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Basic Education
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NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS P2

EXEMPLAR 2014

MEMORANDUM

MARKS: 150

This memorandum consists of 14 pages.

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

- 1.1.1 A (MC = AVC) ✓✓
- 1.1.2 C (regulated) ✓✓
- 1.1.3 C (implicit) ✓✓
- 1.1.4 A (artificial) ✓✓
- 1.1.5 B (demand-pull inflation) ✓✓
- 1.1.6 A (labour) ✓✓
- 1.1.7 B (eco) ✓✓
- 1.1.8 B (fiscal) ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 B (items that have highly volatile prices are excluded from the CPI basket) ✓
- 1.2.2 A (price increases combined with high unemployment) ✓
- 1.2.3 H (occurs due to global warming) ✓
- 1.2.4 I (the flow of residual emissions exceeds the natural environment's capacity to absorb them) ✓
- 1.2.5 E (two industries that dominate a particular market) ✓
- 1.2.6 C (when it is impossible to increase the welfare of one without decreasing the welfare of another) ✓
- 1.2.7 D (often under-produced by the market e.g. education) ✓
- 1.2.8 G (average revenue = average costs) ✓ (8 x 1) (8)

1.3 IDENTIFY THE CONCEPT

- 1.3.1 Oligopoly ✓
- 1.3.2 Maximum prices ✓
- 1.3.3 Marginal cost ✓
- 1.3.4 Conservation ✓
- 1.3.5 Consumer Price Index ✓
- 1.3.6 Cost push inflation ✓ (6 x 1) (6)

TOTAL SECTION A: 30

- 2.4
- Market signals, e.g. price helps to allocate resources through demand and supply. ✓✓
 - Goods supplied by the government such as roads, bridges etc. are provided free. ✓✓
 - With the absence of market signals, decisions on the desirability of a project may be subjective. ✓✓
 - Objective criteria may be required to ensure economic efficiency in resource allocation. ✓✓
 - CBA brings greater objectivity to decision making. ✓✓
 - This is done by identifying all the relevant benefits and costs of a project where an informed decision can be made ✓✓ (Any 4 x 2) (8)
- 2.5
- An important aspect of non-price competition is to build brand loyalty, ✓ product recognition ✓ and product differentiation. ✓
 - This is done by means of advertising and marketing. As a result, firms tend to spend a substantial amount of money on this. ✓✓
 - Other forms of non-price competition include:
 - extended shopping and business hours ✓✓
 - doing business over the internet ✓✓
 - after-sales services ✓✓
 - loyalty rewards for customers ✓✓
 - In-store competitions ✓✓
 - door-to-door deliveries ✓✓ (Any 4 x 2) (8)
- [40]**

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

- 3.1 3.1.1 • Museums ✓
 • Art galleries ✓
 • Archaeological sites ✓
 • Festivals ✓
 • Sports events ✓
 Any other relevant fact (2)
- 3.1.2 • Where government intervenes to preserve environmental assets more tourists will visit a country ✓✓
 • Better control and management of e.g. indigenous forests will maximize a country's income over the long run ✓✓
 Any other relevant fact (2)
- 3.2 3.2.1 Pollutants contribute to a layer or blanket in the atmosphere that traps heat ✓✓ (2)
- 3.2.2 There is a steady increase in the average temperature of the earth's near-surface air and oceans that influences all economic sectors like agriculture and transport negatively ✓✓ (2)
- 3.2.3 • Kyoto protocol ✓✓
 • Montreal protocol ✓✓
 Any other acceptable answer (1 x 2) (2)
- 3.2.4 • The environment is a common resource ✓✓ many parts of the environment are not privately owned e.g. the sea
 • Externalities ✓✓ when people pollute the environment costs are borne by others
 • Lack of knowledge ✓✓ people cause damage without realizing it
 • Carelessness ✓✓ people continue with harmful practices and leave future generations to worry about the consequences (4)
- 3.3 3.3.1 Holiday makers with a 44,5 % share ✓✓ (2)
- 3.3.2 $\frac{51,1 \times 37,2}{100} \checkmark = 19\% \checkmark \checkmark / 19\% \checkmark \checkmark$ (2)
- 3.3.3 • Safety ✓✓
 • Increased media coverage ✓✓
 • Interest in politics ✓✓
 • Interest in sport ✓✓
 • Improved infrastructure ✓✓ (2 x 2) (4)
- 3.3.4 • Job creation – jobs can be provided immediately ✓✓
 • Entrepreneurial opportunities ✓✓
 • Tourism allows rural people to share in the benefits of tourism development ✓✓
 Any other relevant fact (2)

