

General Certificate of Education  
January 2004  
Advanced Level Examination



**ECONOMICS** **EC4W**  
**Unit 4 Working as an Economist: The European Union**

Monday 26 January 2004 Afternoon Session

**In addition to this paper you will require:**  
an 8-page answer book.  
You may use a calculator.

Time allowed: 1 hour 40 minutes

**Instructions**

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is EC4W.
- Answer the compulsory question.
- **At the very start of the examination**, tear along the perforations in order to detach the question on page 2 from the extracts.
- **The extracts** are printed on pages 3, 4, 5 and 6, which can be unfolded.

**Information**

- The maximum mark for this paper is 84. This includes up to 4 marks for Quality of Written Communication.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

**Advice**

- You are advised to spend the first 20 minutes reading the Case Study.

---

Answer the compulsory question.

You may detach this page by tearing along the perforations.

---

**Case Study:**

**THE EUROPEAN UNION**

You are advised to spend the first 20 minutes thoroughly reading the Case Study before writing the report. The instructions below set the scene of the Case Study and explain what you should include in your report. The whole report will be marked out of 84, including 4 marks for Quality of Written Communication.

**Setting the scene**

You are an economist working for the Department of the Environment, Food and Rural Affairs (DEFRA) in the UK Government. A new junior minister has been appointed to the department, and will be given special responsibility for dealing with the Common Agricultural Policy (CAP) of the EU. The new minister needs to be briefed on the economic aspects of the CAP and you have been asked to prepare a report for this purpose.

When writing your report, you should make use of the information in **Extracts A, B, C, D and E**, together with any other relevant knowledge you possess.

**Requirements of the report**

You are to write a report entitled: 'Economic Reasons for, and Consequences of, the Common Agricultural Policy'.

Your report should:

- explain why agricultural products are often regarded by governments as products requiring intervention in the market;
- explain what the CAP was intended to achieve, and why it has caused problems such as 'butter mountains';
- evaluate the benefits and the costs of the CAP;
- conclude by recommending reforms to the CAP, giving reasons to justify your recommendations.

Use economic concepts and principles where appropriate. You will be given credit for demonstrating your ability to analyse, comment critically on, and make effective use of the data provided. (84 marks)



**Extract C: Agenda 2000: reform of the CAP**

Extract C was a table and an extract of text from *Agenda 2000* about the reform of the CAP.

**Extract D: Is real reform now possible?**

There has been a number of 'reforms' of the CAP. Some progress has been made. The CAP accounts for a smaller share of the EU budget (down from two-thirds at one time to around 46%). A start has been made on its trade-distorting effects. There is at least some discussion of its environmental impact. The fact remains, however, that European farmers are still highly subsidy-dependent and a large proportion of the funds goes to better-off farmers and landowners, so if CAP is meant to be a social policy it fails. It also fails in terms of creating an internationally competitive European agriculture, and has not been reformed sufficiently to take account of the likely consequences of eastern enlargement (without change to the CAP, this would bankrupt the EU budget).

At the beginning of the new century, an interesting new set of developments took place which provided a new driver for reform. European citizens have become increasingly concerned about food quality and safety issues. This can be traced to the BSE outbreak in Britain, the dioxin scandal in Belgium, and concerns about 'frankenstein foods' represented by genetically-modified products. The outbreak of foot-and-mouth disease in Britain (and subsequently in France) seems to have reinforced these fears.

The latest figures from the Organisation for Economic Cooperation and Development (OECD) on Producer Subsidy Equivalents (PSEs) show that the total value of publicly-funded aid to EU farmers actually rose in 2001 compared with 2000. The PSE includes **all** forms of assistance to farmers, e.g. tax reliefs, not just direct payments.

