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SENIOR CERTIFICATE EXAMINATIONS

ECONOMICS PAPER 2

2018

MARKING GUIDELINES

MARKS: 150

These marking guidelines consist of 18 pages.

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

- 1.1.1 B ✓✓ positively
- 1.1.2 A ✓✓ duopoly
- 1.1.3 C ✓✓ governments
- 1.1.4 D ✓✓ training programmes
- 1.1.5 C ✓✓ monetary
- 1.1.6 A ✓✓ inbound
- 1.1.7 B ✓✓ carbon dioxide
- 1.1.8 D ✓✓ Statistics South Africa (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 C ✓ The exclusive right to manufacture a product
- 1.2.2 I ✓ A period of production where all factors of production become variable
- 1.2.3 E ✓ A method of building customer loyalty by choosing one product instead of another
- 1.2.4 F ✓ Authorises and prohibits large mergers and takeovers
- 1.2.5 A ✓ Excludes products with volatile prices
- 1.2.6 B ✓ A condition whereby a country experiences low economic growth, high unemployment and high inflation simultaneously
- 1.2.7 D ✓ Spill-over effects of an economic activity on third parties
- 1.2.8 G ✓ International agreement to limit the production of greenhouse gases (8 x 1) (8)

1.3 GIVE THE TERM

- 1.3.1 Industry ✓
- 1.3.2 Minimum wages ✓
- 1.3.3 Social costs ✓
- 1.3.4 Hyperinflation ✓
- 1.3.5 Business ✓
- 1.3.6 Biodiversity ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICROECONOMICS

2.1 Answer the following questions.

2.1.1 Give any TWO examples of variable costs.

- Wages ✓
- Expenditure on raw materials ✓
- Water ✓
- Electricity ✓

(Accept any other correct relevant response)

Any (2 x 1)

(2)

2.1.2 How are consumers affected by price leadership?

Consumers will **lose out (affected negatively)** ✓ if the dominant firm decides to **increase** their prices, all other firms do the same ✓
(Accept any other correct relevant response)

(1 x 2)

(2)

2.2 **DATA RESPONSE**

2.2.1 Identify ONE way, from the extract, in which the banks colluded in exchanging the dollar for the rand at fixed prices.

- Making false sales to drive up demand ✓
- Agree not to trade for specific periods of time ✓

(1)

2.2.2 What kind of market structure does the extract refer to?

Oligopoly ✓

(1)

2.2.3 Briefly describe the term *cartel*

A group of businesses in an oligopoly that comes together with the aim of fixing prices ✓✓
(Accept any other correct relevant response)

(2)

2.2.4 Explain the view of the competition policy on the formation of cartels.

South Africa does not approve because it is a form of collusion which is illegal and punishable by law in terms the Competitions Act ✓✓

(Accept any other correct relevant response)

(2)

2.2.5 How would cartels in the banking sector affect South Africa's foreign trade?

South Africa's foreign trade will be affected by:

- Exports increase due to the depreciation / weakening of the exchange rate✓✓
- Exports will decrease if the rand appreciates / strengthening of the exchange rate✓✓
- Imports increasing due to the appreciation of the rand / strengthening of the exchange rate✓✓
- Imports decreasing due to the depreciation of the rand / weakening of the exchange rate✓✓

(Accept any other correct relevant response)

(2 x 2) (4)

2.3 DATA RESPONSE**2.3.1 What is the equilibrium price in the graph above?**

R120 ✓

(1)

2.3.2 Identify the quantity of goods above that will be supplied if a maximum price of R70 is implemented.

50 units ✓

(1)

2.3.3 Briefly describe the term *market failure*.

Market failure occurs when the best available (optimal) production has not been achieved / when there is allocative and/or productive inefficiency✓✓

(Accept any other correct relevant response)

(2)

2.3.4 Why will a government implement maximum prices of certain goods?

To make goods more affordable / give the poor greater access to certain goods and services / safeguard the interest of the consumer✓✓

(Accept any other correct relevant response)

(2)

2.3.5 Use the graph to explain the impact of maximum prices on the market.

- At the maximum price at R70 suppliers will reduce the supply 50 ✓ while consumers will increase their demand to 150 ✓
- The demand will exceed the supply by 100, therefore creating a shortage on the market ✓✓

