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GRADE 12

JUNE 2023

ECONOMICS P2

MARKS: 150

TIME: 2 hours

This question paper consists of 13 pages.

INSTRUCTIONS AND INFORMATION

1. Answer FOUR questions as follows in the ANSWER BOOK:
 - SECTION A: COMPULSORY.
 - SECTION B: Answer TWO of the three questions.
 - SECTION C: Answer ONE of the two questions.
2. Answer only the required number of questions. Answers in excess of the required number will NOT be marked.
3. Number the answers correctly according to the numbering system used in this question paper.
4. Write the number of the question above each answer.
5. Read the questions carefully.
6. Start EACH question on a NEW page.
7. Leave 2–3 lines between subsections of questions.
8. Answer the questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
9. Use only black or blue ink.
10. You may use a non-programmable pocket calculator.
11. Write neatly and legibly.

SECTION A (COMPULSORY)**QUESTION 1****30 MARKS – 20 MINUTES**

- 1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question numbers (1.1.1–1.1.8) in the ANSWER BOOK, for example 1.1.9 D.
- 1.1.1 A business that adheres to market prices is said to be operating under ... market conditions.
- A imperfect
 - B perfect
 - C failing
 - D industrious
- 1.1.2 The shut-down point in a free market competitive firm occurs when ...
- A $AR = MR$.
 - B $MR > MC$.
 - C $AR = AVC$.
 - D $MR < MC$.
- 1.1.3 An artificial market is caused by ...
- A legal restrictions.
 - B technical superiority.
 - C nature of the product.
 - D combination of large businesses.
- 1.1.4 Monopolistic competition differs from monopoly because of ...
- A downward sloping demand curve from left to right.
 - B the MR curve lying below the AR curve.
 - C free entry in the market.
 - D the demand curve being the same as the AR curve.
- 1.1.5 Market failure is caused by ...
- A government expenditure on merit goods.
 - B unequal distribution of wealth and income.
 - C foreign direct investment.
 - D improved infrastructure.

1.1.6 Non-price competition is aimed at ...

- A differentiating between the different types of collusion.
- B minimising competition.
- C increasing price control.
- D building consumer loyalty.

1.1.7 Costs or benefits borne or enjoyed by parties not involved in the transaction are referred to as ...

- A externalities.
- B implicit costs.
- C explicit costs.
- D internal benefits.

1.1.8 A market where buyers and sellers meet to negotiate the exchange of illegal goods is known as a/an ...

- A perfect market.
- B imperfect market.
- C black market.
- D central market.

(8 x 2) (16)

- 1.2 Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A–I) next to the question numbers (1.2.1–1.2.8) in the ANSWER BOOK, for example 1.2.9 J.

COLUMN A		COLUMN B	
1.2.1	Benefit cost ratio	A	Products that differ slightly in physical appearance, packaging, service and/or brand names
1.2.2	Competition Tribunal	B	The market price is not a pure reflection of the scarcity of that product
1.2.3	Supply curve	C	The consumption of a product by one person but not preventing others from enjoying it
1.2.4	Productive efficiency	D	A short run rate of output and sales at which a supplier generates enough revenue to cover fixed and variable costs
1.2.5	Non-rivalry	E	Indicator showing the relationship between the relative costs and benefits of a proposed project
1.2.6	Differentiated products	F	A legal body that accepts or rejects the investigation and recommendations of the competition commission
1.2.7	Break-even point	G	Resources are used appropriately to produce the maximum number of goods at the lowest cost and best quality
1.2.8	Imperfect market	H	A schedule indicating various prices of a product and specific quantities supplied
		I	Indicates that prices increase as more goods and services are being supplied

(8 x 1)

(8)

- 1.3 Give ONE term for each of the following descriptions. Write only the term next to the question numbers (1.3.1–1.3.6) in the ANSWER BOOK. Abbreviations, acronyms and examples will NOT be accepted.
- 1.3.1 Market participants (buyers and sellers) have complete, and correct information about market conditions
- 1.3.2 A situation where it is impossible to change the allocation of resources in ways which will leave some people better off without making someone worse off
- 1.3.3 The sum of payments the firm receives from the sale of its output
- 1.3.4 A situation where one firm fixes the price and the other firms accept it as market price
- 1.3.5 Reducing all future benefits and costs to express them as present values
- 1.3.6 An industry that is controlled by two producers (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**40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Name any TWO examples of variable costs. (2)

