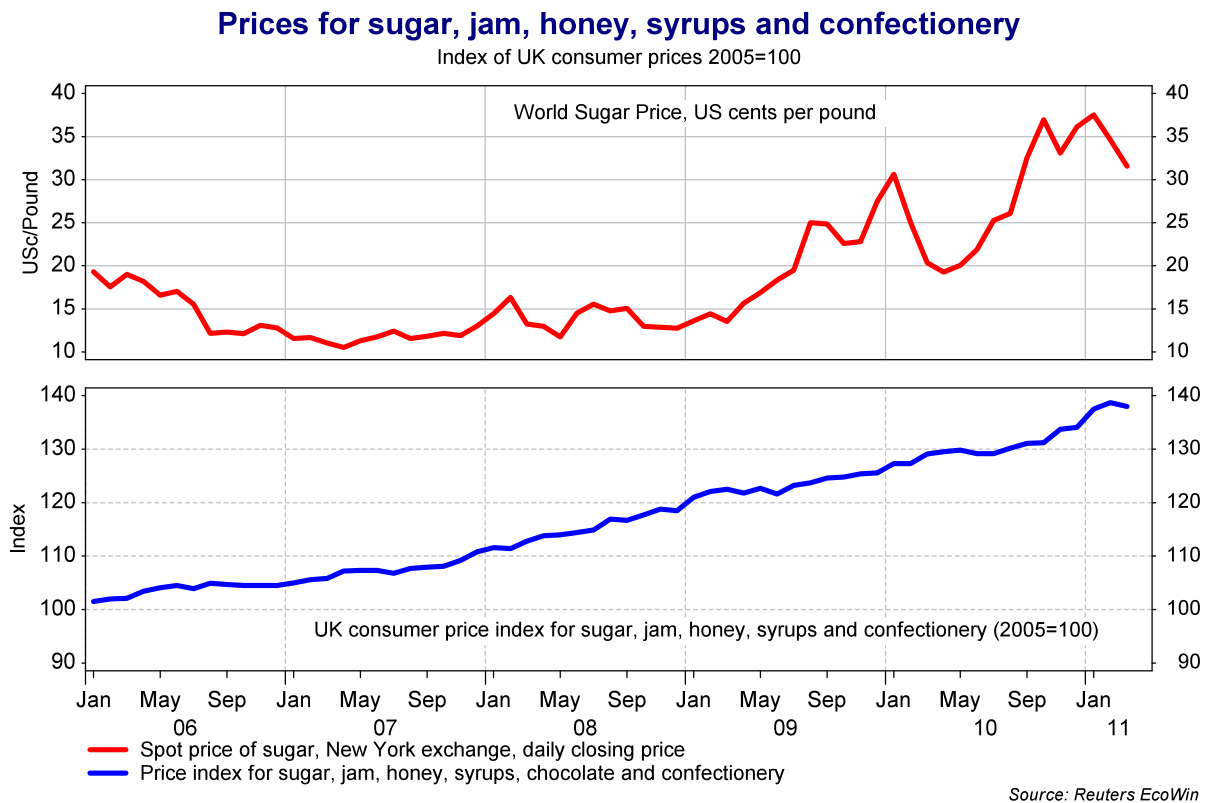


Unit 1 Revision: Sugar Prices, Consumption and Market Failure

Figure 1: World price of sugar and UK confectionery prices



Extract A: Sugar Prices and the Battle against Obesity

Sugar prices around the world more than doubled over the last few years. Sugar production in Brazil, the world's largest producer, has been hit by heavy rain. Brazil is also diverting part of its sugar cane crop to making ethanol fuel for use by motor vehicles. Speculative demand has also forced up sugar prices. Eugene Weinberg, an analyst at Commerzbank, pointed out that cash-rich speculators have purchased sugar stocks in anticipation of its price rising to even higher levels next year.

For much of the last decade, sugar has not been a profitable crop compared to other types of farming. Recent high prices cannot result in an immediate increase in sugar production, as it may take up to two years for supply to respond – the price elasticity of supply of sugar to the market is low in the short term.

Rising sugar prices have affected the production costs of chocolate and other confectionery companies. However, there are many other costs to consider. At Mars, for example, sugar is third on its list of ingredient costs behind cocoa and milk. Moreover, the price of milk has been falling over recent years, helping to offset the increase in sugar costs. Chocolate and other confectionery companies have experienced increased sales during the recession as people attempt to cheer themselves up by consuming more sugary treats.

Governments in many nations are increasingly concerned about the economic and social costs arising from an epidemic of obesity, diabetes and -cardiovascular disease. They have considered different ways to bring it under control but, so far, no single strategy has emerged to tackle it.

The broad aim is to get food manufacturers to cut down on unhealthy ingredients, such as fat, salt and sugar. Some economists favour direct intervention in the markets for fast food, ready meals and soft drinks. One proposal is for a tax on producers applied to unhealthy ingredients such as salt, alcohol, sugar and saturated fats. These are the ingredients that contribute to most of our obesity problems.

If a tax was levied at 1p per gram for sugar, saturated fats and alcohol, and 1p on a tenth of a gram of salt, the price of a Big Mac would rise from £2.49 to £2.88. In 2010 Denmark introduced taxes on chocolate, ice cream and sugary fizzy drinks. It also plans to introduce a tax on saturated fats. In Boston USA, the mayor of Boston has banned the sale of sugary drinks at public buildings to ease the strain on the state's health system.

Adapted from news reports

Questions:

1. Define “price elasticity of supply” (5 marks)
2. Using Figure 1, identify **two significant points of comparison** between changes in the world price of sugar and changes in the index of consumer prices for sugar, jam, honey, syrups and confectionery (8 marks)
3. With reference to Figure 1 and Extract A, explain why the price of sugar ‘more than doubled over the last few years’. Use a supply and demand diagram in your answer. (12 marks)
4. Evaluate possible economic policies that a government might use to reduce significantly the consumption of foods and drinks with high sugar content (25 marks)