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GRADE 12

**ECONOMICS P2
SEPTEMBER 2022
MARKING GUIDELINE**

MARKS: 150

This marking guideline consists of 20 pages.

SECTION A**QUESTION 1****30 MARKS – 20 MINUTES****1.1. MULTIPLE CHOICE QUESTIONS**

- 1.1.1 C marginal ✓✓
 1.1.2 B duopoly ✓✓
 1.1.3 D market ✓✓
 1.1.4 A Cost-Benefit Analysis ✓✓
 1.1.5 D Negative ✓✓
 1.1.6 B conservation ✓✓
 1.1.7 C transit ✓✓
 1.1.8 A sustainability ✓✓

(8x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 C / the maximum output that the firm can produce with a given number of inputs at its disposal ✓
 1.2.2 F / an arrangement between businesses with the aim of limiting competition by fixing prices ✓
 1.2.3 E / the value of inputs owned by the entrepreneur and used in the production process ✓
 1.2.4 I / allows poor people greater access to goods and services ✓
 1.2.5 H / tourist visit undisturbed natural areas ✓
 1.2.6 A / occurs when aggregate demand in an economy is greater than the aggregate supply ✓
 1.2.7 D / emissions which flow into the natural environment from human activity, and which are beyond the capacity of the environment to absorb ✓
 1.2.8 B / give business the right to pollute up to a certain extent ✓

(8 x 1) (8)

1.3 ONE WORD

- 1.3.1 Cartel ✓
 1.3.2 Black market ✓
 1.3.3 Private cost ✓
 1.3.4 Inflation ✓
 1.3.5 Indigenous Knowledge System ✓
 1.3.6 Renewable resources ✓

(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**40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 **Name any TWO reasons for market failure.**

- Externalities ✓
- Missing markets ✓
- Imperfect competition ✓
- Lack of information ✓
- Immobility of factors of production ✓
- Imperfect distribution of income and wealth ✓ (2 x 1) (2)

2.1.2 **How can tax be used to discourage the consumption of harmful goods?**

Tax can be increased to decrease the consumption of goods that are harmful to the society ✓✓ (2 x 1) (2)
(Accept any other relevant and correct response)

2.2 **DATA RESPONSE**

2.2.1 **What market structure is represented the above cartoon?**

Perfect competition/perfect market ✓ (1)

2.2.2 **Name the nature of the products sold in this market.**

Homogenous/identical ✓ (1)

2.2.3 **Briefly describe the term *market structure*.**

Refers to how the market is organised/The major organisational features of a market, for example. number of sellers/buyers/the degree of product differentiation/the availability of information ✓✓ (2)
(Accept any other correct relevant response)

2.2.4 **Why is the demand curve of a perfect competitive business horizontal?**

- It is because the firm receives the same revenue for every additional unit of a product it sells ✓✓
- There firm sells various quantity of output at the same price since it is a price taker ✓✓ (2)
(Accept any other correct relevant response)

2.2.5 How would a change of price in the industry affect the individual firm in perfect competitive market?

- A change of price in the industry would also result in a change of the price for the individual firm since the individual firm is a price taker ✓✓
- If the price in the industry increases, it will lead to an increase in the price of the individual firm and vice versa ✓✓
- The price in the price for the individual firm may result in the firm making a normal profit in the long run ✓✓ (2 x 2) (4)
(Accept any other correct relevant response)

2.3 DATA RESPONSE**2.3.1 Identify the profit maximisation point from the above graph.**

D ✓ (1)

2.3.2 Provide a label for curve represented by the letter E.

Average costs (AC)/Average total cost (ATC) ✓ (1)

2.3.3 Briefly describe the term normal profit.

It is the profit that the firm earns when the firm's costs are equal to its revenue / It is the minimum payment required to prevent the entrepreneur from leaving the industry and use his/her factors of production elsewhere ✓✓ (2)
(Accept any other correct relevant response)

