



**NORTHERN CAPE HIGH SCHOOL**

**GRADE 12**

**ECONOMICS P2**

**JUNE 2019**

**MEMORANDUM**

**MARKS: 150**

**This memorandum consists of 17 pages.**

**SECTION A (COMPULSORY)****QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

- |       |                                   |         |      |
|-------|-----------------------------------|---------|------|
| 1.1.1 | B normal ✓✓                       |         |      |
| 1.1.2 | A market ✓✓                       |         |      |
| 1.1.3 | C Entry to the market is free. ✓✓ |         |      |
| 1.1.4 | D private costs ✓✓                |         |      |
| 1.1.5 | C increases by the same amount ✓✓ |         |      |
| 1.1.6 | B homogeneous ✓✓                  |         |      |
| 1.1.7 | A normal ✓✓                       |         |      |
| 1.1.8 | A duopoly ✓✓                      | (8 x 2) | (16) |

**1.2 MATCHING ITEMS**

- |       |   |         |     |
|-------|---|---------|-----|
| 1.2.1 | E all factors of production are variable ✓                                      |         |     |
| 1.2.2 | H quantity demanded is exactly equal to the quantity offered at a given price ✓ |         |     |
| 1.2.3 | I can be easily replaced ✓  |         |     |
| 1.2.4 | C one firm fixes the price and other accept it as a market price ✓              |         |     |
| 1.2.5 | F accepts or reject investigations and recommendations ✓                        |         |     |
| 1.2.6 | B the product mix does not reflect consumer's tastes ✓                          |         |     |
| 1.2.7 | D different prices are charged for the same product for different groups ✓      |         |     |
| 1.2.8 | G entry is restricted through licensing ✓                                       | (8 x 1) | (8) |

**1.3 IDENTIFY THE CONCEPT**

- |       |                        |         |     |
|-------|------------------------|---------|-----|
| 1.3.1 | Market ✓               |         |     |
| 1.3.2 | Patent ✓               |         |     |
| 1.3.3 | Black market ✓         |         |     |
| 1.3.4 | Positive externality ✓ |         |     |
| 1.3.5 | Fixed ✓                |         |     |
| 1.3.6 | Marginal ✓             | (6 x 1) | (6) |

**TOTAL SECTION A: 30**

**SECTION B**

Answer TWO of the three questions from this section in the ANSWER BOOK.

**QUESTION 2: MICROECONOMICS****40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Name any TWO characteristics of oligopolistic markets.

- Products can be homogenous or differentiated ✓
- Barriers make it difficult to enter the market ✓
- Producers have considerable control over prices ✓
- Oligopolies are interdependent ✓
- Buyers and sellers have incomplete information ✓

(Accept any other relevant response)

(Any 2 × 1)

(2)

2.1.2 Why is it only possible in the long run to vary all factors of production?

- In the long run firms shall have acquired profit to enable them to expand their plant ✓✓
- There will be enough time for new business to enter into the market ✓✓
- The mobility of factors of production improve in the long-run ✓✓

(Accept any other correct relevant answer)

(Any 1 × 2)

(2)

2.2 DATA RESPONSE

2.2.1 Which institution imposes fines on companies that are guilty of collusion?

Competition tribunal ✓

(1)

2.2.2 What is the role of the Competition Appeal Court?

Review decisions of the competition tribunal ✓

(Accept any other correct relevant response)

(1)

2.2.3 State any ONE aim of the competition policy.

- To prevent monopolies from abusing their power ✓✓
- To regulate the formation of mergers ✓✓
- To stop firms from fixing prices or dividing markets ✓✓
- Promotes fair competition, to enhance economic development to open up opportunities for transformation of the economy ✓✓

(2)

- 2.2.4 How does competition in the market benefit the consumer?
- larger variety to choose from ✓✓
  - lower prices ✓✓
  - better quality of goods and services ✓✓
- (Accept any other correct relevant response) (Any 1 x 2) (2)
- 2.2.5 Briefly discuss the success of the competition policy of South Africa.
- The competition policy has been successful because:
- many businesses were recently charged and found guilty on the abuse of economic power ✓✓
  - in most cases where fines were imposed they were upheld ✓✓
  - Collusion occurred when Absa and other banks were fixing the exchange rate ✓ and monopolistic behaviour by Mittal Steel ✓
- (Accept any other correct relevant response) (2 x 2) (4)

