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Basic Education
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SENIOR CERTIFICATE EXAMINATIONS

ECONOMICS P2

2016

MEMORANDUM

MARKS: 150

This memorandum consists of 16 pages.

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

- | | | | |
|-------|-------------------------------|---------|------|
| 1.1.1 | C ✓✓ Monopolistic competition | | |
| 1.1.2 | A ✓✓ completely blocked | | |
| 1.1.3 | B ✓✓ market | | |
| 1.1.4 | A ✓✓ perfect | | |
| 1.1.5 | B ✓✓ infertility | | |
| 1.1.6 | C ✓✓ labour intensive | | |
| 1.1.7 | A ✓✓ granting property rights | | |
| 1.1.8 | B ✓✓ demand-pull | (8 x 2) | (16) |

1.2 MATCHING ITEMS

- | | | | |
|-------|--|---------|-----|
| 1.2.1 | C ✓ actual expenditure of a business such as purchases of raw materials, paying wages and interest | | |
| 1.2.2 | A ✓ smallest individual and independent producing unit | | |
| 1.2.3 | F ✓ total revenue equals total cost | | |
| 1.2.4 | B ✓ government intervention to redistribute income equally | | |
| 1.2.5 | G ✓ provisioning of water and sanitation | | |
| 1.2.6 | I ✓ climate change that affects the whole world | | |
| 1.2.7 | H ✓ government sets acceptable levels of pollution | | |
| 1.2.8 | D ✓ South Africa's World Heritage Site | (8 x 1) | (8) |

1.3 GIVE THE CONCEPT

- | | | | |
|-------|--------------------------------------|---------|-----|
| 1.3.1 | Economic / super normal / abnormal ✓ | | |
| 1.3.2 | Social ✓ | | |
| 1.3.3 | Industry ✓ | | |
| 1.3.4 | Domestic tourism ✓ | | |
| 1.3.5 | Indigenous Knowledge Systems ✓ | | |
| 1.3.6 | Administered ✓ | (6 x 1) | (6) |

TOTAL SECTION A: 30

SECTION B**QUESTION 2: MICROECONOMICS**

- 2.1 2.1.1 **Give TWO examples of merit goods.**
- Education / skills training ✓
 - Health care / inoculations ✓
- (Accept any other correct relevant response) (2 x 1) (2)
- 2.1.2 **Why will output in the goods market increase when businesses in the perfect market make economic profit?**
- More businesses will enter the industry to take advantage of economic profit ✓✓ (1 x 2) (2)
- 2.2 **Data Response**
- 2.2.1 **Identify TWO main problems that South Africa experiences with monopolies in the extract above.**
- Far too many monopolies ✓
 - One competitor ✓
 - High prices ✓
 - Quality of products or services is lower ✓
 - Companies are less innovative ✓
 - Companies are less efficient ✓
- (2 x 1) (2)
- 2.2.2 **Why is Eskom regarded as a natural monopoly?**
- Due to the high cost of infrastructure, a single business can serve the whole market at a lower price than two or more businesses competing ✓✓
(Accept any other correct relevant response) (2)
- 2.2.3 **What prevents monopolies from charging excessively high prices?**
- The demand for the goods will decrease and it will result in lower profits ✓✓
 - Due to consumers' limited budgets the monopolies compete for the consumer's favour ✓✓
 - Monopoly's prices are sometimes regulated by government ✓✓
 - E.g. NERSA is regulating Eskom's electricity prices ✓
- (Accept any other correct relevant response) (2)

2.2.4 How has the implementation of an anti-monopolistic policy benefitted South Africa?

- Restrictions into entry to any industry was relaxed which promote economic transformation in the country ✓✓
 - The economic power of big conglomerates was limited to ensure a more equitable distribution of income and wealth ✓✓
 - South African businesses were able to regain access to the world economy and became more competitive ✓✓
- (Accept any other correct relevant response) Any (2 x 2) (4)

2.3 Data Response

2.3.1 Identify the marginal revenue curve in the graph above.

AR / P ✓ (1)

2.3.2 Which curve is also known as the supply curve?

MC curve ✓ (1)

2.3.3 Why will the individual firm not produce more than 60 units?

- Point B is the profit maximisation point ✓✓
- Any quantity more than 60, marginal cost will exceed marginal revenue ✓✓ (2 x 2) (4)

