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Period 3

INTERNATIONAL
Herald Tribune

UN: High food prices help Afghans drop opium crop

The Associated Press
Friday, November 14, 2008

ROME: High food prices are encouraging many Afghan farmers to switch from opium poppies to wheat and other legal crops, a top U.N. official said Friday.

An oversupply of opium has pushed prices down 20 percent a year over the last four years, said Antonio Maria Costa, executive director of the Vienna-based U.N. Office on Drugs and Crime.

Anti-drug campaigns have made opium farming harder, and income from wheat has tripled since 2007, partly due to drought, the office said in a new report.

In 2007, opium brought 10 times as much money as wheat, the office. This year, it brought in three times as much.

"It has been very difficult to repress an activity while its profitability was so high," Costa told a news conference in Rome. "When profitability gets lower, people stop cultivating."

Last year, opium farmers cultivated 476,903 acres (193,000 hectares); this year, they cultivated 388,000 acres (157,000 hectares), the U.N. said.

Afghanistan remains the world's largest producer of opium — the main ingredient for the production of heroin — growing 90 percent of the global supply.

Poppy production remains high in the south of the country, where the Taliban-led insurgency is strongest, Costa said. U.S., U.N. and other Western officials say that the insurgency is funded by some of the proceeds from the multibillion dollar drug trade — perhaps as much as \$100 million a year.

Surging food prices — stoked by high oil prices, growing demand, flawed trade policies and speculation — have triggered protests around the world in recent months. The Rome-based U.N.'s Food and Agriculture Organization recently said the food price surge in past months pushed the number of hungry people to 923 million worldwide.

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HL1 ECONOMIC CONNECTIONS ACTIVITY # 1

