Question 1 (Answer: **A**)

- 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.

1	• A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. • The response has little relevance to the question. • Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. • Responses show limited organisation of economic ideas.
0	No creditable response.

1	• Provides a vague or general conclusion or judgement in relation to the question. • Makes simple evaluative comment(s) with no development and little supporting evidence.
0	No creditable response.

1(a)	**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 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)**
1(b)	**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 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)**

1(c)	**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-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. • 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 Mexico through state-owned companies may be more advantageous to consumers **Max 1 mark**

1(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.** **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. • 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 potential disadvantages **(1)** to reach a conclusion. **(1)**
1(e)	**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)** • 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 conclusion. **(1)**

Question 2 (Answer: **C**)

- 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.