



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2014

**ECONOMICS P2
MEMORANDUM**

MARKS: 150

This memorandum consists of 12 pages.

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

- 1.1.1 C (perfect competition) ✓✓
- 1.1.2 A (MR = MC) ✓✓
- 1.1.3 B (unequally) ✓✓
- 1.1.4 C (technical superiority) ✓✓
- 1.1.5 B (measure the impact on purchasing power) ✓✓
- 1.1.6 C (Minister of Finance) ✓✓
- 1.1.7 C (Birth place of Nelson Mandela (QUNU)) ✓✓
- 1.1.8 B (an increase in greenhouse gases) ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 E (cannot be retrieved if the business exits the industry) ✓
- 1.2.2 F (resources may not be allocated fairly, as one ...) ✓
- 1.2.3 A (dependant on culture and heritage) ✓
- 1.2.4 G (cost of giving up the next best choice) ✓
- 1.2.5 J (South Africa's big five) ✓
- 1.2.6 C (remains constant irrespective of the quantity produced) ✓
- 1.2.7 D (an attempt to ensure the sustainable use of the environment) ✓
- 1.2.8 I (find alternative source of energy ...) ✓ (8 x 1) (8)

- 1.3 1.3.1 Economies of scale ✓
- 1.3.2 Perfect market ✓
- 1.3.3 Core inflation ✓
- 1.3.4 Tourism ✓
- 1.3.5 Biodiversity ✓
- 1.3.6 Accounting profit ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

QUESTION 2

- 2.1 2.1.1
- Allocative inefficiency ✓
 - Productive/Technical inefficiency ✓ (2 x 1) (2)
- 2.1.2 A type of collusion that occurs openly and formally between oligopolies. ✓✓ (1 x 2) (2)
- 2.2 2.2.1 Imperfect markets ✓✓
- 2.2.2
- The demand curve for an imperfect market is a downward sloping demand, ✓
 - which implies that, if it wishes to increase its sales by an additional unit, it must decrease the price of the product. ✓
 - The lower price applies to all its customers. ✓
 - Its marginal revenue, that is, the amount by which total revenue increases if it sells an additional unit, will therefore be less than the price, ✓
 - (NB. PRICE = AR). ✓ So, the marginal revenue curve will be below the average revenue. ✓ (Any 4 x 1) (4)
- 2.2.3 Profit/Loss = Revenue – Cost
 Revenue = $30 \times 8 = 240$ ✓
 Cost = $35 \times 8 = 280$ ✓
 Profit/Loss = $240 - 280 = -40$ (Loss) ✓✓ (4)
- 2.3 2.3.1 Perfect Markets: It is a market structure where all conditions of a perfect market are met. ✓✓ (2)
- 2.3.2
- Efficient allocation of resources. ✓✓
 - Maximise the welfare of consumers and producers. ✓✓ (4)
- 2.3.3 Excess (economic) profit is the abnormal profit/super-normal profit/pure profit ✓✓ – total revenue is greater than total cost; it is a profit that is more than normal profit. ✓✓ Consumers pay high prices for few goods while firms enjoy high profits. ✓✓ (2 x 2) (4)

[10]

2.4 Distinguish between *merit* and *demerit goods* as causes of market failure.

Merit goods:

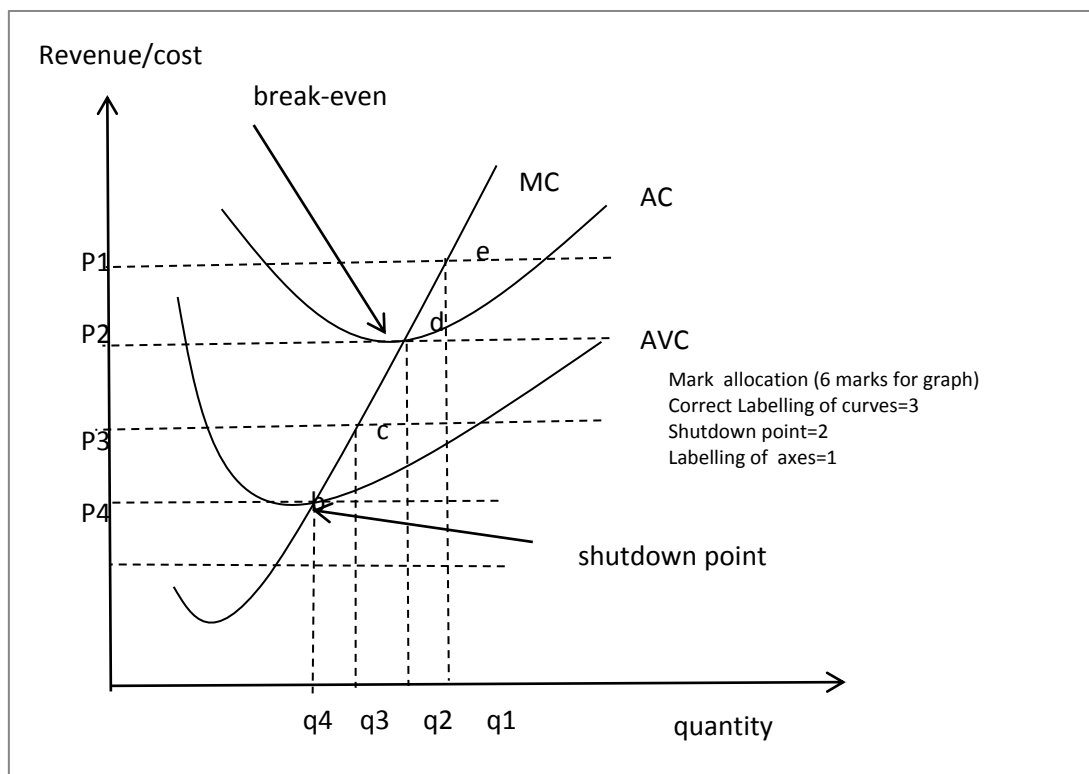
- Goods and services desirable for peoples general welfare irrespective of their income $\checkmark\checkmark$ i.e. education and health care. $\checkmark\checkmark$
- Government provide these goods as they are undervalued by the market. $\checkmark\checkmark$

Demerit goods:

- Goods that may be harmful to society as a whole $\checkmark\checkmark$ i.e. drugs, cigarettes, alcohol. $\checkmark\checkmark$
- Governments usually implement steps to discourage the consumption of these goods. $\checkmark\checkmark$

(2 x 4) (8)

2.5 With the aid of a graph explain the shutdown point of a firm under perfect competition.



If the market price drops below P4, the business will not be able to continue and will be forced to close down, $\checkmark\checkmark$ therefore point b is known as the close down or shut down point. $\checkmark\checkmark$

(Any 1 x 2) (8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

- 3.1 3.1.1
- Pollution: air pollution ✓✓
 - Water pollution ✓✓
 - Noise pollution ✓✓
 - Traffic congestion and ✓✓
 - Damage to roads by cars ✓✓ (2 x 1) (2)
- 3.1.2 Environmental sustainability is the ability of the environment to survive its use for economic activity. ✓✓
(Accept any relevant definition.) (1 x 2) (2)
- 3.2 3.2.1 Tourism: activities of people travelling to and staying outside their usual environment ✓ for not more than one consecutive year ✓ i.e. for leisure, and other purposes not related to an activity remunerated ✓ from within the place visited. ✓ (2)
- 3.2.2
- Income: spending by tourists means income to households because of salaries and wages they earn through employment. ✓✓
 - Infrastructure: most of the infrastructure created for use by tourists is also available for use by local people and for instance, roads, hotels. ✓✓
 - Skills: tourism requires a variety of skills, for which education and training are needed. ✓✓
 - Tourism impacts on cultural and social knowledge and enjoyment. ✓✓ (Any 2 x 2) (4)
- 3.2.3 Ecotourism ✓✓ (2)
- 3.2.4 KwaZulu-Natal ✓✓ (2)
- 3.3 3.3.1
- Positive opinion ✓✓ – importance of trees in the production of books ✓✓ that bring knowledge to people and trees provide oxygen to human beings. ✓✓
 - Negative opinion ✓✓ – in producing books trees have to be cut down, ✓✓ which then leads to deforestation. ✓✓
(Accept any relevant response.) (Any 2 x 2) (4)
- 3.3.2 Renewable resource ✓✓ (2)
- 3.3.3
- Recycling ✓✓
 - Education ✓✓
 - Wise management of resources ✓✓
 - Charging for the use of the environment ✓✓
 - Levying environmental taxes ✓✓
 - Granting of property rights to ensure that people care for things that belong to them ✓✓
 - Government permits ✓✓ (Any 2 x 2) (4)

