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GRADE 12

JUNE 2023

**ECONOMICS P2
MARKING GUIDELINE**

MARKS: 150

This marking guideline consists of 20 pages.

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

- 1.1.1 B – Perfect ✓✓
- 1.1.2 C – $AR = AVC$ ✓✓
- 1.1.3 A – Legal restrictions ✓✓
- 1.1.4 C – Free entry in the market ✓✓
- 1.1.5 B – Unequal distribution of wealth and income ✓✓
- 1.1.6 D – Building consumer loyalty ✓✓
- 1.1.7 A – Externalities ✓✓
- 1.1.8 C – Black market ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 E – Indicator showing the relationship between the relative costs and benefits of a proposed project ✓
- 1.2.2 F – A legal body that accepts or rejects the investigation and recommendations of the Competition Commission ✓
- 1.2.3 I – Indicates that prices increase as more goods and services are being supplied ✓
- 1.2.4 G – Resources are used appropriately to produce the maximum number of goods at the lowest cost and best quality ✓
- 1.2.5 C – The consumption of a product by one person but not preventing others from enjoying it ✓
- 1.2.6 A – Products that are similar but not identical and satisfy the same need of the consumer ✓
- 1.2.7 D – A short run rate of output and sales at which a supplier generates enough revenue to cover fixed and variable costs ✓
- 1.2.8 B – Occurs when any of the conditions of perfect market has been comprised. ✓ (8 x 1) (8)

1.3 GIVE ONE TERM

1.3.1 Perfect market ✓

1.3.2 Pareto efficiency ✓

1.3.3 Total revenue/Revenue ✓

1.3.4 Price leadership ✓

1.3.5 Discounting ✓

1.3.6 Duopoly ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICROECONOMICS

2.1 2.1.1 **Name any TWO examples of variable costs.**

- Water ✓
- Electricity ✓
- Labour ✓
- Natural resources ✓

(Accept any other relevant responses.)

(2)

2.1.2 **Why is it necessary to apply cost-benefit analysis?**

- Cost Benefit Analysis allows an individual/organisation to evaluate a potential project free of biases ✓✓
- Companies need to evaluate the feasibility of different projects to determine which project will be the best investment ✓✓

(Accept any other correct relevant response.)

(2)

2.2 **DATA RESPONSE**

2.2.1 **Name any ONE way in which the above hotels can differentiate their products.**

- Offer conference rooms ✓
- Beauty salons ✓
- Gymnasiums ✓

(Accept any other relevant response.)

(1)

2.2.2 **What kind of profits are made by a monopolistic competitor in the long run?**

Normal profits ✓

(1)

2.2.3 **Describe the concept *monopolistic competition*.**

Monopolistic competition refers to a market structure with many buyers and sellers where entry is relatively easy but the product is differentiated. ✓✓

(Accept any other correct relevant response.)

(2)

2.2.4 **Briefly explain *product differentiation* as a characteristic of a monopolistic competition.**

- Product differentiation refers to products that are similar but not completely identical ✓✓
- They are similar in that they satisfy the same need of the consumer ✓✓
- Differences may sometimes be completely imaginary as in case of medicines which may have different brand names but contain exactly the same basic ingredients ✓✓
- The packaging of the product may make it different from other products, though the product is the same, e.g. salt and sugar ✓✓ (2)

2.2.5 **Why would owners of these hotels be unable to make economic profits in the long run?**

- In the short run, when there are still a few hotels, they manage to make economic profit ✓✓
- The economic profits attract other businesses to enter the market and eventually lead to increased competition and all economic profits are wiped away ✓✓
- Hotels start marketing and branding their product differently, they do this to try and hold on to their normal profits to prevent themselves from exiting the market ✓✓

(Accept any other correct relevant response.) (4)

2.3 **DATA RESPONSE**

2.3.1 **Identify economic profit from MARKET B.**

apeb ✓ (1)

2.3.2 **Which curve indicates an increase of new entrants?**

S₁S₁ ✓ (1)

2.3.3 **Describe the concept *market*.**

Market is a mechanism that brings together buyers and sellers of a good/service to influence the price and quantity ✓✓

(Accept any other correct relevant response.) (2)

2.3.4 **Explain the role of the Competition Commission.**

Competition Commission investigates restrictive business practices, abuse of dominant positions and mergers in order to achieve equity and efficiency in the South African economy. ✓✓

(Accept any other correct relevant response.) (2)

