



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

**ECONOMICS P2
FEBRUARY/MARCH 2015
MEMORANDUM**

MARKS: 150

This memorandum consists of 16 pages.

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

- 1.1.1 A a cartel ✓✓
- 1.1.2 C average ✓✓
- 1.1.3 B quantity demanded is equal to quantity supplied ✓✓
- 1.1.4 A cost-benefit ✓✓
- 1.1.5 B demand-pull ✓✓
- 1.1.6 C increase consumption ✓✓
- 1.1.7 A communication ✓✓
- 1.1.8 C labour ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 D A period of production where all factors of production becomes variable ✓
- 1.2.2 C A price maker ✓
- 1.2.3 F Paid by society ✓
- 1.2.4 H Extra revenue earned when one additional unit is sold ✓
- 1.2.5 B A low growth rate, high unemployment and high inflation rate ✓
- 1.2.6 G World heritage site ✓
- 1.2.7 I Measures headline inflation ✓
- 1.2.8 A A person travelling through South Africa to another destination ✓ (8 x 1) (8)

1.3 ONE WORD ITEMS

- 1.3.1 Minimum wages ✓
- 1.3.2 Collusion ✓
- 1.3.3 Fixed costs ✓
- 1.3.4 Inflation ✓
- 1.3.5 Administered prices ✓
- 1.3.6 Domestic tourists ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2 MICROECONOMICS**2.1 Answer the following questions:****2.1.1 Give TWO examples of non-price competition by oligopolies.**

- Advertising ✓
 - Branding ✓
 - Free deliveries and installation ✓
 - Extended warranties for consumers and credit facilities ✓
 - Longer trading hours ✓
 - Extensive after-sales service ✓
 - Expansion into new markets by diversifying the product range ✓
- Accept any other relevant example. (2 x 1) (2)

2.1.2 How will profit differ between the perfect market and the monopoly over the long term?

The perfect market will only show a normal profit over the long term ✓
compared to the monopoly showing an economic profit ✓ (1 x 2) (2)

2.2 Study the graph and answer the questions that follow.**2.2.1 Provide the above graph with the appropriate heading.**

Economic profit in the perfect market ✓✓ (2)

2.2.2 Which point indicates profit maximization?

a ✓✓ (2)

2.2.3 How will price and quantity in this market structure change in the long run?

Price will decrease due to an increase in competition ✓ and the **quantity** will increase due to mass production at lower unit costs ✓ (2)

2.2.4 Determine the total profit/loss made by this firm. Show ALL calculations.

$\begin{aligned} &(\text{Price} \times \text{Quantity}) - (\text{Cost} \times \text{Quantity}) \\ &(\text{R}12 \times 130) \checkmark - (\text{R}10 \times 130) \checkmark \\ &\text{R}1\ 560 \quad \quad - \text{R}1\ 300 \\ &= \text{R}260 \checkmark\checkmark \end{aligned}$	$\begin{aligned} &\text{Price per unit: } P - C \\ &\text{R}12 - \text{R}10 = \text{R}2 \checkmark \\ &= 2 \times 130 \checkmark \\ &= \text{R}260 \checkmark\checkmark \end{aligned}$
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(4)

2.3 Study the extract and answer the questions that follow.**2.3.1 Why is alcohol classified as a demerit good?**

Demerit goods are harmful to families and the community ✓✓
Any other relevant answer.

(2)

2.3.2 Define the concept *market failure*.

Market failure occurs when the resources of the community are allocated inefficiently ✓✓
Any other relevant answer.

(2)

2.3.3 What other measure do you propose to solve drug and alcohol abuse by adults?

Seminars held in community halls to address this problem / strict application of laws / create an awareness on the negative consequences of addiction ✓✓

(2)

2.3.4 What negative effects will the restriction on liquor marketing have on retail?

- Reduction in sales ✓
 - Decrease in profits ✓
 - Reduction in the businesses' private benefits ✓
- Any other relevant answer.

