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Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS

ECONOMICS P2

2017

MARKING GUIDELINES

MARKS: 150

These marking guidelines consist of 16 pages.

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

- 1.1.1 A ✓✓ selling price
- 1.1.2 C ✓✓ positive
- 1.1.3 B ✓✓ heterogeneous
- 1.1.4 A ✓✓ kinked
- 1.1.5 A ✓✓ self-interest
- 1.1.6 C ✓✓ South African Reserve Bank
- 1.1.7 B ✓✓ one
- 1.1.8 C ✓✓ greenhouse (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 D ✓ occurs when inputs increase, while outputs are increasing by less than the percentage increase in inputs
- 1.2.2 F ✓ extra income the seller earns if one more unit of a product is produced and sold
- 1.2.3 A ✓ duration where at least one factor of production is fixed
- 1.2.4 G ✓ a business in a perfect market will consider closing down if $AR = AVC$
- 1.2.5 I ✓ eradication of extreme poverty and hunger
- 1.2.6 E ✓ excludes the prices of goods and services that change frequently
- 1.2.7 B ✓ existence of facilities and amenities, for example roads and bridges
- 1.2.8 H ✓ licence for a business to pollute up to a specified limit (8 x 1) (8)

1.3 GIVE THE TERM

- 1.3.1 Subsidy ✓
- 1.3.2 Price leadership / tacit collusion ✓
- 1.3.3 Externality ✓
- 1.3.4 Hyperinflation ✓
- 1.3.5 Pollution ✓
- 1.3.6 Climate change ✓ (6 x 1) (6)

TOTAL SECTION A: 30

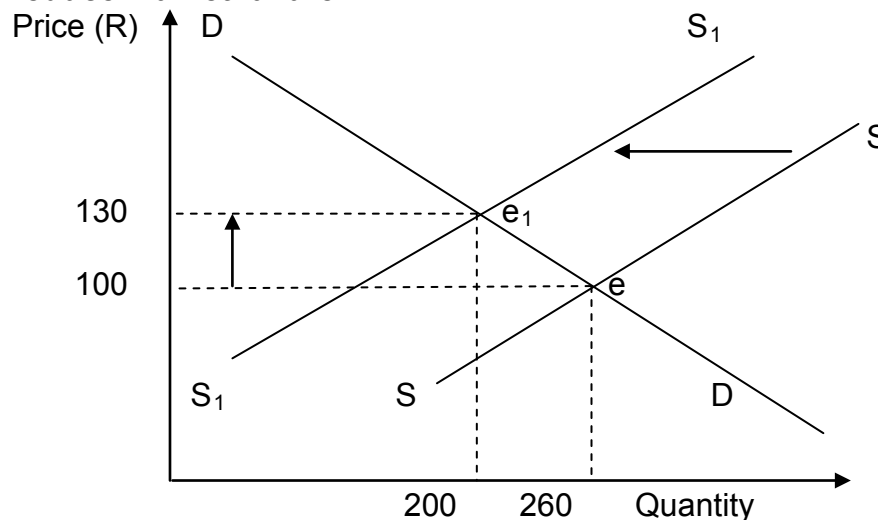
SECTION B

Answer any TWO of the three questions in this section

QUESTION 2: MICROECONOMICS

- 2.1 2.1.1 **Give any TWO examples of community goods.**
- Defence ✓
 - Police services ✓
 - Street lights ✓
- (Accept any other correct relevant response) (2 x 1) (2)
- 2.1.2 **Why is the demand for skilled labour difficult to adjust in South Africa?**
- It takes time to train workers ✓✓
 - Larger part of the population are unskilled ✓✓
- (Accept any other correct relevant response) (1 x 2) (2)
- 2.2 **DATA RESPONSE**
- 2.2.1 **Identify the price of cigarettes before a tax was imposed on it.**
- R100 ✓ (1)
- 2.2.2 **What quantity is demanded after the government imposed a tax on cigarettes?**
- 200 ✓ (1)
- 2.2.3 **Clearly distinguish between merit goods and demerit goods.**
- Merit goods:**
- Are highly desirable for general welfare, but not highly rated by the market, e.g. health care
 - The market produces less than the desired quantity
 - If people had to pay the market price, less would be consumed ✓✓ (Max 2)
- Demerit goods**
- Are highly undesirable for the general welfare of society
 - These goods are normally overconsumed and supplied
 - Consumers are unaware of the true cost or negative externalities, diseases, etc. ✓✓ (Max 2)
- (Accept any other correct relevant response) (2 x 2) (4)