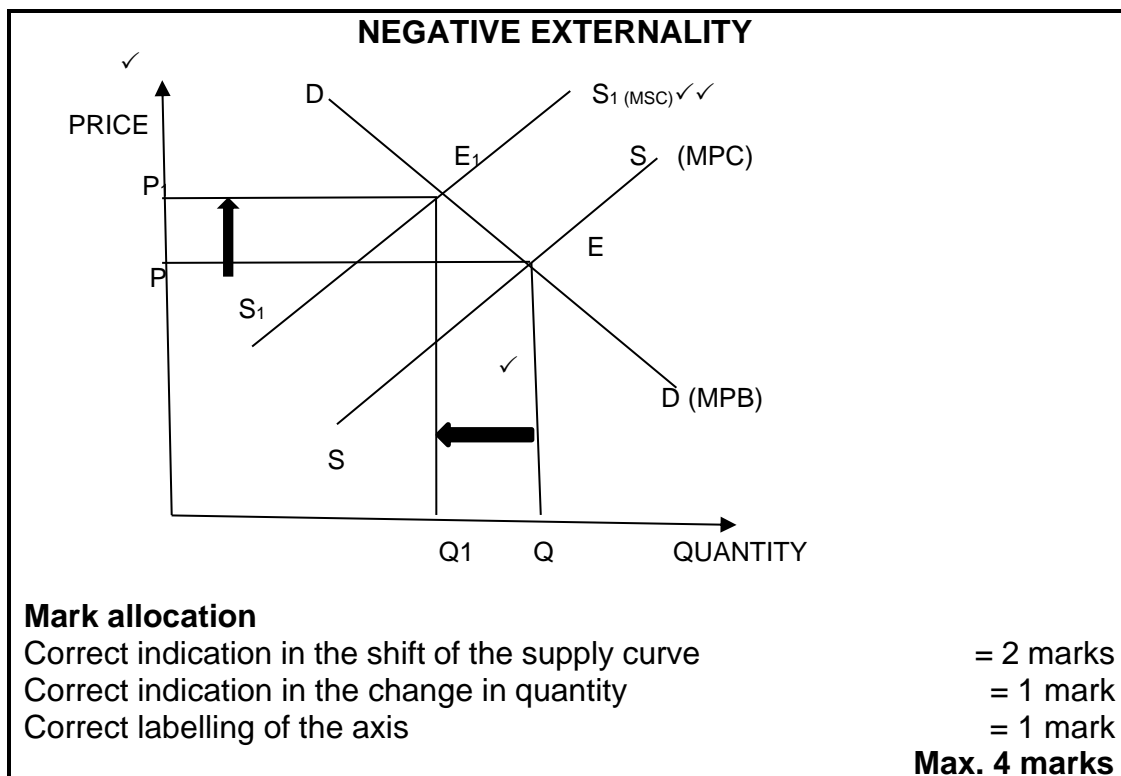
2.3.5 Why is the LAC curve u-shaped?

- The shape of the LAC curve illustrates how average costs initially decrease due to economies of scale while the firm experiences increasing returns to scale ✓✓
- It then exhibits constant returns as the firm operates at its optimal level ✓✓
- If the firm tries to expand more than its optimal point due to diseconomies of scale, it experiences decreasing returns to scale and AC increases ✓✓

(Accept any other correct relevant response.)

(4)

2.4 With the aid of a diagram explain the implication of negative externalities.



- Negative externalities bear a private cost and social cost, i.e. cost suffered by society ✓✓
- If the social costs of a good were added to the private cost of a good, the final price would be pushed up and fewer goods would be supplied ✓✓
- Demand for the product is represented by DD and supply which is also the marginal private cost (MPC) of the industry, is represented by SS ✓✓
- As a result of pollution, the marginal social cost (MSC) is greater than MPC ✓✓
- If the market is left to its own devices, quantity Q will be produced at price P and this is socially inefficient ✓✓
- Social efficiency requires that MSC be equal to the price of the product, that would be at P1 and Q1 ✓✓ and fewer goods will be produced at a higher price ✓✓

Max. 4

(Accept any other correct relevant response.)

(8)

2.5 **How would a business prevent reaching the shut-down point?**

- A business should try to reduce its operating costs ✓✓
- Training of workers to be productive and improving the quality of goods and services would lead to more sales ✓✓
- A business should be engaged in intensive advertising of its products so that customers are aware of the availability of the product ✓✓
- Branding of the product would encourage loyalty and will improve sales ✓✓

(Accept any other correct relevant response.)

(8)

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES**3.1 3.1.1 Name any TWO objectives of the competition policy.**

- Promote the efficiency of the economy ✓
- Provide consumers with competitive prices and a variety of products ✓
- Promote employment ✓
- Encourage South Africa to participate in world markets and accept foreign competition in South Africa ✓
- Enable SMMEs to participate in the economy ✓
- To allow the previously disadvantaged to participate in the economy ✓

(Accept any other correct relevant response.)