### 2.3 DATA RESPONSE

- 2.3.1 Identify the profit maximisation point (label) of the individual firm.
- E2 ✓ (1)
- 2.3.2 At what point or label will the industry be in equilibrium?
- E ✓ (1)
- 2.3.3 Explain the concept *price taker*.
- Price taker is the individual firm that charges the going market price. ✓✓ (2)
- 2.3.4 Write down the area for profit/loss.
- PP2FE2 ✓✓ (2)
- 2.3.5 Explain the slope of the demand curve of the individual firm.
- It has a horizontal slope. ✓✓  
 The demand curve is perfectly elastic. ✓✓  
 It is exactly at the same level of the price. ✓✓  
 The horizontal demand curve represents the MR and AR. ✓✓  
 (Accept any other correct relevant answer) (Any 2 x 2) (4)

2.4 Briefly explain the nature of products under monopolistic competition.

- Products are not identical. ✓✓
- Differentiated products are similar but not identical. ✓✓
- The similarity between the products lies in the fact that they satisfy the same consumer needs. ✓✓
- Examples are the huge variety of men's and women's clothing, shoes, etc. ✓
- Differences may be imaginary. ✓✓
- Different branded names for products but the content or ingredients might be exactly the same. ✓✓
- E.g. some medicine, toothpaste etc. ✓  
(Accept any other correct relevant response.)  
(Allocate a maximum of 4 marks for the mere listing of facts / examples.)

(4 x 2) (8)

2.5 How successful are the market forces in influencing monopolies?

- Due to the fact that monopolies decide on production levels and determine their own prices, consumers (demand) do not influence the price or supply. ✓✓
- The monopoly is however influenced by the limited budget of consumers as they decide how much they will spend on a particular product. ✓✓
- Even though the monopoly is the only supplier of the product consumers may decide not to buy the product. ✓✓
- In as much as there are no close substitutes consumers may still substitute the product of a monopolist ✓✓ e.g. paraffin for electricity ✓  
(Accept any other correct relevant response)

(8)  
**[40]**

**QUESTION 3: MICROECONOMICS****40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 List any TWO examples of subsidies on goods.

- Cash grants ✓
  - Interest free loans ✓
  - Depreciation written off ✓
  - Rent rebates ✓
  - Can be direct ✓ or indirect ✓
- (Accept any relevant example)

(Any 2 x 1) (2)

3.1.2 How do economic costs differ from accounting costs?

Economic costs include explicit and implicit costs while accounting costs only take into account explicit costs only ✓✓  
 (Accept any correct relevant answer)

(2)

3.2 DATA RESPONSE

3.2.1 Identify the company depicted above.

Eskom ✓

(1)

3.2.2 Name any ONE factor causing the shortage of electricity in SA.

- Corruption ✓
  - Shortage of quality coal ✓
  - State capturing ✓
  - Shortage of diesel ✓
- (Accept any correct relevant answer)

(1)

3.2.3 Describe any possible effects of the increase in electricity prices.

- Large consumers of electricity would not want to do business in South Africa/Industries will not be attracted to South Africa. ✓✓
  - Production of many goods that depend on electricity will be low. ✓✓
  - Households will use less of electricity and opt for other alternatives. ✓✓
- (Accept any relevant response.)

(Any 1 x 2) (2)

3.2.4 Explain the 'uniqueness of a product' as a feature of monopolies.

- There are no close substitutes. ✓✓
- Buyers can only buy from the monopoly or go without the product. ✓✓

(Accept any relevant response.) (Any 1 x 2) (2)

3.2.5 Explain why monopoly industry is regarded as inefficient.

- The monopoly industry produces less output at higher prices. ✓✓
- Some consumers are excluded from the market because they are not able or willing to pay the higher price. ✓✓
- It is not productive efficient when producing below the profit maximising output. ✓✓
- It produces its output at a higher AC, and it does not make the most efficient use of society's scarce resources. ✓✓

(Accept any relevant response.) (Any 2 x 2) (4)

### 3.3 DATA RESPONSE

3.3.1 What is the economic cost of project B?

R20 000 m ✓ (1)

3.3.2 Give an example of a social benefit of contracting a tarred road.

- Fewer accidents ✓
- Less time taken to reach destination ✓

(Accept any relevant example) (Any 1 x 1) (1)

3.3.3 Briefly explain cost benefit analysis.

A technique for enumerating and evaluating the total social costs and total social benefits associated with an economic project. ✓✓  
(Accept any correct relevant answer) (2)

3.3.4 What is the purpose of doing cost benefit analysis?

- To assess whether a new project will be feasible ✓✓
- To make objective decisions ✓✓
- To ensure a more equitable distribution of resources ✓✓

