

## Unit 2 Policy Building: Coffee + Intervention

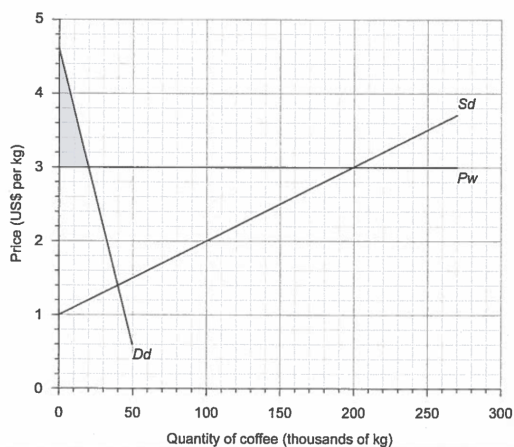
<p><b>Building a Policy Response</b></p> <p><b>NB: the policy can be expressed in a range of policies or measures (interventions) that the government/regulator can apply to solve the problem</b></p> <p><b>NB 105 minutes for paper. 52.5 minutes per question. 10/30 marks for policy paper then you have a maximum of 17.5 minutes to answer each of the policy question on HP 3</b></p>	<p><b>Topic: Unit 2.7</b></p> <p><b>Focus on the connection between Markets + intervention</b></p> <p><b>Note: use the sources that appear in the exam paper. These are copied below.</b></p>	<p><b>Use the data provided + your own knowledge to build the policy (see NB comment opposite) and write the policy on the relevant page below.</b></p>
<p><b>TASK (exam question HP 3: Q1 ): Using the data provided and your knowledge of economics, recommend a policy which could be introduced by the government of country X in response to the fall in the expected price of coffee.</b></p>		
<p><b>Planner</b></p>		
<p><b>A) Plan</b> briefly the data/evidence in this column from the sources below that you will use in your policy statement. Use bullet points to record your information.</p> <p><b><u>Useful evidence: bullet point here:</u></b></p>	<p><b>B)</b> What knowledge /theory can you use from the course to help make the policy statement more valid? (Any valid theory or concept that should be in the policy statement?)</p> <p><b><u>List items here:</u></b></p>	<p><b>C.1)</b> Produce a brief powerpoint presentation on <b>one</b> slide containing the main points + justification for the policy you have designed.</p> <p><b>Or</b></p> <p><b><u>C.2) Summarize your Policy here in bullet points:</u></b></p>

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### Data from exam paper:

Country X is a low-income economy situated in Africa. Its main export is coffee, which accounts for 20.2% of its export earnings. Figure 1 illustrates the market for coffee in Country X.  $D_d$  and  $S_d$  represent domestic demand and supply per year, in thousands of kilograms (kg), while  $P_w$  is the world price in US dollars (US\$) per kg.

Figure 1



The government of Country X is concerned about the future of the coffee market for three reasons.

- Several coffee-producing countries have announced plans to increase output.
- Political changes abroad are expected to bring about trade protection.
- Some coffee-producing countries are likely to introduce export subsidies for coffee.

It is believed that the world price of coffee could decrease by as much as US\$0.80 per kg.

Table 1 shows selected economic data for Country X (2016 unless stated).

Table 1

	Country X	Comparison (world average)
Gross domestic product (GDP) per capita at purchasing power parity (US\$ PPP)	1717	18 000
% of GDP from agriculture	26.7	3.9
% of labour force working in agriculture	40	19.8
Gini coefficient	0.41	
Current account balance (US\$) (2015)	−2.35 billion	
% of population below poverty line	19.7 (2013)	10.68

The minister of finance for Country X has stated that “one of our problems is that our citizens view coffee as an export crop only, and we do not do enough to develop our domestic market. Indeed, many coffee drinkers in our country buy imported products rather than domestic coffee, and their demand is not price-sensitive”.

[illegible]

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[illegible]

**(10 marks)**