(2)

3.1.2 Why does the demand curve of a monopolist slope downwards from left to right?

- A monopolist has a downward sloping demand curve because it has a price-making power in its market ✓✓
- It can increase the price that it charges and not lose all of the demand that it faces, this is because it is the single dominant firm in the market and its products have no perfect substitutes ✓✓

(Accept any other correct relevant response)

(2)

3.2 DATA RESPONSE**3.2.1 Name any ONE type of collusion.**

- Overt collusion ✓
- Tacit collusion ✓

(1)

3.2.2 Mention ONE competition institution that has not been mentioned in the above extract.

Competition Appeal Court ✓

(1)

3.2.3 Describe the concept *collusion*.

Collusion is an agreement between businesses with the aim of limiting competition between them by fixing prices ✓✓

(Accept any other correct relevant response.)

(2)

3.2.4 Explain non-price competition in an oligopoly market.

Oligopolies prefer to compete on the basis of product differentiation and efficient service because price competition can result in price wars ✓✓

(Accept any other correct relevant response.)

(2)

3.2.5 Why would banks often collude although it is illegal in South Africa?

- Collusion between banks occur because it is an effort to reduce uncertainty, that is, they agree on the prices they are going to demand and the quantities they are going to produce ✓✓
- They can enjoy the advantage of limiting competition and making it difficult for other businesses to enter the market ✓✓
- Collusion between banks occur because they want to limit supply in order to raise prices and maximise profits ✓✓

(Accept any other correct relevant response)

(4)

3.3 DATA RESPONSE

3.3.1 Identify a curve that is essential for determining price.

Demand curve/D/AR ✓

(1)

3.3.2 What kind of products are produced by a monopoly?

Unique ✓

(1)

3.3.3 Describe the concept *marginal revenue (MR)*.

Marginal revenue is the extra revenue the seller earns when it produces and sells one more unit of the product ✓✓

(Accept any other correct relevant response)

(2)

3.3.4 Why are monopolies able to make economic profits in the long run?

It is because of barriers to entry where other companies find it difficult to enter the market and compete ✓✓

(Accept any other correct relevant response.)

(2)

3.3.5 Calculate profit/loss from the above graph. Show ALL calculations.

$$\begin{aligned} TR &= P \times Q \\ &= 80 \times 50 \\ &= 4\,000 \end{aligned}$$

$$\begin{aligned} TC &= P \times Q \\ &= 100 \times 50 \\ &= 5\,000 \checkmark \end{aligned}$$

$$\begin{aligned} \text{Loss} &= TR - TC \\ &= 4\,000 - 5\,000 \checkmark \\ &= -1\,000 \checkmark\checkmark \end{aligned}$$

(4)

3.4 **Explain imperfect competition and immobility of factors of production as causes of market failure.**

Imperfect competition

- Most businesses produce under conditions of imperfect competition that allows them to restrict output and increase prices ✓✓
- They can prevent new businesses from entering the market, thereby preventing full adjustment to changes in consumer demand occurring ✓✓
- Advertising promotes the superiority of certain producers; they encourage consumers to purchase certain products from certain producers only ✓✓

Max. 4

Immobility of factors of Production

- Labour may take time to move into new occupations because they have to be retrained or give long notices at work ✓✓
- It is sometimes difficult to move geographically because of family ties, this cause market failure because changes in demand are not met ✓✓
- Technology used in production may change over a long time, it takes a long time to change from labour intensive methods to mechanised production or computer assisted production. ✓✓

Max. 4

(Accept any other correct relevant response)

(8)

3.5 **Why do monopolies experience losses being the only producer in the market?**

Monopolies experience losses because:

- the monopoly pricing creates a dead weight loss because the firm foregoes transactions with the consumers ✓✓
- monopolies may be inefficient and less innovative over time because they do not have to compete with other producers in a marketplace ✓✓
- higher prices of the monopoly may lead to some consumers being priced out of the market because of a fall in effective demand ✓✓
- buyers may still choose not to buy a product even if it is the only product in the market because of limited resources ✓✓
- even though a monopolist is a single producer, its product can still be substituted and less of the product may be sold ✓✓
- costs of production may increase, driving the monopolist to produce less, resulting to less revenue received ✓✓
- the global economy may negatively affect the monopoly, and this may result to a decline in sales ✓✓

(Accept any other correct relative response.)

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES**4.1 4.1.1 Name any TWO examples of public goods.**

- Street lights ✓
- Light house ✓
- Police services ✓
- Traffic lights ✓

(Accept any other correct relevant response.)

(2)

4.1.2 Why must a business produce on the kink of the kinked demand curve?

By selling at a lesser price, less will be sold because demand will be inelastic, at higher price, the demand will be less because other producers will be charging a cheaper price, so it is best to keep prices stable. ✓✓

(Accept any other correct relevant response.)