**PSE League Table (OECD)**

Country	PSE (per cent of agricultural income)
Switzerland	69
Norway	67
Korea	64
Iceland	59
Japan	59
European Union	35
United States	21
Canada	17
Australia	4
New Zealand	1

Source: adapted from Wyngrant's CAP Page, <http://members.tripod.com/~WynGrant>, accessed 4 October 2002

TURN OVER FOR EXTRACT E

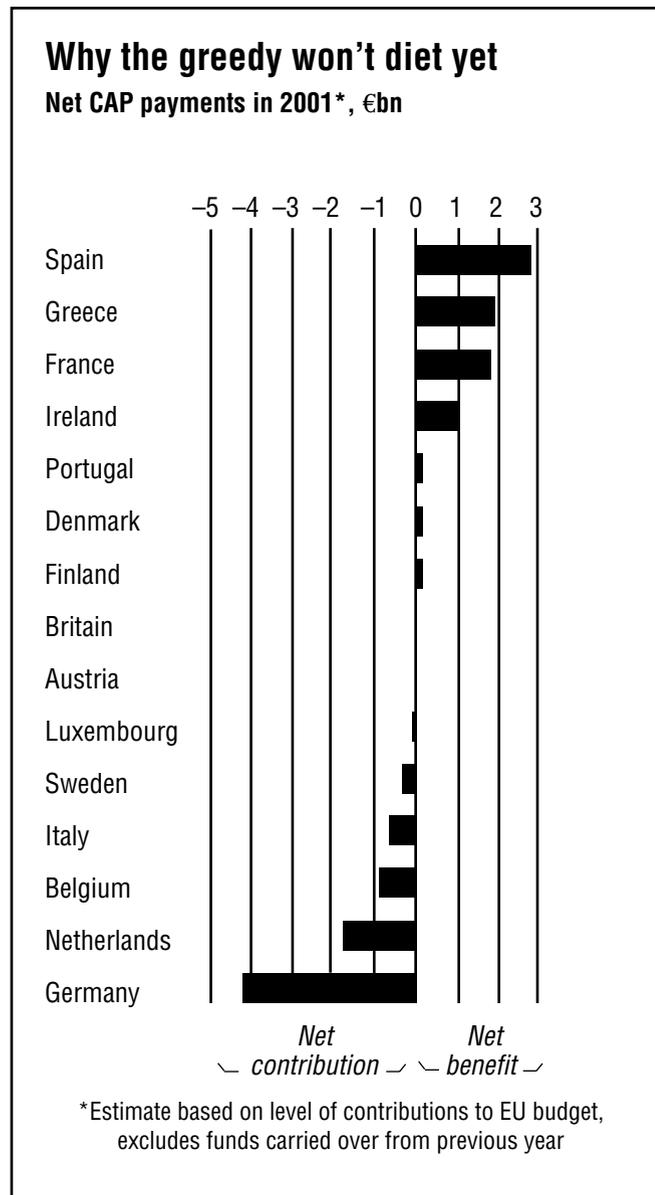
Turn over ►

**Extract E: Reform? Forget it**

The EU lavishes about €40 billion a year on direct subsidies to European farmers. It is an expensive way to create surpluses, high food prices, environmental damage and harm to poor third-world farmers. In July 2002, however, Franz Fischler, the EU's agriculture commissioner, proposed a shake-up. 1

He did not propose anything as radical as a cut in subsidies, but he did suggest redirecting the money, by 'decoupling' it from production. Farmers would no longer be paid to over-produce. Instead, they would get flat payments, which would be progressively cut back, the money being redirected towards rural development. 5

'Would', alas, was the operative word. It has become clear that the big beneficiaries of the CAP would fight to prevent a reform that might cost them money. 10



Source: adapted from *The Economist*, 3 October 2002

END OF EXTRACTS

---

**THERE ARE NO EXTRACTS PRINTED ON THIS PAGE**

**ACKNOWLEDGEMENT OF COPYRIGHT-OWNERS AND PUBLISHERS**

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-owners have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements in future if notified.

**Extract A:** © Market House Books Ltd, 1996.

**Extract B:** © Crown Copyright.

**Extract C:** © European Communities 1995–2003.

**Extract E:** © The Economist Newspapers Limited, London (2002).

Copyright © 2004 AQA and its licensors. All rights reserved.