- 3.4
- Direct taxation increased ✓✓ less money available for consumption expenditure by consumers ✓✓
 - Indirect taxation increased ✓✓ as part of a restrictive fiscal policy government can reduce its spending or increase taxation e.g. sins tax (2 x 4) (8)
- 3.5
- Today's tourists seek authenticity and uniqueness at destinations ✓✓
 - They want to understand the indigenous culture, history and environment and how local people live and work ✓✓
 - Of importance is the World Heritage Sites, e.g. Mapungubwe, Vredefort Dome, Sterkfontein Caves and Robben Island ✓✓
 - Environmental World Heritage Sites represent the extreme of our indigenous environmental uniqueness, e.g. iSimangaliso Wetland Park (4 x 2) (8)
- [40]**

QUESTION 4

- 4.1 4.1.1 • The product is differentiated. ✓
 • Use of non-price competition. e.g. advertising. ✓
 • Displays a hybrid structure. It is a combination of competition and a monopoly. ✓
 • There are many sellers ✓
 • entry and exit is easy Entry into the market is easy. ✓
 • Businesses have little control over the price of the product. ✓
 • Information for buyers and sellers is incomplete. ✓
 • Collusion is not possible under monopolistic competition. ✓
 (Any 2 x1) (2)
- 4.1.2 Pertains to cost of production ✓✓
 Basket consists of goods only ✓✓
 Capital and intermediate goods are included ✓✓
 Prices exclude VAT ✓✓
 Interest rates are excluded ✓✓
 Prices of imported goods are shown explicitly ✓✓ (Any 1 x 2) (2)
- 4.2 4.2.1 Inflation is a sustained and significant increase in the general price level over a period of time and a simultaneous decrease in the value or buying power of money. ✓✓ (2)
- 4.2.2 Major savings on transport cost will increase consumer consumption expenditure ✓✓
 The consumer can redirect his consumption expenditure on other goods and services ✓✓ (4)
- 4.2.3 Reduced petrol cost could increase savings and investment in general if most of the consumer's needs are met. ✓✓ **OR**
 Reduced petrol cost will not necessarily influence savings and investment if the consumer spends the extra money on goods and services. ✓✓ (4)
- 4.3 4.3.1 Market failure occurs when the market is not operating efficiently e.g. a firm may produce fewer goods than it is capable of. ✓✓ (2)
- 4.3.2 • Pollution ✓
 • Traffic congestion ✓
 Any other relevant answer ✓ (1)
- 4.3.3 MSC_1 ✓ (1)
- 4.3.4 Negative externalities are costs to third parties which are not included in the market price. ✓✓ Therefore production is at Q ✓, If the external costs were included then production would be at Q_1 which is less than Q ✓ and is socially desirable ✓. Thus goods which generate negative externalities are over-produced. ✓✓ (6)

4.4 a) **Productive inefficiency/Technical inefficiency**✓✓
When resources are not used appropriately to produce the maximum number of goods at the lowest cost✓ and best quality✓.

b) **Allocative inefficiency**✓✓
When resources are not allocated in the right proportions and the product mix does not match consumers' tastes✓.i.e. the quantity and type of goods produced do not cater for consumers' needs. ✓

