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NATIONAL SENIOR CERTIFICATE

GRADE 12

JUNE 2026

ECONOMICS P2 MARKING GUIDELINE

MARKS: 150

This marking guideline consists of 20 pages.



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**SECTION A****QUESTION 1**

- 1.1 1.1.1 A ✓✓ (a reduction in labour required)
- 1.1.2 B ✓✓ (minimising costs)
- 1.1.3 C ✓✓ (negative externalities)
- 1.1.4 D ✓✓ ($AR > MR$)
- 1.1.5 A ✓✓ (negative sloping)
- 1.1.6 B ✓✓ (monopolistic competition)
- 1.1.7 D ✓✓ (firms are price takers)
- 1.1.8 C ✓✓ (increase) (8 x 2) (16)
- 1.2 1.2.1 C ✓ extra income which the seller earns if one more unit of a product is produced and sold.
- 1.2.2 H ✓ actual expenditure of the businesses
- 1.2.3 F ✓ two firms that dominate the industry
- 1.2.4 I ✓ an example of tacit collusion with regard to pricing
- 1.2.5 B ✓ exists because of barriers to entry which are not economic of nature
- 1.2.6 G ✓ businesses in the same industry come to an agreement to determine prices and quantities
- 1.2.7 D ✓ spillover effect of an economic activity on third parties
- 1.2.8 A ✓ these are under supplied by the market but beneficial to the society (8 x 1) (8)
- 1.3 1.3.1 Homogenous ✓
- 1.3.2 Fixed ✓
- 1.3.3 Monopolistic competition ✓
- 1.3.4 Overt/explicit/formal collusion ✓
- 1.3.5 Minimum prices ✓
- 1.3.6 Pareto efficiency ✓ (6 x 1) (6)

TOTAL SECTION A: [30]**SA EXAM PAPERS**

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**SECTION B**

Answer 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 TWO characteristics of a demand curve in a perfect competitive market.**

- It is perfectly elastic ✓
- It is a horizontal line ✓
- It is the same as its marginal revenue curve ✓
- It is the same as the average revenue curve ✓

(Accept any other correct and relevant response.) (2 x 1) (2)

2.1.2 **Why is price discrimination not possible for firms in a perfect market?**

- In perfect markets firms cannot raise their prices above the market price, without losing all their customers to competitors, as a result firms will be unable to engage in price discrimination ✓✓

(Accept any other correct and relevant response.) (1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 **How will the foot-and-mouth disease outbreak impact the supply of beef?**

- Negatively, the supply of beef will decrease ✓ (1)

2.2.2 **What is the effect of foot-and-mouth disease on beef prices?**

- There will be an increase in price ✓

(Accept any other correct and relevant response.) (1)

2.2.3 **Briefly describe the concept *marginal cost*.**

- Marginal cost is the amount by which total cost increases when one extra product is produced. ✓✓

(Accept any other correct and relevant response.) (1 x 2) (2)

2.2.4 **Explain why beef is a homogenous product.**

- Beef is typically the same and their basic characteristic such as grading plays a role. ✓✓

(Accept any other correct and relevant response.) ✓✓ (1 x 2) (2)

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2.2.5 **How do fluctuations in the market price of beef impact the marginal revenue of smaller producers?**

- Small local producers often operate on smaller profit margins compared to larger commercial producers. ✓✓
- Fluctuations in beef prices can directly affect these profit margins, decrease in revenue can affect the financial stability of smaller producers. ✓✓
- If prices drop, it can lead to losses for smaller producers who might not have the same resources to absorb such changes. ✓✓
- Smaller producers may face challenges in competing with larger, more established beef producers. ✓✓

(Accept any other correct and relevant response.)

(2 x 2) (4)

2.3 **DATA RESPONSE**

2.3.1 **Identify the competition institution from the extract above.**

- The Competition Commission ✓

(1 x 2) (1)

2.3.2 **Give ONE objective of the Competition Act.**

- Promotes the efficiency of the economy ✓
- Provides consumers with competitive prices and a variety of products ✓
- Promotes employment ✓
- Encourages South African businesses to participate in world markets and accept foreign competition in South Africa ✓

(1)

2.3.3 **Briefly describe the concept *competition*.**

- Competition refers to the rivalry between firms in the determination of market prices. ✓✓

(Accept any other correct and relevant response.)

(1 x 2) (2)

2.3.4 **Explain the role of the competition commission in exchange rate manipulation.**

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

(1 x 2) (2)

2.3.5 **How can the manipulation of the exchange rate impact businesses that are competing in world markets?**

- Exchange rate manipulation can lead to the fluctuations in the cost of production ✓✓
- Changes in exchange rate can impact the prices of imported raw materials, components and finished goods ✓✓
- This can affect profit margins and competitiveness. ✓✓

(Accept any other correct and relevant response.)

