

OXFORD

INTERNATIONAL
AQA EXAMINATIONS

INTERNATIONAL AS ECONOMICS

UNIT 1: THE OPERATION OF MARKETS, MARKET FAILURE AND
THE ROLE OF GOVERNMENT

SPECIMEN 1

Source Booklet

Extract A: Average monthly world prices of potash and wheat in
selected years, January 2010 to December 2018

Extract B: Changes in the potash market

Extract C: Intervention in agriculture?

Do not write in this source booklet.

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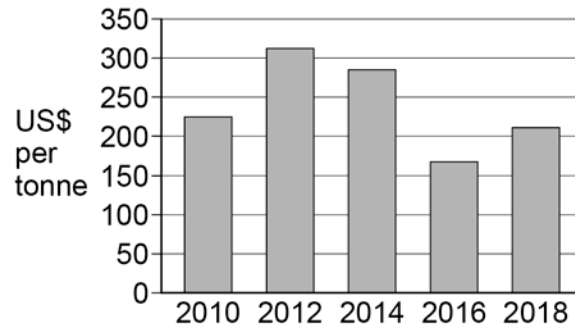
Extract A: Average monthly world prices of potash and wheat in selected years, January 2010 to December 2018

(i) Potash prices

Year	US \$ per tonne
2010	332
2012	459
2014	282
2016	260
2018	216

Note: All figures are rounded

(ii) Wheat prices



Source: Official statistics, May 2019

Extract B: Changes in the potash market

Potash is one of three main fertiliser products which farmers use to increase the quantity and quality of their output of crops such as wheat. Consequently, like the demand for farm workers, potash is in derived demand. 1

With objectives such as maximising profit or even just survival, farmers are always looking to cut costs. The cost of fertiliser can be as much as half the variable costs of a wheat farmer. Therefore, potash prices are very important in determining both the demand for fertiliser and the price of wheat. 5

Potash is an important natural resource, which is often obtained from deep mines. The largest producers are Canada, Russia, Belarus and China - in 2017, they produced about 75% of the world's total output. However, for many years, the majority of the world's potash was sold through two organisations, which set the same prices. They effectively worked as a monopoly but this arrangement ended in 2013. 10

Potash prices have fluctuated considerably over time. For example, between early 2008 and February 2009, the price of potash rose from approximately US\$200 to US\$875 a tonne. This encouraged producers to increase supply but also made it less affordable for farmers. Prices have generally been lower and more stable in the last few years. This is good for the farmers who grow the crops and the consumers who buy the food. 15

Source: News reports, 2019

Extract C: Intervention in agriculture?

The demand for food, for both people and animals, continues to grow. This is due to rises in population and incomes around the world. This then increases the demand for fertilisers such as potash and workers to produce it.	1
However, mining for products such as potash also creates environmental costs. There is likely to be air and noise pollution, together with the depletion of local water supplies needed for production. There may be further problems if one or a few firms control the market.	5
The output of crops such as wheat is much less predictable than the output of manufactured goods. In different years, the same inputs will result in different outputs, depending on the weather and other conditions. Poor weather conditions in some parts of the world may increase many agricultural prices.	10
Improved technology could increase productivity but many farmers are struggling to finance this due to falling or uncertain agricultural prices. Inequality will always exist but which is worse - low incomes for farmers or high prices for consumers?	
Do these market failures linked to agriculture justify government intervention and if so, what could be done? Agriculture is a key part of any economy and governments are often keen to support their farmers, so that at least some of the country's food supplies are produced in that country. For example, the European Union intervened in various ways over the years as part of its Common Agricultural Policy (CAP), including minimum prices, quotas and subsidies. However, there may be unintended consequences and such policies may be too costly for many countries.	15 20
So, should agriculture (and related markets such as that for potash), be left to the free market or should governments intervene to support producers of agricultural products?	25

Source: News reports, 2019

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