(Accept any other correct relevant response) (Any 1 x 2) (2)

3.3.5 Use the formula to calculate the cost benefit ratio for project C.

$$\begin{aligned} \text{CBR} &= \text{Present value of economic benefits} \div \text{Present value of} \\ &\quad \text{economic costs} \\ &= \frac{28\,000}{30\,000} \checkmark \\ &= 0,933 \checkmark\checkmark \end{aligned}$$

(4)

3.4 Distinguish between *artificial and natural monopoly*.

**Natural monopolies**

- High development costs prevent others from entering the market and therefore the government supplies the product. ✓✓
- E.g. Electricity in South Africa is provided by the government enterprise, Eskom. ✓
- It costs billions of rands to build and maintain power stations and therefore there are no other suppliers. ✓✓
- A single business (Eskom) can serve the whole market at a lower price than two or more businesses together. ✓✓
- Such a business is frequently owned or regulated by the government. ✓✓  
(Accept any other relevant answer) (Any 2 × 2) (4)

**Artificial monopolies:**

- Here the barriers to entry are not economic in nature. ✓✓
- An example of a barrier is a patent. ✓
- A patent is a legal and exclusive right to manufacture a product, ✓✓ e.g. Denel Land Systems manufacturing Casspirs. ✓
- Licensing is another way in which an artificial monopoly is applied. ✓✓
- In South Africa licenses are required for radios, TV broadcasters, etc. ✓✓
- Licenses protects operators against entry of competitors. ✓✓  
(Accept any other correct relevant answer) (Any 2 × 2) (4) (8)

3.5 Why do governments produce certain goods and services themselves?

- The good or service is highly desirable for the general welfare of the country ✓✓ and are not highly rated by the market ✓✓
- There is high capital needed to supply the goods which the markets may not have ✓✓
- The markets will not generate profit in supplying them ✓✓
- If the supply of these goods is left in the hands of the markets there will be under consumption ✓✓
- For example, if health care was left in the hands of the markets most people would not afford it and there will be high death rates ✓✓  
(Accept any relevant correct response)

(8)  
[40]



**QUESTION 4: MICROECONOMICS****40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

4.1.1 List any TWO characteristics of public goods.

- Non-rivalry in consumption ✓
- Non-excludability ✓
- Social benefit outstrips private benefit ✓
- Non-rejectability ✓
- Continuous consumption ✓

(Any 2 × 1) (2)

4.1.2 How is lack of information a reason for market failure?

- Lack of information leads to wrong decision making. ✓✓  
(Accept any correct relevant explanation.)

(Any 1 × 2) (2)

4.2 DATA RESPONSE

4.2.1 Identify the market structure represented by the above graph.

An oligopoly ✓

(1)

4.2.2 At what price will the firm sell its products?

Price – R10 ✓

(1)

4.2.3 What would the effect be on total revenue if the oligopoly increased his price from R10 to R12?

- Total income will decrease ✓✓
- Change from R90 to R24 ✓✓

(Any 1 × 2) (2)

4.2.4 Briefly explain the shape of the above demand curve.

- The demand curve has two segments, one for higher prices that is elastic ✓ and one for lower prices that is inelastic. ✓
- The demand curve is kinked ✓✓  
(Accept any relevant response)

(2)

4.2.5 How do firms successfully use product differentiation as a form of non-price competition?

- Firms practice product differentiation (physical appearance of the product) when each firm produces a product that is slightly different from the product produced by others ✓✓
- A product is given a particular image which is appealing to consumers ✓✓
- Firms use advertising and marketing to build brand loyalty ✓✓

- Loyalty rewards and door to door deliveries are examples of non-price competition ✓✓
- Product are differentiated in terms of packaging ✓✓  
(Accept any other correct relevant response) (Any 2 x 2) (4)

### 4.3 DATA RESPONSE

4.3.1 In which run/term are the two firms operating?

Short run ✓ (1)

4.3.2 Give an example of a fixed cost.

Rent / insurance ✓  
(Accept any correct example) (1)

4.3.3 Identify the firm that will shut down.

Firm B will shut down ✓✓ (2)

4.3.4 For what reasons will the firm shut down?

Variable costs are greater than the total revenue ✓✓ (2)

4.3.5 What, do you think, are the implications of a shutdown?

- A firm stop production for a certain period - is usually temporary ✓✓
- It does not mean that a firm is going out of business. ✓✓
- It still retains capital assets, but cannot avoid paying its fixed costs. ✓✓  
(Accept any relevant response) (Any 2 × 2) (4)

