Past-paper walk-through

Scarcity, choice and opportunity cost ▪ 1.1

eXercise

Questions in this set

- 9708/14 N25 Q1 ▪ 1 mark
- 9708/21 N25 Q1 ▪ 20 marks
- 9708/12 J25 Q2 ▪ 1 mark

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = “or words to that effect” – the wording need not match.

Question 1

9708/14 N25 ▪ Q1 ▪ 1 mark

1 What is characterised as a free good?

A one that has zero opportunity cost

B one that is non-excludable and non-rivalrous

C one that is supplied by the government with no charge

D one that receives a 100% government subsidy

Solution 1

Answer: **A**

Why

- A free good is one so abundant that using it costs nothing forgone.
- So its defining feature is zero opportunity cost.
- Being non-excludable and non-rival defines a *public* good, which is a different idea entirely.

Question 1

9708/21 N25 ▪ Q1 ▪ 20 marks

1 Mexico's backward-looking energy policy is bad for the country and the planet
In 2023, Mexico's energy policies looked increasingly out of step with those in the rest of the world. The Mexican President reversed recent reforms of Mexico's energy market. These reforms increased the role of private sector firms. He changed the balance of the mixed economy by prioritising state-owned companies and stressed that Mexico should produce its own energy rather than importing it.
The government invested in a new oil refinery and decided to keep coal-fired power stations running. It also gave state-owned electricity and oil companies priority over private sector rivals, so it was harder for private firms to obtain permits to generate electricity or to explore for oil.
Mexico has traditionally exported crude oil and imported natural gas. However, the new plan is that the oil will be used to generate the country's electricity. There has

Question 1

been a global shift towards energy self-sufficiency but it is unclear whether Mexico has the capacity to produce enough electricity for its 130 million people. There may also be an impact on the country's balance of trade in goods which was in deficit for nine months of 2022, as shown in Figure 1.1. Jan-22 Feb-22 Mar-22 Apr-22 May-22 Jun-22 Jul-22 Aug-22 Sep-22 Oct-22 Nov-22 Dec-22 2000 1000 0 –1000 –2000 –3000 –4000 –5000 –6000 –7000 Source: tradingeconomics.com balance of trade in goods (US$m) Fig. 1.1 Mexico's balance of trade in goods, January 2022 to December 2022
Energy is likely to become more expensive. Operating costs of the state-owned electricity producers are significantly higher than their private sector rivals. Its old and inefficient plants are expensive to maintain. These costs will be passed on to the consumer, either directly or by the government having to spend more on subsidies to keep down the price.

Question 1

The environment will also suffer. Mexico will see less investment in renewable energy because of its change in energy policy. In the past, domestic and foreign firms in the private sector did much of the investing. The policy change means that Mexico is unlikely to meet its pledge to produce 35% of its electricity from renewable sources by 2024.

The impact of the energy policy may be felt in the economy more broadly. The earlier energy reforms had helped to bring manufacturers to Mexico by making power cheaper and more reliable. Now the uncertainty is deterring investors.

The opportunity cost of Mexico's new energy policy is huge. Economists reckon that Mexico could have produced almost half its electricity from renewable sources long before its target of 2050. Multinational companies were looking at Mexico as an alternative location to other countries, but because of Mexico's change in energy

Question 1

policy, those companies are likely to go elsewhere. Source: Adapted from: ‘Mexico’s energy policy’, The Economist, The World Ahead 2023, published 2022

(a) Using the information provided, explain whether Mexico is a mixed economy. [2]

(b) Explain what is meant by ‘The opportunity cost of Mexico’s new energy policy is huge.’ [2]

(c) Consider the extent to which direct provision of electricity in Mexico through state-owned companies may be advantageous to consumers. [4]

(d) With the help of a diagram, assess whether the potential advantages of providing a subsidy to keep down the price of electricity in Mexico will outweigh the potential disadvantages. [6]

(e) Assess the potential benefits and limitations of Mexico keeping its oil to generate the country’s electricity. [6] Section B Answer one question. EITHER