(2)

4.2 DATA RESPONSE**4.2.1 Identify a company that is making the most profit from the above table**

Company E ✓

(1)

4.2.2 Which of the above companies is displaying normal profit

Company D ✓

(1)

4.2.3 Describe the concept *normal profit*.

Normal profit is the minimum earnings required by an entrepreneur to prevent him or her from leaving the industry. ✓✓

(Accept any other correct relevant response)

(2)

4.2.4 Briefly explain implicit costs.

- Implicit costs are the costs that are incurred by the entrepreneur during the production process. ✓✓
- In economics, they are also called imputed costs, is the opportunity cost equal to what a firm must give up in order to use a factor of production for which it already owns and thus does not pay rent. ✓✓

(2)

- 4.2.5 **Why is it necessary to take opportunity cost into account when calculating profit?**
- Economically it is important to take opportunity costs into account because it highlights the amount of money sacrificed when entering in a current business. ✓✓
 - It also gives an indication as to whether the business has chosen the correct alternative in terms of profit. ✓✓
 - It is a way to quantify the risks and benefits of each option, leading to more profitable decisions-making overall. ✓✓
- (4)

4.3 DATA RESPONSE

- 4.3.1 **Identify any demerit good from the above extract.**
- Fast foods ✓
 - Drugs ✓
- (1)
- 4.3.2 **Which type of tax could be charged on a demerit good?**
- Sin tax/excise tax ✓
- (1)
- 4.3.3 **Describe the concept *negative externality*.**
- It is a cost to third party that is not included in the market price of a good e.g. pollution. ✓✓
 - It is the difference between social cost and private cost ✓✓
- (Accept any other correct relevant response)
- (2)
- 4.3.4 **Explain non-rivalry as a feature of public goods.**
- Non-rivalry refers to the fact that consumption of a good by one person does not reduce the amount available for others ✓✓ for example lighthouse. ✓✓
- (Accept any other correct relevant response)
- (2)
- 4.3.5 **Why is the consumption of demerit goods discouraged?**
- Consumption of demerit goods has a negative effect on consumers – when individuals consume these goods it releases negative consumption externalities onto society ✓✓
 - As a result, this means that, marginal social benefits become less than marginal private benefits leading to overconsumption of these goods in the market ✓✓
 - For example, cigarettes damage the smoker's health as well as other's health by second-hand smoke. ✓✓
- (Accept any other correct relevant response)
- (4)

4.4 Explain *nature of the product and control over market supply and price* in a perfect market.

Nature of the product

- All sellers in the market supply identical/homogenous products ✓✓
- They must be identical in all respects – no differences in design, style or quality ✓✓
- Consumers should not be able to identify one seller's product from another seller ✓✓

Control over market supply and price

- As many sellers are selling the same product, single seller supplies an insignificant portion of the industry ✓✓
- A single seller has no control over market supply and price ✓✓
- A firm cannot bring about an appreciable change in total supply through the variation in its own supply ✓✓
- An individual firm cannot influence the market price through its own independent action, hence it is called a price-taker ✓✓

(Accept any other correct relevant response)

(8)

4.5 **How does load shedding affects small businesses?**

- Small businesses are faced with loss of production and productivity ✓✓
- Production is halted during load shedding because the machines are run using electricity ✓✓
- Workers are essentially not working during periods of load shedding ✓✓
- Small businesses are faced with loss of profits because in most cases they require electricity to function and run their businesses ✓✓
- Theft and burglary increase affecting the normal operation of businesses ✓✓
- Small businesses choose to close for business because burglar alarms and cameras are rendered useless during load shedding ✓✓
- There is damage to electronics because the surge of electricity when power is returned upsets the steady voltage flow in the electrical system, damaging the electrical components ✓✓

(Accept any other correct relevant response.)

(8)

[40]

TOTAL SECTION B: 80

SECTION C

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

QUESTION 5

- **Discuss the monopoly in detail, without the aid of graphs.** (26 marks)
- **How does a monopoly contribute to market failure?** (10 marks)

INTRODUCTION

A monopoly is a market structure where only one seller prevails in the market with blocked entry ✓✓

(Accept any other correct relevant response.)