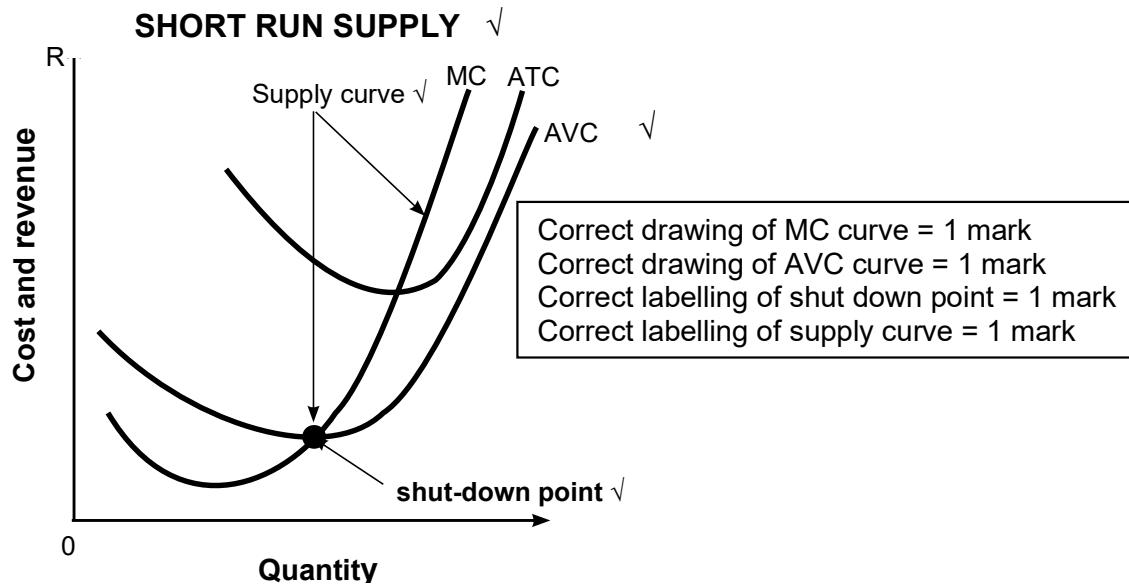
(2 x 2) (4)



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- 2.4 With the aid of a graph, explain how the supply curve is derived from the marginal cost curve.



- The short run supply curve of an individual producer is that part of the marginal cost curve that is above the minimum average variable cost. ✓✓
- This starts from shut down point upwards. ✓✓
- Below the shutdown point, the firm will not sell any goods. ✓✓
- A firm will sell goods if the price is above the shutdown price levels. ✓✓
(Accept any other correct and relevant response.) (4 x 2) (8)

- 2.5 How does the slope of the total cost curve change in relation to changes in the output/quantity produced?

- As the quantity of output increases, the slope of the total cost curve tends to be relatively flat or shallow ✓✓
- This indicates a phase of increasing marginal returns/economies of scale. ✓✓
- As production continues, the total cost curve starts to slope upwards more steeply. ✓✓
- This occurs when the production reaches a point of diminishing marginal returns/diseconomies of scale ✓✓
- The addition of more units of input leads to smaller and smaller increases in output.
- As a result, the total cost increases at a growing rate, leading to a steeper slope of the TC curve. ✓✓

Allocate a maximum of 2 marks for mere listing of facts.

- (Accept any other correct and relevant response.) (4 x 2) (8)
[40]



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**QUESTION 3: MICROECONOMICS****40 MARKS – 30 MINUTES****3.1 3.1.1 Name any TWO examples of explicit costs.**

- Payment of salaries/wages ✓
- Payment of rent ✓
- Payment of raw materials ✓
- Payment of utilities ✓

(Accept any other correct and relevant response.)

(2 x 1) (2)

3.1.2 How does collusion affect the global competitiveness of South African businesses?

- Collusion tends to reduce competitive pressures leading to a decreased incentive for businesses to operate efficiently and innovatively ✓✓
- When firms collude to fix prices, consumers end up paying more for goods and services ✓✓
- Collusion is illegal and can lead to legal consequences ✓✓

(Accept any other correct and relevant response.)

(1 x 2) (2)

3.2 DATA RESPONSE**3.2.1 Identify the state-owned enterprise depicted in the cartoon above.**

- Transnet. ✓

(1)

3.2.2 Name the market structure under which the state-owned enterprise mentioned in QUESTION 3.2.1 above operates.

- Monopoly ✓

(1)

3.2.3 Briefly define the concept *artificial monopoly*.

- It refers to monopoly that is a result of legislation and laws that govern a particular industry. ✓✓

(Accept any other correct and relevant response.)