An allocation of resources is inefficient if it is possible to reallocate resources to make one person better off while not making someone else worse off. ✓✓ (8)

4.5 ENVIRONMENTAL TAXES:

- Rather than taxing environmental use, tax could be imposed on the output of a good wherever external environmental costs are generated ✓✓
- These are known as green taxes, charged on items such as tyres – will increase the price ✓✓

SUBSIDIES:

- Provide subsidies for activities that reduce environmental damage ✓✓
- Cost to reduce or prevent the harmful effects is recovered from the proceeds of taxation ✓✓
- E.g. development of new techniques or equipment to save energy or to reduce smoke ✓✓

(Any 2 x 4) (8)
[40]

TOTAL SECTION B: 80

SECTION C

Answer ONE question from this section in the ANSWER BOOK.

STRUCTURE OF ESSAY:	MARK ALLOCATION:
Introduction	Max. 2
Body:	
• Main part: Discuss/Distinguish/Differentiate/Explain/Analyse /Evaluate/Assess	Max. 26
• Additional part: Use/Draw/Sketch a graph/diagram .../ Deduce .../Outline/Briefly explain/Expand on .../Your own opinion	Max. 10
Conclusion	Max. 2
TOTAL	40

QUESTION 5: MACROECONOMICS**40 MARKS – 25 MINUTES**

Markets are broadly categorised into perfect and imperfect markets. However, in reality very few examples of perfect markets exist.

- Examine the conditions of a perfect market in detail. (26 marks)
- Draw a clearly labelled graph to show economic profit for an individual producer in the market. (10 marks)

[40]**Introduction**

It is a market structure with a large number of participants who are price-takers.

✓✓The price is determined by the market demand and supply, This market is most efficient in the allocation of resources ✓✓ **Max (2)**

BODY:**Characteristics:****a) Products must be homogenous (i.e. identical). ✓**

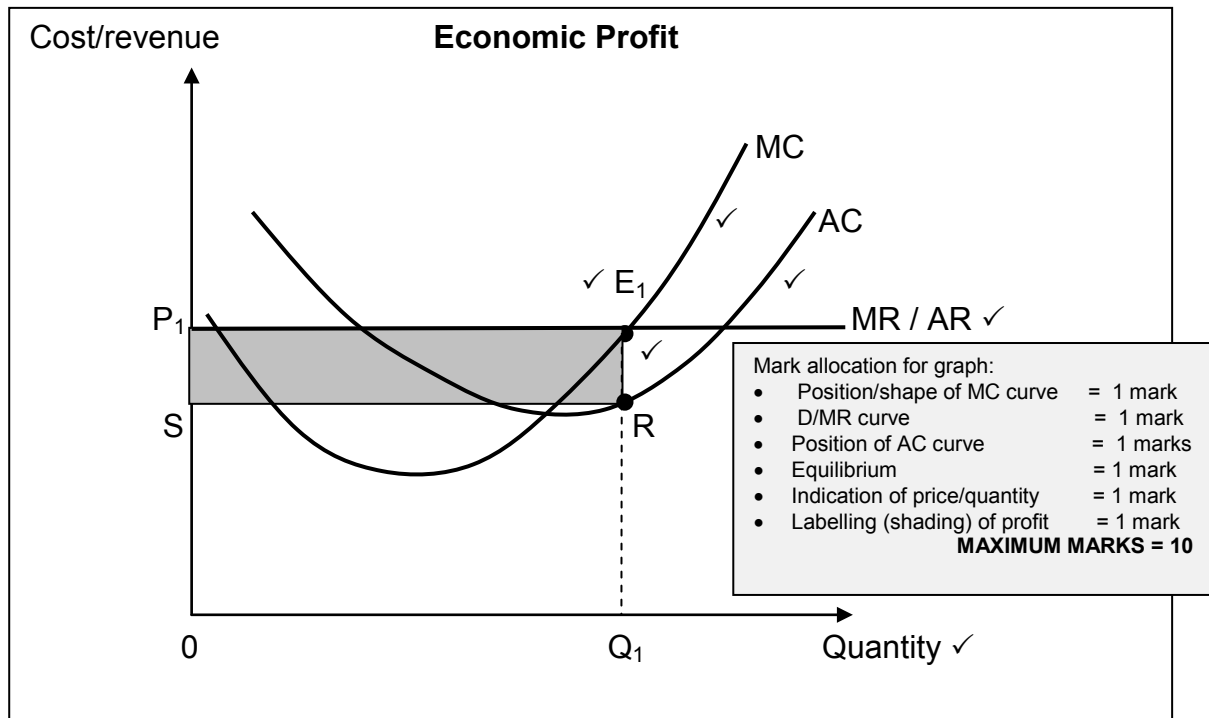
- Products must be identical. There should be no differences in style, design and quality. ✓✓
- In this way products compete solely on the basis of price and can be purchased anywhere. ✓✓
- If products differ, sellers can persuade buyers to buy their more expensive products by grading them. ✓✓ E.g. The markets for maize and coal consist of homogenous products which are graded. Grade 1 fetches a higher price than other grades.