2.1.2 Why is it necessary to apply cost-benefit analysis? (2)

2.2 Study the information below and answer the questions that follow.

MONOPOLISTIC COMPETITION



PROTEA HOTELS
MARRIOTT



ROAD LODGE
BY CITY LODGE HOTELS



Radisson
HOTEL & RESIDENCE
CAPE TOWN

Unlike perfect competition, monopolistic competitive firms have products that are not perfect substitutes. Consumers have clearly defined preferences and sellers attempt to differentiate their products from those of competitors. In the short run the monopolistically competitive hotel can exploit the heterogeneity of its brand so as to reap positive economic profit.

There is a variety of hotel options available that offer various facilities from conference rooms to beauty salons, each hotel offers something unique.

[Source: hotelnewsresource.com/article3232.html. Accessed on 12 February 2023.]

2.2.1 Name any ONE way in which the above hotels can differentiate their product. (1)

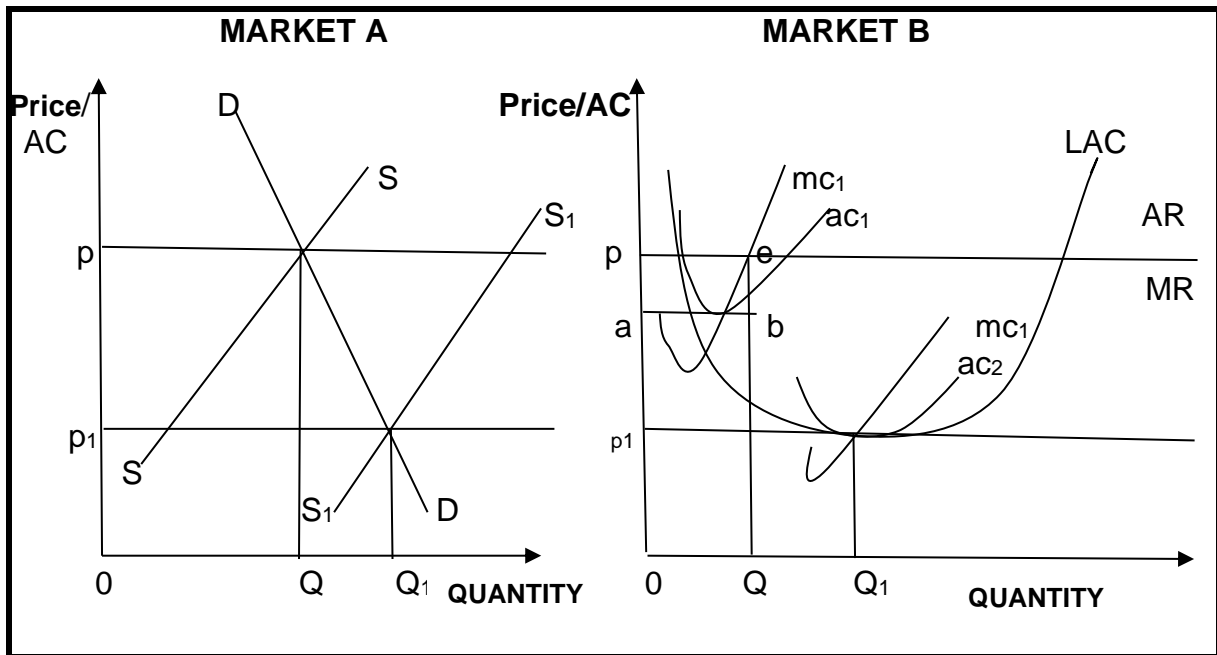
2.2.2 What kind of profit is made by a monopolistic competitor in the long run? (1)

2.2.3 Describe the concept *monopolistic competition*. (2)

2.2.4 Briefly explain *product differentiation* as a characteristic of monopolistic competition. (2)

2.2.5 Why would owners of these hotels be unable to make economic profits in the long run? (4)

2.3 Study the information below and answer the questions that follow.



2.3.1 Identify economic profit from **MARKET B**. (1)

2.3.2 Which curve indicates an increase of new entrants? (1)

2.3.3 Describe the concept *market*. (2)

2.3.4 Explain the role of the Competition Commission. (2)

2.3.5 Why is the LAC curve u-shaped? (4)

2.4 With the aid of a diagram explain the implication of negative externalities. (8)

2.5 How would a business prevent reaching the shut-down point? (8)

[40]