(1 x 2) (2)

3.2.4 Why is it difficult for new firms to enter the railway industry?

- Starting the railway requires substantial upfront costs for purchasing trains and the setting up of infrastructure (railway lines). ✓✓
- This is high capital requirement which is a significant barrier to enter the market. ✓✓

(Accept any other correct and relevant response.)

(2 x 1) (2)

3.2.5 What impact would the collapse of the railway industry have on the South African economy?

- The collapse of railway industry would result in widespread job losses, contributing to high unemployment rate. ✓✓
- Transnet plays an important role in providing commuters with an opportunity to go to work at a cheaper price. ✓✓
- The collapse could have an impact on transportation of goods, impacting trade and potentially leading to increased cost for businesses relying on railway services ✓✓

(Accept any other correct and relevant response.)

(2 x 2) (4)



**3.3 DATA RESPONSE****3.3.1 Identify the market structure as illustrated above.**

- Monopolistic Competition ✓

(1)

3.3.2 Name ONE industry that operates in this market structure.

- Fitness centres
- Consumer electronics
- Hotels and Hospitality

(Accept any other correct and relevant response.) ✓

(1)

3.3.3 Briefly describe the concept *non-price competition*.

- Non-price competition refers to a situation in which businesses compete based on factors other than the price of their products or services ✓✓

(Accept any other correct and relevant response.)

(1 x 2)

(2)

3.3.4 Why are monopolistic competitive businesses reluctant to compete over prices?

- Products in a monopolistic competition often have elastic demand meaning that changes in prices have a significant impact on the quantity demanded which reduces revenue due to reduced sales volumes. ✓✓
- Firms in the market may be reluctant to initiate price competition to avoid triggering price wars with competition. ✓✓
- Price wars can be detrimental to all firms involved leading to lower profits and potential financial instability. ✓✓

(Accept any other correct and relevant response.)

(1 x 2)

(2)

3.3.5 Explain why businesses in monopolistic competition are said to be allocative inefficient.

- Firms in monopolistic competition often operate with excess capacity because they produce less than the output level that would minimise average total cost. ✓✓
- In monopolistic competition firms have some degree of market power, allowing them to set their prices above the midpoint of the demand curve. ✓✓
- Businesses in monopolistic competition market often invest heavily in advertising to create brand loyalty and product differentiation. ✓✓
- The under utilisation of resources results in allocative inefficiency as the firms are not producing at the point where marginal cost equals marginal revenue. ✓✓

(Accept any other correct and relevant response.)

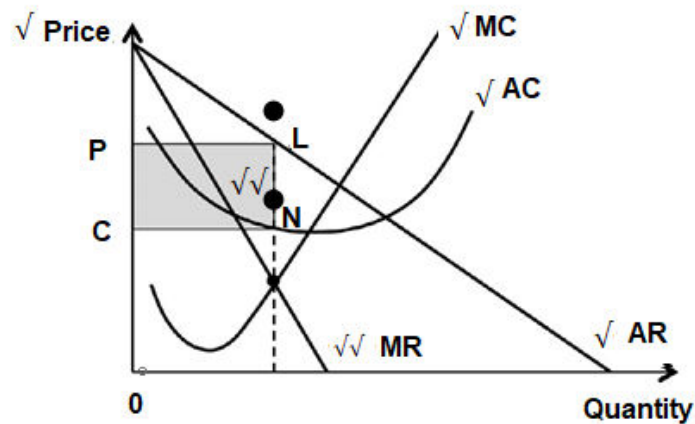
(2 x 2)

(4)



- 3.4 Draw a well-labelled graph to illustrate economic profits in the short run for a monopoly (without explanations).

ECONOMIC PROFIT



Mark allocation for the graph

- Correct labelling of MC curve = 1 mark
 Correct labelling of AC curve = 1 mark
 Correct labelling of AR curve = 1 mark
 Correct labelling of Price and Quantity axis = 1 mark
 Correct labelling and positioning of MR curve = 2 marks
 Correct labelling of Economic Profit = 2 marks

(8)

- 3.5 Analyse the relationship that exists between marginal revenue (MR) and average revenue (AR) in a monopolistically competitive market.

- For a monopolistically competitive firm facing a downward sloping demand curve, the marginal revenue curve lies below the demand curve. ✓✓
- MR is less than price(P) because the firm must lower the price to sell additional units. ✓✓
- AR is always greater than or equal to MR in monopolistic competition. ✓✓
- Monopolistically competitive firms seek to maximise profits where MR equals marginal cost (MC). ✓✓
- Since MR is less than P, the firm produces where MR intersects MC, and the corresponding price is higher than marginal cost. ✓✓
- The degree of differentiation can influence the gap between AR and MR. ✓✓
- More differentiation can allow for a smaller gap and more control over price. ✓✓

(Accept any other correct and relevant response.)