Question 1

(a) (a) Using the information provided, explain whether Mexico is a mixed economy. [2] **[2]**

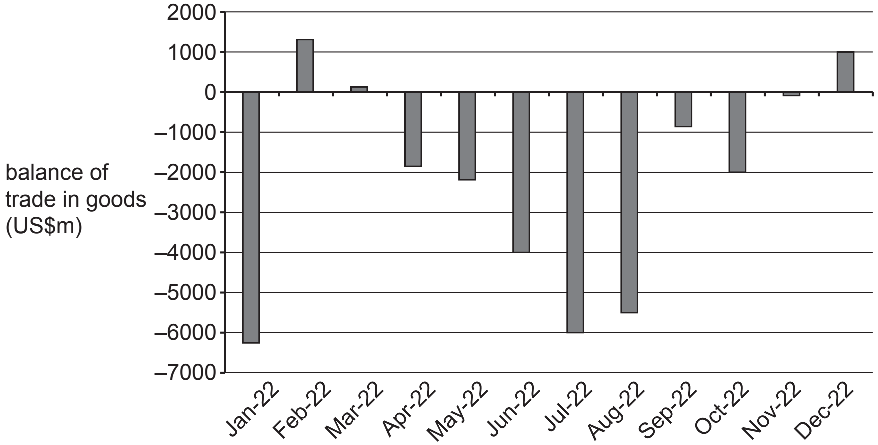
(b) (b) Explain what is meant by 'The opportunity cost of Mexico's new energy policy is huge.' [2] **[2]**

(c) (c) Consider the extent to which direct provision of electricity in Mexico through state-owned companies may be advantageous to consumers. [4] **[4]**

(d) (d) With the help of a diagram, assess whether the potential advantages of providing a subsidy to keep down the price of electricity in Mexico will outweigh the potential disadvantages. [6] **[6]**

(e) (e) Assess the potential benefits and limitations of Mexico keeping its oil to generate the country's electricity. [6] **[6]**

Question 1



balance of trade in goods (US$m)
2000
1000
0
–1000
–2000
–3000
–4000
–5000
–6000
–7000
Jan-22
Feb-22
Mar-22
Apr-22
May-22
Jun-22
Jul-22
Aug-22
Sep-22
Oct-22
Nov-22
Dec-22

Solution 1

(a) Mark scheme

- Using the information provided, explain whether Mexico is a mixed
- economy.
- ▪
- Explanation of a mixed economy in terms of allocation of
- resources/ownership through both a private sector and a public sector
- (1).
- ▪
- Evidence from the article that Mexico has BOTH a private sector ('private

Solution 1

- sector rivals', 'harder for private firms to obtain permits ...', 'domestic firms
- in private sector') AND a public sector ('changed the balance of the mixed
- economy by prioritising state-owned companies', 'it also gave state-
- owned electricity and oil companies priority ...', 'operating costs of the
- state-owned electricity producers ...'). [1]
- 2

Solution 1

(b) Mark scheme

- Explain what is meant by 'The opportunity cost of Mexico's new energy
- policy is huge.'
- ▪
- Opportunity cost is the value of the (next) best alternative forgone when a
- decision is taken. 1
- ▪
- Multinational companies that might have located in Mexico may decide to
- go elsewhere where the energy policy is less restrictive for private

Solution 1

- companies (1) OR
- ▪
- A failure to introduce renewable methods as economists reckoned that
- Mexico could have produced almost half its electricity from renewable
- sources long before its target of 2050. 1
- 2
- 9708/21
- October/November
- 2025

Solution 1

(c) Mark scheme

- Consider the extent to which direct provision of electricity in Mexico
- through state-owned companies may be advantageous to consumers.
- Potential advantages:
- ▪
- State-owned companies seen as more likely to be drivers of growth,
- possibly leading to higher living standards.
- ▪
- The government may have more financial resources to support the state-

Solution 1

- owned companies than the private sector, which could lead to lower
- prices and a more efficient supply to consumers.
- ▪
- State-owned companies might be more likely to operate in the national
- interest than private companies, potentially benefitting. (Up to 2 marks)
- Potential disadvantages:
- ▪
- Operating costs of the state-owned electricity producers are significantly
- higher than in private companies, which could lead to higher prices for
- consumers.