2.2.4 Use the graph above and explain how a tax on cigarettes will reduce market failure.



Market failure will be reduced because:

- The tax on cigarettes will increase the price of the good which will shift the supply to the left (SS to S_1S_1) ✓✓
- At the new equilibrium (e_1) fewer units are demanded (200) which is socially more desirable ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

2.3 DATA RESPONSE

2.3.1 Name the institution in the extract that investigates anti-competitive behaviour in South Africa.

Competition Commission ✓

(1)

2.3.2 Identify ONE aspect that was influenced negatively by ArcelorMittal's anticompetitive behaviour.

- Trade exports ✓
- Industrial sector ✓
- Job creation ✓

(1)

2.3.3 What is the role of the Competition Tribunal?

The Competition Tribunal accepts or rejects the investigation and recommendations of the Competition Commission / grant exemptions / prevent or allow mergers / adjudicate any misconduct / issue an order for cost ✓✓

(Accept any other correct relevant response)

(2)

2.3.4 What is meant by market dominance?

Market dominance is when one or more firms has significant control in the market ✓✓

(Accept any other correct relevant response)

(2)

2.3.5 **How will ArcelorMittal's anti-competitive behaviour affect the industrial sector?**

Behaviour would affect the industrial sector by:

- increasing the input costs of all steel-related manufacturers in the industry ✓✓
- causing a decrease in trade exports of related industries ✓✓
- decreasing employment ✓✓

(Accept any other correct relevant response)

(2 x 2) (4)

2.4 **Distinguish, without using graphs, between productive and allocative inefficiency.**

Productive inefficiency

- The business does not produce at the lowest possible cost. ✓✓
- Resources are not used appropriately to produce the maximum number of goods. ✓✓
- There is room to reduce cost without producing fewer goods or without producing lower quality goods ✓✓ (Max 4)

Allocative inefficiency

- When resources are not allocated in the right proportions and the product mix does not meet the consumers' tastes. ✓✓
- Some goods might be oversupplied, while other goods might be under-supplied. ✓✓

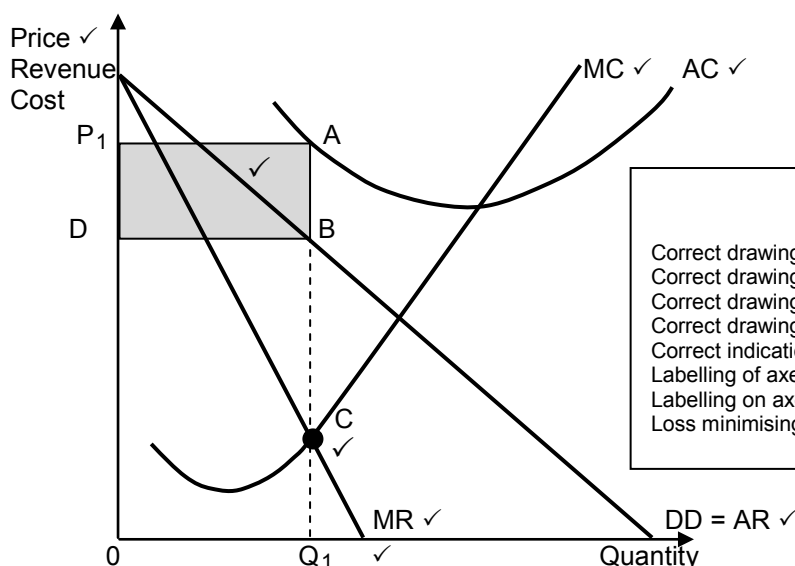
(Allocate a maximum of 4 marks for mere listing of facts/examples)