(2 x 2)

(4)

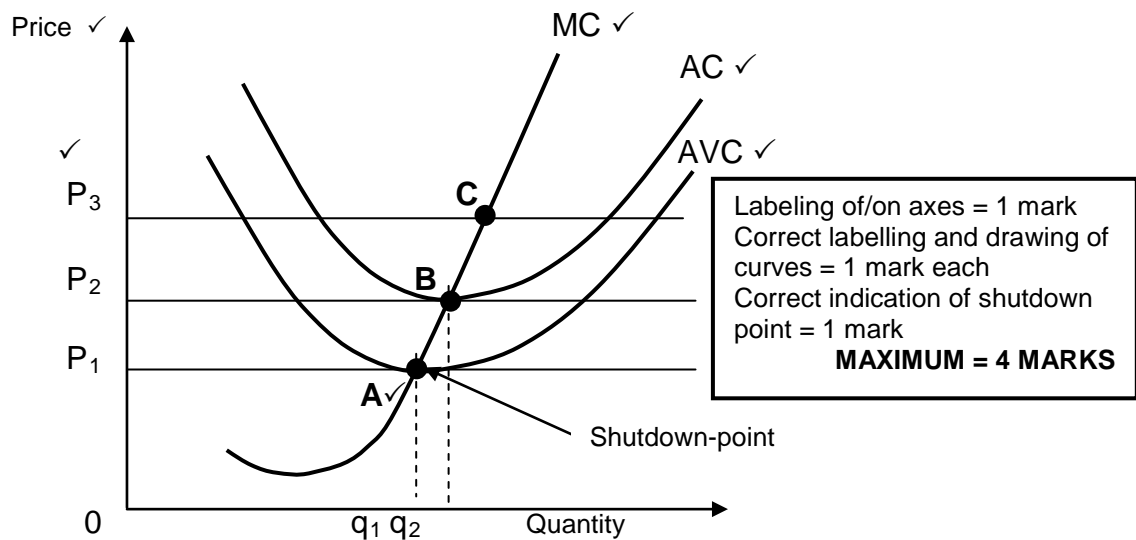
2.4 Explain the *immobility of factors of production* as a cause of market failure?

- Markets do not respond to changes in consumer demand if resources cannot be easily reallocated ✓✓ or due to a lack of information ✓✓
 - Labour takes time to move from one job or location to another ✓✓
 - Physical capital e.g. equipment, buildings, land and raw materials can only move from one place to another at a high cost ✓✓
 - Technological applications change production methods ✓✓ e.g. use of robots rather than physical labour ✓✓
- Accept any other relevant facts and explanations.

(4 x 2)

(8)

- 2.5 Explain by means of a neatly labelled graph the relationship between the *shut-down point* and the *supply curve (MC)* of the individual business in the perfect market.



- The rising part of the businesses' marginal cost curve above the minimum of its average variable cost curve represents the **supply curve** of the business ✓✓
- The supply curve starts at point A (shutdown-point) and slopes upward from there due to the marginal cost that increases as output increases ✓✓
- At a market price of P_1 the business is only able to pay its variable costs ✓✓
- If the market price drops below P_1 the business will be forced to close down and this point (A) is known as **shutdown-point** ✓✓ (2 x 4)

(8)
[40]

QUESTION 3 CONTEMPORARY ECONOMIC ISSUES**3.1 Answer the following questions:****3.1.1 Name any TWO purposes of tourism.**

- Leisure and recreation ✓
- Ecotourism ✓
- Cultural tourism ✓
- Business and professional ✓

(Accept any other relevant response)

(Any 2 x 1) (2)

3.1.2 Why is it important for the South African Reserve Bank to monitor and control the supply of money?

The supply of money in circulation should be monitored to create a balance between money supply and the availability of goods and services, otherwise increased inflation will be the result ✓✓

(Any other relevant fact)

(Any 1 x 2) (2)

3.2 Study the table and answer the questions that follow.**3.2.1 Identify the continent contributing most to an increased number of people visiting South Africa in 2013.**

Africa ✓

(1)

3.2.2 How can you contribute to an increase in the number of international tourists visiting your community?

- Produce articles e.g. curios typically demanded by overseas tourists ✓✓
- Start a shuttle service that offers a variety of destinations ✓✓
- Open a live museum where they can see how indigenous ethnic groups lived in the past ✓✓

Any other relevant fact.

(1 x 2) (2)

3.2.3 Determine the trend of tourists visiting South Africa from Central and South America. Quote figures from the table to support your answer.