2.3.4 How does the market demand curve differ from the curve of the individual firm?

The demand curve for the individual firm is horizontal ✓ while the demand curve for the market slopes downward from left to right ✓ (2)

2.3.5 What is the significance of point A?

- Point A represents the shut-down point of a business ✓✓
- At this point the competitor cannot cover the average variable cost (AVC) ✓✓ (2 x 2) (4)

- 2.4 **Differentiate between the nature of the product under *monopolistic competition* and under the *monopoly*.**

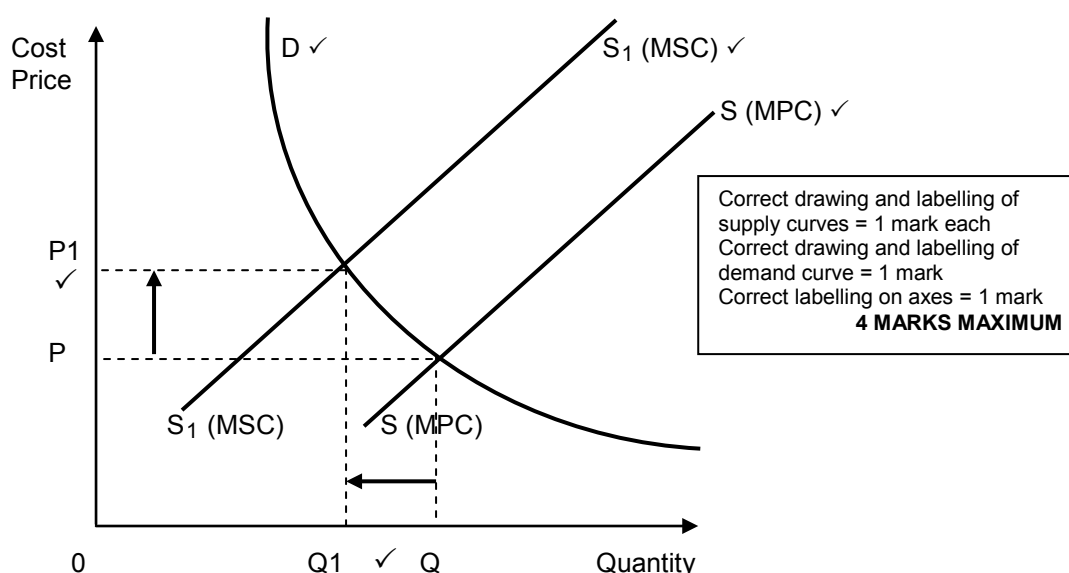
Monopolistic Competition

- Each firm sells a slightly differentiated product ✓✓
- Differences might be real or imagined / differences can be based on the opinion of consumers ✓✓
- Producers can compete against one another on the grounds of unique characteristics ✓✓ (Max 4)

Monopoly

- The good or service is unique ✓✓
 - There is no close substitutes ✓✓
 - The consumer does not have a choice between alternative goods and services ✓✓ (Max 4)
- (Accept any other correct relevant response) (2 x 4) (8)

- 2.5 **Explain, by means of a neatly labelled graph, how a negative externality results in the misallocation of resources.**



- The market produces at Q units. If the cost of a negative externality (pollution) is included in the market price, then Q_1 units will be produced ✓✓
 - Because it is not included if the market overproduces at Q which results in a misallocation of resources ✓✓
- (Accept any other correct relevant response) (4 x 2) (8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES3.1 3.1.1 **Name TWO types of tourism**

- Cultural tourism ✓
- Business tourism ✓
- Paleo-tourism ✓
- Eco-tourism ✓
- Adventure tourism ✓

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

3.1.2 **What effect does chemical pollution have on agricultural land in South Africa?**

It reduces the quality of soil and products ✓✓

(Accept any other correct relevant response) (2)

3.2 **Data Response**3.2.1 **Which economic indicator is used to determine the inflation rate?**

Consumer Price Index / CPI ✓ (1)

3.2.2 **Which year is currently used by the SARB as base year?**

2010 ✓ (1)

3.2.3 **Why would the inflation rate in 2013 have been considered to be acceptable by the Monetary Policy Committee?**

It was within the target range of 3 - 6% ✓✓ (2)

