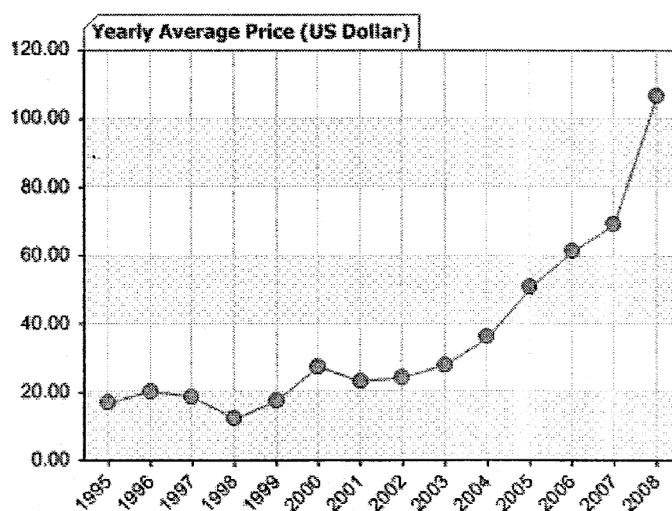


CSQ Demand & Supply

Figure 1: Price of Oil (US\$ per barrel)



Source : OPEC website www.opec.org

Table 1 : Price of Rice (Thai A1 super grade)

Year	2002	2003	2004	2005	2006	2007
Price of rice per tonne (US\$)	150	151	207	219	217	275

Source: International Rice Institute Research website www.irri.org

Extract 1: Don't Panic, Don't Hoard And Don't Overbuy

"Don't Panic, Don't Hoard And Don't Overbuy." This message comes from Ms Sopan Manathanya, the vice-president of one of Thailand's top rice exporters. She is in Singapore on a 3-day visit to assure rice distributors here that Thai rice conglomerates like hers are taking steps to increase the number of crops harvested in a year and are also negotiating prices with farmers.

According to Ms Sopan, factors pushing up the price of rice include the growing number of farmers switching from producing rice to biofuels, weather conditions and higher overheads.

Source: Adapted from *The New Paper*, 29 Apr 2008

Extract 2: Targeted Price Controls in United Arab Emirates

A black market for rice has emerged in inflation-hit United Arab Emirates. An Abu Dhabi-based food trader said: "The price you pay a black market dealer could be as much as 20% more than what you pay normally."

The United Arab Emirates (UAE) government has reportedly tried to limit inflation through targeted price controls. This measure has pushed rice supplies off store shelves. As a result of this, people took to panic buying, thereby causing Thai rice prices to nearly treble.

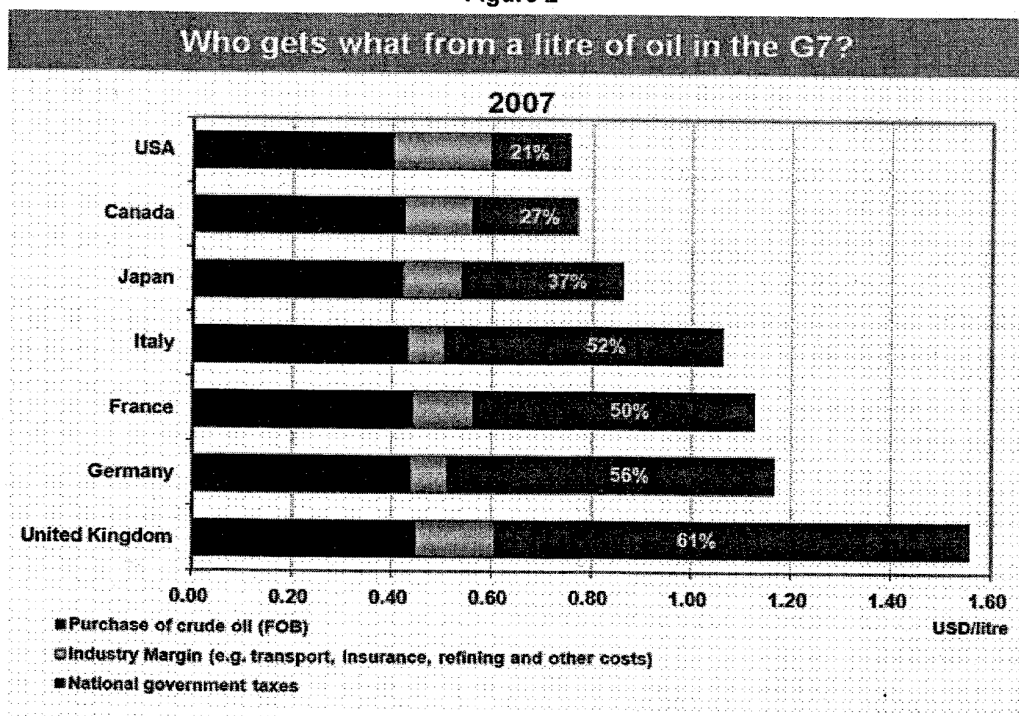
According to traders, the UAE will continue to encounter a shortfall in rice supplies. A rice trader said: "The number of traders who stopped importing rice in the last couple of months is scary. They want subsidies and compensation and the government is not giving any. We cannot import and make losses, if the countries we are importing from like Pakistan, demand higher prices and sell their output to other destination."

With the implementation of price controls, food and commodity inflation is likely to come down. Nevertheless, prices may still remain high due to global trends.

UAE is a member of the Organization of the Petroleum Exporting Countries, OPEC, which is the source of about a third of the globe's oil supply. OPEC is widely regarded as the greatest beneficiary of the global oil price hike.

Source : Adapted from Reuters, Jun 2008

Figure 2



Source: www.opec.org

Extract 3: Proposed Tax on Windfall Profits of Oil Companies

At a time when Americans are finding they're having to give up a host of things just to fill their gas tanks, they read news stories about record oil company profits. To address America's anger over \$4 a gallon gasoline, Democratic leaders have proposed a tax on the windfall profits of oil companies. The Democratic energy package would have imposed a tax on any "unreasonable" profits of the five largest U.S. oil companies.

Exxon Mobil, one of the five largest oil companies, fired back at the call to counteract skyrocketing energy costs by hiking levies on producers. Exxon Mobil said that U.S. energy companies already pay record taxes and that the high oil prices is due to oil market speculation.

"Proposals to increase taxes on the industry would discourage the sustained investments needed to safeguard U.S. energy security and are not in the interests of American consumers," Exxon Mobil said. Other market analysts interviewed also urged for long term solutions to protect consumers' welfare

Adapted from Reuters, Jun 2008

Questions

(a) (i) With reference to Figure 1 and Table 1, compare the trend of prices of rice and oil in the period 2004 to 2007. [2]

(ii) With reference to Extract 1, provide a possible explanation for the relationship between the price of rice and that of oil between 2004 and 2007. [2]

(b) With reference to Extract 2, explain, with the aid of a diagram, how price controls implemented by the UAE government may affect

(i) the market for rice. [3]

(ii) the consumers. [2]

(c) (i) Is the demand for oil price elastic or inelastic? [3]

(ii) Explain how price elasticity of demand would affect how the firm's pricing strategy to increase total revenue. [3]

(d) Discuss if the demand or supply factors will be more significant in influencing the price of oil. [5]

(e) Critically examine how the proposal of "a tax on any "unreasonable" profits of the five largest US oil companies" (Extract 3), is effective in protecting consumers' interests. [10]

Total marks [30]