(2)

MAIN PART**Demand curve** ✓

- A monopoly is faced with a market demand curve which slopes downwards from left to right. ✓✓
- It is the industry's demand curve since the monopolist is responsible for the entire output of the industry ✓✓
- The monopoly is the only supplier in the market, it can decide at which point on the demand curve it wishes to produce, at what price and at what quantity ✓✓

Control over prices ✓

- A monopoly has considerable control over market price, but limited by the budget constraint of consumers. ✓✓
- It has no control over demand, so demand will influence the final market price. ✓✓

May enjoy favourable circumstance ✓

- Sometimes a monopoly may enjoy favourable circumstances in a certain geographical area ✓✓
- For example, there may be only one supplier of milk in a particular town, only one hardware store or a hotel ✓✓

Barriers to Entry ✓

- A monopoly is protected by barriers to enter the market ✓✓
- Barriers prevent other producers from entering the market to supply the same type of product ✓✓
- These barriers are caused by patents and other forms of intellectual property rights, control over resources, government regulations etc. ✓✓
- In case of natural monopoly, barriers are caused by high development costs ✓✓ for example, provision of electricity, it takes billions of rand to build a nuclear power station ✓✓
- In artificial monopoly, barriers are not economic in nature, but artificial like patent rights which are legal and exclusive rights to manufacture a product using on own unique invention ✓✓

Profit ✓

- Monopolies make economic profit both in the short and in the long run. ✓✓
- Because it is a single producer, other businesses are barred from entering the market, therefore they do not have competition. ✓✓

Nature of the Product ✓

- The monopolist produces a unique product that has no close substitutes ✓✓
- The product cannot easily be replaced by another product ✓✓
- The consumer has no choice in price and quality of the product ✓✓
- The buyer can only buy from the monopoly or will have to go without the product, for example diamonds ✓✓

Complete market information ✓

- All buyers and the single seller have full knowledge of all current market conditions ✓✓

Exploitation of consumers ✓

- The monopolist may produce fewer products but charge a higher price compared to other businesses under perfect competition ✓✓
- For example, De Beers, because the monopoly is the only producer in the market, there may be a possibility of consumer exploitation ✓✓
- Most governments take steps to guard against unfair practices and new and existing monopolies are usually well monitored ✓✓

Market forces ✓

- Although the monopolist is the only supplier of the product in the market, the price of the product is influenced by the market forces of demand and supply ✓✓
- Consumers have limited budget and a monopoly can therefore not demand excessive high prices for the product and the monopolist product has to compete with all the other products available in the economy ✓✓

Production level ✓

- The monopolist may decide on the product and price combination on the demand curve ✓✓
- The monopolist may reduce the price and sell more units or may increase the price and sell less units ✓✓
- The monopolist may influence the product-price combination of the product it sells without any reaction from other market participants because entry into the market is blocked ✓✓

(Accept any other correct relevant response.)

(A maximum of 8 marks is awarded for mere listing of facts or examples.)

(26)

ADDITIONAL PART

- Monopoly is inefficient in the distribution of goods and services as compared to a free market which is more efficient because all participants are involved ✓✓
- A monopoly will obstruct the equilibrium between the consumer and the producer leading to a shortage of goods in the market ✓✓
- In the real world, it will take an advantage of its position as a single supplier and force the consumers to pay higher prices than they would if the market was in equilibrium, thus reducing the demand for goods ✓✓
- Efficiency, innovation and healthy competition will be limited resulting in markets failing to produce the required quantities ✓✓
- A monopoly can control the supply of a good or service, thus artificially increasing or decreasing the prices to suit its needs rather than contributing to the well-being of the market it is part of ✓✓
- A monopoly could restrain the growth of production capacity and inhibit the introduction of new and cheaper products for the consumer, limiting the demand for such products leading to the failure of markets as less-than-optimal quantity will be supplied ✓✓

(Accept any other correct relevant response.)

(10)

CONCLUSION

Monopolies exist to enrich themselves than to serve communities amongst which they operate. Society should engage government more regarding issues of monopolies. ✓✓

(Accept any other correct higher order response.)

(2)

[40]

QUESTION 6

- With the aid of graphs, discuss in detail state intervention as a consequence of market failure under the following subheadings:
 - Minimum wages
 - Maximum prices
 - Producer subsidy

(26 marks)
- What can the government do to reduce the negative effects of minimum wages? (10 marks)