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

(4 x 2)

(8)

[40]



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**QUESTION 4: MICROECONOMICS****40 MARKS – 30 MINUTES**

- 4.1 4.1.1 **Name any TWO types of goods that are supplied by the government.**
- Public goods ✓
 - Community goods ✓
 - Collective goods ✓
 - Merit goods ✓
- (Accept any other correct and relevant response.) (2 x 1) (2)
- 4.1.2 **How does direct control lead to the misallocation of resources?**
- Centralised systems may struggle to adapt quickly to changing economic conditions, technological advancements or shifts in consumer preferences. ✓✓
 - A one size fits all approach can lead to misallocation as it addresses the specific requirements of different areas of sectors. ✓✓
 - Decisions that are made without clear understanding of local needs, preferences and market conditions can result in misallocations. ✓✓
- (Accept any other correct and relevant response.) (1 x 2) (2)
- 4.2 **DATA RESPONSE**
- 4.2.1 **Identify the quantity supplied if the price ceilings are enforced.**
- Q1 ✓
- (1)
- 4.2.2 **Name ONE benefit of a price ceiling for consumers.**
- Lower fuel prices ✓
- (Accept any other correct and relevant response.) (1)
- 4.2.3 **Briefly describe the concept *minimum prices*.**
- A price set above the equilibrium price/market price to allow producers to make a fair profit ✓✓
- (Accept any other correct and relevant response.) (2 x 1) (2)
- 4.2.4 **Explain the impact of a price ceiling that is set below the market price.**
- The supply of the product decreases as producers will decide to supply less of the product. ✓✓
 - The demand for the product will increase. ✓✓
 - There will be a shortage of the product in the market. ✓✓
 - This may lead to the establishment of black markets. ✓✓
- (Accept any other correct and relevant response.) (2 x 1) (2)





4.2.5 How can the proposed price ceiling of fuel lead to black markets?

- When the government imposes a price ceiling it creates excess demand for fuel as consumers want to purchase more fuel at the capped price than what suppliers are willing to provide. ✓✓
- The storage of fuel due to price ceilings creates an opportunity for some individuals or entities to exploit the situation by purchasing fuel at a lower price in black markets. ✓✓
- The scarcity and increased demand for fuel can incentivise illegal activities such as smuggling or unauthorized trading ✓✓
- This situation often incentivises illegal activities and the emergence of black markets where fuel is sold at prices higher than the regulated ceiling. ✓✓

(2 x 2) (4)

4.3 DATA RESPONSE

4.3.1 Identify ONE project with the lowest economic cost.

- Unit 1/Thermal ✓

(1)

4.3.2 Name the method used in calculating the CBA.

- Net Present Value/NPV ✓

(1)

4.3.3 Briefly describe the concept *social benefits*.

- Social benefit refers to the total benefit that is enjoyed by the society as a whole/Social benefits refer to private benefits plus external benefit ✓✓

(Accept any other correct and relevant response.)

(1 x 2) (2)

4.3.4 What is the challenge of applying the cost-benefit analysis?

- CBA often involves making subjective judgments about the monetary value of non-market goods, such as environmental quality of human life. ✓✓
- Different stakeholders may have different opinions in the appropriate values to assign, leading to potential biases ✓✓
- Assigning present values to future costs and benefits requires discounting, which involves assumptions about the appropriate discount rate. ✓✓

(Accept any other correct and relevant response.)

(1 x 2) (2)

4.3.5 How can the South African government use the cost-benefit analysis to prevent market failure?

- The cost benefit analysis helps to ensure that public investments generate sufficient benefits to justify their costs, preventing wasteful spending and potential market failure. ✓✓
- Cost benefit analysis includes the wider social impact and externalities in the decision-making process, which is helpful for making decisions whether the project should proceed or not. ✓✓
- CBA helps identify externalities by quantifying these externalities. ✓✓
- Government can design policies to include the costs or benefits on pricing thus preventing market failure. ✓✓

(Accept any other correct and relevant response.)