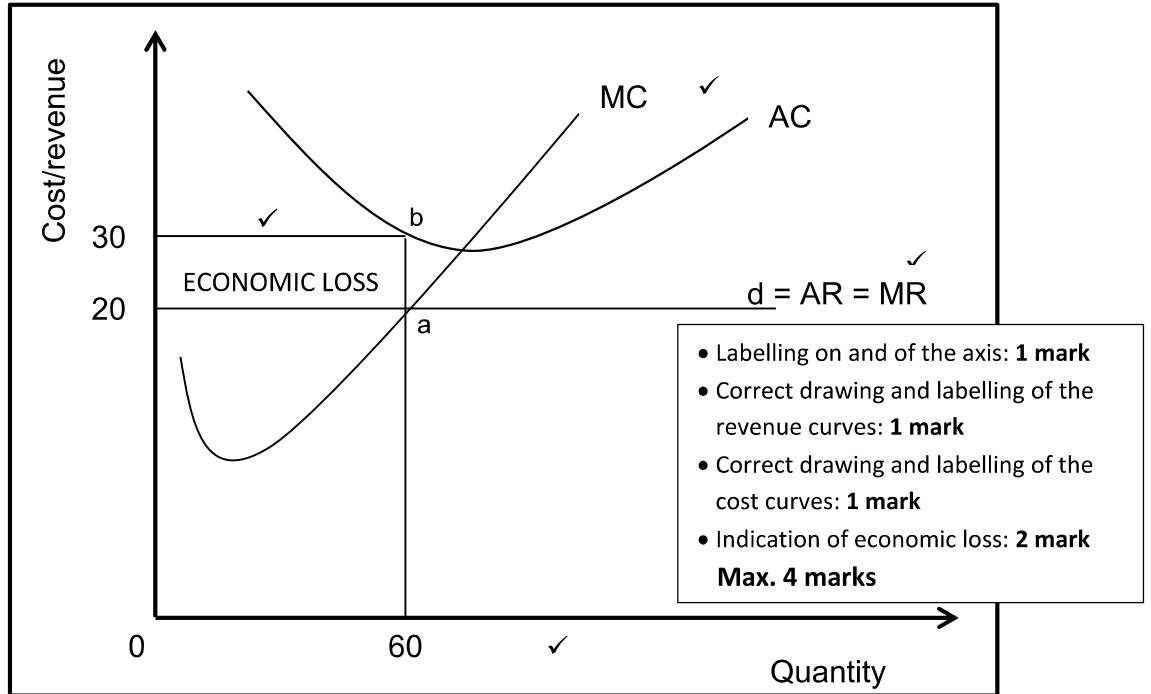
2.3.4 Why does a monopoly make profit both in the short- and long-run?

This is because there are barriers that restrict new firms from entering a monopolist market ✓✓ (2)

2.3.5 Calculate the profit/loss that is made by the firm. Show ALL calculation.

30 x 50 = R150 ✓
40 x 50 = R200 ✓
R150 – R200 ✓ = - R50 ✓ (4)

2.4 With the aid of a well-labelled graph, explain economic loss in the short-run for a perfect competitive firm.



- Economic loss occurs when the firm's total revenue is less than the total cost/average revenue is less than the average costs ✓✓
- Given a market price of R20, profit is maximised where marginal revenue (MR) is equal to the marginal cost (MC), and the quantity is 60 units ✓✓
- At 60 quantities, the average cost per unit is R30 which is higher than the price of R20 ✓✓
- The firm therefore makes an economic loss ✓✓

$$\begin{aligned}
 &TR - TC \\
 &(P \times Q) - (AC \times Q) \checkmark \\
 &(R20 \times 60) - (R30 \times 60) \checkmark \\
 &R1200 - R1800 \checkmark \\
 &-R600 \checkmark
 \end{aligned}$$

Allocate a maximum of 4 marks for the graph, and 4 marks for the explanation
Accept any other correct relevant response)

(8)

2.5 How can the provision of subsidies to producers positively impact on the economy?

- Subsidies take the form of financial grants by the government to support the production of goods and services, ✓✓ for example, depreciation write-offs, rent rebates, etc. ✓
 - It can be used for production, employment and exports ✓✓
 - A subsidy paid directly to producers have the effect that the cost of production of goods and services are lower ✓✓
 - Lower costs of production will result in the production of mores goods and serves ✓✓
 - For more goods and services to be produced, producers will employ more workers leading to a decrease in the level of unemployment ✓✓
- (Accept any other correct relevant response)

(8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES**40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Give any TWO ways to measure inflation.

