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Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS P2

FEBRUARY/MARCH 2016

MEMORANDUM

MARKS: 150

This memorandum consists of 17 pages.

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

- 1.1.1 B (average variable cost) ✓✓
- 1.1.2 A (licensing) ✓✓
- 1.1.3 C (competition) ✓✓
- 1.1.4 B (marginal revenue) ✓✓
- 1.1.5 C (stagflation) ✓✓
- 1.1.6 A (consumer price index) ✓✓
- 1.1.7 C (pollution) ✓✓
- 1.1.8 B (sustainable development) ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 D - average revenue is less than average cost ✓
- 1.2.2 E - two firms that dominate an industry ✓
- 1.2.3 A - police and defence ✓
- 1.2.4 F - products that are not the same ✓
- 1.2.5 H - a policy used by the Reserve Bank to stabilise prices ✓
- 1.2.6 I - visiting museums and art galleries ✓
- 1.2.7 B - a licence to pollute to a certain degree ✓
- 1.2.8 C - taking care of the environment so that present and future generations will benefit ✓ (8 x 1) (8)

1.3 GIVE THE CONCEPT

- 1.3.1 Minimum wage ✓
- 1.3.2 Short run ✓
- 1.3.3 Opportunity cost ✓
- 1.3.4 Pollution ✓
- 1.3.5 Globalisation ✓
- 1.3.6 Domestic tourism ✓ (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**2.1.1 Name TWO characteristics of monopolistic competition.**

- Existence of large number of firms ✓
 - Product differentiation ✓
 - Price setter ✓
 - Downward sloping demand curve ✓
 - Firms are acting independently ✓
 - Non-price competition (exploited largely by advertising) ✓
 - Free entry and exit from the market ✓
- (Accept any other relevant answer)

(Any 2 x 1) (2)

2.1.2 What will the effect be if one firm in a perfect market decides to increase the price of a product?

Firm will make a loss, because all firms in the perfect market are price takers and cannot influence the market price ✓✓
(Accept any other relevant response)

(1 x 2) (2)

2.2 Study the pictures and answer the questions that follow.**2.2.1 Name the cause of market failure as depicted in pictures 2 and 3**

Picture 2 - Unequal distribution of income – Unemployment ✓

Picture 3 - Demerit goods – Cigarettes ✓

(2 x 1) (2)

2.2.2 Explain the concept market failure.

A situation where market equilibrium fails resulting in the ineffective allocation of resources ✓✓

(2)

2.2.3 How will a lack of information as a cause of market failure influence consumers?

They would not know where to access certain goods and where those goods and services are affordable ✓✓

(Accept any other relevant response)

(2)

2.2.4 Explain how government can intervene in markets that are affected by externalities (pictures 1 and 4).

Picture 1: Subsidise financially disadvantaged students ✓✓

Picture 4: Charge environmental taxes ✓

(Accept any other relevant response)

(2 x 2) (4)

2.3 Study the graph and answer the questions that follow.

2.3.1 Which market structure is the kinked curve related to?

Oligopoly/imperfect market ✓ (1)

2.3.2 What is the output level in the graph above?

50 ✓ (1)

2.3.3 What would the effect be on total revenue if the oligopolist increased his price from R50 to R60? Show calculations.

At the price of R50 and quantity 50, the total revenue will be R2 500 ✓ ($50 \times 50 = 2\,500$)At the price of R60 and quantity 20, the total revenue will be R1 200 ✓ ($60 \times 20 = 1\,200$)The net effect on income = $R2\,500 - R1\,200 = R1\,300$ ✓✓ (4)

2.3.4 Advise the oligopolist on how he can increase his market share in this particular industry.

The oligopolist should consider using the following:

- Non-price measures to attract customers increase their market share ✓✓
- Build brand loyalty, product recognition and product differentiation ✓✓
- Advertising and marketing ✓✓

Examples of non-price competition include:

- extended shopping and business hours ✓
- doing business over the internet ✓
- after-sales services ✓
- offering additional services ✓
- loyalty rewards for customers ✓
- door-to-door deliveries ✓

(Accept any other relevant response)

(Allocate the max of 2 marks for examples) (4)

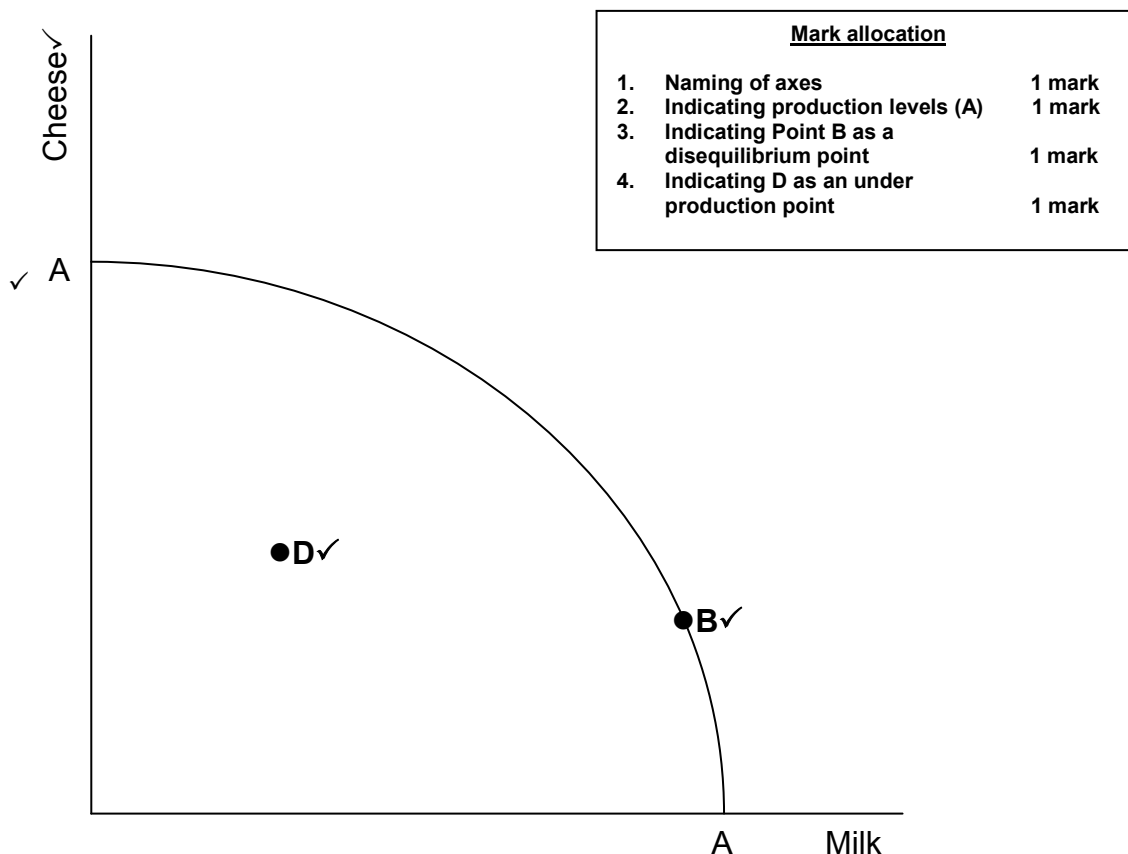
2.4 Distinguish between *price leadership* and *cartels* as forms of collusionCartel

- When collusion occurs openly it is referred to as a cartel ✓✓
- A cartel can be defined as an organisation of oligopolistic businesses that comes into existence in an industry with the specific aim of forming a collective monopoly ✓✓ (2 x 2)

Price leadership

- This type of price determination is tacitly ✓✓
- A firm will announce its intention to increase prices and hope its rivals will follow ✓✓
- The price leader is usually the largest or dominant business in the industry ✓✓ (2 x 2) (8)