Number of tourists from Central and South America is decreasing ✓

From 86 008 in 2012 to 85 591 in 2013 / OR 417 less tourists ✓✓

(3)

3.2.4 Calculate the percentage increase in the number of tourists visiting South Africa. Show ALL calculations.

$$733\,507 - 723\,672$$

$$= 9\,835 \checkmark / 723\,672 \checkmark \times 100 \checkmark$$

$$= 1.36\% \text{ OR } 1.4\% \checkmark$$

(4)

3.3 Study the cartoon and answer the questions that follow.**3.3.1 Describe the message depicted in the cartoon above.**

The continuous increases in the price of petrol is to the disadvantage of the man in the street ('common man') – he is not benefitting from it / Consumers suffer financially as a result of petrol price increase which happen more often than it decreases ✓✓ (1 x 2) (2)

3.3.2 What type of inflation is associated with the increase in fuel prices?

Consumer inflation/administered prices / cost-push inflation ✓✓ (1 x 2) (2)

3.3.3 Name TWO groups that are negatively affected by the rapid increase in fuel prices.

- People who travel long distances ✓
 - Business people ✓
 - Workers with a fixed income ✓
- Accept any other relevant fact. (2 x 1) (2)

3.3.4 In your opinion what can be done to solve the problem of rising petrol prices?

- Use fuel efficient vehicles ✓✓
 - Travel in groups ✓✓
 - Reduce demand ✓✓
 - Find alternative fuel sources ✓✓
- Accept any other relevant fact. (2 x 2) (4)

3.4 Distinguish between consumer price index and producer price index**CPI**

- It measures cost of living ✓✓
- The basket consists of consumer goods and services ✓✓
- Capital and intermediate goods are excluded ✓✓
- Prices include Value Added Tax ✓✓
- Interest rates are taken into account ✓✓
- Prices of imported goods are not shown explicitly ✓✓ (Any 2 x 2)

PPI

- It measures the cost of production ✓✓
 - Basket consists of goods only ✓✓
 - Capital and intermediate goods are included ✓✓
 - Prices exclude Value Added Tax ✓✓
 - Interest rates are excluded ✓✓
 - Prices of imported goods are shown explicitly ✓✓
- Accept if tabulated/any other relevant difference. (Any 2 x 2) (8)

3.5 **In your opinion, why has South Africa been experiencing a growth in tourism?**

- Increase in advertising and promotion ✓✓
- Improved transport, communication and accommodation facilities ✓✓
- Awareness of the benefits of holiday and travel especially to a destination where you experience a favourable exchange rate (cheap) ✓✓
- Ease of obtaining foreign exchange and making payments ✓✓
- An awareness of leisure and recreation ✓✓
- South Africa is experienced as the world in one – a variety of tourist destinations, different ethnic groups, etc. ✓✓
- Increase in disposable income ✓✓

Accept any other relevant argument.

(Any 4 x 2)

(8)
[40]

QUESTION 4 MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES**4.1 Answer the following questions:****4.1.1 Name TWO aims of the competition policy in South Africa.**

- To prevent monopolies and other powerful businesses from abusing power ✓
 - To regulate the formation of mergers and acquisitions ✓
 - To stop firms from using restrictive practices like price fixing ✓
- Accept any other relevant goal. (Any 2 x 1) (2)

4.1.2 How are some debtors advantaged by rising inflation?

The amount owing remains the same irrespective of the increasing value of the debt. ✓✓

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

4.2 Study the graph and answer the questions that follow.**4.2.1 What type of externality is depicted in the graph?**

Positive externality ✓✓ (2)

4.2.2 Define the concept *externality*.

Externality is a cost or benefit to third parties which are not included in the market price of a product ✓✓ (2)

4.2.3 Give TWO appropriate examples of such an externality.

- Education ✓
 - Health care ✓
 - Water conservation ✓
- Accept any other relevant example. (2 x 1) (2)

4.2.4 How can this type of externality lead to market failure?

- Point e represents private costs and benefits where quantity produced is Q at a price of P ✓✓
- Society demand Q_1 units at a price of P_1 ✓✓
- If the external benefits would be taken into account, the equilibrium should be at c rather than at e where more would have been produced ✓✓
- Markets failed because they produced less than what is required by society ✓✓
- The government intervenes to subsidise the shortfall in production ✓✓

(Any 2 x 2) (4)

4.3 Study the extract and answer the questions that follow.**4.3.1 What is the current target range for inflation set by government?**

3–6% ✓✓

(2)

4.3.2 Define the concept *core inflation*.

Core inflation excludes items from the CPI basket that have highly volatile prices and items with prices affected by government intervention and policy ✓✓

(2)

4.3.3 What is the relationship between low economic growth and production stoppages?

Work stoppages result in reduction in production of goods and services that affects economic growth negatively ✓✓
Accept any other relevant relationship.