4.4 Explain the measures that the government can implement to *improve income distribution*.

- Transfers income directly to the poor e.g. child support grants, unemployment benefits etc. ✓✓
- Provides goods free of charge e.g. community goods, education etc. ✓✓
- Implements employment creation programmes e.g. public works programme ✓✓
- Subsidising merit goods e.g. subsidising arts and cultural events ✓✓
- Imposes taxes and laws on demerit goods to discourage consumption ✓✓
- Uses fiscal and monetary policy to achieve macroeconomic stability ✓✓
- Makes sure that consumers are informed about products through legislation ✓✓
- The South African Bureau of Standards (SABS) checks consumer goods in South Africa ✓✓ (Any 4 x 2) (8)

4.5 How does a cartel negatively affect businesses and consumers?

**Businesses**

- When companies form cartels, market dominance is achieved and often maintained for lengthy periods ✓✓ e.g. OPEC ✓ resulting in the smaller businessman being eliminated. ✓✓ / Some firms exit the market. ✓✓
- Entrance into the market by new role players is more difficult because of the monopoly held by the cartel. ✓✓ / The cartel becomes a barrier to entry to the market. ✓✓

(Accept any relevant correct response)

(Any 2 × 2) (4)

**Consumers**

- Consumers do not have access to and cannot freely select the quality and variety of goods and services they desire. ✓✓
- Local communities have to pay more for products and services because the price is artificially manipulated. ✓✓
- The fixing of a price of a product causes prejudice or harm to broader society and sadly, it is most often the poorest of the poor who suffer most. ✓✓

(Accept any relevant correct response)

(Any 2 × 2) (4)

(8)  
**[40]**

**TOTAL SECTION B:**

**80**

## SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK.

STRUCTURE OF ESSAY	MARK ALLOCATION
<p><b>Introduction</b></p> <ul style="list-style-type: none"> <li>• A good starting point would be to define a concept or key word that appears in the question.</li> <li>• Include other sentences to support the topic.</li> <li>• Do not include in your introduction any part of the question.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max. 2
<p><b>Body:</b></p> <p><b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate</p> <p><b>Additional part:</b> Give own opinion / Critically discuss / Evaluate / Critically evaluate / Draw a graph and explain / Use the graph given and explain / Complete the given graph / Calculate / Deduce / Compare / Explain / Distinguish / Interpret / Briefly debate</p>	<p>Max. 26</p> <p>Max. 10</p>
<p><b>Conclusion</b></p> <ul style="list-style-type: none"> <li>• The conclusion is a wrap up of the discussion of the topic in the body and should be treated as a higher order response.</li> <li>• The conclusion can take the form of an own opinion, examples to support your discussion or contradictory viewpoint from what has been discussed.</li> <li>• No aspect from either the introduction or body should be included in the body</li> </ul>	Max. 2
<b>TOTAL</b>	<b>40</b>

### QUESTION 5: MICROECONOMICS

**40 MARKS – 40 MINUTES**

- Discuss in detail, without the use of graphs, the market structure of a perfect market. (26)
- Why are equilibrium positions in the short-term not sustainable in the long-run? (10)

### INTRODUCTION

Perfect competition occurs when none of the individual market participants can influence the price of the product ✓✓  
 (Accept any other relevant introduction) Max (2)

**BODY: MAIN PART****Many buyers and many sellers ✓**

- The number of buyers in the market structure is so large that individual market participants are insignificant in relation to the market as a whole.
- This has the important implication that no individual buyer is able to influence the market price ✓✓
- The number of sellers is so large in the market that the individual seller cannot influence the market price ✓✓

**Homogeneous product ✓**

- All the products sold in the specific market are exactly the same regarding quality, appearance etc. ✓✓
- It makes no difference to a buyer where or from whom he/she buys the product ✓✓

**Freedom of exit / entry ✓**

- There is complete freedom of entry and exit / the market is fully accessible ✓✓
- Buyers and sellers are completely free to entry or leave the market ✓✓
- Entry is not subjected to any form of restriction, i.e. legal, financial, technological or other barriers that curtail the freedom of buyers and sellers ✓✓

**Mobility of factors of production ✓**

- All factors of production are completely mobile ✓✓
- Labour, capital and the other factors of production can move freely from one market to another ✓✓

**Perfect information ✓**

- Both buyers and sellers have full knowledge of all the prevailing market conditions ✓✓
- For example, if one business ventured to raise its price above the market price, buyers would immediately become aware of it and would switch their purchases to businesses who still charge the lower price ✓✓