(2 x 2) (4)

2.4 Briefly discuss *merit* and *demerit* goods as a cause of market failure.**Merit goods**

- These are goods/services that are deemed necessary or beneficial to the society✓✓ e.g. education, health care ✓
- These goods are highly desirable for general welfare but not highly rated by the market, therefore provide inadequate output/supply✓✓
- If people had to pay market prices for them relatively too little would be consumed – the market will fail to produce✓✓
- The reason for undersupply of merit goods is that the market only takes the private benefits into account and not the social benefits✓✓ (Max 4)

Demerit goods

- These are goods/services that are regarded as bad or harmful for consumption hence we should use less of these✓✓ e.g. alcohol, cigarettes ✓
- There is an oversupply of demerit goods. Some consumers may be unaware of the true cost of consuming them✓✓
- Demerit goods lead to an increase in social costs, therefore, the government charges sin tax / excise duties to discourage the consumption of such goods✓✓

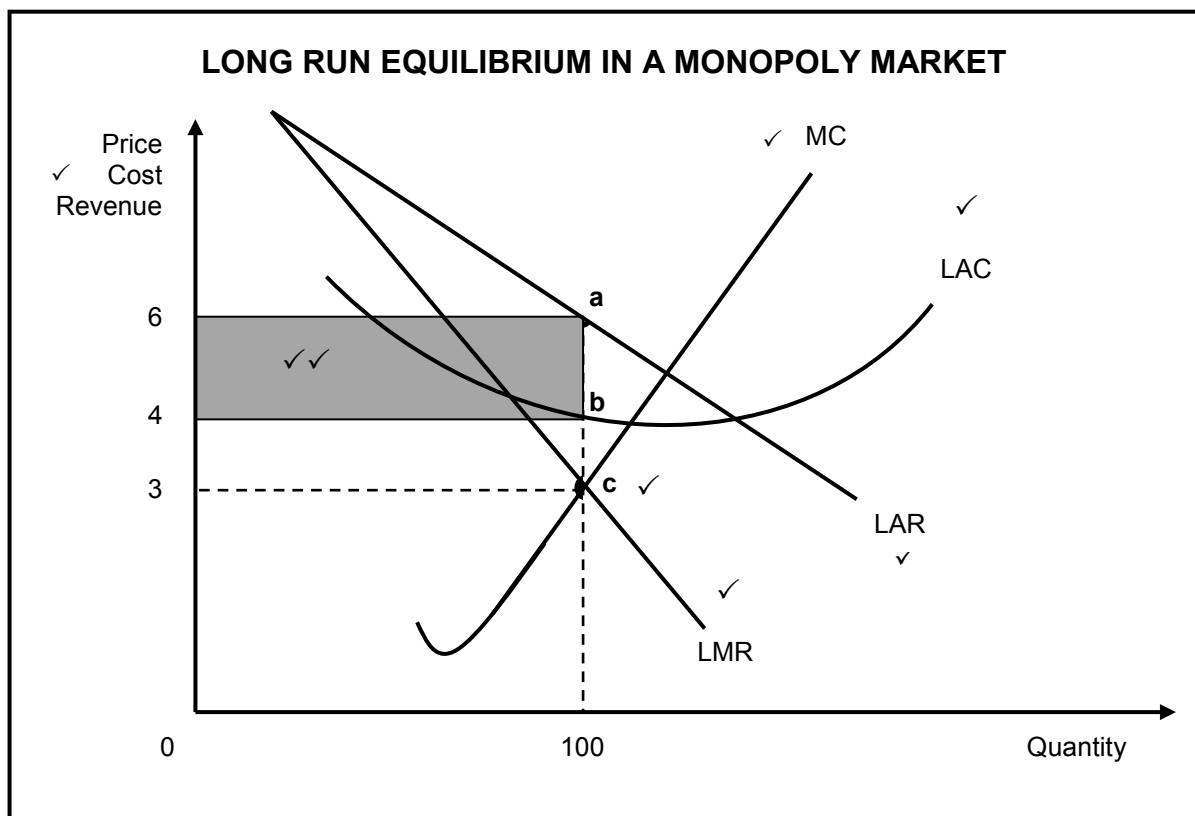
(Accept any other correct relevant response)