INTRODUCTION

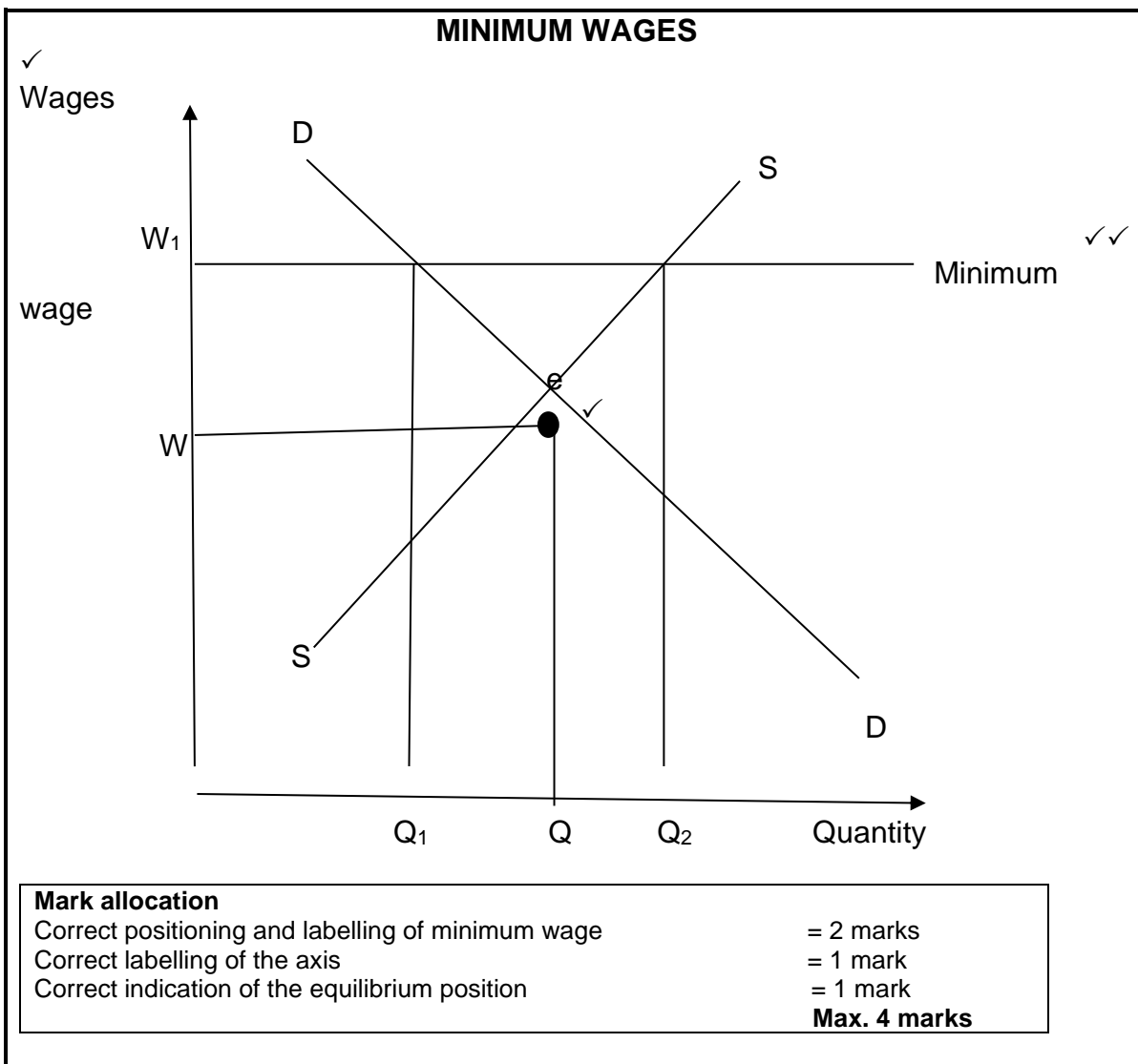
When an economy is not functioning and living up to expectations of society, it is imperative for governments to intervene for the benefit of the economy and the welfare of society ✓✓

(Accept any other correct relevant conclusion.)

(2)