3.4 Explain any TWO policy suggestions that can advance tourism in South Africa.

- A complete tourism package: ✓✓ access to safe reliable transport, comfortable accommodation, places offering tasty and interesting foods. ✓✓
- Strategic planning: ✓✓ fuels and other strategic resources should be strategically used so that both local communities and tourists get maximum benefit from the investment that takes place. ✓✓
- Encouraging local tourism: ✓✓ local government to encourage and make a big contribution in promoting tourism ✓✓
- Multilateral co-operation: collaboration between countries in a certain region. ✓✓
- Encouraging public and private cooperation: ✓✓ the two sectors working together could achieve more, e.g. policies with sponsors from the private sector. ✓✓
- Marketing: ✓✓ promote tourism nationally and internationally. ✓✓
- Spatial distribution: ✓✓ create representative bodies, improve marketing, improve and extend supporting services. ✓✓
- Taxing: ✓✓ taxes should be fair, ✓✓ have minimal effect on the demand for travelling, ✓✓ and should be simple to pay or administer. ✓✓
- Infrastructure development: ✓✓ infrastructure should be upgraded, ✓✓ and the newest technology should be implemented. ✓✓ (Any 2) (2 + 2) (8)

3.5 Briefly explain the resolutions of COP 17 in Durban 2011.

- Commitment to Kyoto Protocol ✓✓ which was a major objective of the conference; a second commitment was made to continue the reduction in pollution by greenhouse gases. ✓✓
- To take long term co-operation actions collectively by countries to fight climate change. ✓✓
- To establish a Green Climate Fund. ✓✓ The fund aims to distribute \$100 billion per year to help poor countries to adapt to climate change impacts ✓✓ and adopt strategies to ensure environmental sustainability ✓✓
- To launch the future climate change regime; a protocol or treaty under which countries are legally bound to cut emissions. ✓✓ (4 x 2) (8)

[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

- 4.1 4.1.1 • Improve the efficiency in markets through legislation. ✓
 • Promote healthy competition between businesses. ✓
 • Prevent unfair methods of achieving and exercising market power. ✓
 • Prevent the abuse of market power by, for example, a monopoly. ✓
 • Regulate the increase of market power by means of takeovers and mergers of large businesses. ✓
 • Prevent restrictive practices, especially price-fixing and collusion by oligopolies ✓
 • Protect the consumer against unfair prices and inferior products, for example through the Competition Act. ✓
 • Contribute to South Africa's development objectives to ensure that all South Africans have equal opportunities to participate fairly in economic activities. ✓ (Any 2 x 1) (2)
- 4.1.2 Non-rivalry means that the consumption by one person does not in any way reduce the consumption by another individual, for example, a lighthouse and street lighting. ✓✓ (1 x 2) (2)
- 4.2 DATA RESPONSE
- 4.2.1 Headline inflation: measures the total inflation within the economy including items that may cause sudden increases in the rate of inflation such as food and energy ✓✓/Takes into account price changes in all goods and services in the basket as measured by the CPI. ✓✓ (2)
- 4.2.2 September 2010 ✓✓ (2)
- 4.2.3 • Inflation targeting is an economic (monetary) policy in which the central bank sets a preferred rate for inflation ✓✓ and then attempts to steer actual inflation toward that target. ✓✓
 • In 2000, the SARB set an inflation target of between 3% and 6%. ✓✓
 • It uses the CPIX rate, ✓✓ which excludes mortgage bond repayments that are determined by the interest rate. ✓✓ (Any 3 x 2) (6)
- 4.3 4.3.1 Monopolistic market ✓✓ (2)
- 4.3.2 Non-price competition ✓✓ (2)
- 4.3.3 Businesses competing fiercely for market share i.e. price wars, differentiated products, imaginary differentiation. ✓✓
 (Any relevant answer.) (2)
- 4.3.4 Short run: A period whereby some factor inputs are fixed ✓✓ and output can only be adjusted by changing the quantities of variable factor inputs i.e. raw materials and labour. ✓✓ (4)

4.4 Distinguish between stagflation and hyperinflation.

Stagflation:

- Refers to a condition of stagnation of economic growth and high rates of inflation. ✓✓
- Occurs when a country experiences high inflation, a slowing economic growth rate and high unemployment. ✓✓
- When stagflation takes place it becomes difficult to design a policy that deals with it. ✓✓

(4)

Hyperinflation:

- Occurs when there is an extremely high and rapid increase in price levels of more than 50% per month. ✓✓
- This is caused by a sustained increase in the printing of money by government to pay for its expenditures. ✓✓
- There is then 'far too much money chasing too few goods'. ✓✓
- When the price levels are rising so rapidly that people lose confidence in the value of money, it can be difficult for the economy to operate. ✓✓
- People resort to goods as a medium of exchange to make payment. ✓✓
- Barter makes a comeback with people exchanging goods for goods. ✓✓