(2 x 2) (4)





4.4 Briefly explain the effects of minimum wage as a consequence of market failure.

Positives of minimum wage

- Minimum wages can help address income inequality by ensuring that even the low-paid workers earn a wage that allows them to meet their basic needs. ✓✓
- This will lead to a more equitable distribution of income. ✓✓
- Minimum wages are seen as a tool to lift low-wage workers out of poverty. ✓✓
- By setting a floor on wages, governments aim to ensure that workers earn enough to cover their essential living expenses. ✓✓
- If low-wage workers earn more, they are likely to spend additional income on goods and services. ✓✓
- The increased consumer spending can stimulate economic growth, creating a positive multiplier effect. ✓✓

Negatives of minimum wage

- Minimum wages can lead to unemployment particularly among low-skilled workers. ✓✓
- If the minimum wage is set above the equilibrium wage determined by market forces, employers may be unable or unwilling to hire workers, leading to job losses. ✓✓
- Minimum wages interfere with the natural functioning of the labour market. Wages should be determined by supply and demand, and government intervention through minimum wage laws disrupts this process, leading to inefficiencies. ✓✓

(Allocate a maximum of 4 marks for a mere listing of facts/examples)

(Accept any other correct and relevant response.)

(4 x 2) (8)

4.5 Evaluate the impact of government subsidies in the agricultural sector.

- Government subsidies in the agriculture sector are intended to support farmers, ensure food security, and facilitate rural development. ✓✓
- Subsidies often incentivise farmers to increase production beyond market demand. ✓✓
- This can result in over production, leading to surpluses in the market. ✓✓
- Surpluses can decrease prices, negatively affecting farmers income and creating storage and disposal challenges for excess produce. ✓✓
- Subsidies can distort market signals by artificially altering prices and production levels. ✓✓
- This may lead to the inefficient allocation of resources as farmers may focus on crops that are subsidised, rather than those with higher market demand or better environmental suitability. ✓✓
- Subsidies might encourage unsustainable agricultural practices. ✓✓
- Certain crops may take excessive use of fertilisers and pesticides, leading to environmental degradation, soil erosion, water pollution and loss of biodiversity. ✓✓
- Agricultural subsidies can distort international trade by making domestic products cheaper artificially, leading to trade disputes with other countries. ✓✓





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- Subsidised exports from one country may undermine farmers in another country, creating unfair competition and impacting global market dynamics. ✓✓
- Subsidies often require substantial government spending, and these subsidies can strain government budgets. ✓✓

(Accept any other correct and relevant response.)

(A maximum of 2 marks may be allocated for mere listing of facts/examples.)

(4 x 2)

(8)

[40]**TOTAL SECTION B: 80****SA EXAM PAPERS**

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SECTION C

Answer ONE of the two questions from this section in the ANSWER BOOK.
Your answer will be assessed as follows.

QUESTION 5: MICROECONOMICS

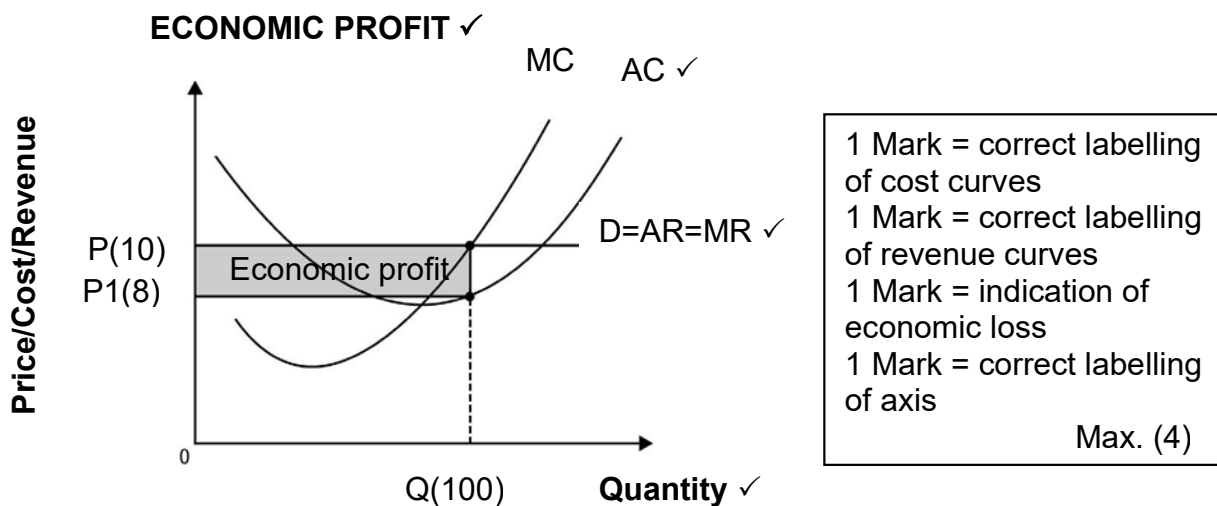
40 MARKS – 40 MINUTES

- Discuss in detail and with the aid of graphs the various equilibrium positions of a firm in a perfect market. (26)
- How does the pressure of competing in a perfect market affect the ethical behaviour of firms? (10)