b) There should be a large number of buyers and sellers. ✓

- It should not be possible for one buyer or seller to influence the price.
- When there are many sellers the share of each seller to the market is so small that the seller cannot influence the price. ✓✓
- Sellers are price-takers, they accept the prevailing market price. If they increase prices above the market price, they will lose customers. ✓✓.

- c) **No preferential treatment/discrimination✓**
- Collusion occurs when buyers and sellers make an agreement to limit competition. In a perfect market no collusion takes place. ✓✓
 - Buyers and sellers base their actions solely on price, homogenous product fetch the same price and therefore no preference is shown for buying from or selling to any particular person. ✓✓
- d) **Free competition/Unregulated market: ✓**
- Buyers must be free to buy whatever they want from any firm and in any quantity. ✓✓
 - Sellers must be free to sell what, how much and where they wish. ✓✓
 - There should be no state interference and no price control. ✓✓
 - Buyers should not form groups to obtain lower prices nor should sellers combine to enforce higher prices. ✓✓
- e) **Efficient transport and communication✓**
- Efficient transport ensures that products are made available everywhere. ✓✓
 - In this way changes 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. ✓✓
- f) **All participants must have perfect knowledge of market conditions. ✓**
- All buyers and sellers must be fully aware of what is happening in any part of the market. ✓✓
 - Technology has increased competition as information is easily obtained via the Internet. ✓✓
- g) **Freedom of entry/exit: ✓** There is complete freedom of entry and exit, that is to say the market is fully accessible. ✓✓ Buyers and sellers are completely free to enter or to leave the market. Entry should not be subject to any restrictions in the form of legal, financial, technological or other barriers that curtail the freedom of movement of buyers and sellers. ✓✓
- h) **Mobility of factors of production: ✓** All factors of production are completely mobile, ✓✓ in other words labour, capital and all other factors of production can move freely from one market to another. ✓✓
- i) **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 1998. ✓✓

Max. 26**NOTE: A maximum of 8 x 1 marks will be allocated for headings**

BODY: ADDITIONAL PART**(Max. 10)****Conclusion**

The characteristics above indicate that the market has to meet strict requirements before it can be described as perfectly competitive ✓✓

Although there very few examples, the conditions of a perfect market does serve a frame of reference when studying other markets. ✓✓

(Any other relevant conclusion)

(Max. 2)

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 25 MINUTES

Tourism is one of the fastest growing industries worldwide.

- Critically discuss the effects of tourism. (28 marks)
- Evaluate how tourism benefits the households in your community by using appropriate examples. (10 marks)

[40]**Introduction**

In general we say that tourism involves people moving from their usual place of residence to a destination where they make use of the facilities and take part in activities ✓✓

Any other relevant definition.

