**2021 – June Mid-Year Test 1**

**Essay Question 1**

(a) What are the basic economic problems? [4]

(b) Distinguish the allocation of resources for market and command economies. [6]

**Essay Question 2**

The costs of production in the motorcycle industry have risen significantly in recent years.

1. Using a demand and supply diagram, analyse the effect of an increase in production costs in the motorcycle industry on the equilibrium price and the equilibrium quantity of new motorcycles. [6]
2. Explain the concept of price elasticity of supply. [4]
3. Discuss to what extent time is the main influence on the price elasticity of supply. (10)

**Essay Question 3**

1. Explain what is meant by price elasticity of supply. [5]
2. Explain what influences the price elasticity of demand of a product. [7]
3. Discuss how knowledge of price elasticity of supply and of price elasticity of demand could be of use to a business. [8]

**Case Study Q1**

**The struggles of the Ivory Coast’s cocoa farmers**

Cocoa prices have hit a 30-year high due to demand exceeding supply.

Production of cocoa in the Ivory Coast, which provides about a third of the world’s cocoa beans, has fallen as a result of poor weather and under-investment in the industry. The 2009 harvest was badly affected by dry weather, pests and disease.

A spokesperson at the International Cocoa Organisation commented, “We have now had three consecutive years of supply declining. With current production methods, the Ivory Coast has reached maximum output. Farmers don’t use many chemicals and pesticides. They need to invest more in chemicals and other farming techniques to increase their yields.”

The demand for cocoa has continued to grow. The fashion for more expensive, high-quality chocolate has helped to increase demand as it typically has a higher cocoa content.

A spokesperson from the Fair Trade Association commented, “The large, unpredictable fluctuations in the cocoa market make life extremely difficult for farmers.”

The Government of the Ivory Coast is planning to create greater stability in the cocoa market by regulating the industry. It is thinking of selling the cocoa itself and also fixing the price. If the government fixed the price for cocoa, the farmers would be less vulnerable to fluctuations in prices due to changes in demand and supply factors.

1. (i) State one reason for the increase in demand for cocoa. [1]

(ii) State two reasons for the decrease in supply of cocoa. [2]

1. Explain, using a demand and supply diagram, how the changes in the demand for and the supply of cocoa have affected the equilibrium price and equilibrium quantity in the cocoa market. [6]
2. Explain why the large, unpredictable fluctuations in the cocoa market make life difficult for cocoa farmers. [3]
3. Discuss whether an economy would benefit from its government intervening to regulate an industry. [8]