3.2.4 **Why will a reduction in personal income tax increase the inflation rate?**

It results in an increase in disposable income which increases the demand for goods and services, putting pressure on prices ✓✓

(2)

3.2.5 **Calculate the inflation rate for 2015 (A). Show all calculations.**

$$\frac{111.0 - 105.4}{105.4} \quad \checkmark \quad \times \quad \frac{100}{1} \quad \checkmark$$

$$= 5.3\% \quad \checkmark \checkmark \quad (4)$$

3.3 **Data Response**3.3.1 **Identify TWO goods or services on which tourists can spend money in South Africa in the extract above.**

- Hotel and lodge accommodation ✓
 - Restaurant services ✓
 - Big five viewing ✓
- (Any 2 x 1) (2)

3.3.2 **Explain the term *tourism*.**

The activities of people travelling to and staying in places. outside their usual environment for not more than one consecutive year for leisure, business and other purposes ✓✓ (2)

3.3.3 **How does a weaker rand affect the South African tourist?**

- Imported goods and services become more expensive ✓✓
 - It will reduce travel abroad / cost of travel ✓✓
 - Encourage domestic tourism ✓✓
- (Accept any other correct relevant response) (Any 1 x 2) (2)

3.3.4 **How can an increase in tourism benefit South African households?**

- Job creation / New employment opportunities ✓✓
 - They receive income for working in the tourist sector ✓✓
 - Infrastructure created for use by tourist becomes available for use by households ✓✓
 - Increased domestic production to satisfy everyone's needs ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

3.4 **Explain the effects of increased tourism on poverty.**

- Tourism allow poor people to share in the benefits of tourism development ✓✓
 - Poor people can start small tourism business around community assets such as parks ✓✓
 - They become empowered by receiving on the job training ✓✓
 - Local people can form business partnerships with mainstream tourism businesses supplying goods and services ✓✓
- (Accept any other correct relevant response including negative effects) (4 x 2) (8)

3.5 How can the market be used to ensure environmental sustainability?

- By including external cost (pollution) in the price of the products the harmful effects of production will be limited ✓✓
- By encouraging the use of environmental friendly technology in the production of goods and services ✓✓ e.g. technology that will ensure lower CO₂ emissions ✓
- By charging a price for a common resource which is generally non-excludable, will ensure that the use thereof is economized ✓✓
- By making producers and consumers aware of the environmental effects of their actions (knowledge) ✓✓ e.g. indicated on the cans the harmful effect of aerosol spray on the environment ✓
- By encouraging research on the prevention of harmful practices or the use of products ✓✓

(Accept any other correct relevant response)

(Any 4 x 2)

(8)
[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 4.1.1 **Give TWO reasons for a cost-benefit analysis.**

- It assess whether a new project will be feasible ✓
 - It calculates and compares the social cost and benefits of an investment ✓
 - It gives greater objectivity to decision-making ✓
 - Ensures a more equitable distribution of resources ✓
- (Accept any other correct relevant response)

(2 x 1) (2)

4.1.2 **How can education be used to ensure environmental sustainability in South Africa?**

People can be made aware of the consequences and benefits of their action to the environment ✓✓
(Accept any other relevant answer)

(2)

4.2 **Data Response**

4.2.1 **Give TWO examples, according to the extract, of informal retailers in South Africa.**

- Tuck shops ✓
- Hawkers ✓
- Street stalls ✓
- Fast foods ✓
- Kiosks ✓
- Take-away food ✓
- Taverns ✓
- Spazas ✓
- Small retail stores ✓

(Any 2 x 1) (2)

4.2.2 **Explain the term *oligopoly*.**

An oligopoly is a market structure in which a few firms (businesses) dominate the market ✓✓

(2)

4.2.3 **How can Shoprite influence the price of their goods without forming a cartel?**

By becoming the dominant firm / through price leadership strategy ✓✓
(Accept any other correct relevant response)

(2)