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

3.1 Answer the following questions.

3.1.1 Name any TWO objectives of the competition policy. (2)

3.1.2 Why does the demand curve of a monopolist slope downwards from left to right? (2)

3.2 Study the information below and answer the questions that follow.

SA COMPETITION COMMISSION PROSECUTES BANKS FOR COLLUSION

The Competition Commission of South Africa has referred a case of collusion to the Tribunal for prosecution against Bank of America, Merlin Lynch International, Limited Invest Ltd, Standard Bank of South Africa Limited, ABSA Bank Limited and Barclays Bank. The commission has been investigating a case of price fixing and market allocation in the trading of foreign currency pairs involving the Rand since April 2015. It has now referred the case to the Tribunal for prosecution. The competition is seeking an order from the Tribunal declaring that the respondents have contravened the Act. Further the Commission is seeking an order declaring these banks must be liable for payment of administrative penalty equal to 10% of their annual turnover.

[Source: www.google.com. Accessed on 12 February 2023.]

3.2.1 Name any ONE type of collusion. (1)

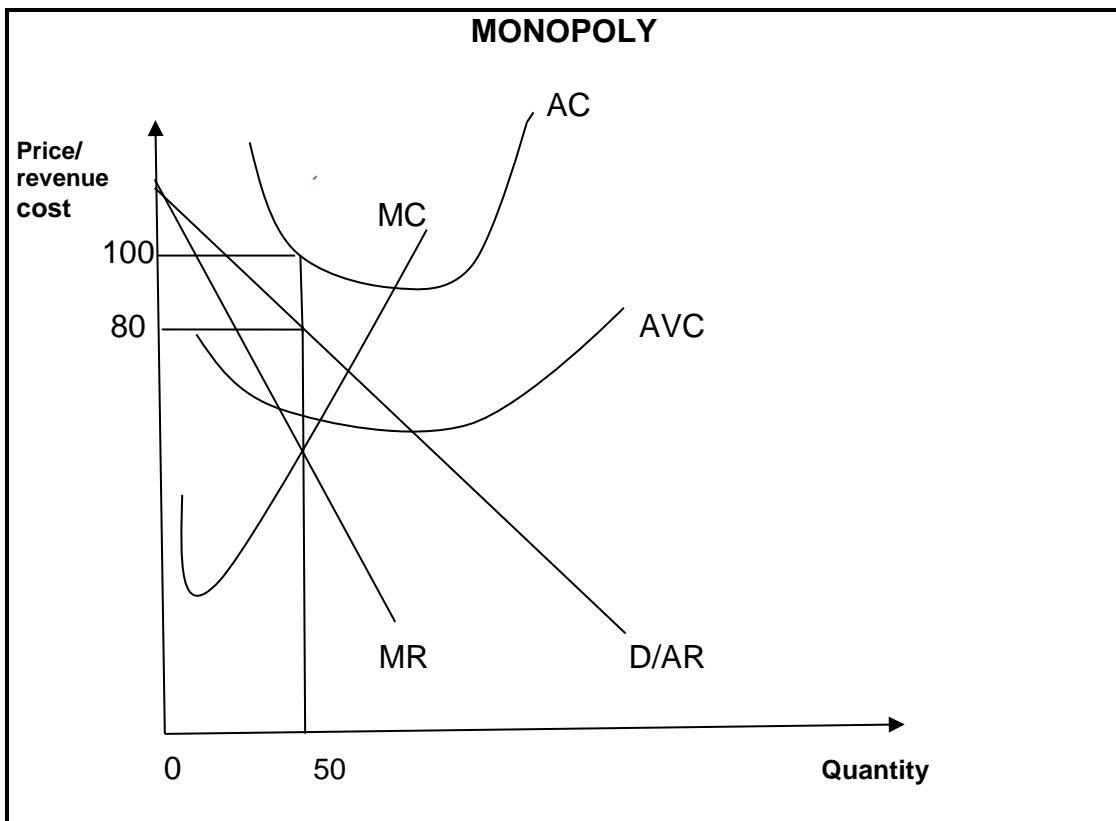
3.2.2 Mention ONE competition institution that has not been mentioned in the above extract. (1)