- Indexes (CPI/PPI) ✓
 - Weighting (Bracket of goods and services) ✓
 - Inflation rate (Calculations) ✓
- (2 x 1) (2)

3.1.2 What is the negative impact of increase in tourist in a country?

- Tourism can cause environmental damage if not managed correctly ✓✓
 - Tourism can result in a lot of waste and damage to sensitive tourist sites ✓✓
 - The infrastructure at tourist sites can come under pressure to cater for increased tourist numbers ✓✓
 - Tourism can lead to increased prices for locals ✓✓
- (Accept any other correct relevant response)
- (1 x 2) (2)

3.2. DATA RESPONSE

3.2.1 Identify the cause of inflation in the cartoon above.

COVID-19 ✓ (1)

3.2.2 Name the type of inflation associated with increases in natural disasters.

Cost push inflation ✓ (1)3.2.3 Briefly describe the term *stagflation*.Low growth, high unemployment and high inflation rates occur simultaneously ✓✓ (2)

3.2.4 Explain the effect of COVID-19 pandemic on inflation.

- When infections increase the government may be forced to shut down the economy and that may result in shortages of supply of goods and services ✓✓
 - A decrease in production will result in an increase in the general price level ✓✓
- (Accept any other correct relevant response)
- (2)

3.2.5 How can the government address the problem of rising petrol prices?

- Encourage use of alternatives of fuel such as renewable sources of energy such as solar and wind ✓✓
 - Reduction of Road Accident Fund and general fuel levies which adds to cost paid by consumers ✓✓
 - Search for new sources of crude oil in the country's oceans or neighbouring countries ✓✓
- (Accept any other correct relevant response)

(4)

3.3 DATA RESPONSE**3.3.1 Identify ONE reason why rhino poaching has to be avoided.**

- Rhino populations are at a point of near extinction ✓
- To allow the number of rhinos to increase ✓

(1)

3.3.2 Name ONE other animal that is regarded as endangered.

- Tiger ✓
 - Giant panda ✓
 - Fin/blue whale ✓
 - Turtles ✓
 - African wild dog ✓
- (Accept any other correct relevant response)

(1)

3.3.3 Briefly describe the term biodiversity.

It is variety of plants and animals living in an area ✓✓

(2)

3.3.4 Explain the role played by education in ensuring sustainable environment.

- Education is used to try to change people's attitudes towards the environment ✓✓
 - Education in developing world helps by setting innovative approaches that teaches people, e.g. setting up community wildlife reserves ✓✓
- (Accept any other correct relevant response)

(2)

3.3.5 How does conservation of rhinos benefit the economy?

- It attracts tourists and bring in foreign currency in the economy ✓✓
- It creates jobs for people in the country as they can be employed in game parks ✓✓

- It gives the future generation to be able to experience the specie and be able to make a living from its existence ✓✓ (4)
(Accept any other correct relevant response)

3.4 Distinguish between the different characteristics of demand-pull and cost-push inflation.

Demand pull inflation

- Aggregate demand rises more than aggregate supply, causing an increase in the general price level ✓✓
- Groups that are responsible: Consumers, businesses and government ✓✓
- Foreigners' contribution: They further increase the demand for our goods and services through an increase in exports ✓✓
- Relative increase in aggregate demand's components: C (consumption spending), I (investment spending), G (government spending), M (cost of imports) ✓✓
- Decline savings: if savings habits are changed and consumers start spending their current and accumulated savings, growth in aggregate demand can outstrip growth in aggregate supply ✓✓
- Tax reduction: If personal income tax is reduced more money is available for private consumption expenditure ✓✓
- Access to credit: Greater availability of consumer credit (credit cards) and cheaper credit – credit multiplier kicks in and more credit is created ✓✓
(Accept any other correct relevant response) (Max. 4)

Whereas characteristics of cost push inflation are:

- An increase in labour costs: Aggressive trade union negotiations push the price of labour up above the increase in productivity ✓✓
- Producers increase profits: Prices rise more than the rise in production costs ✓✓
- The state imposes a higher VAT rate ✓✓
- Expensive imported products (intermediate goods) cause an increase in the prices of locally finished goods ✓✓
- Lower productivity but the same remuneration: The cost of production increases ✓✓
- Natural disasters: Floods or droughts increase the cost of production ✓✓
- Increased total costs on the supply side ✓✓ (Max. 4) (8)
(Accept any other correct relevant response)

3.5 How does South Africa use conservation to ensure a sustainable environment?

Conservation in South Africa can ensure a sustainable environment by:

- protecting forests, as they are important for producing oxygen and absorbing greenhouse gases ✓✓

- reducing the amount of greenhouse gases that reach the atmosphere thereby decreasing global warming ✓✓
 - using water wisely, as it is basic to plant and animal existence Various local municipalities impose restrictions on water consumption to ensure conservation ✓✓
 - reusing, reducing and recycling people use fewer resources and production of things such as plastics can decrease ✓✓
 - implementing and monitoring policies help to conserve renewable stocks (e.g. trees) and non – renewable stocks (e.g. Fossil fuels) ✓✓
 - achieving sustainability of industries through forces of demand and supply ✓✓
 - maintaining the stock level of environmental resources through the issuing of permits and quotas ✓✓ e.g. setting quotas for fishing by government, to stop catches being so large that they exceed the growth of the fish population ✓✓
 - setting quotas for cutting down trees to ensure deforestation does not exceed the rate renewal ✓✓
- (Max. 8) (8)
- (Accept any other correct relevant response)

[40]

QUESTION4 MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1. Answer the following questions.

4.1.1 **Name the TWO broad types of monopoly.**

- Natural monopoly ✓
 - Artificial monopoly ✓
- (2 x 1) (2)

4.1.2 **How does the depreciation of rand contribute to a higher inflation rate?**

When the rand depreciates, imports become expensive which increases prices of raw materials and the cost of production ✓✓ (1 x 2) (2)

4.2 **DATA RESPONSE**

4.2.1 **Identify the original wage rate from the graph above.**

W ✓ (1)

4.2.2 **Name ONE group of employees affected by scenario represented by the graph.**

- Domestic workers ✓
 - Farm workers ✓
- (1)

4.2.3 **Briefly describe the term minimum wage.**

Is the wage below which the employer may not, by law, pay its employees ✓✓ (2)

4.2.4 **Why is the living wage implemented?**

- It is because it helps distribute income ✓✓
 - Unskilled workers are at a disadvantage at negotiating for better wages ✓✓
- (Accept any other correct relevant response) (2)

4.2.5 How does the implementation of minimum wages negatively affect the producer?

- Minimum wages result in an increase in the cost of production for the producer due to increased labour costs ✓✓
- Producers will now produce less quantities of goods and services than what they used to produce before ✓✓
- The producers may be forced to retrench some of the workers as they cannot afford the high labour costs ✓✓
- The profits and total revenue of the producers will decrease due to increased total costs of the business ✓✓
(Accept any other correct relevant response)

(4)

4.3 DATA RESPONSE**4.3.1 Identify any ONE year in which inflation rate was outside the target range.**

2016/2017 ✓

(1)

4.3.2 What is the inflation target set by South African reserve Bank (SARB) for the country?

3 – 6% ✓

(1)

4.3.3 Briefly describe consumer price index.

It is an index that measures the price of a basket of consumer goods and services ✓✓

(Accept any other correct relevant response)

(2)

4.3.4 Explain the role played by consumer expectations on inflation.

When consumers expect prices to rise they start to buy more goods and services ✓✓

(Accept any other correct relevant response)

(2)

4.3.5 How will an increase in inflation rate influence economic growth?

High price level will decrease aggregate demand for goods and services, less goods are produced leading to low economic growth ✓✓

(Accept any other correct relevant response)

(Max. 4)

(4)

4.4 Briefly discuss the role of the competition tribunal and appeal court in South Africa.

Competition Tribunal

- The Competition Tribunal adjudicates on cases referred to it by the competition commission ✓✓
- The Competition Tribunal can accept or reject the recommendation made by the competition commission ✓✓
- Should any dispute over the recommendations arise, it will be referred to the Competition Appeals Court ✓✓ (Max. 4)
(Accept any other correct relevant response)