(Max. 4)

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

(8)

2.5 Draw a well-labelled graph to illustrate the long run equilibrium of the monopoly.



Mark allocation

Labelling of axis	1 mark
Correct sloping and labelling of AR curve	1 mark
Correct sloping and labelling of MR curve	1 mark
Correct drawing, labelling and positioning of AC curve	1 mark
Correct drawing and labelling of MC curve	1 mark
Correct indication of profit maximisation point	1 mark
Correct area of economic profits	2 marks

(8)
[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES**3.1 Answer the following questions.****3.1.1 Name any TWO types of pollution.**

- Land / environmental pollution ✓
- Soil pollution ✓
- Water pollution ✓
- Air pollution ✓

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

3.1.2 How is reduction in taxes linked to demand pull inflation?

It increases household disposable income, therefore aggregate demand for goods and services increases ✓✓

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

3.2 DATA RESPONSE**3.2.1 Identify ONE item, which low-income earners may struggle to pay for, when inflation is high.**

- Food ✓
 - Housing ✓
- (1)

3.2.2 Which phrase in the extract implies a decrease in the quantity of goods purchased by the consumer?

'purchasing power of the consumer declines' ✓ (1)

3.2.3 Briefly describe the term inflation.

Sustained and significant increase in the general price level over a period of time. ✓✓

(Accept any other correct relevant response) (2)

3.2.4 How do the actions of trade unions cause inflation?

- They often bargain for wage increases that are above the inflation rate ✓✓
- Wage increases demanded by trade unions are often not linked to productivity ✓✓

(Accept any other correct relevant response) (2)

3.2.5 How can government use taxation to combat inflation?

- Increasing direct taxation leads to a decrease in disposable incomes and demand such as income tax ✓✓
 - Increasing indirect taxation such as loan levies which will reduce money supply by making credit more expensive ✓✓
 - Increase surcharges on imported goods will reduce the demand for these goods ✓✓
- (Accept other correct relevant response) (2 x 2) (4)

3.3 DATA RESPONSE**3.3.1 Identify ONE environmental problem in the cartoon.**

- Hazardous waste ✓
- Chemical waste ✓ (1)

3.3.2 Identify the phrase from the cartoon that relates to the loss of biodiversity.

You have killed the plant and animal life ✓ (1)

3.3.3 Briefly describe the term *pollution*.

Introduction of waste or toxic substances into the environment ✓✓
(Accept any other correct relevant response) (2)

3.3.4 Explain a measure adopted by the international community to deal with the loss of biodiversity.

CITES bans commercial international trade in endangered species of plant and animals ✓✓ (2)

3.3.5 Why is hazardous and chemical waste regarded as harmful to the environment?

- They kill living organisms, therefore causing an imbalance in the ecosystem ✓✓
 - They cause infertility in people, animals and plants ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

3.4 **Differentiate between the *consumer price index (CPI)* and the *producer price index (PPI)*.**

- The CPI measures costs of living while the PPI measures costs of production ✓✓
- The CPI basket consists of consumer goods and services while the PPI basket consists of goods only ✓✓
- In the CPI figures capital and intermediate goods are excluded while in the PPI, capital and intermediate goods are included ✓✓
- The CPI prices include VAT while prices in the PPI excluded VAT ✓✓
- The CPI does not show prices of imported goods explicitly while in the PPI prices are shown explicitly ✓✓
- The CPI include interest rates while PPI exclude interest rates ✓✓

Any (4 x 2) (8)

3.5 **How can the government promote South Africa as a tourist destination?**

The government can promote South Africa as a tourist destination by:

- improving infrastructure suitable for tourism ✓✓ E.g. transport and accommodation facilities ✓
- developing new tourist attractions sites to cater for even more tastes ✓✓
- improving the existing tourist attraction sites for them to stay relevant to current times ✓✓
- reducing the level of crime in the country to make tourists safe at all times ✓✓
- advertising the country as a good tourist destination in variety of local and international media ✓✓
- hosting major international events ✓✓
- creating a stable political environment ✓✓
- promote excellence amongst businesses in the tourism industry by rewarding them ✓✓