(Max. 2)**BODY: MAIN PART****1.1 GDP ✓**

- Biggest impact on services industry than on agriculture or manufacturing ✓✓
- Indirect contribution: service-based industry – responsible for 65% of GDP in developed economies and 40% of GDP in developing countries ✓✓
- Direct contribution: contribution of 6,8% of GDP compared to 11.6% worldwide. ✓✓

1.2 Employment ✓

- Employs 7% of SA workforce (1,12 million) ✓✓
- largest provider of jobs and earner of foreign exchange, due to:
 - ❖ Tourism is labour intensive ✓✓
 - ❖ Tourism employs many skills ✓✓
 - ❖ Tourism can provide immediate employment ✓✓
 - ❖ Tourism provides entrepreneurial opportunities ✓✓

1.3 Poverty ✓

- Tourism is fast + effective distribution mechanism in development of rural areas ✓✓
- Prime tourism attractions located in rural areas ✓✓
- Promote balanced + sustainable form of development ✓✓
- Provides alternative to urbanisation, permitting people to continue - a rural family existence, enfranchising both women and youth ✓✓
- Offers diversity of income sources to poor people:
 - ❖ Allowing them a stake
 - ❖ Empowering them
 - ❖ Creating partnerships ✓✓

1.4 Externalities

Has positive and negative impacts:

- ❖ Attracts large amounts of revenue, but can cause undue environmental damage (uses resources and produces waste) ✓✓
- ❖ Rapid growth aimed at short-term benefits has more negative than positive effects: degeneration of traditions + cultural values, environmental damage to sites and natural settings – pollution and waste ✓✓
- ❖ Global tourism will grow due to increased population, improved living standards, increased free time and expansion of transportation systems ✓✓
- ❖ Pressure on tourist sites will increase ✓✓
- ❖ Potential: attract revenue to country, alleviate poverty, conserve cultural and natural assets – needs conscious planning ✓✓
- ❖ Needs to achieve ethical and sustainable tourism must respect tradition and customs of area, plough back earnings into local community – area must be protected as attractive tourist resort. ✓✓

1.5 Environment

Industrial development has impact on physical environment in which it takes place. ✓✓

Creates environmental stress – categories:

- Permanent environmental restructuring (construction work on highways, airports) ✓✓
- Waste product generation (biological + non-biological waste) ✓✓
- Direct environmental stress (destruction of coral reefs) ✓✓
- Effects on population dynamics (migration and urban density, declining rural population) ✓✓

1.6 Infrastructure

- Adequate physical, economic + basic services infrastructure essential for tourist destinations:
 - ❖ Transport infrastructure (roads, railway lines, airports, car parks) ✓✓
 - ❖ Communication infrastructure (telephone lines, electronic signal stations) ✓✓
 - ❖ Energy infrastructure (electricity and liquid fuels) ✓✓
 - ❖ Basic services infrastructure (clean water, reuse removal, sewerage systems). ✓✓
- Lack of economic + basic services infrastructure prevents growth of tourism ✓✓
- This infrastructure is seen as public investment ✓✓
- Seasonality – major problem for infrastructural development ✓✓ (Max 26)

ADDITIONAL PART

Tourism benefits households' prosperity in THREE ways:

- Income – salaries and wages – due to involvement with tourism ✓✓ example from the candidate's environment ✓✓
 - Infrastructure – available for tourists and local people's use ✓✓ example from candidate's environment ✓✓
 - Skills – variety required – education + training required – school subject ✓✓ example from the candidate's environment ✓✓ (Max. 10)
- Accept any other relevant answer.

Conclusion

In reality tourism is a much wider concept and can be quite demanding but very interesting when it is related to a specific community ✓✓

Any other relevant conclusion

(Max. 2)

TOTAL SECTION C:	40
GRAND TOTAL	150