(4)

4.5 Explain any TWO decision making criteria of cost benefit analysis.

- Net present value (NPV): ✓✓ The present value of an investment project is found by discounting all present and future receipts and outgoings at the appropriate rate of interest. ✓✓ If the net present value calculated is positive, it is worth investing in that project. ✓✓
- Internal rate of return (IRR): ✓✓ A project is worth investing if its IRR is greater than the rate of interest. ✓✓ This means that the project must earn more financially than it would be earned if the money for the project was just left in the bank, if not, the money is better left in the bank. ✓✓
- Cost benefit ratio (CBR): ✓✓ Is the ratio between the sum of expected benefits and its cost. ✓✓ If the CBR is positive then the project is worth investing in. ✓✓

(Any 2 x 4)

(8)
[40]

TOTAL SECTION B: 80

SECTION C

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

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max. 2
Body	
Main part: Discuss in depth/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	Max. 40

QUESTION 5: MICROECONOMICS

“An oligopoly is characterised by a high degree of interdependence between firms.”

In the light of the above statement explain other characteristics of an oligopoly and briefly explain the implication of a kinked demand curve.

INTRODUCTION

An oligopoly is a market structure which has a primary feature of having a few businesses and is mutually interdependent with each firm deciding upon its own prices and strategies. ✓✓ (Accept any relevant introduction) (2)

BODY

Characteristics of oligopolies:

Number of firms ✓✓

Oligopoly is a market structure dominated by a small number of large firms. ✓✓

- If there are only two firms in the market, it is called a duopoly. ✓✓

Nature of products ✓✓

- Firms sell identical or differentiated products ✓✓

Barriers to entry ✓✓

- There are significant barriers to entry, because of high capital needed to start the business. ✓✓

Control over price ✓✓

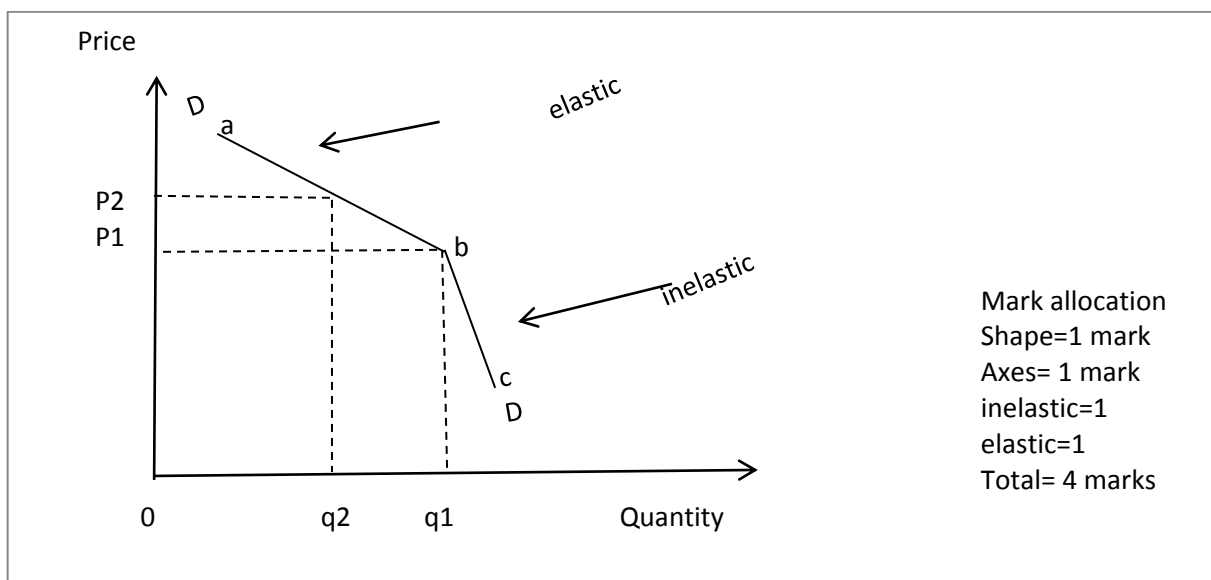
- Producers generally have considerable control over the price of their products, although not as much as in a monopoly. ✓✓
- Oligopolies are characterised by price rigidity because if one cuts its price, rival firms retaliate by cutting theirs as well. ✓✓ A price cut by one firm initiates a price war in the market. ✓✓