Solution 1

- ▪
- State-owned companies have old and inefficient plants that are expensive
- to maintain, which could lead to a less efficient supply to consumers.
- ▪
- There will be less investment in renewable energy because the
- government has little interest in this. (Up to 2 marks)
- Max 3 marks
- Note: The focus of the question is consumers.
- Evaluation
- Offers a valid judgement on the extent to which direct provision of electricity in

Solution 1

- Mexico through state-owned companies may be more advantageous to
- consumers
- Max 1 mark
- 4
- 9708/21
- October/November
- 2025

Solution 1

(d) Mark scheme

- With the help of a diagram, assess whether the potential advantages of
- providing a subsidy to keep down the price of electricity in Mexico will
- outweigh the potential disadvantages.
- Up to 4 marks for explanation/analysis:
- An accurate diagram of a subsidy:
- ▪
- Axes correctly labelled and demand and supply curves correctly drawn
- and labelled.

Solution 1

- ▪
- Supply curve shifts to the right leading to a new equilibrium position. 1
- Explanation of the potential advantages of a subsidy, including a lower price
- and a higher quantity. (Up to 2 marks)
- Explanation of the potential disadvantages of a subsidy, including the fact
- that it will need to be financed by the government, it could lead to
- inefficiencies and there would be an opportunity cost. (Up to 2 marks)
- Up to 2 marks for evaluation:
- Relevant evaluation of whether the potential advantages of providing a
- subsidy to keep down the price of electricity in Mexico will outweigh the

Solution 1

- potential disadvantages (1) to reach a conclusion. 1
- 6

Solution 1

(e) Mark scheme

- Assess the potential benefits and limitations of Mexico keeping its oil to
- generate the country's electricity.
- Up to 4 marks for explanation/analysis:
- ▪
- Explanation/analysis of the potential benefits of Mexico keeping more of
- its oil to generate the country's electricity, such as in relation to a shift
- towards greater energy self-sufficiency. (Up to 3 marks)
- ▪

Solution 1

- Explanation/analysis of the potential limitations of Mexico keeping more
- of its oil to generate the country's electricity, such as whether Mexico has
- the capacity to produce enough electricity for its population of about 130
- million or the possible impact of such a policy on its balance of trade
- (2022 data shown in Fig. 1.1) given that its crude oil will now be kept in
- the country rather than exported. (Up to 3 marks)
- Up to 2 marks for evaluation:
- ▪
- Relevant evaluation which weighs up the potential benefits and limitations
- of Mexico keeping its oil to generate the country's electricity (1) to reach a

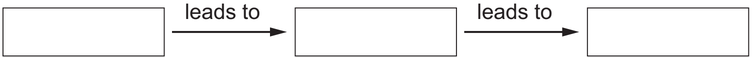
Solution 1

- conclusion. 1
- 6
- 9708/21
- October/November
- 2025
- EITHER

Question 2

9708/12 J25 ▪ Q2 ▪ 1 mark

2 The diagram is from a chapter on 'The Fundamental Economic Problem' in an Economics textbook. It should contain the terms *opportunity cost*, *scarcity* and *choice* in the order that identifies the fundamental economic problem.



What is the correct order for the terms to appear in the diagram?

A choice → opportunity cost → scarcity

B choice → scarcity → opportunity cost

C scarcity → choice → opportunity cost

Question 2

D scarcity $\rightarrow$ opportunity cost $\rightarrow$ choice

Solution 2

Answer: **C**

Why

- Scarcity comes first: resources are limited relative to wants.
- Scarcity forces a choice between competing uses.
- Making that choice means giving up the next best alternative – the opportunity cost.