(Accept other correct relevant responses)

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

(8)
[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES**4.1 Answer the following questions.****4.1.1 Give any TWO examples of world heritage sites in South Africa.**

- Mapungubwe ✓
- The Vredefort Dome ✓
- The Sterkfontein caves / cradle of human kind / Maropeng ✓
- Robben Island ✓
- iSimangaliso Wetland ✓
- The Cape Fynbos region ✓
- uKhahlamba Drakensberg Park ✓
- Richtersveld Cultural and Botanical Landscape ✓ (2 x 1) (2)

4.1.2 Why is there a high degree of interdependence between firms in an oligopoly market?

There are firms that are watching each other closely because the decisions of one firm influences other firms ✓✓
(Accept any other correct relevant response) (1 x 2) (2)

4.2 DATA RESPONSE**4.2.1 Name ONE example of monopolistic competition from the information.**

- Hairdresser ✓
- Fast-food shops ✓
- Law firms ✓ (1)

4.2.2 Identify ONE method used in non-price competition from the information.

- Advertising ✓
- Packaging ✓
- Service ✓ (1)

4.2.3 Briefly describe the term monopolistic competition.

It is a market structure with many buyers and sellers where entry is relatively easy but the product is differentiated ✓✓
(Accept any other correct relevant responses) (2)

4.2.4 How does a monopolistic competitor differ from a perfect competitor in terms of market information.

Market information in the perfect market is complete ✓ compared to monopolistic competition where market information is incomplete ✓
(Accept any other correct relevant responses) (2)

4.2.5 Why do monopolistic competitors achieve only normal profit in the long run?

- Economic profit of the business in the short term will attract new producers to the industry in the long term ✓✓
- Economic profits will become smaller because prices decrease due to more supply ✓✓
- This process will continue until no more businesses enter the industry and only a normal profits are earned ✓✓
- The long term equilibrium is reached where the AC Curve is tangent to the demand curve ✓✓

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

4.3 DATA RESPONSE

4.3.1 Identify the number of jobs created in the tourism sector in 2016.

1.5 million ✓ (1)

4.3.2 What was the general unemployment rate in 2017?

27.7 % (1)

4.3.3 Briefly describe the term *tourism*

The activities of people travelling to and staying in places outside their usual environment for no more than one consecutive year for leisure, business or other purposes such as studying ✓✓
(Accept any other correct relevant response) (2)

4.3.4 Give any reason South Africa is experiencing growth in tourism.

- Increase in disposable income ✓✓
 - Favourable exchange rate ✓✓
 - Technology, such as internet and television travel shows ✓✓
 - Travel has become a necessity ✓✓
 - An increase in government expenditure on promoting tourism ✓✓
 - The rich diversities that South Africa has to offer ✓✓
 - More flexible working hours / more leisure time ✓
- (Accept any other correct relevant response) (2)

4.3.5 Why is the tourism industry successful in creating jobs in South Africa?

- The industry is labour intensive; therefore, it needs many people for performing variety of duties ✓✓
- The services provided requires a mixture of skilled and unskilled labour ✓✓
- As the number of tourists increases, the industry often offers immediate employment to those who seek jobs ✓✓ (2 x 2)
(Accept any other correct relevant response)

(4)

4.4 Briefly discuss the reasons for a Cost Benefit Analysis (CBA)

- CBA helps to make better decisions on how scarce resources are allocated to satisfy wants ✓✓
- Involves making decisions based on comparing economic benefits with economic costs of a project ✓✓
- The feasibility of the project is determined by subtracting costs from benefits, if the difference is positive (benefits > costs) then the project could be undertaken ✓✓
- Greater objectivity in decision making ✓✓
- There are no market signals like supply and demand to guide efficient resource allocation (leads to subjectivity in decision making) ✓✓

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

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

(8)

4.5 Advise the governor of the Reserve Bank on how monetary policy could be used to combat inflation.

SARB can use monetary policy to combat inflation by:

- increasing interest rate (repo rate) when inflation is high, therefore making it expensive to borrow money ✓✓
- adjusting money supply to match the quantity of goods and services available ✓✓
- using open market transactions by selling government bonds, when banks buy these bonds, money flows to the financial sector and out of circulation ✓✓
- reducing the level of credit by applying stricter lending criteria.
- increasing the cash reserve requirement, that requires banks to keep a larger amount of money in reserves ✓✓
- applying moral persuasion to the commercial banks to be careful when giving credit ✓✓