2.5 Analyse *productive inefficiency* with the aid of a production possibility curve.



PRODUCTIVE INEFFICIENCY

Production possibility curve (AA), above, shows a combination of goods that can be produced using all the available resources. ✓✓

- Any point on the curve shows a combination of goods where resources will be used efficiently (B). ✓✓
- Therefore any point on the curve indicates productive efficiency. ✓✓
- Any point within the curve shows combinations of goods where resources are used inefficiently (D) ✓✓

(8)
[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

3.1.1 **Give TWO examples of prices that are controlled by the South African government.**

- Fuel prices ✓
- Assessment rates ✓
- Property taxes ✓
- Sanitation levies ✓
- Refuse removal levies ✓
- Water levies ✓
- Electricity tariffs ✓
- Postal stamps ✓

(Accept any other relevant example)

(2 x 1) (2)

3.1.2 **What is the effect of climate change on weather patterns?**

It can cause irregular weather patterns: floods/droughts ✓✓

(2)

3.2 **Study the picture and answer the questions that follow.**

3.2.1 **What happened with the fuel price since 2010?**

It increased from R5 per litre to R12 per litre ✓

(1)

3.2.2 **What will happen to employment when the cost of production increases?**

Employment will decline ✓

(1)

3.2.3 **What is meant by '*Fuel, the foundation of all costs*'?**

- Transport is the bloodline of all economic activities ✓✓
 - If the petrol price increase, than all other products are likely to increase ✓✓
 - Business will off-set this extra cost by increasing the price ✓✓
- (Accept any other relevant answer. (2 x 2) (4)

3.2.4 **Why is inflation regarded as a never-ending process?**

- When consumers/workers feel that their earnings are not enough to sustain their livelihood, they will demand higher wages ✓✓
 - If their demand are successful, wages will increase ✓✓
 - Businesses will increase their prices to compensate for the higher input cost ✓✓
 - This will result in higher prices ✓✓
 - Once prices increase, workers will be in the same financial predicament and will demand higher wages once again ✓✓
- (Accept any other relevant response) (Any 2 x 2) (4)

3.3 Study the extract and answer the questions that follow.**3.3.1 What, according to the extract, is the reason for the growth in the tourism industry?**

Tourist are flocking for **medical treatment** in South Africa ✓✓ (2)

3.3.2 Explain the term tourism.

Activities of people travelling to and staying in places outside their usual environment for no more than one year for leisure, business and other purposes. It does not relate to any work done for money in the place visited. ✓✓

(Accept any other alternative definition) (1 x 2) (2)

3.3.3 Why is South Africa such a popular holiday destination?

- Higher disposable income ✓✓
- Favourable exchange rates ✓✓
- Improved transportation ✓✓
- Improved communication ✓✓
- Marketing campaigns ✓✓

(Accept any other relevant answer) (Any 2 x 1) (2)

3.3.4 How will the economy benefit from an increase in the number of medical tourists coming to South Africa?

- Increased tourists stimulate these services as well as other related industries. ✓✓
- They normally stay for a few weeks after the procedure to recover and for treatment. ✓✓

(Accept any other relevant answer) (2 x 2) (4)

3.4 Explain how *wages* and *exchange rates* can lead to cost push inflation.**Wages**

- Trade unions (workers) is successful in negotiation better wages, the wages will increase leading to an increase in production cost ✓✓
- Businesses will increase the selling price to compensate for the higher input cost ✓✓ (2 x 2)

Exchange rate depreciation

- If the Rand depreciates against the dollar, all imported goods and services become more expensive ✓✓
- It cost more to import goods and this will increase the price of the imported goods ✓✓ (2 x 2) (8)

3.5 **What is the impact of indigenous knowledge within the South African context on tourism?**