(Accept any other correct relevant response)

(Max 4) (8)

2.5 **Draw a fully labelled graph to illustrate the economic loss of a monopoly market structure.**

ECONOMIC LOSS: MONOPOLY



Mark allocation

- Correct drawing and positioning of AC curve: 1 mark
- Correct drawing and positioning of MC curve: 1 mark
- Correct drawing and positioning of MR curve: 1 mark
- Correct drawing and positioning of AR curve: 1 mark
- Correct indication (area) of economic loss: 1 mark
- Labelling of axes: 1 mark
- Labelling on axes: 1 mark
- Loss minimising point: 1 mark

Max 8 marks

(8)
[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

- 3.1 3.1.1 **Name any TWO World Heritage Sites in South Africa.**
- Mapungubwe ✓
 - The Sterkfontein Caves ✓
 - Robben Island ✓
 - iSimangaliso Wetland Park ✓
 - The Cape Fynbos Region ✓
 - Richtersveld Cultural and Botanical Landscape ✓
 - Vredefort dome ✓
 - Ukhahlamba Drakensberg ✓
- (2 x 1) (2)
- 3.1.2 **How can people be educated to manage the environment in such a way that sustainability is ensured?**
- People can be educated by:
- an awareness of environmental issues and how their actions may affect the environment either positively or negatively ✓✓
 - an awareness of the different products that can be recycled ✓✓
 - firms producing organic goods for the markets ✓✓
 - an awareness of the destruction of the environment via aerosol cans ✓✓
- (Accept any other correct relevant response) (1 x 2) (2)
- 3.2 **DATA RESPONSE**
- 3.2.1 **Identify the average price of a kilowatt per hour (kWh) electricity in 2002.**
- 20 cents ✓ (1)
- 3.2.2 **What trend does the average price of electricity show, as represented in the graph?**
- Increasing ✓
(Accept any other correct relevant response) (1)
- 3.2.3 **Briefly describe the term administered price inflation.**
- Inflation caused by increase in prices of goods that are regulated by government or government-appointed authorities ✓✓ (2)
- 3.2.4 **Why does NERSA allow Eskom to have price increases above inflation rate ?**
- To allow Eskom to afford projects, such as expansion of infrastructure. ✓✓
(Accept any other correct relevant response) (2)

3.2.5 **Why is it important that NERSA regulates electricity prices in South Africa?**

- It helps consumers to pay relatively lower prices compared to if there was no regulation ✓✓
- Businesses' production costs increase at a relatively lower percentage thereby allowing a better opportunity for economic growth ✓✓

(Accept other correct relevant responses)

(2 x 2)

(4)

3.3 **DATA RESPONSE**

3.3.1 **Identify TWO purposes in the table why South Africans travelled domestically?**

- Visiting family and friends ✓
- Holiday ✓
- Business ✓

Any (2 x 1)

(2)

3.3.2 **Briefly describe the term domestic tourism.**

Domestic tourism is when people travel within the borders of their own countries ✓✓

(Accept any other correct relevant response)

(2)

3.3.3 **What is a possible reason for the decline in holiday trips between 2015 and 2016?**

- Increase in inflation ✓✓
- The effects of a weaker rand ✓✓
- Increase in general unemployment ✓✓

(Accept any other correct relevant response)

(2)

3.3.4 **Calculate the number of people who undertook business trips in 2016. Show all calculations.**

$$\frac{11}{100} \times 7,3 \text{ m} \checkmark$$

$$= 803\,000 \checkmark\checkmark$$

(4)

3.4 **Briefly discuss the granting of property rights as a measure to sustain the environment.**