BODY – MAIN PART

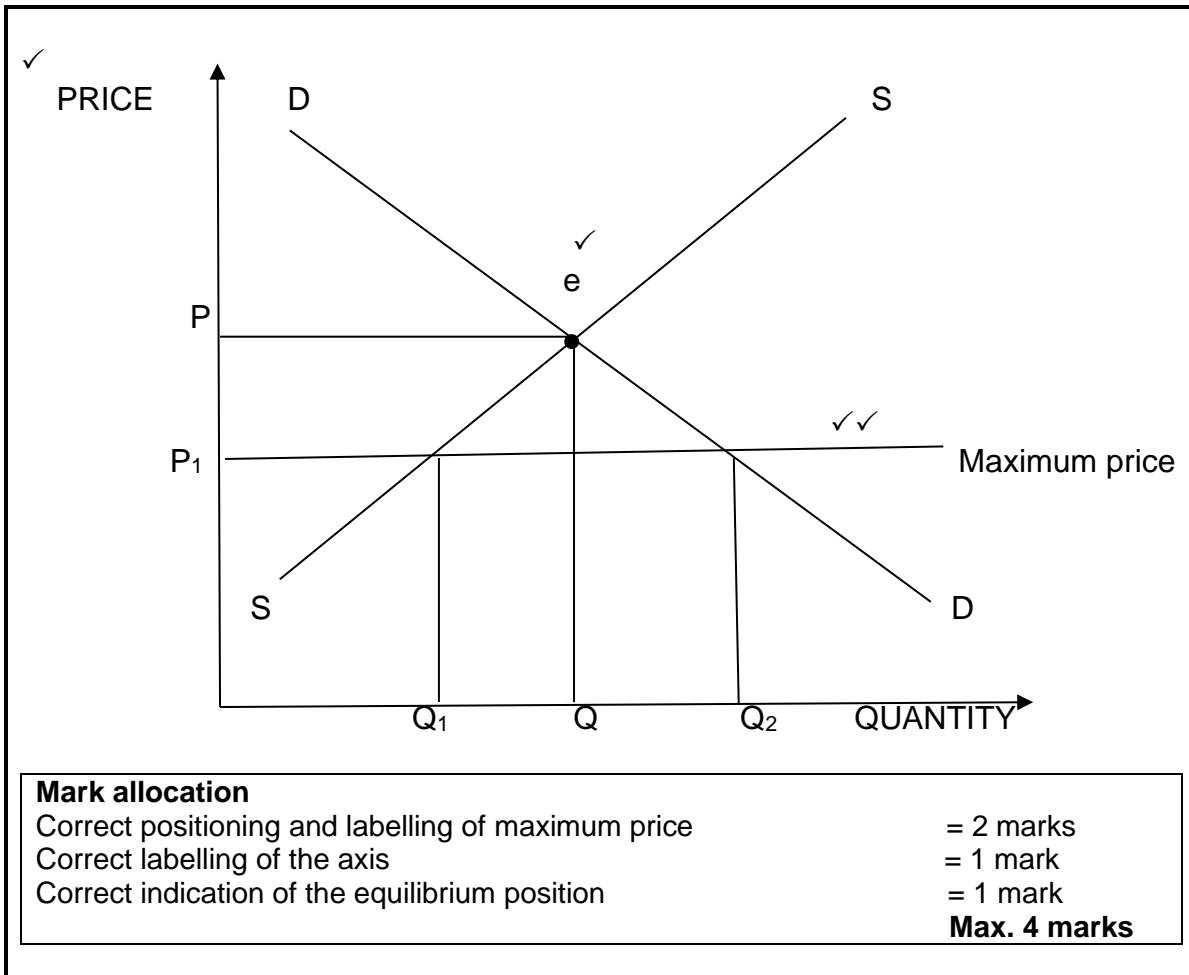
When the government enforces a minimum wage, it means workers should be paid a certain minimum remuneration that will lead to a higher standard of living. ✓✓



- The graph shows that if the wage rate is set at W , the corresponding demand and supply of labour will be Q ✓✓
 - If a minimum wage is set W_1 , the demand for labour will decrease from Q to Q_1 , some people may be unemployed ✓✓
 - However, the supply of labour will increase from Q to Q_2 , as more people will offer their labour services because of a higher income ✓✓
 - Minimum wages will lead to more bargaining power of workers ✓✓
- (Accept any other correct relevant response)

