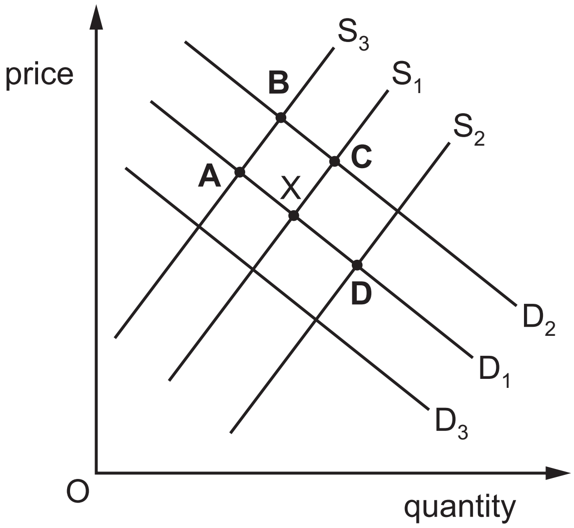
11 The diagram shows supply and demand for a good. The original equilibrium is X.

What will be the new equilibrium if subsidies are given to firms for new machinery?

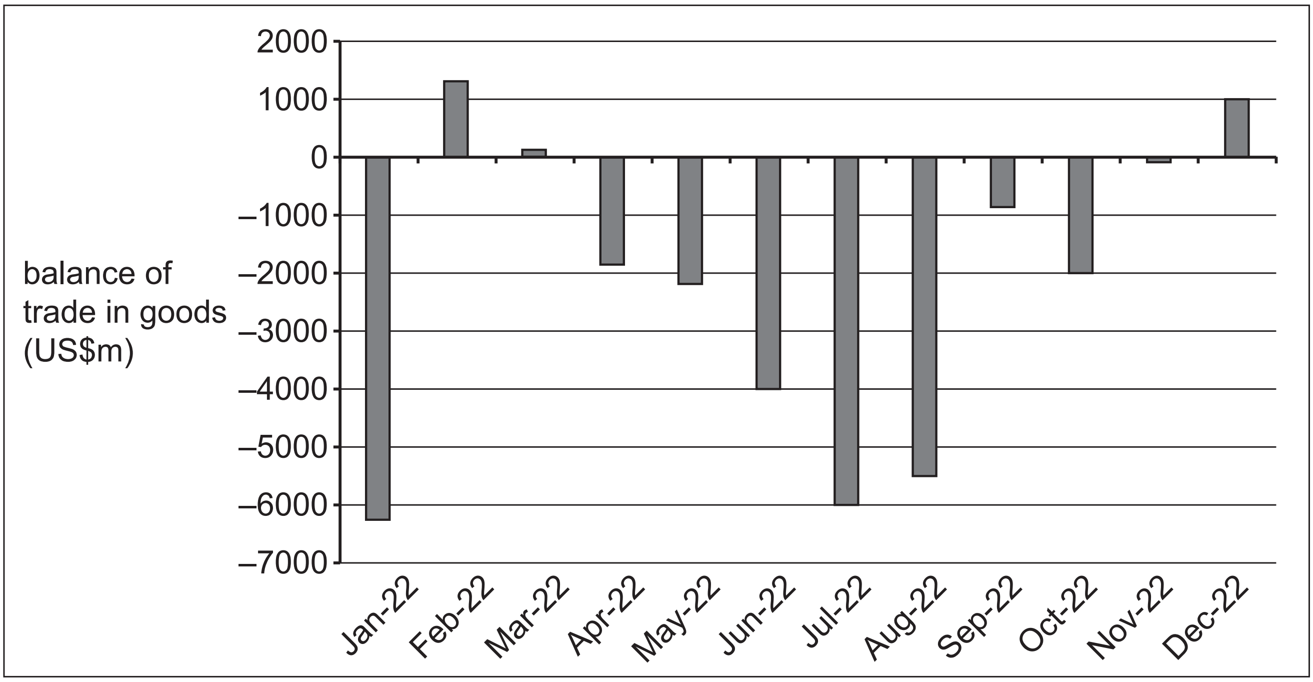


1 Mexico's backward-looking energy policy is bad for the country and the planet

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 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.



Source: tradingeconomics.com

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.

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 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

1 How do we make sure cocoa bean farmers get paid a living wage?

Chocolate is very big business.

Content removed due to copyright restrictions.

Perhaps the long-term solution is to reduce the country's dependence on cocoa bean exports and diversify into other products that can offer more and better paid job opportunities.

Source: Adapted from Reuters, 4 April 2023

(a) **(i)** Identify **one** possible reason for the value of price elasticity of demand (PED) for chocolate. [1]

(ii) Calculate the percentage change in the value of global sales of chocolate between 2017 and 2026, as shown in Table 1.1. [1]

(b) With the help of a demand and supply diagram, demonstrate why cocoa bean prices continued to fall in 2023. [2]

(c) Consider whether a buffer stock system controlled by the government of Ivory Coast would be likely to prevent fluctuations in the price of cocoa beans. [4]

(d) Assess the extent to which the use of a minimum pricing policy would be the best way to ensure cocoa bean farmers get paid a living wage. [6]

(e) Assess the advantages and disadvantages of Ivory Coast continuing to specialise in the production and export of cocoa beans. [6]

Section B

Answer **one** question.

EITHER

22 In an economy, the price elasticity of demand for imported raw materials is 0.3, and the price elasticity of demand for exports is also 0.3.

Following a depreciation of the economy's currency, what will the impact on inflation be?

	change in inflation rate due to cost-push factors	change in inflation rate due to demand-pull factors
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

23 A country has a progressive income tax system.

What is **not** a valid reason for a government's decision to reduce the rate of income tax paid on higher incomes?