Title of article: UN: High food prices help Afghans drop opium crop

Name of Publication: International Herald Tribune

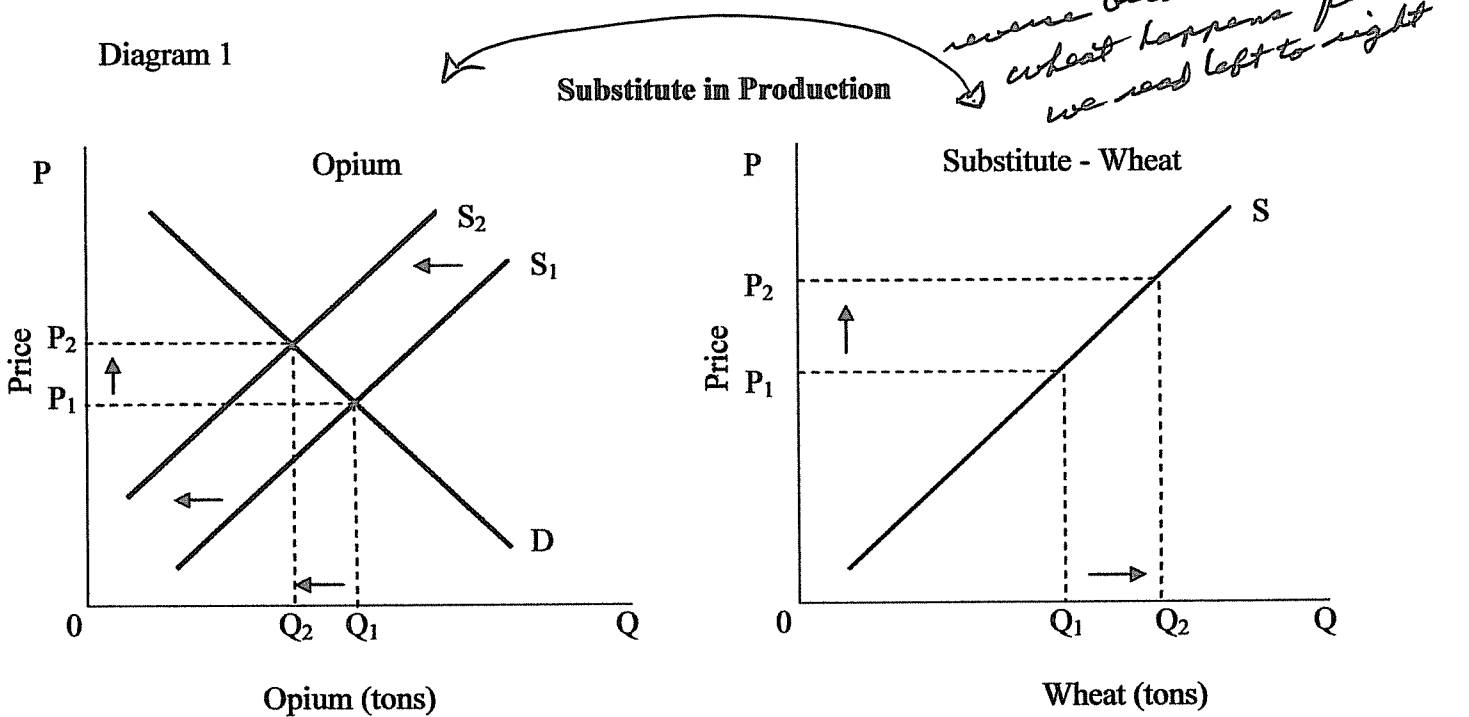
Date of Article: 14 November 2008

Economic concept/theory (highlighted) (1 pts total): Supply

Economic Analysis

The supply, the amount of a good or service that producers are willing to offer at various possible prices during a given time period, of opium has been affected by an increase in the price of wheat, a substitute in production for opium, where the increased production of one good means diverting resources away from producing the other. According to the Law of Supply, producers will supply more of wheat at higher prices by diverting resources away from producing opium. Diagram 1 below shows the supply of wheat and opium.

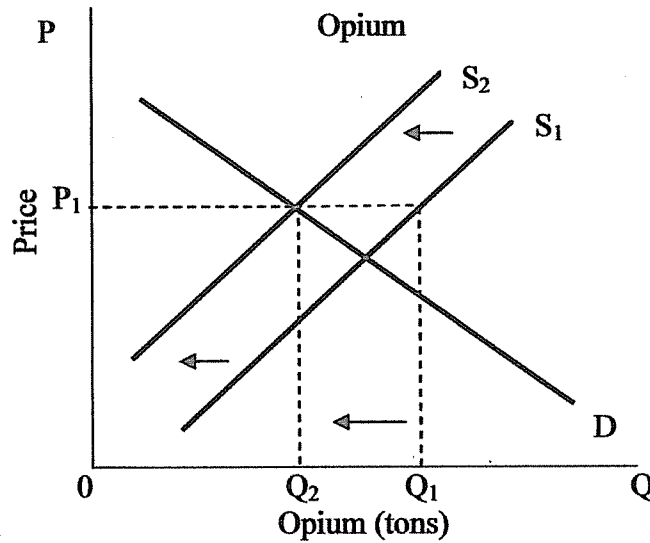
Diagram 1



As shown in Diagram 1, when the price of wheat increases from P_1 to P_2 , resulting in an increase in the quantity supplied (the amount of a good or service that producers are willing to offer at each particular price during a given time period) from Q_1 to Q_2 , the supply of opium decreases as represented by a leftward shift in the supply curve from S_1 to S_2 . The price of opium increases from P_1 to P_2 , and the quantity supplied decreases from Q_1 to Q_2 .

It is indicated in the article that an oversupply (supply exceeds demand) is pushing the price of opium down 20% a year. However, an increase in the price of wheat (a substitute in production) will decrease the supply of opium as represented by a leftward shift of the supply curve from S_1 to S_2 , and may eventually eliminate the problem of oversupply, stopping the price of opium from falling further, as represented in Diagram 2 (on the next page).

Diagram 2



This is not particularly needed as you are basically just illustrating the article. Not much new added by you.

As demonstrated above, the initial oversupply (as illustrated by the red line) at a certain price (P_1) is eliminated by a decrease in supply (S_1 to S_2), moving the equilibrium price (price at which quantity demanded equals quantity supply) to P_1Q_2 and the quantity supplied from Q_1 to Q_2 .

Evaluation

Although the magnitude of the change in opium supply is not known, any decrease in supply would be in line with the United Nation's plans to repress the cultivation of opium, and to alleviate the problem of opium oversupply, since the quantity supplied decreases when supply decreases. As Afghanistan is the world's largest producer of opium, the decrease in quantity supplied will lead to a significantly reduced quantity of opium supplied worldwide. However, because the production (the conversion of natural, human, and capital resources into goods and services) of opium in the south of the country is funded by the Taliban led insurgency, farmers may still be encouraged to grow opium despite the decreased profit (the difference between the revenue received from the sale of a good or service and the costs of providing that good or service).

In the long run, if the price of wheat remains high and more farmers substitute wheat for opium, the opium supply will be reduced which will then lead to an increase in its price, and a decrease in the supply of heroin due to a change in input price, given that opium is the main ingredient for heroin production. This will consequently contribute to the decreased quantity of heroin bought and sold worldwide.

This year's drought (an unpredictable natural event) has caused a decrease in the supply of wheat, and pushed its price up to the point where many farmers have substituted wheat for opium cultivation to gain more profit. In the short-run, the supply of wheat is inelastic as it takes time for wheat to grow. However, in the long run, if there is no more drought, the supply of wheat will become more elastic as stocks continue to build up, which might then lead to a surplus if the wheat production around the world remains unchanged. This will push its price down, and may, in turn, encourage farmers to revert to opium cultivation.

This is basically analysis

This hints at evaluation

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