- Tourists seek authenticity and uniqueness when they visit places ✓✓
- To understand the indigenous culture, history and environment ✓✓
- In South Africa, several World Heritage sites are attractions for tourists and they want to know how local people live and work ✓✓
- The wide range of indigenous cultural groups offer a wide variety of activities which can be developed through the country to ensure a positive impact on tourism ✓✓
- More foreign tourists are attracted to visit and experience South Africa's indigenous sites ✓✓
- (Accept any other relevant facts)

(4 x 2)

(8)
[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES**4.1.1 Name TWO world heritage sites in South Africa.**

- Mapungubwe ✓
- Sterkfontein Caves ✓
- Robben Island ✓
- Vredefort Dome ✓
- Richtersveld and Botanical Landscape ✓ (Any 2 x 1) (2)

4.1.2 What is the effect on a business if the average cost is more than the average revenue?

The business will suffer losses (economic losses) ✓✓ (1 x 2) (2)

4.2 Study the data and answer the questions that follow.**4.2.1 Identify ONE private cost and ONE external benefit from the data above.**

Private cost: road construction equipment ✓
External benefit: establishment of new businesses ✓ (2 x 1) (2)

4.2.2 Explain the term cost-benefit analysis.

Project evaluation that need to be done in order to find conclusive answers/procedure used to measure total cost of a project against its total benefits ✓✓
(Accept any other relevant response) (2)

4.2.3 What alternative measure could the government consider instead of building a new road?

Maintenance of existing roads ✓✓
Measures to prevent flooding in future e.g. dams ✓✓
(Accept any other relevant response) (2)

4.2.4 Should the government proceed with the building of this road? Motivate your answer.

Yes ✓

- Flooding will not be a problem for road users, tourists and the local community (farmers) ✓✓
- Income derived from toll gates will ensure future maintenance, and will cover the investment made in the construction of toll roads ✓✓
- The final decision will be determined by the positive difference between total benefits from this project over total costs ✓✓

No ✓

- Floods only exist during the rainy season and other measures could be taken to prevent flooding e.g. dams ✓✓
 - Pollution will harm the local community (especially farmers and the environment) on a permanent basis ✓✓
 - Social cost will exceed social benefits due to temporary job creation ✓✓
- (Accept any other relevant response)

(4)

4.3 Study the extract below and answer the questions that follow.

4.3.1 What is the current inflation target range?

3%–6 % ✓✓

(2)

4.3.2 What is the main purpose of the South Africa's inflation targeting policy?

To ensure a stable and sustainable economy ✓✓

(Any 1 x 2)

(2)

4.3.3 How successful, in your opinion, was the Reserve bank in meeting its inflation target?

- Increase consumer expenditure ✓✓
 - Increase production ✓✓
 - Lead to new job opportunities ✓✓
 - Lead to a higher standard of living for more people ✓✓
- (Accept any other relevant response)

(Any 1 x 2)

(2)

4.3.4 How in your opinion can the Reserve Bank reduce the inflation rate?

- The Reserve Bank was successful – The bank manage to pin down inflation between the target range of 3%–6% ✓✓
 - They has successfully increase the repo rate at the right time to prevent inflation to increase above the 6% target range ✓✓
- (Accept any other relevant response)

(2 x 2)

(4)

4.4 **Distinguish between *economic profit* and *normal profit* in the perfect market.**

Normal Profit:

- A firm makes normal profits when total revenue (TR) equals total costs/when average revenue (AR) equals average cost (AC) ✓✓
- Normal profit is the maximum return the owner of a firm expects to receive to keep on operating in the industry ✓✓
- The minimum earnings required to prevent an entrepreneur from leaving the industry ✓✓
- When average revenue equals average cost the firm makes a normal profit ✓✓ (2 x 2)

Economic profit:

- Profit that is made in addition to normal profit ✓✓
- When average revenue is greater than average cost the firm makes an economic profit ✓✓
- When the average cost per unit is lower than the price ✓✓
(Accept tabular format)
(Accept any other relevant response) (2 x 2) (8)