**No collusion ✓**

- Collusion between sellers do not occur ✓✓
- In a perfectly competitive market, each buyer and seller acts independently from one another ✓✓
- Collusive practices are illegal in South Africa, according to the Competition Act of 1998 ✓✓

**Unregulated market ✓**

- There is no government intervention that could affect buyers or sellers ✓✓
- Decisions are left to individual sellers and producers ✓✓

**No preferential treatment (no discrimination) ✓**

All buyers and sellers are treated equally ✓✓

(Accept any other correct relevant responses)

(A maximum of 8 marks can be allocated for mere listing of facts/examples)

Max (26)

**ADDITIONAL PART**

- Profits are signals for the entry of new businesses and extension of current businesses ✓✓
  - New technology develops daily leading to increased supply in the market ✓✓
  - The quantity offered by businesses in the market increases (indicating mass production) ✓✓
  - The increase in the supply leads to a decrease in price due to lower cost per unit ✓✓
  - All businesses in the industry will make normal profit and produce at the minimum of the long term average cost curve ✓✓
  - The economic loss will lead to some businesses leaving the market and the supply will decrease. ✓✓
  - The decrease in supply will lead to an increase in price until it is at the same level as the long run average cost. ✓✓
  - If businesses are able to turn their losses to profits they will make normal profits over the long run ✓✓
- (Accept any correct relevant answer) (Max 10)

**CONCLUSION**

In reality, no market meet the above conditions, therefore perfect market is theoretical ✓✓ (Max 2)

(Accept any other correct relevant higher order conclusion)

**[40]**

**QUESTION 6: MICROECONOMICS****40 MARKS – 40 MINUTES**

- Discuss the following causes of market failure without using any graphs:
    - Externalities (13marks)
    - Missing markets (13marks)
  - With the aid of a graph explain the effect of a negative externality on production levels. (26)
- (10)

**INTRODUCTION**

Market failure means that the best available resources or optimal production outcome has not been achieved ✓✓

(Accept any other correct relevant response)

(Max 2)

**MAIN PART****EXTERNALITIES**

- Sometimes ideal market conditions prevail and the mechanisms of the market work perfectly, however, the market does not produce optimally ✓✓
- With negative externalities, goods are over-produced (because the cost of production is not included in the market price) and with positive externalities goods are under-produced (because the benefit is not included in the market price) ✓✓
- Both result in a misallocation of resources ✓✓
- Side effects of production and consumption activities that impact on people who are not involved in the activity ✓✓
- In certain instances, people gain while other people losses out. This is because externalities prevail ✓✓
- Externalities are the cost and benefits (spill-over effects or third party effects) that convert private cost and benefits into social cost and benefits ✓✓

**NOTE: THE CANDIDATE SHOULD ADDRESS THE ABOVE ISSUES TO EARN FULL MARKS**

**Private cost** ✓

- Internal costs are also known as private costs ✓✓
- They are the usual costs that consumers incur when they buy goods and services ✓✓ E.g. a family buys a car ✓

**Private benefits (internal benefits)** ✓

- These benefits accrue to those who buy the goods and those who produce the goods ✓✓
- E.g. the family enjoy using the car and the producer sells it (profit) ✓

**Social costs** ✓

- This is the costs of goods or services to those who create them and to society at large ✓✓
- E.g. pollution caused by waste products, such as tyres, batteries, oil ✓
- No value is given for these extra or external costs because no market exists to

- price them ✓✓
- Private costs plus external costs is equal social cost ✓✓

### **Social benefits** ✓

- Sometimes externalities are positive, e.g. municipalities provide clean water, for which consumers pay ✓✓
- Consumers pay for a private benefit, however, society at large has the benefit of fewer illnesses from contaminated water ✓✓
- A healthier workforce can work more productively and is often absent from work less ✓✓
- These are external benefits ✓✓
- Private benefits plus external benefits are equal to social benefits ✓✓ Max (13)

### **PUBLIC GOODS / MISSING MARKETS**

- A significant market failure is the failure to produce some goods and services despite it being needed ✓✓
- It relates to public goods rather than private goods ✓✓
- Markets can only perform under certain conditions and when these conditions are absent, markets may struggle to exist ✓✓

### **Community goods** ✓

- These are goods such as defence, police services, prison services, street lighting etc. ✓
- Free for everyone to use and often exploited and wasted by certain users to the detriment of other users ✓✓

