5 Which merit good is likely to be under-consumed the most?

	level of imperfect information among consumers	subsidy received by producers
A	high	yes
B	high	no
C	low	yes
D	low	no

15 What is **not** true about subsidies?

A They are paid to firms.

B They have to be paid back.

C They reduce the cost of production.

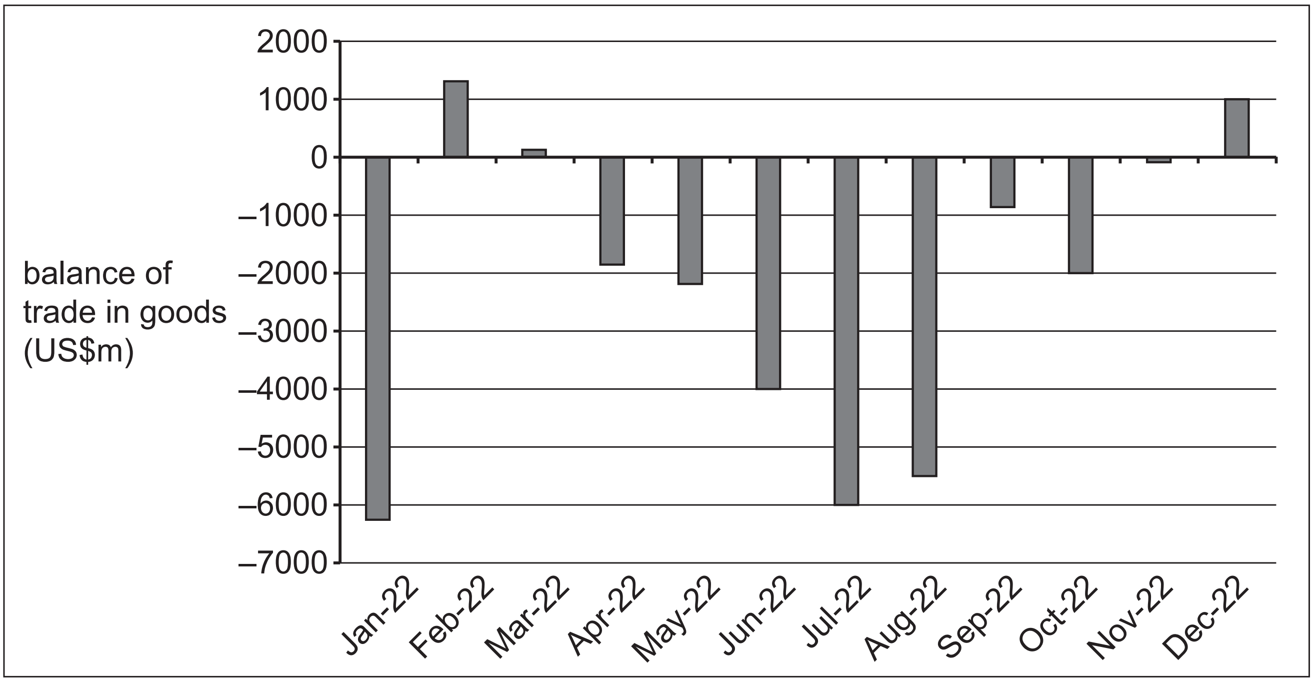
D They shift the supply curve to the right.

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

A-Level Economics: **w25 23**

3 **(a)** The Gini coefficient for South Korea was estimated to be 0.39 in 2019 and 0.33 in 2022.

Explain what this data means, how it might be used by the government of South Korea **and** consider its usefulness. [8]

(b) Assess why it is easier for a government such as that of South Korea to redistribute income rather than redistribute wealth. [12]

Section C

Answer **one** question.

EITHER

12 Too much sugar causes an increase in a consumer's weight. A government has introduced a 'sugar tax' on the consumption of soft drinks that have a high sugar content.

How might this policy help to reduce the number of overweight people?

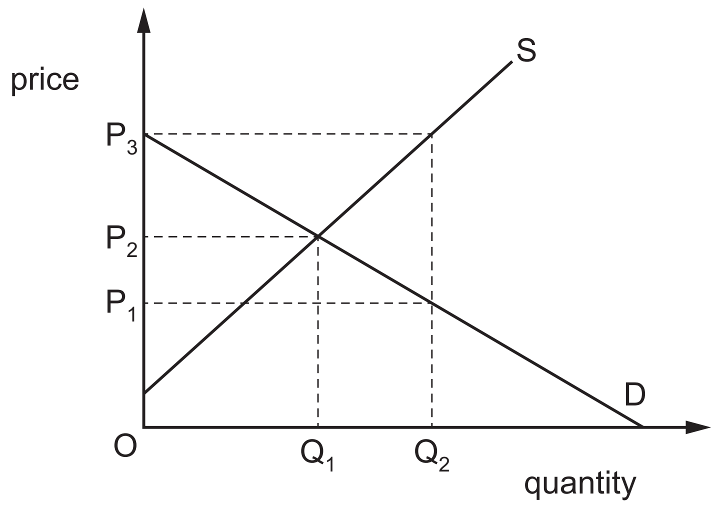
A Consumers switch to cheaper brands of soft drink with a high sugar content.

B Consumers switch to other high-sugar substitute goods, such as alcohol or sweets.

C The price elasticity of demand for soft drinks is inelastic.

D The tax revenue is spent on education about the dangers of soft drink consumption.

14 The diagram shows the demand for and supply of eye tests provided by opticians.



Which policy would enable the government to increase the number of eye tests from OQ_1 to OQ_2?

A a maximum price of OP_3 per test

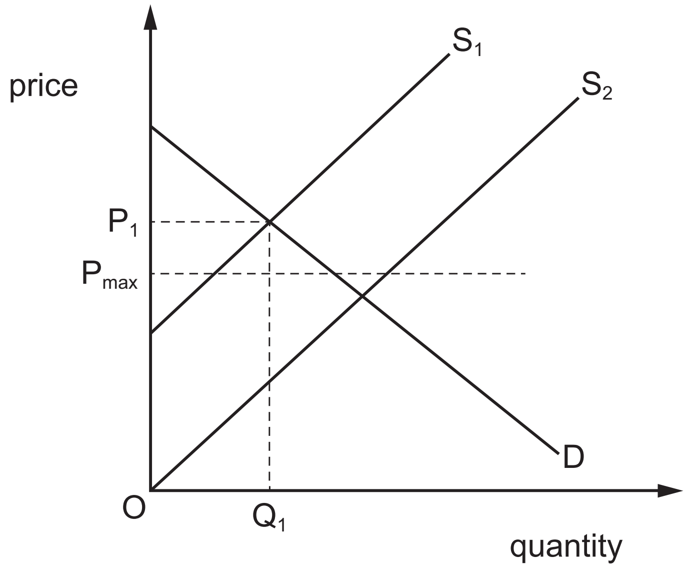
B a minimum price of OP_2 per test

C a subsidy paid to opticians of P_3-P_2 per test

D a subsidy paid to opticians of P_3-P_1 per test

14 The diagram shows the demand and supply for rice.

The market for rice is initially in equilibrium at a price of P_1. The government introduces a maximum price of P_{max}. At the same time the supply of rice increases.



What is the impact of these changes on the market for rice?

A A new market equilibrium will be established.

B An illegal market for rice will develop.

C There will be a shortage of rice.

D There will be a surplus of rice.