4.5 **What is the impact of inflation on *investors* and *savers*?**

- Assets with fixed nominal values remain constant, the purchasing power of the nominal values increase, the real value decrease ✓✓
- Assets with flexible market value: The holders of shares and fixed property usually gain by price increases because the nominal value of these assets tend to increase at least proportionately to the rate of inflation ✓✓
- Often the prices of these assets increase more rapidly than the increase in the general price level ✓✓
- In this case, inflation creates wealth, to the advantage of the share holders ✓✓
- People who save are disadvantaged by inflation due to the fact that interest earned will be less than the current inflation rate ✓✓
- (Accept any other relevant fact) (Any 4 x 2) (8)

TOTAL SECTION B: [40]
80

SECTION C

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

Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max. 2
Body Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain/Assess/Debate	Max. 26
Additional part: 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/How?/Suggest	Max. 10
Conclusion Any higher-order conclusion should include: <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned • Any opinion or valued judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations 	Max. 2
TOTAL	40

QUESTION 5: MICROECONOMICS

The existence and survival of any business depends on how they are conducting themselves.

- Compare the market structure of a monopoly with that of a perfect competitor. (26 marks)
- Draw a clearly labelled graph indicating the shut-down point for the perfect competitor. Briefly explain why a business will stop producing goods at this point. (10 marks)

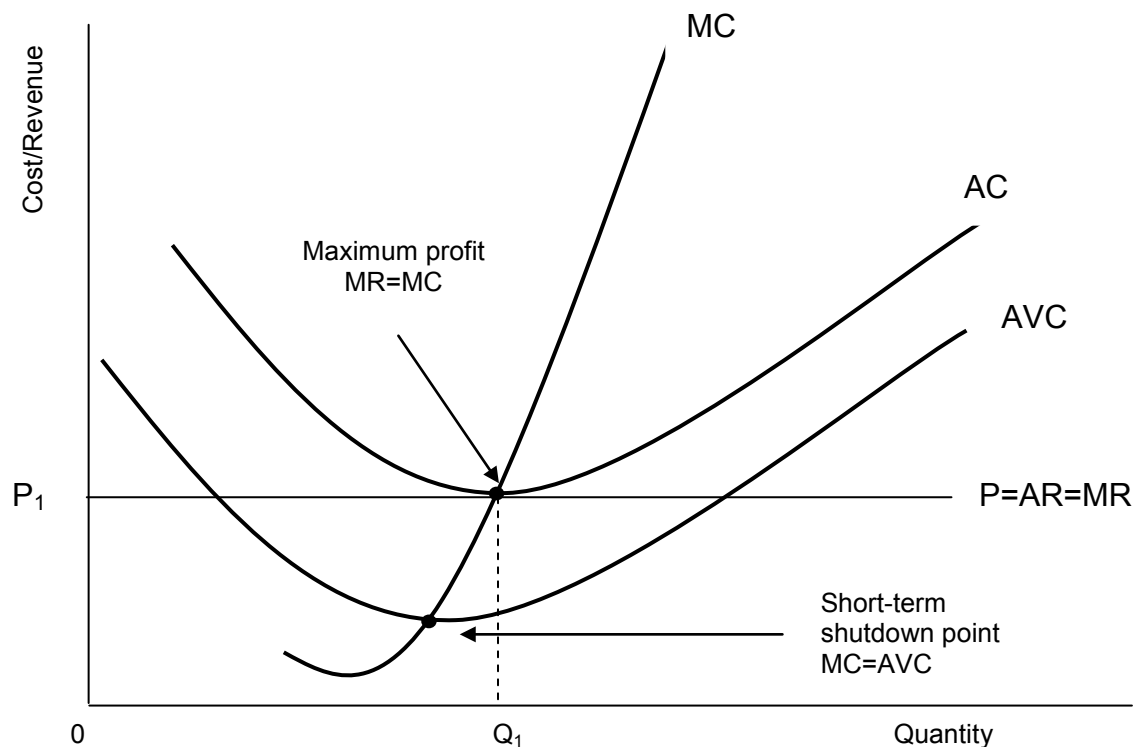
INTRODUCTION

A perfect competitor has many sellers while a monopolist only has one seller. ✓✓
(Accept any suitable introduction) (Max. 2)