### **Collective goods** ✓

- These are goods such as parks, beach facilities, streets, pavements, roads, bridges ✓
- They are privately owned and can be consumed by many people without causing a decrease in quantity ✓✓
- Goods that are specially characterised when it is possible to exclude free-riders by levying fees and tolls ✓✓

### **Public goods** ✓

- Community and public goods are known as public goods ✓✓ They have two features:
- Non-rivalry ✓ the consumption by one person does not in any way reduce the consumption by another person ✓✓
- E.g. a lighthouse or street light ✓
- Non-excludability ✓ the consumption of a good cannot be confined to those who have paid for it, so there are free-riders ✓✓
- People enjoy the product without paying for, e.g. radio and television services ✓✓
- Public goods are in high demand but are not supplied by the market because of the low profit gained from them and the high cost of capital needed to supply them ✓✓
- Public goods are not provided by the price mechanism because producers cannot withhold the goods for non-payment and there is no way of measuring how much a



person consumes, there is no basis for establishing a market price ✓✓

### Merit goods ✓

- Highly desirable for general welfare, but not highly rated by the market ✓✓
- E.g. health care, education and safety ✓
- If people had to pay the market price for them, very little would be consumed ✓✓
- The market fails because the market produces less than the desired quantity ✓✓

### Demerit goods ✓

- These are over-consumed goods e.g. cigarettes ✓✓
- Thus more of the good is produced than is socially desirable
- The government bans or reduces consumption of these products through taxation, and provides information to the population on their harmful effects ✓✓

Max (13)

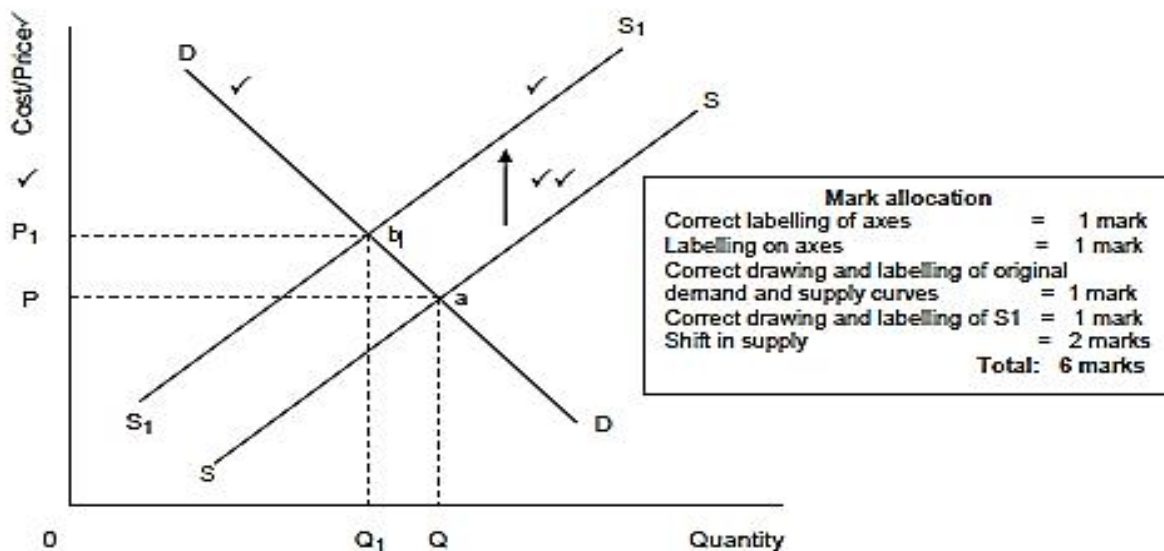
(A maximum of 8 marks can be allocated for mere listing of facts/examples)

(Accept any other correct relevant response)

(Max 26)

### ADDITIONAL PART

#### NEGATIVE EXTERNALITY



- At point a, the price charged for the good is P and Q is the quantity sold ✓✓
  - This represents private costs ✓✓
  - However, if it was possible to calculate the external costs, these could have been added to the private costs ✓✓
  - If consumers were required to pay the full cost (social cost), a different equilibrium would prevail at b, giving a higher price of P1 and a reduced output of Q1 ✓✓
- (Accept any other correct relevant response) (Max 6)

### CONCLUSION

Market failure can have devastating effect unless government intervenes to reduce them ✓✓

(Max 2)

(Accept any other correct relevant higher order response)

[40]

**TOTAL SECTION C: 40**  
**GRAND TOTAL: 150**