- Granting of property rights has a conservation effect as people take care of things that belong to them. ✓✓
- Give people property rights over plants and animals to prevent them from becoming extinct. ✓✓
- Plants and animals may then be preserved at little cost to the taxpayer. ✓✓
- If property rights are expanded to common goods, like clean air, those suffering because of pollution could charge the polluters for the right to pollute. ✓✓
- It is impractical to extend private property rights to air ✓✓
- But the principle of polluters paying victims to reduce pollution is sometimes followed by governments ✓✓

(Allocate a maximum of 4 marks for mere listing of facts/examples)

(Accept any other correct relevant response)

(4 x 2)

(8)

3.5 How can indigenous knowledge systems (IKS) be used to increase tourism in SA?

Tourism can be increased by:

- promoting local culture, history and environment to international tourists ✓✓
- offering tourists an authentic village experience at cultural villages, such as Shangana in Mpumalanga ✓✓
- promoting cultural significance of World Heritage Sites, such as Robben Island ✓✓
- touring townships, such as Soweto, to allow tourists to eat and drink at a shebeen ✓✓
- taking tourists who are interested in arts to festivals, such as the National Arts Festival in Grahamstown ✓✓

(Allocate a maximum of 2 marks for mere listing of facts/examples)

(Accept any other correct relevant response)

(4 x 2)

(8)
[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

- 4.1 4.1.1 **Name TWO environmental problems that affect environmental sustainability.**
- Biodiversity loss ✓
 - Chemical waste ✓
 - Hazardous waste ✓
 - Climate change ✓
 - Loss of indigenous knowledge ✓
- (Accept any other correct relevant response) (2 x 1) (2)
- 4.1.2 **How will the producer react if the government implements a maximum price on his product?**
- The producer will decrease quantity supplied ✓✓
- (Accept any other correct relevant response) (1 x 2) (2)
- 4.2 **DATA RESPONSE**
- 4.2.1 **Identify ONE of the five big banks in SA.**
- Standard Bank ✓
 - ABSA ✓
 - First National Bank (FNB) ✓
 - Capitec ✓
 - Nedbank ✓
- (1)
- 4.2.2 **What, according to the extract, prevents any entrepreneur from entering the banking industry in SA?**
- High barriers of entry / R250 million upfront capital requirement ✓ (1)
- 4.2.3 **Briefly describe the concept oligopoly.**
- A market structure where only a few sellers operate ✓✓
- (Accept any other correct relevant response) (2)
- 4.2.4 **Explain the nature of the product offered by the banking industry.**
- Services offered by the banking sector are heterogeneous, e.g. different investment portfolios ✓✓
- (Accept any other correct relevant response) (2)

4.2.5 How do banks compete to increase their market share in South Africa?

Market share can be increased by:

- banks advertising their products to potential clients ✓✓
- selling different products at competitive prices, like loans and insurance ✓✓
- offering individual-based interest rates on deposits and loans ✓✓
- offering the comfort of transacting from home, e.g. internet banking ✓✓

(Accept any other correct relevant response) (2 x 2) (4)

4.3 DATA RESPONSE**4.3.1 In which city was the world wildlife conference held?**

Johannesburg ✓ (1)

4.3.2 Identify the aim of CITES in the extract above?

To ensure that international trade in species of wild animals and plants does not threaten their survival ✓ (1)

4.3.3 Briefly describe the term conservation.

The continuity of the environment while ensuring that change is sympathetic to the quality of life for both present and future generations ✓✓
(Accept any other correct relevant response) (2)

4.3.4 Why is elephant poaching a threat to the environment?

- The continuous killing of elephants will bring an imbalance in the ecosystem. ✓✓
 - It may lead to biodiversity loss. ✓✓
- (Accept any other correct relevant response) (2)

4.3.5 How can CITES contribute to the conservation of elephants?

CITES contribute to the conservation of elephants by:

- countries agreeing to involve communities in conservation activities with formal organisations whereby they earn a return on their efforts ✓✓
- banning of ivory trade ✓✓
- imposing lengthy prison sentences for those who trade in ivory ✓✓
- monitoring legal elephant trade ✓✓