4.2.4 How can the five biggest South African companies increase their market shares in the economy?

- Through product differentiation, products might slightly differ in terms of physical appearance, packaging etc. ✓✓
- Improve after-sale-services that are far more important to customers and will ensure a long-term relationship with that business ✓✓
- To spend more money on advertising to lure consumers onto their side ✓✓
- To establish brand loyalty, because oligopolies want consumers to believe that its brand is the best and to buy only that brand ✓✓
- Through product proliferation, oligopolies may produce many different ranges of products to cater for many different markets ✓✓
- By extending shopping hours to encourage greater flexibility to households ✓✓
- Through online purchases, it becomes easier for customers to shop around without any additional cost/variety of goods available to make comparisons ✓✓
- Paying loyalty rewards to customers for continued support ✓✓
(Accept any other correct relevant response)
(A maximum of 2 marks for listing of examples)

(2 x 2) (4)

4.3 Data Response

4.3.1 Describe the economic message depicted in the cartoon above.

- The environment is in danger of being destroyed by development ✓✓
- New development should consider taking measures to sustain the environment ✓✓
(Accept any other correct relevant response)

(2)

4.3.2 State any ONE negative issue that affects the current state of the environment .

- Pollution ✓✓
- Soil erosion ✓✓
- Deforestation ✓✓
- Climate change ✓✓

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

4.3.3 Explain the term *conservation*.

Ensures creative continuity of the environment by being sympathetic to the quality of life for present and future generations ✓✓
(Accept any other correct relevant response)

(2)

4.3.4 Explain how climate change can lead to a decrease in production in your community.

- Loss of soil nutrients affects the quantity and quality of agricultural produce ✓✓
- Drought conditions lead to poor crop yield ✓✓
- Hurricanes, tornados and floods may destroy valuable topsoil, existing agri-businesses in those areas ✓✓
(Accept other reasons for a decrease in production in any other industry)

(2 x 2) (4)

4.4 Explain the long-term equilibrium of a firm under perfect competition.

- Economic profit in the short term will lead to expansion of current businesses and attract new businesses into the market ✓✓
- This will increase the supply of goods (pushes the supply curve to the right) which will decrease the price ✓✓
- The price will decrease to the point where price is equal to AR that equals AC, therefore economic profits of these businesses will diminish ✓✓
- Due to mass production the cost per unit will be at the lowest point of the LAC curve ✓✓
- Factors such as specialisation and improved technology leads to economies of scale ✓✓
- Further expansion will lead to higher unit costs and is called internal diseconomies of scale ✓✓
- In the long run, individual businesses can only make normal profit ✓✓

(4 x 2) (8)

4.5 What has contributed to an increase in tourism worldwide?

- Due to *globalisation*, people are well informed of destinations in other countries ✓✓
- Increasing number of people earn high disposable income which allow them to spend on leisure and recreation ✓✓
- With improved communication methods such as internet, it is easier to arrange travelling ✓✓
- Infrastructural development e.g. airports ✓✓
- Intensified advertising and promotion make people aware of various travel destinations ✓✓
- Through utilisation of new technology, custom and border control in most countries are user friendly ✓✓

(Accept any other correct relevant responses)

(Any 4 x 2) (8)

[40]

TOTAL SECTION B: 80

QUESTION 5: MICROECONOMICS

Governments use various instruments at their disposal to correct or limit market failure.

- Draw a clearly labelled graph explaining the consequences of government intervention in the market for each of the following:

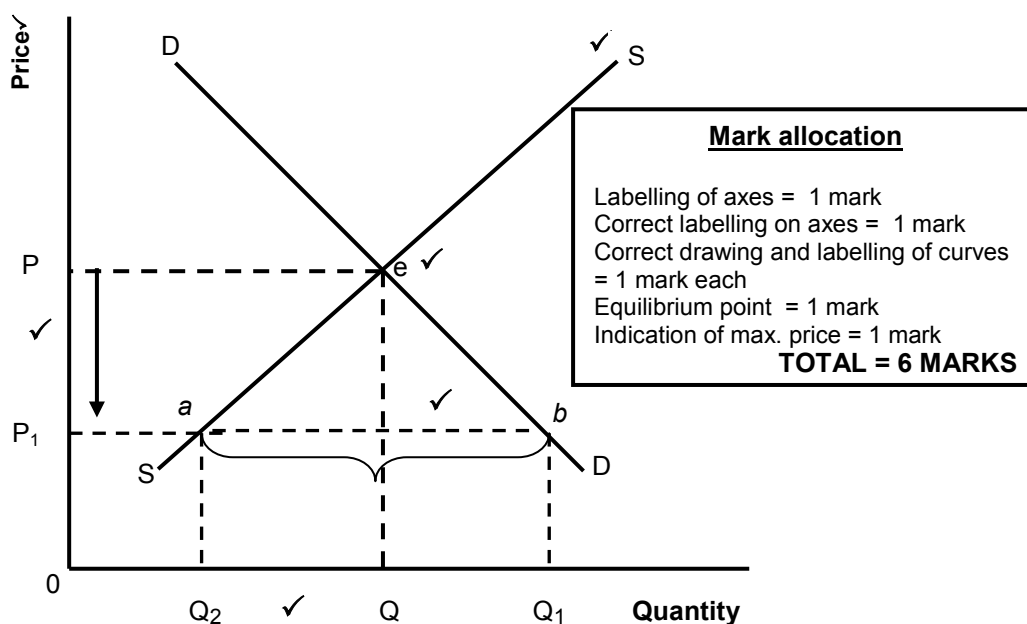
- Maximum prices
- Taxation

(26 marks)**Introduction**

The purpose of government intervention is to ensure that the right quantity of resources is allocated to the production of output so that society as a whole maximizes its benefits.
✓✓

(Max. 2)

(Accept any other relevant introduction)

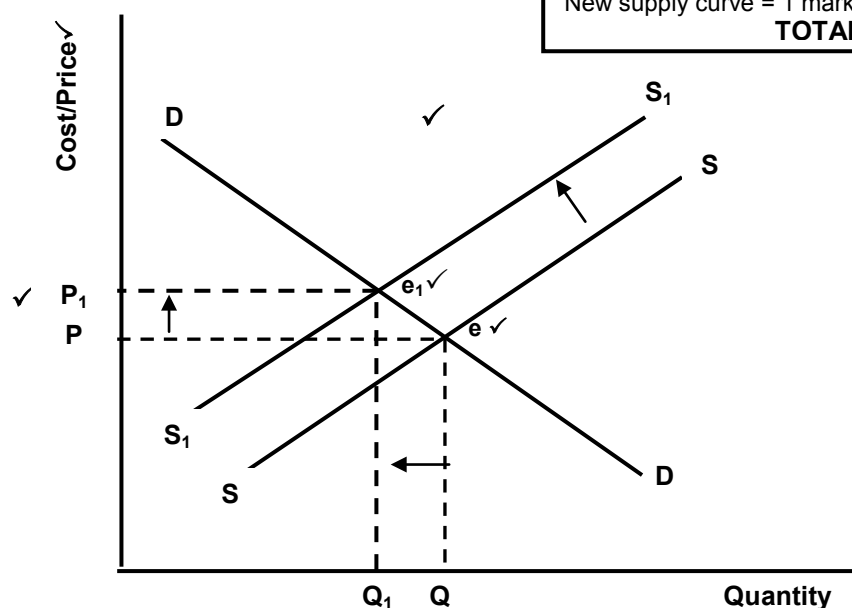
Maximum prices

- Sometimes government will set the price of a good or service at a maximum level that is below the market price ✓✓
- The government intervene and passes a law that suppliers may not charge more than the maximum price ✓✓
- The immediate effect is that quantity supply will drop ✓✓
- The original market equilibrium price and quantity is P and Q respectively ✓✓
- The price set by the government is P_1 , at this price the demand will increase to Q_1 and the supply will decrease to Q_2 ✓✓
- The difference between Q_1 and Q_2 is the shortfall that will be created on the market ✓✓
- The shortage caused by the price ceiling creates a problem of how to allocate the good since the demand has increased ✓✓
- Black markets start to develop ✓✓

(Mark allocation: Graph 6 and discussion max. 10 marks)

Taxation**Mark allocation**

Labelling of axes = 1 mark
 Labeling on axes = 1 mark
 Original equilibrium point = 1 mark
 New equilibrium point = 1 mark
 Correct drawing and labelling of original demand and supply curves = 1 mark
 New supply curve = 1 mark

TOTAL = 6 MARKS

- The appropriate way to intervene in the market by government is by levying taxes as a method to recover external cost ✓✓
- The original market equilibrium at e , with P as the equilibrium price and Q as the equilibrium quantity ✓✓
- The tax increase will shift the supply curve to the left ✓✓
- New equilibrium at E_1 ✓✓
- A tax would raise the price from P to P_1 ✓✓
- The production will decrease from Q to Q_1 ✓✓