INTRODUCTION

The individual business can make an economic profit, economic loss or normal profit in the short run. These are referred to as short run equilibrium positions. The individual business will always make normal profit in the long run. ✓✓
(Accept any other correct and relevant introduction.) (Max.10)

BODY: MAIN PART

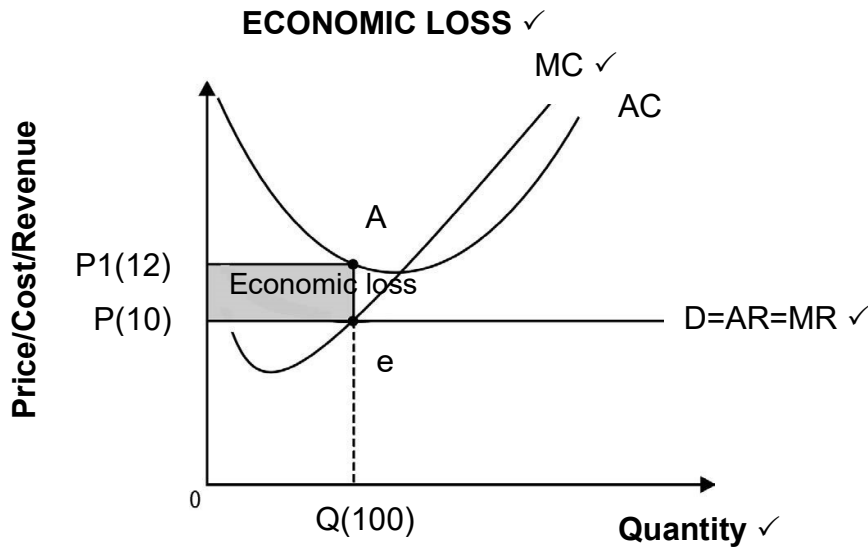


- Economic profit is the profit that is made in addition to the normal profit/When average revenue is greater than average cost, the firm is making economic profit ✓✓
- The firm produces at point **e** where $MR = MC$ ✓✓
- At P (10), Q/100 units are produced at the price of R10 ✓✓
- At point **e**, AR (P/R10) is greater than AC (P1/ R8) ✓✓
- The firm makes an economic profit of $PeAP1/TR - TC$ ($R1\ 000 - R800 = R200$) / $R2 \times R100 = R200$) ✓✓



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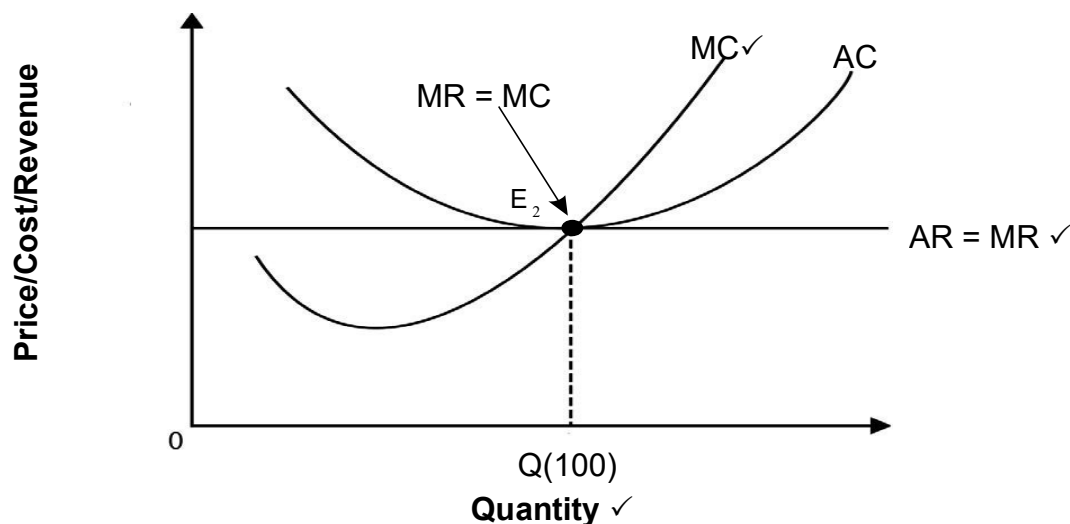


1 Mark = correct labelling of cost curves
 1 Mark correct labelling of revenue curves
 1 Mark = indication of economic loss
 1 Mark = correct labelling of axis

Max. (4)

- Economic loss occurs when total costs are greater than the total revenue/When average revenue is lower than the average cost. ✓✓
- The firm produces at point **e** where $MR = MC$. ✓✓
- At $P(10)$, $Q/100$ units are produced at the price of R10 (P). ✓✓
- At point **e**, $AR(P/R10)$ is less than $AC(P1/R12)$. ✓✓
- The firm makes an economic loss of $PeAP1 / Tr - Tc$ ($R1\ 000 - R1\ 200 = - R200$) / $R10 - R12 = - R2$). ✓✓