(Accept any other correct relevant response) (2 x 2) (4)

4.4 Briefly discuss the reasons for growth in the tourism industry.

- Increase in disposable income allows people to spend some on leisure and recreation. ✓✓
- Due to globalisation, people are well informed about countries and destinations. ✓✓
- Improved communication allows for easier travel arrangements. ✓✓
- Through advertising people are aware of travel destinations. ✓✓
- Improved infrastructure, such as roads and airports, encourage people to travel. ✓✓
- People have become aware of the importance of leisure and recreation. ✓✓

(Allocate a maximum of 4 marks for mere listing of facts/examples)

(Accept other correct relevant responses)

(4 x 2)

(8)

4.5 Why is a Cost Benefit Analysis (CBA) necessary for public sector projects?

- CBA leads to objective decision-making by weighing up costs and benefits ✓✓
- CBA is applied to those projects where it is expected there will be a significant difference between social costs and benefits, in other words a likelihood of market failure ✓✓
- It includes the wider social impact and externalities in the decision-making process ✓✓
- It is used to make final decisions about whether the project should proceed or not ✓✓
- There is an absence of market signals to support whether the project can go ahead or not ✓✓

(Allocate a maximum of 2 marks for mere listing of facts/examples)

(Accept any other correct relevant response)

Max (8)

(8)

[40]**TOTAL SECTION B:****80**

SECTION C

Answer ONE of the two questions in this section.
The answer must be assessed as follows:

QUESTION 5: MICROECONOMICS

Markets are the backbone of economic activities in any country.

- **Compare the market structure of a monopolistic competitor to that of a perfect market.** (26)
- **Explain, with the aid of a graph, how economic profit is achieved for a perfect competitor.** (10)

[40]**INTRODUCTION**

- A market is an institution or mechanism that brings together the buyers and sellers of goods or services /
- A market structure is a framework of how a market is organised /
- Monopolistic competition is a monopolistic market structure with many buyers and sellers where entry is relatively easy but the product is differentiated /
- Perfect competition is a market structure with many buyers and many sellers ✓✓
(Accept any other correct relevant response) Max (2)

MAIN PART**Number of businesses ✓**

- There is a number of sellers that are so large ✓ in the **perfect market** that individual market participants are insignificant in relation to the market as a whole ✓ An example of a **perfect market** is the Securities Exchange, or the produce market ✓
- A large number of sellers are active in the **monopolistic competitive market** ✓ Examples of monopolistic markets are producers of cleaning materials, cold drinks, toothpaste or soap ✓

Nature of the product ✓

- All products sold in the **perfect market** are homogeneous ✓ All these products are exactly the same regarding quality, appearance ✓✓ it makes no difference to a buyer where and from whom he or she buys the product. ✓✓
- Goods produced by businesses in a **monopolistic competitive market** are heterogeneous ✓ They may differ slightly in appearance, shape, size and taste ✓✓ Differences may be imaginary ✓✓ e.g. medicine may have different brand names, but contain exactly the same basic ingredients ✓✓

Entry and exit from the market ✓

- There is complete freedom of entry and exit of buyers and sellers in the **perfect market** ✓ Entry is not subject to any restrictions in the form of legal, financial, technological or other barriers ✓✓
- Entry into the **monopolistic competitive market** is easy and free ✓ There are no barriers ✓✓ such as licences, permits, patents and other restrictions ✓

Market knowledge ✓

- Both buyers and sellers have complete knowledge about prevailing market conditions in the **perfect market** ✓ It is assumed that buyers and sellers instinctively know, e.g. available quantities; price at which product is sold ✓✓
- Market information in the **monopolistic competitive market** is incomplete ✓ The many brands, variety of products or marginal difference causes a lack of information for sellers and buyers ✓✓