(Mark allocation: Graph total 6 marks and discussion max 10 marks)

In your opinion, how has the implementation of minimum wages advantaged the worker in South Africa? **(10 marks)**

- They are protected by law and basic human rights. Many farmworkers and domestic workers are better off than before ✓✓
- They enjoy a better living standard/ensure sustainable income ✓✓
- They can also enjoy unemployment benefits for which they did not qualify before ✓✓
- They are also entitled for sick leave with pay ✓✓
- They are also entitled to annual leave with pay ✓✓
- Women are also entitled to maternity leave without the risk of becoming unemployed ✓✓

(10 marks)

(Accept any other correct relevant response)

Conclusion

The intervention of government ensures that inefficiencies is eliminated and that the market is operating effectively ✓✓ **(Max 2)**

(Accept any other relevant conclusion)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

The impact of inflation on the economy can often be devastating.

- **Examine the measures to combat inflation.** (26 marks)
- **What is the impact of inflation on the individual taxpayer?** (10 marks)

INTRODUCTION

Inflation refers to the general increases in prices over a period of time ✓✓
(Accept any other relevant introduction)

(Max. 2)

BODY**MAIN PART****DEMAND INFLATION ✓****Fiscal policy ✓**

- These are steps taken by the Minister of Finance to curb inflation through policies for taxation and expenditure ✓✓
- Increasing direct taxation to reduce disposable income and reduce excessive demand ✓✓ e.g. PAYE ✓
- Increasing indirect taxation such as VAT and excise duties can be increased to increase prices of specific products ✓✓
- A loan levy can be introduced or increased ✓✓
- Government spending can be reduced by postponing some of the government projects ✓✓ e.g. buildings and irrigation of dams
- Financing of the budget deficit on a non-inflationary basis ✓✓ e.g. loans from the non-banking sector ✓
- Imposing a surcharge on imported goods. The surcharge increases the prices of imported goods (especially luxury items) so that people buy fewer goods ✓✓
- Implementing measures to improve productivity such as tax rebate to businesses ✓✓

Monetary policy ✓

- Increasing the repo rate to reduce the availability of credit. Banks will in turn increase interest rates thereby, making it more expensive to borrow money ✓✓
- Increased interest rates can also encourage savings, thus reducing demand ✓✓
- Decrease in money supply by means of open market transactions through selling government bonds ✓✓
- Increasing bank cash reserve requirement to reduce their money available for lending to customers ✓✓

COST-PUSH INFLATION ✓**Productivity ✓**

- Increasing productivity through better education and training/skills development and the support of technological developments ✓✓

Wage increases need to be accompanied by productivity increases ✓✓

Protecting competition (through the Competition Commission) ✓

- Encouraging personal savings which could enable investments, increase the supply side of the economy ✓✓

Other measures to consider:

- Price control** ✓ by fixing the price of certain essential goods, the government assures they remain affordable ✓✓
- Stricter conditions for consumer credit** ✓ the government makes it harder for consumers to get credit in order to restrict their spending ✓✓
- Import controls are relaxed** ✓
- Floating exchange rate** ✓ prices are automatically adjusted to international conditions ✓✓
- Indexation** ✓ a policy of linking prices of items such as wages, pensions and mortgage bond interest rates to price indices to eliminate the effects of inflation ✓✓

(Accept any other correct relevant response)

(Max. 26)

ADDITIONAL PART**What is the impact of inflation on the individual taxpayer?**

- Inflation increases the marginal and average tax rates of the individual taxpayer ✓✓
- The progressive income tax system, where the individual with a higher income will be taxed at a higher tax rate, leaves this consumer with less spending money ✓✓
- Tax is levied on nominal income and not on real income – therefore the average rate of personal income tax increases and disadvantages the individual taxpayer even more ✓✓
- Individuals end up paying higher taxes even when they are not actually better off ✓✓
- Bracket creeping has the same effect as an increase in the tax rate, thereby reducing the purchasing power of the tax payer ✓✓

(Max 10)

(Accept any other correct relevant response)

Conclusion

South Africa has been having stable prices since the implementation of inflation targeting in 2000 ✓✓

(Accept any other correct relevant response)

(Max. 2)

[40]

TOTAL SECTION C:
GRAND TOTAL:

40
150