Incomplete information ✓✓

- Firms do not always have perfect information about circumstances in the market. ✓✓
- Each firm tries to prevent other firms in the industry from getting knowledge of its production processes, its new products, and the results of any new research. ✓✓

Collusion ✓✓

- Collusion can take the two forms i.e. overt collusion ✓✓ and tacit collusion. ✓✓
- Tacit collusion or implicit collusion occurs when two or more firms in the same industry informally agree to control the market. ✓✓
- Overt collusion or explicit collusion occurs when two or more firms in the same industry formally agree to control the market. ✓✓ (Any 13 x 2) (26)

IMPLICATION OF THE KINKED DEMAND CURVE**KINKED DEMAND CURVE**

- The behaviour of oligopolists cannot be predicted, because virtually anything can happen ✓✓
- If the equilibrium price is P_1 and the firm increases its price, while other firms do not follow, the firm faces a more elastic demand curve (between points a and b). ✓✓

- This means that it will lose many sales for any increase in price. ✓✓
- If the firm decreases its price, while other firms do not follow, it will face a more inelastic demand curve (between points b and c), that will allow its sales to increase. ✓✓
- The kinked demand curve explains why prices in an oligopoly are rigid. ✓✓

(Any 3 x 2)

(6)

(10)

CONCLUSION

An oligopoly is a tricky market structure, because of its nature of being unpredictable, and a disadvantage to consumers, because from time to time they tend to collude and prices may be quite high. ✓✓ (Accept any relevant conclusion.)

(2)

[40]

QUESTION 6

“South Africa must continue to employ forward looking inflation targeting in order to deal with current inflation pressures.”

Discuss clearly the causes of both demand pull and cost push inflation.
Explain how a high rate of inflation can be reduced by a change in the repo rate.

INTRODUCTION

Inflation can be defined as a continuous and significant increase in prices over a period of time; there should be an increase in most goods and services for inflation to have taken place. ✓✓

(2)

BODY

Demand pull Inflation:

Demand pull inflation occurs when the total spending in the economy increases and the economy is unable to expand output to meet increase in spending, therefore prices tend to increase. ✓✓

The following factors might cause demand pull inflation:

- Increased spending by households, ✓✓ may be caused by easy access to credit, and lower interest rates making credit cheaper. ✓✓
- Increased investment spending by firms, ✓✓ increased business confidence caused by higher demand for goods and services. ✓✓
- Increased spending by government, ✓✓ can be due to policies designed by government to deal with the issue of unemployment, providing more services to the public. ✓✓
- Increased spending by foreign sector, ✓✓ can be due to higher demand for exports, or a decrease in the price of minerals, which increases the quantity demanded. ✓✓
- Reduction in taxes, ✓✓ leaving more money in the pockets of consumers. ✓✓

(Max. 14)

Cost push inflation

Cost push inflation has to do with an increase in costs of production. ✓✓
 In order to stay in the business, producers are compelled to pass these higher production costs on to consumers in the form of higher prices. ✓✓
 These are the factors that lead to cost push inflation:

- Increases in wages and salaries: ✓✓ If increases in wages and salaries are not accompanied by an increase production then the cost of production increases and prices in the economy increase. ✓✓
- A decline in productivity: ✓✓ This means that it costs more to produce the same amount of goods and services, that results to an increase in price of goods and services. ✓✓
- Increase in the price of imported goods/key inputs, ✓✓ i.e. intermediate goods and capital goods, this therefore results to an increase in costs of production. ✓✓
- Increase in profit margins by firms: ✓✓ This causes an increase in costs of production, because profits are part of costs of production. ✓✓
- Exchange rate depreciation leads to expensive imports. ✓✓
- Natural disasters such as droughts, floods and even global warming, this has a great on costs of production for farmers. ✓✓ (Max. 12) (26)

HOW A HIGH RATE OF INFLATION CAN BE REDUCED BY A CHANGE IN THE REPO RATE

- The South African Reserve Bank ✓✓ increases the repo rate to banks ✓✓ to reduce the availability of credit from the banks ✓✓
- and to increase interest rate, ✓✓ which makes it more expensive to borrow money but, ✓✓ at the same time encourages savings. ✓✓
- Both of these would lead to a decrease in consumer demand ✓✓, and therefore reduction in inflation. ✓✓ (Any 5 x 2) (10)

CONCLUSION

If the inflation rate is not monitored carefully, and the above causes turn into reality, it could have a detrimental effect to the economy. ✓✓ (Accept any relevant conclusion.) (2)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150