(Accept other correct relevant response)

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

(8)

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

SECTION C

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

Your answer will be assessed as follows:

QUESTION 5: MICROECONOMICS

- Discuss in detail, without the use of graphs, the market structure of a perfect market. (26 marks)
- With the aid of a graph, explain economic loss of the perfect competitor. (10 marks) [40]

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 does 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 ✓✓

Free competition ✓

- Buyers are free to buy whatever they want from any firm and in any quantity ✓✓
- Sellers are free to sell what, how much and where they wish ✓✓

Efficient transport and communication ✓

- Efficient transport ensures that the products are made available everywhere ✓✓
- This implicates that a change in demand and supply in one part of the market will influence the price in the entire market ✓✓
- Efficient communication keeps buyers and sellers informed about market conditions ✓✓

Profits ✓

- The perfect competitor can only make economic profit in the short term ✓✓
- The perfect competitor will make normal profits in the long term ✓✓

Price Determination ✓

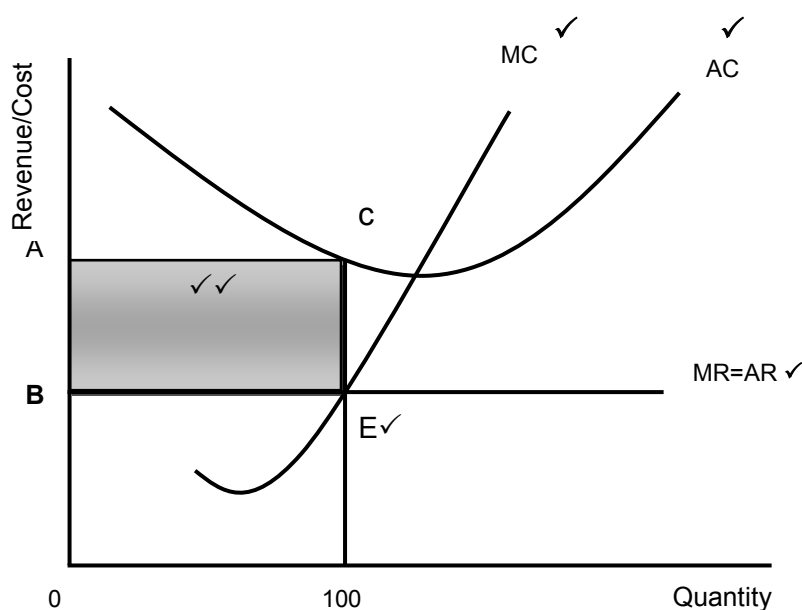
- The market / industry determines the market price for the individual firm ✓✓
- Therefore they are price takers ✓✓
- The demand curve is therefore horizontal ✓✓

Efficiency ✓

- **Productive / technical efficiency** – prevail in a perfect market where production takes place through the effective utilisation of all the resources resulting in the highest number of goods and services at least cost ✓✓
- **Allocative efficiency** – is reached in perfect market whereby the quantity and type of goods and services produced are the best for all the consumers ✓✓

(Accept any other correct relevant responses)

(A maximum of 8 marks can be allocated for mere listing of facts/examples) (Max. 26)

BODY: ADDITIONAL PART**Economic losses****Mark allocation**

Correct indication of loss minimisation point	= 1 mark
Correct drawing, labelling and positioning of AC curve	= 1 mark
Correct drawing and labelling of MC curve	= 1 mark
Correct drawing and labelling of MR/AR curve	= 1 mark
Correct indication of economic loss area	= 2 marks
Max 6 marks	

- The minimum point of the short-term average cost curve (AC) is higher than the market price B ✓✓
 - The business is in equilibrium at point E where $MR = MC$ ✓✓
 - At the market price B, the firm will produce the quantity 100 ✓✓
 - At this point, however, total cost exceeds total revenue ✓✓
 - In view of its cost structure the business is making a loss at point b which is represented by the area, ABCE ✓✓
- (Accept any other correct relevant response) (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: CONTEMPORARY ECONOMIC ISSUES