3.2.3 Describe the concept *collusion*. (2)

3.2.4 Explain non-price competition in an oligopoly market. (2)

3.2.5 Why would banks often collude although it is illegal in South Africa? (4)

3.3 Study the graph below and answer the questions that follow.



3.3.1 Identify a curve that is essential for determining price. (1)

3.3.2 What kind of products are produced by a monopoly? (1)

3.3.3 Describe the concept *marginal revenue (MR)*. (2)

3.3.4 Why are monopolies able to make economic profits in the long run? (2)

3.3.5 Calculate profit/loss from the above graph. Show ALL calculations. (4)

3.4 Explain *imperfect competition* and *immobility of factors* of production as causes of market failure. (8)

3.5 Why do monopolies experience losses being the only producer in the market? (8)

[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Name any TWO examples of public goods. (2)

4.1.2 Why must a business produce on the kink of the kinked demand curve? (2)

4.2 Study the information below and answer the questions that follow.

NORMAL PROFIT					
	COMPANY A	COMPANY B	COMPANY C	COMPANY D	COMPANY E
Total Revenue	235 650	245 698	260 500	285 440	269 788
Fixed costs	45 200	35 800	39 850	41 740	38 260
Variable costs	94 520	68 477	125 630	143 700	82 650
Opportunity cost	100 000	100 000	100 000	100 000	100 000
Total costs	239 720	204 277	265 480	285 440	220 910
Profit/Loss	(4 070)	41 421	(4 980)	0	48 878

4.2.1 Identify a company that is making the most profit from the above table. (1)

4.2.2 Which of the above companies is displaying normal profit? (1)

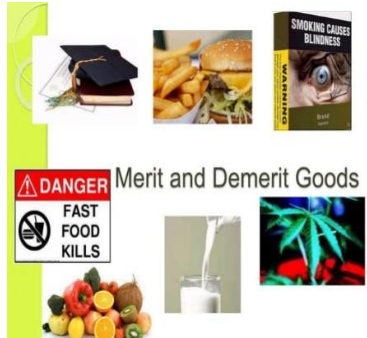
4.2.3 Describe the concept *normal profit*. (2)

4.2.4 Briefly explain *implicit costs*. (2)

4.2.5 Why is it necessary to take opportunity cost into account when calculating profit? (4)

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

EXTERNALITIES



Merit and Demerit Goods

The government may attempt to reduce the consumption of demerit goods through persuasion. This is more likely to be achieved through negative advertising campaigns, which emphasise the dangers of drink and driving, drug abuse etc. The aim is the opposite of normal commercial advertising, namely to shift the demand curve of demerit goods to the left. A contraction of demand could be achieved by the imposition of tax on the demerit good. This would have the effect of shifting the supply curve to the left.

[Source: www.sanandres.esc.edu.ar. Accessed on 12 February 2023.]

- 4.3.1 Identify any demerit good from the above extract. (1)
- 4.3.2 Which type of tax could be charged on a demerit good? (1)
- 4.3.3 Describe the concept *negative externality*. (2)
- 4.3.4 Explain non-rivalry as a feature of public goods. (2)
- 4.3.5 Why is the consumption of demerit goods discouraged? (4)
- 4.4 Explain *nature of the product* and *control over market supply and price* in a perfect market. (8)
- 4.5 How does load shedding affect small businesses? (8)
- [40]**

TOTAL SECTION B: 80

SECTION C

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

Your answer will be assessed as follows.

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower-order response. <ul style="list-style-type: none"> • A good starting point would be to define the main concept related to the question topic. • Do Not include any part of the question in your introduction. • Do Not repeat any part of the introduction in the body. • Avoid mentioning in the introduction what you are going to discuss in the body. 	Max. 2
Body Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/ Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain 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. 26
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 value 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**40 MARKS – 40 MINUTES**

- Discuss the monopoly in detail without the aid of graphs. (26 marks)
- How does a monopoly contribute to market failure? (10 marks) **[40]**

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES**40 MARKS – 40 MINUTES**

- 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) **[40]**

TOTAL SECTION C: 40
GRAND TOTAL: 150