Maximum prices

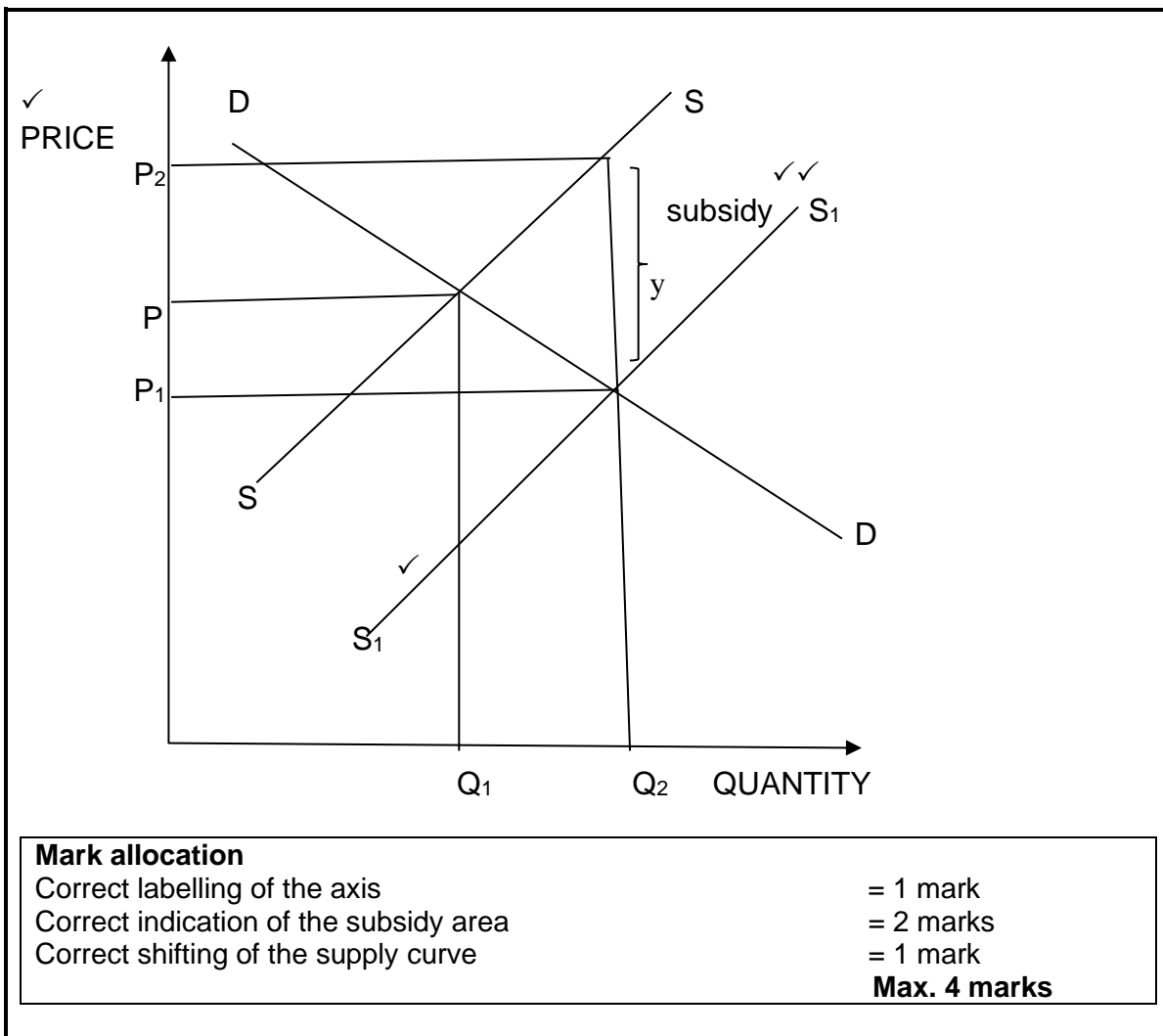
- The government may set the price of a good or service at a maximum price that is below the market price ✓✓ The government intervenes and passes a law that suppliers may not charge more than the maximum price ✓✓
- Maximum prices are usually on basic goods such as food and transport, so that citizens have access to certain goods and services and achieve a certain minimum standard of living. ✓✓



- In the above diagram, price is set at P , while maximum price is set at P_1 ✓✓
 - The immediate effect would be that the quantity supplied would drop from Q to Q_1 ✓✓
 - The shortage caused by the price ceiling creates a problem of how to allocate the good since the demand will exceed supply ✓✓
 - Black markets will develop where illegal goods will be bought and sold ✓✓
- (Accept any other correct relevant response)

Producer subsidies

- A subsidy is a form of financial grant from the government to support the production of a good or a service thereby lowering the cost of production ✓✓
- Subsidies can be direct e.g. cash grants or indirect e.g. depreciation write offs ✓✓



(26)

- The market price decreases from P to P_1 and the quantity consumed will increase from Q_1 to Q_2 due to the subsidy/producers profit increases ✓✓
- The producer benefits from a subsidy, profits increase because of the increase in prices from P and P_2 ✓✓
- The consumer benefits from a subsidy by paying less, price decreases from P to P_1 ✓✓

(Accept any other correct relevant response.)

(26)

ADDITIONAL PART

- Government should monitor the increase in prices so that producers do not try to increase prices to absorb the cost of labour ✓✓
- Strengthen the tourism sector which is labour intensive, so that those who lost their jobs because of set minimum wage may be absorbed ✓✓
- Invest in training programmes for the youth doing technology for them to be productive and create employment in the process ✓✓
- Government should make social welfare payments to people who were retrenched due to setting of minimum wage ✓✓
- Increased earned Income Tax Credits may be given to low-income wage earners – government refunds tax to incentivise work ✓✓
- Inspection of the work sites on a regular basis to ensure minimum wages are implemented by businesses and punish those who violate the implementation of the minimum wage ✓✓

(Accept any other correct relevant response.)

(Allocate a minimum of 2 marks for mere listing of facts/examples.)

(10)

CONCLUSION

Government should always be of service to the people whenever the economy is in turmoil, because it is always the poor that suffers. ✓✓

(Accept any other correct relevant higher order conclusion.)

(2)

[40]

TOTAL SECTION C 40
GRAND TOTAL: 150