- **Discuss in detail the measures used by government to ensure sustainable development.** (26 marks)
- **Evaluate how successful government has been to conserve and preserve the environment in South Africa.** (10 marks) [40]

INTRODUCTION

Environmental sustainability means the ability of the environment to survive its economic use for economic activities ✓✓

(Accept any other suitable response) (Max. 2)

BODY: MAIN PART**Granting of property rights ✓**

- The above has a conservation effect as people take care of things that belong to them ✓✓
- To prevent plant and animals from being extinct, people can be given property rights over them ✓✓
- The plants and animals would then be preserved at little cost to the taxpayer ✓✓
- If property rights could be expanded to common goods like clean air, government could charge the polluters for the right to pollute ✓✓

Charging for the use of the environment ✓

- Consumers and producers pay a monthly fee to the government for the waste they produce and disposal of it in the environment ✓✓
- Consumers pay municipal charges for rubbish collection and sewage disposal ✓✓
- Industries might also be levied emission charges and vehicle owners for gas emissions when they buy new vehicles ✓✓
- The charges should be proportional to the waste produced ✓✓
- A fixed total charge such as a monthly charge will not encourage waste producers to reduce waste ✓✓

Environmental subsidies ✓

- Government can provide subsidies to encourage activities that reduce environmental damage ✓✓

Subsidies could be for:

- Developing a new technique or equipment e.g. to save energy, reduce smoke or to use environmentally friendly energy such as wind, tide or sun energy ✓✓
- Encouraging the production of environmentally friendly substitutes such as unleaded petrol ✓✓
- Encouraging recycling of wastes such as bottles, cans and cardboard ✓✓

Environmental taxes/green taxes ✓

- This tax will increase the price of the harmful goods and people will look for alternatives, e.g. the levy on tyres ✓✓
- In order to achieve socially efficient output, the rate of tax should be equal to the marginal external cost ✓✓

Education ✓

- People can be made aware of the environmental problems and the importance of the environment to their survival ✓✓
- Households have become conscious of the importance of waste recycling ✓✓
- Co-operatives have been established to produce organic foods for the domestic and international markets, and in so doing have renewed traditional agricultural systems ✓✓

Command and control ✓

- CAC measures entail the setting of maximum permitted levels of emission (e.g. CO₂) ✓✓ resource use (tons of fish caught) or minimum acceptable levels of environmental quality (in water reserves) ✓✓
- Inspectors monitor the activities and impose fines if the legal limits are not respected ✓✓

Voluntary agreements ✓

- Instead of regulations, government can enter into voluntary agreements with enterprises for them to cut pollution ✓✓
- Businesses prefer voluntary agreements to regulations because they can negotiate such agreements to suit their own circumstances and build them into their planning ✓✓

Marketable permits ✓

- The government give each business a licence to pollute to a certain degree ✓✓
- Businesses sell their licences to other businesses ✓✓
- In South Africa marketable permits are granted by the Department of Minerals and Energy ✓✓ (Max. 26)

(Accept any other correct relevant responses)

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

ADDITIONAL PART

South Africa 's conservation and preservation efforts have had mixed results for:

- A large number of animal species are successfully protected in national parks such as the Kruger Park ✓✓ This is with the exception of a few species such as rhinoceros and elephants, which are threatened by poachers ✓✓
- Rhinoceros poaching has slightly decreased since 2014 and the trend seemed to continue in 2017. ✓✓ However, the average number (1148) of rhinos killed per year was still very high and this threatens the specie's survival ✓✓
- There has been a steady increase in poaching of elephants (as 46 were poached in 2016 compared to 9 in 2015) ✓✓
- Botanical gardens are successfully protecting a variety of plant species across the country ✓✓
- Zoological gardens are keeping a variety of animal species and ensuring their safety and survival ✓✓

(Accept other correct relevant higher order response)

(Max.10)

CONCLUSION

For environmental sustainability to be achieved there need to be a real commitment from governments, markets and international communities for changing their actions against the environment.✓✓

(Accept other correct relevant higher order response)

(Max.2)

[40]

TOTAL SECTION C:

40

GRAND TOTAL:

150