Control over price ✓

- There are so many businesses in the **perfect market** that the individual business is so small that no single business has control over the price of the product ✓ The price is determined through market forces. In other words, the business can be regarded as a price taker ✓✓
- The individual business in the **monopolistic competitive market** has some control over the price of a product ✓ The control over price depends entirely on the strength of brand loyalty ✓✓ The business can be regarded as a price setter ✓✓

Collusion ✓

- Collusion is not possible under **perfect market** conditions ✓ There is no need for businesses to collude because they have no control over price setting ✓✓ In addition, the market share of the individual business is so small and insignificant that it cannot manipulate the market in any way ✓✓
- Collusion does not occur in the **monopolistic competitive market** ✓ Individual businesses rely on brand loyalty to determine prices ✓✓ Prices can be manipulated by the strength of their brand loyalty ✓✓ Prices are normally higher in cases where brand loyalty is intense ✓✓ Control over the market (output) is subject to brand loyalty due to product differentiation ✓✓

Marketing ✓

- There is no need for marketing strategy in the **perfect market** due to complete market knowledge ✓✓
- Marketing strategy is applied in the **monopolistic competitive market** ✓ Deliberate advertising campaigns is launched to create brand loyalty ✓✓

Profits ✓

- The firm can realise economic profits in the short term, but only normal profits in the long run in the **perfect market** ✓✓
- The firm can realise economic profits in the short term as well as the long run in the **monopolistic competitive market** ✓✓

Demand curve ✓

- The demand curve for the firm in the **perfect market** is horizontal ✓✓
- $D=AR=MR$ ✓✓
- The demand curve for the firm in the **monopolistic competitive market** is downward sloping. ✓✓
- $AR=D$ (average revenue curve is also known as the demand curve) ✓✓
- The MR curve lies below AR curve ✓✓

(Allocate a maximum of 8 marks for mere listing of facts/examples)

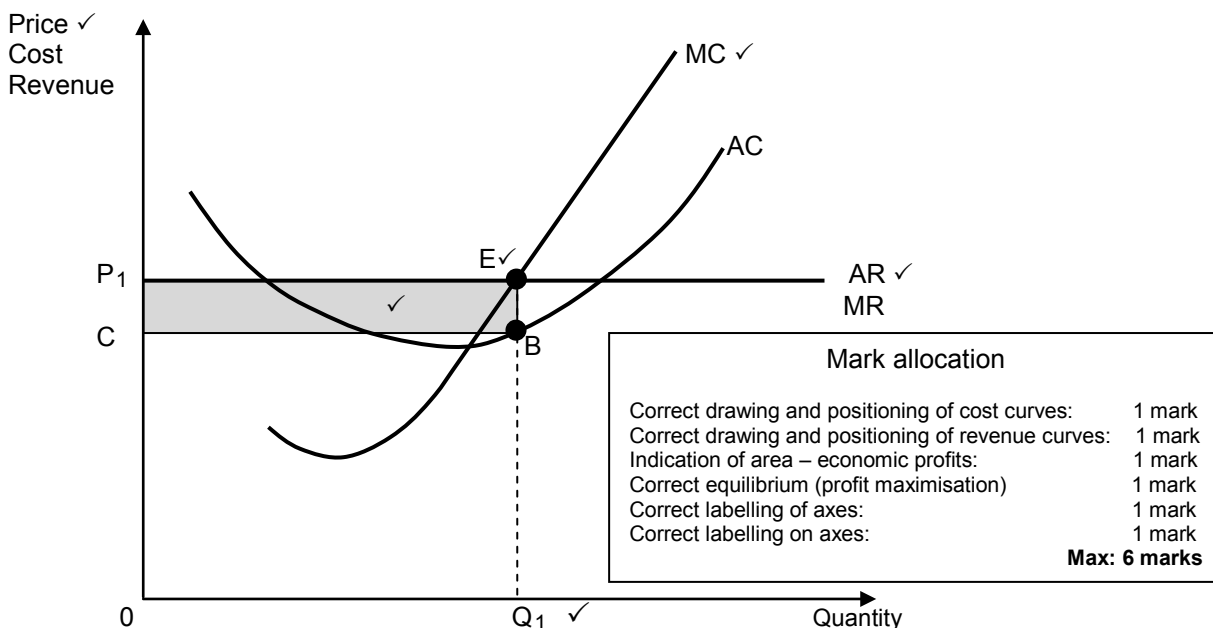
(Accept any other correct relevant response)

Accept tabular form

Max (26)

ADDITIONAL PART

Explain, with the aid of a graph, how economic profit is achieved for a perfect competitor.