(2)

4.3.4 Suggest TWO solutions for the problems explained above.

- Adjust interest rates timeously. ✓✓
 - Making amendments to labour law to ensure a balance between workers' rights and creation of a good environment for economic growth ✓✓
 - Keeping wage increases within current or projected inflation range ✓✓
 - Creation of a more stable economic environment ✓✓
- Accept any other relevant fact.

(2 x 2) (4)

4.4 **Explain the effects of tourism on the *environment* and *poverty*.****The environment**

- Tourism can create permanent environmental stress ✓✓
- Permanent restructuring of the landscape e.g. construction work on high ways ✓✓
- Direct environmental stress e.g. the loss of wildlife species due to safari hunting ✓✓
- Effects on population dynamics e.g. migration and changes in population density in response to the needs of tourist sites ✓✓
- Additional waste products, e.g. sewage and litter ✓✓ (2 x 2) (4)

Poverty

- Tourist development in rural areas increase the number of available jobs ✓✓
- People are able to earn a living in their home areas, resulting in reduction in urbanization and more balanced population distribution ✓✓
- Rural people can go into partnership with mainstream tourism businesses supplying goods and services ✓✓
- Accept any other relevant. (positive/negative) (2 x 2) (4)

4.5 **How will a monopolist be more advantaged than a producer in a perfect market?**

- Monopolist produce a unique rproduct which others cannot compete with. ✓✓
- Protected from competition by patents/legislation. Difficult for others to enter the market. ✓✓
- Charge a higher price and produce lower quantity. ✓✓
- Always make economic profit in long run. ✓✓
- Price-setter - able to manipulate prices to suit himself. ✓✓ (8)

[40]**TOTAL SECTION B: 80**

SECTION C

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

Your answer will be assessed as follows:

STRUCTURE OF THE ESSAY	MARK ALLOCATION
Introduction	Max. 2
Body: Main part: Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain/Assess/Debate	Max. 26
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	Max. 10
Conclusion	Max. 2
TOTAL	40

QUESTION 5 MICROECONOMICS**40 MARKS – 20 MINUTES**

'It is often argued that monopolistic competition leads to a less efficient allocation of resources.'

- **Discuss the characteristics/features of monopolistic competition in detail.** (26)
- **How will non-price competition between food outlets like Steers, Wimpy, Spur and other businesses specialising in burgers, ensure their operational success in the monopolistic competitive market?** (10)
[40]

INTRODUCTION

A market structure with many buyers and sellers where entry is relatively easy but the product is differentiated, e.g. toothpaste ✓✓ (Max. 2)

BODY: MAIN PART**Products are differentiated ✓**

- Products are similar but not identical because they satisfy the same consumer need e.g. clothing, shoes ✓✓
- There may be differences in packaging of a product that makes it different from other similar products e.g. sugar ✓✓
- Differences may be imaginary, e.g. in the case of medicines where we find different brand names that contains exactly the same ingredients – here the service of the seller will definitely make the difference ✓✓

It is a hybrid structure ✓

- It is a combination of perfect competition and monopoly ✓✓
- The element of perfect competition is that there are many sellers of a particular product ✓✓
- The monopoly element is that every producer has their own specified brand ✓✓
- Competition stems from the fact that there are many sellers of differentiated products and each has a relatively small role in relation to the market as a whole ✓✓
- Businesses are free to enter or leave the market in the long term ✓✓
- The monopoly elements results from product differentiation in the sense that each producer is the only producer of that specific brand or variant of the product ✓✓

Control over price ✓

- Businesses have little control over the price of the product ✓✓
- Each business sell at their own price ✓✓
- A single price cannot be determine for the differentiated products ✓✓

Collusion is not possible ✓

- Because of the number of businesses, collusion between them is not possible. Agreements regarding matters such as prices and production quantities are not characteristic of this market form ✓✓

Market entry ✓

- It is easy / free to enter or leave the monopolistic market ✓✓

Information ✓

- Non- price competition: firms use advertising and promotion to win over customers ✓✓

It is often local ✓

- Occurs in the retail and services sectors of the economy e.g. clothing, wine and durniture ✓✓
- At the local level examples like the filling station, pharmacy, grocery store, hairdresser and fast-food outlet are good examples
- Each of these enterprises has a certain degree of monopolistic power because of the uniqueness of its product, favourable location, slightly lower prices ✓✓

Diverse businesses ✓

- Products differ and won't allow us to derive supply and demand curves for this industry compared to the perfect market. A single price cannot be determined for differentiated products ✓✓

Accept any other relevant facts and arguments.