NORMAL PROFIT ✓



Correct labelling of cost curves = 1 mark
 Correct labelling revenue curves = 1 mark
 Indication of equilibrium = 1 mark
 Labelling of axis = 1 mark

(Max. 4)



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- Normal profit is the minimum earnings required to prevent the entrepreneur from leaving the industry. ✓✓
- Normal profit occurs when total revenue equals total cost/when average revenue equals average cost. ✓✓
- The firm produces at point **e** where $MR = MC$ ✓✓
- At **e**, $Q / 100$ units are produced at $P/R 10$. ✓✓
- At point **e**, $AR (P/R 10)$ is equal to $AC (P / R 10)$. ✓✓
- The firm makes normal profit of $P \times Q - AC \times Q / R1\ 000 - R1\ 000 = R0 / R10 - R10 = R0$. ✓✓ (Max. 26)

ADDITIONAL PART

How does the pressure of competing in a perfect market affect the ethical behaviour of firms?

- In a highly competitive environment, firms may face immense pressure to succeed, which might lead some to consider unethical practices to gain an edge over competitors. ✓✓
 - The pressure to perform and stay afloat in the market can sometimes drive firms to compromise on their ethical standards. ✓✓
 - The need to make profits can lead to compromises in product/services quality as firms attempt to stay profitable at market price. ✓✓
 - This could result in unethical decisions, such as the lowering of product standards or engaging in deceptive advertising. ✓✓
 - In a struggle to survive or stay competitive, firms might gradually dilute their ethical standards to match those of competitors, rationalising that they have no choice but to adapt to the industry norms. ✓✓
 - Competition does not necessarily erode ethical behaviour. ✓✓
 - Many firms in competitive markets maintain high ethical standards and conduct businesses with integrity. ✓✓
 - Ethical behaviour often stems from a country's values, leadership and commitment in maintaining ethical standards despite competitive pressures. ✓✓
 - Competition can also foster positive outcomes, encouraging innovations, efficiency and better customer service. ✓✓
 - Ethical behaviour can become a competitive advantage for firms by enhancing their reputation and building trust with consumers. ✓✓
- (Accept any other correct and relevant high order response)
(A maximum of 2 marks will be allocated for mere listing/facts) (Max.10)

CONCLUSION

Perfect competition is an ideal market structure that gives advantage to consumers but not realistic and needs the intervention of the state through policies and a legislature framework. ✓✓

(Accept any other correct and relevant high-order conclusion.)

(Max. 2)

[40]



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**QUESTION 6: MICROECONOMICS****40 MARKS – 40 MINUTES**

- Discuss in detail without the use of graphs, the characteristics of monopoly as a market structure. (26)
- Critically analyse the existence of monopolies in addressing socio-economic issues in South Africa. (10)

INTRODUCTION

A monopoly is a market structure characterised by a single seller or producer dominating the entire industry, facing no competition from other firms. ✓✓
(Accept any other correct and relevant introduction) (Max. 2)

BODY: MAIN PART**Number of producers ✓**

- There is only one firm in the industry and this firm is responsible for the total market output. ✓✓
- The monopoly firm has market power as it faces the market demand curve for its product. ✓✓
- Consumers have limited choice as there is only one supplier in the market such as De Beers and Eskom. ✓✓
- This lack of choice can result in higher prices and reduced consumer surplus. ✓✓

Nature of the product ✓

- The product is unique and it has no close substitutes which implies that consumers' choice is limited. ✓✓
- The product has a relative inelasticity demand which means that quantity demanded is less responsive to price changes. e.g. electricity and rail transport. ✓✓

This means that consumers do not have alternative options from different sellers. E.g., Eskom is the only bulk supplier of electricity in South Africa. ✓✓

Economic profit/loss ✓

- A monopolist can earn an economic profit or economic loss in the short run. ✓✓
- If a monopoly is making economic loss in the short run, it will build a new production plant that will yield an economic profit in the long run. ✓✓
- If a monopoly is making economic profit in the short run, it will expand its production scale or capacity in order to make more economic profit in the long run. ✓✓

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**Demand curve ✓**

- Monopolists are also confronted with a demand curve for their product because they are the only supplier of the product. ✓✓
- The demand curve that confronts the monopolist is that of the market as a whole. ✓✓
- The market demand curve slopes downwards from left to right, and, it is relatively in elastic. ✓✓