Competition Appeal Court

- If there are any disputes over the recommendations, they are referred to the Competition Appeal Court ✓✓
- An institution with the main function to approve major mergers, to appeal against misconduct cases, and to issue orders on submissions submitted by the Competition Commission ✓✓ (Max. 4) (8)
(Accept any other correct relevant response)

4.5 Evaluate the success of international measures (agreements in reducing greenhouse gases).

The international measures have not been successful because:

- many countries lack commitment to meet targets that were set in various agreements ✓✓
- countries prioritise economic growth and job creation and as a result fail to comply with emission targets ✓✓
- there is lack of monitoring policies and organisations that hold countries that pollute more than targets accountable for their actions ✓✓
- there is lack of strict law enforcement to those who pollute more than agreed targets ✓✓
- climate change is taking place with speed with the earth temperatures raising by about 1.25 degrees Celsius in 2020 compared to ten years earlier ✓✓
- Paris agreement ended up with some countries leaving the conference ✓✓
- many countries still heavily rely on the use of fossil fuels such as coal ✓✓
(Accept any other correct relevant response) (Max. 8) (8)

TOTAL SECTION B: [40] (80)

SECTION C**QUESTION 5: MICROECONOMICS****40 MARKS – 40 MINUTES**

- **Examine the monopoly in detail:**
 - **Concept**
 - **Characteristics**
 - **Kinked-demand curve** (26 marks)
- **How would the exit of some oligopoly firms from the market negatively impact on the economy?** (10 marks) **[40]**

INTRODUCTION

An oligopoly exists when a small number of large firms are able to influence the supply of a product in the market ✓✓

(Accept any other correct relevant introduction) (Max 2)

BODY: MAIN PART**Characteristics****Number of businesses** ✓

- It exists when only a few firms dominate the market for a particular product ✓✓
- There is limited competition ✓✓

Nature of product ✓

- The product is homogeneous or differentiated ✓✓
- In a pure oligopoly products are homogenous whereas in a differentiated oligopoly are differentiated ✓✓

Entrance ✓

- Market entry into an oligopolist market is not easy since there are only a few businesses in market ✓✓
- This is because of brand loyalty and it also requires a large amount of capital outlay ✓✓

Information ✓

- Market information in an oligopoly market is incomplete ✓✓
- Consumers do not have full information about the various products that are available in the market, prices, quality of the products, etc ✓✓

Examples

- Pure oligopoly, for example, identical goods, such as steel, cement, sugar ✓

- Differentiated oligopoly, for example, highly differentiated goods: motor cars, newspapers, airlines ✓

Mutual dependence ✓

- This market is characterised by mutual dependence ✓✓
- The decision of one business will influence and will be influenced by the decisions of the other companies ✓✓
- Due to the mutual dependence of firms on each other, competitors react to price changes ✓✓
- Oligopolies can frequently change their prices in order to increase their market share, however this can result in a price war ✓✓

Control over the price ✓

- Producers have considerable control over the price of their products although not as much as a monopoly ✓✓

Collusion ✓

- There are few producers of a particular product in an oligopoly market - this makes collusion possible ✓✓
- No oligopoly can be sure of the behaviour and policy of their competitors ✓✓
- Businesses function in an uncertain environment ✓✓
- To reduce these uncertainties, businesses often collude ✓✓
- Producers agree on things such as prices and production quantities ✓✓
- Collusion can take a form of cartel or price leadership ✓✓

Cartel/Overt collusion ✓

- It is when oligopolies collude openly and formally ✓✓.
- It is an organization of oligopolistic businesses that comes into existence in an industry with the specific aim of forming a collective monopoly. ✓✓for example, OPEC (oil) ✓

Price leadership/Tacit collusion ✓

- One business increases its price in the hope that its rivals will increase their prices – such a firm is known as a price leader ✓✓
- When the other businesses follow with the increase, they are known as price followers ✓✓
- Price leaders are usually the strongest and most dominant business whose production cost is the lowest, ✓✓for example, steel industry, transport industry ✓

Profit /loss ✓

- Oligopolies develop brand loyalty among their customers enabling them economic profit in the long run ✓✓