(Max. 26)

BODY: ADDITIONAL PART

- These businesses engage in non-price competition - when sellers focus on distinctive features of their products rather than the price it may lead to better operational success ✓✓
 - The businesses can use the following methods of non-price competition:
 - **Branding:** This is a marketing tool that businesses use to create a specific perception in the minds of consumers and also identifies a business as being exclusive for a particular market ✓✓
 - **Advertising:** It is information provided by the company about its product usually through media and is used to achieve product differentiation and market control ✓✓
 - **Packaging:** It is the way the product is presented to the market, that protects the products, differentiates them and provides information about them. Businesses usually bring out the most important feature of their products through packaging ✓✓
 - **Service:** Businesses always improve their services to ensure that customers come back. Many people eat at restaurants because they enjoy the food and the service. Businesses should avoid treating customers in an incorrect manner ✓✓
 - **Information:** Businesses strive to provide relevant and precise information which will definitely convince customers to increase their spending ✓✓
- Accept any other relevant argument. **(Max. 10)**

CONCLUSION

Monopolistic competitors as part of imperfect markets often charge higher prices aiming for higher profits that might be due to exclusive brands that consumers prefer. The success of the monopolistic competitor will definitely lie in insignificant factors like packaging and after-sales service that might determine their overall success in the long run, compared to what their opponents offer. ✓✓ **(Max. 2)**

[40]

QUESTION 6 CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 20 MINUTES**'The impact of economic activities on the environment can be destroying.'**

- Discuss public sector intervention as a measure to ensure environmental sustainability.
- How will a reduction in pollution affect the state of the environment?

(26)
(10)
[40]**INTRODUCTION**

Environmental sustainability is the ability of the environment to survive its use for economic activity ✓✓

Any other relevant introduction.

(Max. 2)**BODY: MAIN PART****Charging for the use of the environment ✓**

- The government levies fees for waste produced and dumped into the environment. ✓✓
- In South Africa, local authorities levy charges on rubbish and sewage used. ✓✓
- The best results are achieved when charges are proportional to waste used. ✓✓

Environmental taxes ✓

- They are taxes imposed on the output of goods that generate pollution. ✓✓
- They are known as green taxes ✓✓
- Carbon dioxide emissions from wineries and vehicle tyres are taxed. ✓✓
- The tax is equal to the marginal external costs. ✓✓

Environmental subsidies ✓

- Subsidies are granted to businesses to reduce environmental damage . ✓✓
- They can be granted for : development of new technique or equipments e.g. solar geysers ✓✓ and to encourage recycling of waste such as bottles and cardboard ✓✓

Marketable permits ✓

- The government gives each business the right to pollute up to a certain degree. ✓✓
- Businesses can buy and sell their licences to and from one another. ✓✓
- The price of the permits increases with demand . ✓✓
- In South Africa marketable permits are granted by the Department of Mineral and Energy ✓✓

Granting property rights ✓

- Property rights are legal titles to the ownership, use and disposal of factors of production and goods and services. ✓✓
- Clear and enforced property rights provides incentives for investments and the long term management of resources such as forests. ✓✓
- People usually care for what they own ✓✓
- The Kyoto Protocol is an international agreement whereby developed countries pay developing countries for their rights to pollute. ✓✓

Emission charges ✓

- Government can set a price per unit of pollution. ✓✓
 - The pollution fee is charged based on the quantity of pollutants released in to the atmosphere. ✓✓
 - The more pollution the firm creates the more it pays. ✓✓
- Any other relevant facts. **(Max. 26)**

BODY: ADDITIONAL PART

- It is important to determine how much waste can be taken care of by nature ✓✓
 - E.g. solid waste is assimilated through decomposition and carbon dioxide is transformed into oxygen through photosynthesis ✓✓
 - The clever usage of advanced technology ✓✓ including computers, genetic engineering (bio-diesel production) and fibre optics (rather than copper wire) ✓✓ have cleaner environmental effects than old outdated technology, e.g. electricity produced from coal ✓✓
 - Total awareness and a policy of zero tolerance towards polluters will ensure environmental sustainability in the long run ✓✓
- Any other relevant fact. **(Max. 10)**

CONCLUSION

Environment is important for the continuation of life, therefore it is important for the present generation to make sure that it is used without compromising the needs of the future generation. Everyone has a definite positive role to play and we should be careful not to shift the total blame to government's lack of intervention in time. All of us put daily pressure on the environment and should take responsibility for any negative consequences arising from it ✓✓

Any other relevant conclusion.

(Max. 2) [40]

TOTAL SECTION C: 40
GRAND TOTAL 150