Control over the price ✓

- A monopolist has full control over the market price and it is regarded as a price-maker. ✓✓
- The monopolist can decide on price -quantity combinations, that suits it the best, on the demand curve. ✓✓
- There is always the possibility of consumer exploitation because a monopolist is the only supplier of a product. ✓✓
- A monopoly business may restrict output or supply of the product to charge a higher price. ✓✓
- This is often limited by the market demand since the monopolist does not have control over demand. ✓✓
- Consumers have limited budgets, and a monopoly can therefore not demand excessive price for its product. ✓✓
- The monopolist's product has to compete for consumer's favour (and money) with all the other products available in the economy. ✓✓

Market information ✓

- All buyers and the single seller have full knowledge about the current market conditions. ✓✓
- This implies that there is high degree of transparency in the monopoly as there is no incentive for the monopoly to hide information from consumers. ✓✓

Market entry ✓

- There are barriers that prevent other producers from entering the market to supply the same type of product. ✓✓

Natural monopolies ✓

- High development cost is frequently a reason – the provision of electricity is often used as an example. ✓✓
- To build a nuclear power station and transmission lines to distribute electricity, costs billions of rand. ✓✓

Artificial monopolies ✓

- The barriers to entry are not economic in nature but artificial like patent rights which are legal and exclusive rights of a patent holder to manufacture a product using his or her unique invention. ✓✓
- Patents are also frequently encountered in the pharmaceutical industry. ✓✓
- Licensing is another way in which artificial monopoly is applied, e.g. TV and radio licenses. ✓✓
- Licenses protect operators against entry of other competitors. ✓✓



**Productive efficiency** ✓

- A monopoly does not achieve productive efficiency because output is produced without minimising the average cost. ✓✓

Allocative efficiency ✓

- There is allocative inefficiency because the output produced by a monopoly does not correspond with the quantity demanded by consumers. ✓✓
- Monopoly produces output level where the price is above the marginal cost. ✓✓

Collusion ✓

- Collusion is irrelevant because there is one business in the market. ✓✓

Decision-making ✓

- A monopoly business makes decisions independently because there are no regulations, for instance Eskom's decisions are influenced by NERSA ✓✓
- Examples of industries found in monopoly are ESKOM, DeBeers, SASOL in the natural gas industry, etc. ✓✓

Economies of scale ✓

- Monopolies may benefit from economies of scale, allowing them to produce at lower average cost as they operate on a larger scale. ✓✓
- The monopolist's primary aim is to maximise profits, the firm produces at a point where $MC = MR$ to maximise profits ✓✓
- Because of the existence of barriers to entry, the monopolist tends to make economic profits in both the short run as well as in the long run. ✓✓
(Allocate a maximum of 8 marks for the mere listing of facts/examples)
(Accept any other correct and relevant responses.) (Max. 26)

ADDITIONAL PART

South Africa, like many other countries, grapples with complex socio-economic challenges, and the role of monopolies can have significant implications. ✓✓

Positive aspects

- Monopolies may lead to the efficient production of goods or services due to economies of scale. ✓✓
- This can result in lower average costs, potentially allowing for more affordable products for consumers. ✓✓
- Monopolies, if adequately regulated, can invest heavily in research and development, leading to innovation and technological advancements. ✓✓
- This could have positive spill-over effects on the broader economy. ✓✓
- In certain industries, such as utilities, a monopolistic structure may be more conducive to long-term planning and significant infrastructural investments. ✓✓
- This can positively impact the overall development of the country. ✓✓



**Negative aspects**

- One of the main drawbacks of monopolies is their ability to set prices without competitive constraints. ✓✓
- This can result in higher prices for consumers, reducing their purchasing power and contributing to income inequality. ✓✓
- Monopolies restrict consumer choice as there is only one provider in the market. ✓✓
- This lack of competition can lead to complacency, the reduced quality of products or services, and lack of an incentive to meet diverse consumer preference. ✓✓
- Monopolies often create significant barriers to entry, limiting opportunities for new businesses. ✓✓
- This can hinder entrepreneurial activities and economic dynamism, particularly for small and medium-sized enterprises (SMMEs). ✓✓
- Monopolies may engage in rent-seeking behaviour, focusing more on protecting their market dominance rather than on improving efficiency or innovation. ✓✓
- This can lead to stagnation and hinder overall economic development. ✓✓

(Accept any other correct and relevant high order response)

(A maximum of 4 marks will be allocated for mere listing/facts)

(Max. 10)

CONCLUSION

The existence of monopolies In South Africa needs to be carefully assessed, within the broader socio-economic context, while certain advantages may exist, there is potential for negative consequences especially in terms of inequality and limited competition. ✓✓

(Accept any other relevant correct higher-order conclusion.)

(Max. 2)

[40]

TOTAL SECTION C: 40

GRAND TOTAL: 150



SA EXAM PAPERS

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