Allocative and productive efficiency

Productive efficiencies ✓

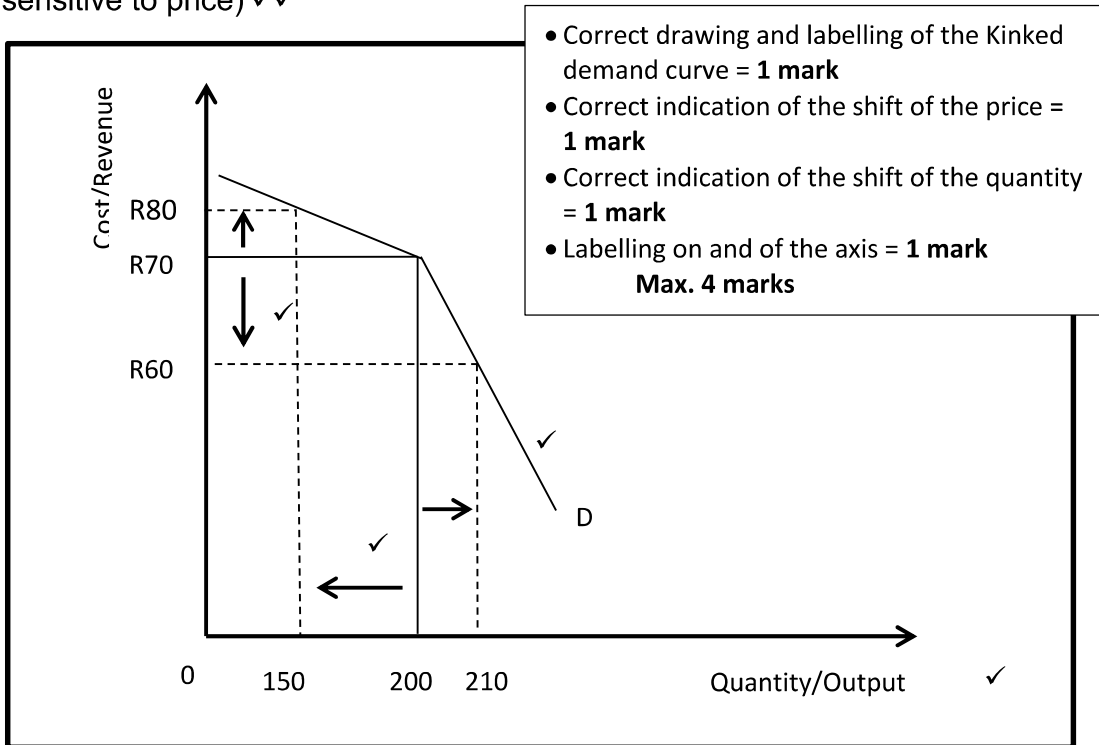
- An oligopoly market is productively efficient – the businesses produce at the lowest possible cost ✓✓
- There is no room to lower cost without producing less or poor quality goods ✓✓

Allocation efficiencies ✓

- Product mix of an oligopoly market does not reflect the consumer’s tastes ✓✓
- Resources are not allocated in the right proportions ✓✓

Kinked-demand curve

- An oligopoly faces a kinked demand curve ✓✓
- This demand curve consists of two sections:
- The top section relates to higher prices hence it is elastic (demand is not sensitive to price) ✓✓
- The bottom section relates to lower prices hence it is inelastic (demand is not sensitive to price) ✓✓



Allocate a maximum of 8 marks to candidates who drew the kinked demand curve – 4 marks for drawing of the kinked demand curve and a maximum of 4 marks for the explanation thereof.