A to attract highly skilled workers from abroad

B to prevent tax evasion

C to provide work incentives

D to reduce income inequalities

27 What might cause income inequality to worsen in a country?

A increased discrimination

B increased labour market participation

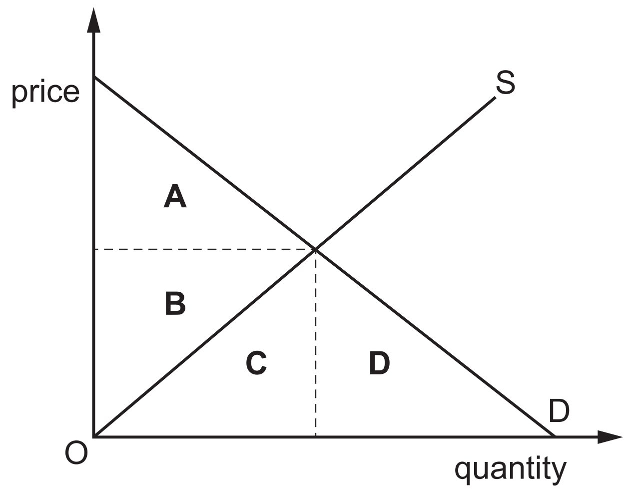
C increased skill level of workers

D increased welfare payments

A-Level Economics: **s25 11**

10 The diagram shows the demand for and supply of a product.

Which area shows producer surplus?



17 An open economy with a government sector is in equilibrium. Households in this economy save \$100 million and firms spend \$150 million on investment.

Which combination of the budget balance and the current account balance would lead to an equilibrium position on the circular flow of income?

	budget balance	current account balance
A	\$100m deficit	\$50m deficit
B	\$100m deficit	\$50m surplus
C	\$100m surplus	\$50m deficit
D	\$100m surplus	\$50m surplus

A-Level Economics: **s25 12**

23 An income tax has a tax-free allowance of \$10 000 and a single rate of 25%.

What type of tax is this?

A indirect

B progressive

C proportional

D regressive

A-Level Economics: **Specimen 1**

13 A government fixes a minimum price for a service.

What will be the outcome of such a policy?

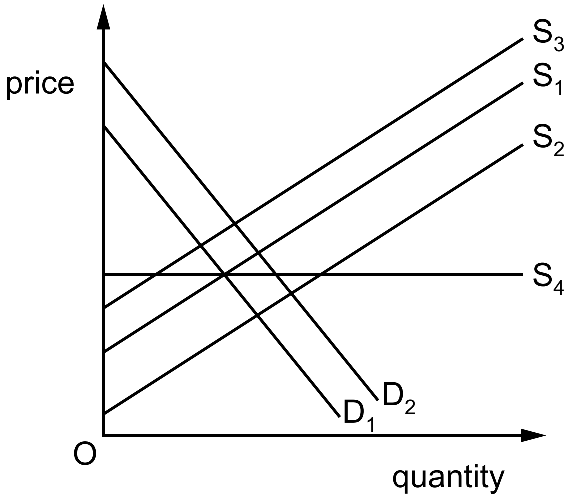
A Demand will fall if the minimum price is below the equilibrium price.

B Demand will rise if the minimum price is above the equilibrium price.

C Production will fall if the minimum price is above the equilibrium price.

D Production will stay the same if the minimum price is below the equilibrium price.

15 The diagram shows the demand curve, D_1, and the supply curve, S_1, for a good.



The government decides to pay producers a specific subsidy for each unit supplied to the market.

Which curve shows the new effective demand or supply curve?

A D_2 **B** S_2 **C** S_3 **D** S_4

16 Planned government expenditure for a country in the fiscal year 2016 is estimated at $760 billion. The top five areas of expenditure are given in the table.

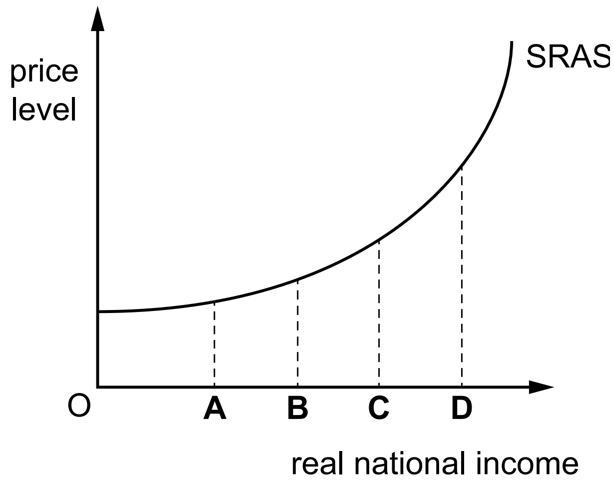
	$ billion
pensions	153
healthcare	138
welfare	111
education	89
defence	45
total top five	536

What is the total amount, in billions of dollars, spent on transfer payments shown in the table?

A 89 **B** 111 **C** 264 **D** 536

19 The diagram shows the short-run Aggregate Supply (SRAS) curve of an economy.

At which equilibrium level of national income is a reduction in the rate of interest likely to cause the greatest inflationary increase for the economy?



26 Since 2000 a country's export prices have increased on average by 50% and its import prices by 25%.

What is the current figure for the country's terms of trade (2000 = 100)?

A 75 **B** 83 **C** 120 **D** 125

3 **(a)** With the help of a formula, explain the meaning of price elasticity of supply **and** consider which factors are most important in determining whether the price elasticity of supply for a good is likely to be relatively elastic or relatively inelastic. [8]

(b) Assess the likely success of any **two** government policies to make the price elasticity of supply of all agricultural products more elastic. [12]

Section C

Answer **one** question.

EITHER