- The minimum point of the short-term average cost (AC) is lower than the market price P₁ ✓✓
- The business is maximising profit at MR = MC at point E, the business will therefore produce quantity Q₁ at the market price P₁ ✓✓
- Total revenue is equal to 0P₁ x 0Q₁ and total cost is equal to 0C x 0Q₁ ✓✓
- Total revenue exceeds total cost, which means the business is making a profit that is represented by area P₁CBE ✓✓
- This profit is known as economic profit, which is profit that is made in addition to normal profit ✓✓

Max (6) for graph - Max (6) explanation

(Max 10)

CONCLUSION

Whilst perfect market does not exist, it serves as a standard that imperfect markets, such as monopolistic competition, should strive to achieve ✓✓
(Accept any other correct relevant response)

Max (2)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

The disadvantage of a market economy is often demonstrated by inflation.

- Discuss the causes of cost-push inflation. (26)
- Advise the Minister of Finance on how to use taxes as an instrument to combat inflation. (10)

[40]**INTRODUCTION**

Inflation is a sustained and considerable increase in the general price level over a particular period ✓✓

(Accept any other correct relevant response)

Max (2)

MAIN PART**Wages** ✓

- Wage increases that are higher than productivity cause a cost increase for producers ✓✓
- Single most important cost item in any economy ✓✓
- Contributes to almost 50% of value added to basic prices ✓✓

Key inputs ✓

- When the price of imported key inputs increases, the domestic costs of production increase ✓✓
- Producers recover these costs by increasing the prices of their products ✓✓

Profit margins ✓

- When businesses push up their profit margins, they increase the cost of production and the price that the consumers have to pay ✓✓
- This is because manufacturers recover the higher prices they have to pay by increasing their prices ✓✓

Productivity ✓

- If various factors of production become less productive while still receiving the same remuneration, the cost of producing each unit of output increases ✓✓

Exchange rate depreciation ✓

- If the rand depreciates against the major currencies, imports from such countries will be more expensive ✓✓
- Producers have to pay more money for the same quantity of products than before; as such, they often shift the increase to the consumers ✓✓

Natural disasters ✓

- Disasters, such as floods and droughts, affect the cost of production negatively ✓✓
- Food prices are one of the most volatile price items as a result of the effect of weather changes ✓✓

Theft by employees/Shoplifting ✓

- Many businesses make provision for losses caused by theft by employees and shoplifting, which increases the prices of goods ✓✓
- Cost of installing security measures increases the input costs ✓✓

(Allocate a maximum of 8 marks for mere listing of facts/examples)

(Accept any other correct relevant response)

Max (26)

ADDITIONAL PART

Inflation can be combatted by:

- increasing indirect taxes which will increase the price of specific products and therefore reduce aggregate demand ✓✓ e.g. VAT ✓
- increasing direct taxes during the time of demand-pull inflation in order to reduce disposable income and demand ✓✓ e.g. personal income tax ✓
- reducing corporate tax to encourage production of goods and services to increase supply ✓✓
- implementing or increasing a surcharge on imported goods to curb the buying of imported goods ✓✓
- increasing excise duties (sin tax) will help to reduce the demand for demerit goods ✓✓

Max (10)

CONCLUSION

It is important for a country to implement various measures to control inflation, as its consequences can be devastating. ✓✓

Max (2)

(Accept any other correct relevant higher order response)

[40]

TOTAL SECTION C:	40
GRAND TOTAL:	150