(Accept any other correct relevant response)

(Max. 26)

Allocate a maximum of 8 marks for headings/examples

ADDITIONAL PART

When some firms exit the market:

- The level of competition will be reduced due to some firms leaving the market ✓✓
 - The quantity of goods produced/supplied will decrease due to a decrease in the number of firms in the market ✓✓
 - The prices of goods and services will increase due to a decrease in aggregate supply ✓✓
 - The country's exports will be expensive resulting in an unfavourable balance of payments ✓✓
 - The level of employment will decrease due to some firms exiting the market resulting in a loss of jobs ✓✓
 - The loss of jobs may reduce aggregate demand for goods and service ✓✓
- (Accept any other correct relevant response) (Max.10)

CONCLUSION

By controlling the price supply of the product service in the market, the firm (oligopolies aim to keep prices and profits high ✓✓

(Accept any other correct relevant high order response) (Max .2) **(40)**

QUESTION 6: ECONOMIC PURSUITS**40 MARKS – 40 MINUTES**

- **Examine in detail the benefits of tourism.** (26 marks)
- **How can government sustain the positive impacts of tourism?** (26 marks) **(40)**

INTRODUCTION

Tourism refers to activities of people travelling to and staying in places outside their usual environment for not more than one consecutive year and for different reasons ✓✓

(Accept any other correct relevant introduction)

(Max 2)

BODY: MAIN PART**Households ✓**

- Households may benefit from an increase in income and opportunities for employment and entrepreneurship ✓✓
- Individuals receive training through programmes established to promote tourism ✓✓
- Households are indirectly involved in tourism as employees in hotel industry, financial institutions etc ✓✓
- They benefit from improved infrastructure created for tourists though local people can use ✓✓
- They acquire skills that are required by the tourism industry ✓✓
- Income earned is spent in their communities and they can contribute to the local economy ✓✓
- Entrepreneurs from households operate as tour guides ✓
(Accept any other correct relevant response)

Businesses ✓

- Formal sector activities are promoted through tourism ✓✓
- e.g. companies are tasked with building infrastructure such as hotels or roads ✓
- Tourism benefits local businesses and companies through an increase in expenditure on the goods and services offered by local businesses ✓✓
- The informal sector benefits because of trading in traditional products such as crafts and arts ✓✓
- Banks employ more tellers, and this leads to higher employment ✓✓
- The business environment is stimulated in rural and urban areas promoting entrepreneurial opportunities and assisting with BEE ✓✓
- Tourist destinations are developed through the public and private partnerships (PPPs) ✓✓
(Accept any other correct relevant response)

Government ✓

- Government benefits because of income it receives from tourists ✓✓
- Tourism enables the government to advertise a country tourism potential ✓✓
- Direct and indirect contributions to the government revenue is made through levies on tourists ✓✓ - these are made for two purposes
- To recover external costs - this assists the host community for providing infrastructure ✓✓
- To raise revenue - with the growth of tourism many countries levy tourist tax which are used as a source of revenue ✓✓
- income earned can be used to promote tourism in the country ✓✓
- Through this the government is enabled to achieve its socio-economic objectives, informal sector growth, BEE and SMME development ✓✓
(Accept any other correct relevant response)

Infrastructure development

- For any country to be regarded as a tourist destination, physical infrastructure has to be adequate and well maintained ✓✓
- The needs of a large number of tourists in any country for accommodation and infrastructure leads to the construction of hotels and improvement in the existing infrastructure ✓✓
- Together with the private sector the government has to develop and upgrade infrastructure to meet the demands and expectations of tourists ✓✓
- Locals and tourists benefit from the infrastructure ✓✓
- Tourists require social infrastructure e.g. clinics and ambulances ✓✓
(Accept any other correct relevant response) (Max. 26)

ADDITIONAL PART

Government can sustain the positive impacts of tourism by:

- expanding and creating new tourist attraction sites to cater for the potentially increasing volume of tourists ✓✓
- putting more efforts in marketing and advertising the country worldwide so that more tourists come and visit the country ✓✓
- decreasing crime rate so that tourists can move freely; tourists will feel safe and keep visiting the country ✓✓
- promoting the domestic tourism which has potential to also increase tourism ✓✓
- maintaining and keeping infrastructure in a good condition so that tourists are well catered for ✓✓
- having policies that are implemented in making sure that tourist sites are safeguarded and kept safe ✓✓
- making use of indigenous knowledge system because tourists seek authentic and unique destinations ✓✓ (Max.10)
(Accept any other correct relevant response)

CONCLUSION

Marketing of tourism products to both domestic and international markets is important for achieving the full growth potential of the sector in South Africa ✓✓ (Max. 2) **(40)**
(Accept any other correct relevant high order response)

TOTAL SECTION C: [40]**GRAND TOTAL: [150]**