BODY**MAIN PART**

	Perfect Competitor	Monopoly
Price:	<ul style="list-style-type: none"> - Price taker ✓✓ - The market determines the price for the individual firm ✓✓ 	<ul style="list-style-type: none"> - Is regarded as a price maker ✓✓ - Have some control over price ✓✓ - Prices not determined by market forces of supply and demand but by the business itself ✓✓
Output:	-The demand curve for the perfect competitor is horizontal ✓✓	-The demand curve for monopolist is downward sloping ✓✓
Profit:	<ul style="list-style-type: none"> - The perfect competitor can realise economic profits in the short term ✓✓ - Abnormal profits will attract new entrants into the market for both structures ✓✓ - Both perfect and monopoly can only realise normal profits in the long term ✓✓ -The price for the product for both market structures equals the average cost ✓✓ - The perfect competitor does produce the ideal production quantity and has no surplus capacity ✓✓ 	<ul style="list-style-type: none"> - The monopolist also realise economic profits in the short term ✓✓ - The monopolist will charge a higher price than the perfect competitor ✓✓ - The monopolist will not produce at the lowest point of the LAC, like the perfect competitor, the output will be less than the perfect competitor ✓✓ - Both perfect and monopoly can only realise normal profits in the long term ✓✓ - The monopolist's production will be less than the ideal production quantity where LAC is the minimum and has surplus capacity ✓✓
Number of businesses	So many that no single business can influence the market price ✓✓	One business ✓✓
Nature of product	Homogeneous e.g. maize ✓✓	Unique product without any close substitutes ✓✓
Information	Complete ✓✓	Complete ✓✓
Entry	Completely free ✓✓	Blocked ✓✓
(Accept any other relevant fact)		(Max 26)

(Accept essay format)

ADDITIONAL PART**Mark allocation**

Axes	1 mark
Correct intersection of MC and AVC	1 mark
Cost curves	1 mark
$P=AR=MR$	1 mark
Indication $MR=MC$	1 mark
Indication of shut-down point	1 mark
	6 marks

Briefly explain why a business will stop producing goods at this point.

- A firm will shut down if it cannot meet its average or total variable costs ✓✓
- The firm will not produce here because $AR < AVC$ ✓✓
- The firm will not keep on producing from the shut-down point down because the firm cannot meet its operational cost ✓✓
- Below the shut-down point, the firm will not sell any goods. A firm will sell goods if the price is above the shutdown price level (supply curve) ✓✓ (Max 10)

CONCLUSION

Although it is not completely possible to compare the monopoly market with the free market, a comparison can give us insightful information about the profit maximising quantity and price ✓✓

(Accept any other relevant conclusion)

(Max. 2)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

The current levels of pollution and environmental degradation are too high and this affects the ability of the environment to survive its use for economic activities.

- Discuss government's attempts (interventions and control) to ensure the sustainability of our environment. (26 marks)
- In your opinion, how effective is pollution control measures in South Africa? (10 marks)

INTRODUCTION

Environmental sustainability can be defined as development that meets the need of the present without compromising the ability of future generations to meet their own needs. ✓✓ (Max. 2)

BODY**MAIN PART**

- **Public sector intervention** ✓
 - Because it is difficult to enforce measures to ensure sustainability the government has to intervene ✓✓
- * **Environmental taxes** ✓
 - Environmental taxes (green taxes) can be added to the cost of goods and services for the negative impact they have on the environment ✓✓
 - The government uses the income generated through these taxes to protect the environment ✓✓
 - Taxes can be imposed on petrol, paper, emission gases etc. ✓✓
 - In 2003 the government has legislated the use of biodegradable plastic bags which consumers had to pay for ✓✓
 - The hope is that they will use fewer bags and ensure a litter free environment ✓✓
- * **Charging for dumping of waste** ✓
 - A monthly fee as part of municipal accounts is charged for collection of waste, sewage and garbage.
 - Households already pay for the collection of rubbish ✓✓
 - The factory owner might clean up his waste if it cost him to dump it ✓✓
 - Industries might also pay for emitting gases that can be harmful to people and the environment ✓✓
- * **Subsidies** ✓
 - Subsidies can be awarded to businesses that are willing to reduce pollution and waste. ✓✓
 - Waste can also be reduce by using new techniques or equipment such as solar energy ✓✓
 - Emission gases from factories can be reduced using new technology. ✓✓

*** Granting property rights** ✓

- Normally owners of properties tend to be more protective over their resources than users who are only interested in the profits the resources offer ✓✓
- For this reason the government might grant property rights over a specific area. ✓✓
- Property rights empowers owners to negotiate contracts with businesses who wish to exploit the area's resources ✓✓

*** Marketable permits** ✓

- A government can decide on the maximum desired level of pollution in an area ✓✓
- It then distribute pollution rights (marketable permits) to factories within that area ✓✓
- This means that each factory can pollute to a certain limit ✓✓
- It means that marketable permits are licenses that polluters can buy or sell to meet the control levels set by government ✓✓

*** Education** ✓

- Incorporating topics into the curriculum of school fosters awareness ✓✓
- The public is gradually been made aware of this rising problem ✓✓
- Plastic, bottles and cartons can be recycled or made biodegradable (13)

• Public sector control ✓

- If the government's intervention does not attain the desired results, then it has to intervene more directly by setting and enforcing limits ✓✓

*** Environmental Impact Assessment** ✓

- In SA every projected construction, mining or similar development has to undergo an assessment by qualified environmental professionals ✓✓
- To prove that it will not cause unwarranted environmental damage and that the damage can be repaired after construction ✓✓
- The cost is built into the project ✓✓

*** Command and control** ✓

- Regulations that are set and enforce environmental limits or standards ✓✓
- Quantity: e.g. set the limit to the amount of fish to catch, or limit the season catching certain species of fish ✓✓
- Quality: e.g. drinking water quality is carefully monitored and controlled ✓✓
- Air quality in workplace is subject to minimum standards ✓✓
- Social effect: e.g. noxious fumes from factories, dumping of medical waste near settlements, and noise pollution ✓✓

*** Voluntary agreements ✓**

- Agreements between government and businesses voluntarily to address negative environmental impacts of industries ✓✓
- Businesses voluntarily agree to decrease the emissions of pollutants ✓✓
- Most prefer negotiations so that they can tailor their specific needs and include it into their planning ✓✓
- Agreements can be formal, which is legally binding contract or informal ✓✓

(13)

(Max .26)

ADDITIONAL PART**In your opinion, how effective are pollution control measures in South Africa?**

- Government does not exercise effective control over the continuous dumping of waste because of a lack of coordination between departments ✓✓
 - The fines imposed on industries that dump waste are too lenient and they continue polluting the environment ✓✓
 - The minimum standards set for hazardous gas and fuel emissions are not enforced or adjusted ✓✓
 - The recycling of waste materials are not widely encouraged and promoted and landfill sites are overflowing ✓✓
 - Government has various laws that is not really effectively implemented ✓✓
 - Poor service delivery also adds to the problem in certain areas ✓✓
- (Accept any other relevant answer) (Any 5 x 2)

CONCLUSION

Each and every individual, business and government needs to stand together to save our planet.

(Accept any other relevant conclusion)

(Max. 2)

[40]

TOTAL SECTION C:	40
GRAND TOTAL:	150