

**NATIONAL
SENIOR CERTIFICATE**

GRADE 11

NOVEMBER 2015

**ECONOMICS P2
MEMORANDUM**

MARKS: 150

This memorandum consists of 17 pages.

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

- 1.1.1 B opportunity cost. ✓✓
 1.1.2 A higher prices lead to higher profits. ✓✓
 1.1.3 C constant returns to scale. ✓✓
 1.1.4 B perfect and monopolistic ✓✓
 1.1.5 A ecosystem. ✓✓
 1.1.6 C take better care of the environment. ✓✓
 1.1.7 A It provides financial assistance to developing countries. ✓✓
 1.1.8 C Ms Edna Molewa. ✓✓ (16)

1.2 MATCHING ITEMS

- 1.2.1 D Aims at improving economic growth, development and decreasing unemployment ✓
 1.2.2 E Developed countries in the North colonised underdeveloped countries in the South ✓
 1.2.3 F The quantity demanded by the households is equal to the quantity supplied by the firms ✓
 1.2.4 A Investments in another country in the form of buildings and capital equipment ✓
 1.2.5 B A formal agreement between nations ✓
 1.2.6 H Comparison between prices of goods ✓
 1.2.7 I Demanded in smaller quantities when income rises ✓
 1.2.8 C Goods and services are traded ✓ (8 x 1) (8)

- 1.3 1.3.1 Unit elasticity ✓
 1.3.2 Absolute advantage ✓
 1.3.3 Marginal utility ✓
 1.3.4 Climate change ✓
 1.3.5 Total costs ✓
 1.3.6 Deforestation ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B**QUESTION 2: MICROECONOMICS**

- 2.1 2.1.1 **Give any TWO examples of monopolistic markets.**
- Restaurants ✓
 - Hairdressers ✓
 - Petrol stations ✓
 - Accept any relevant example. (Any 2 x 1) (2)
- 2.1.2 **Explain what is meant by excess demand.**
- It is a situation in which the market demand for a commodity is greater than its market supply, thus causing its market price to rise. ✓✓ (2)
- 2.2 2.2.1 **What is a *monopoly*?**
- Monopoly is a single seller in the market; it is an industry in itself. ✓✓ (2)
- 2.2.2 **Would you describe the taxi industry in South Africa as a monopoly? Explain.**
- No. ✓✓
 - In the taxi industry, there are many riders (buyers) and many taxi owners (sellers). ✓✓ (4)
- 2.2.3 **List any TWO advantages of competition as highlighted in the article.**
- There is choice ✓
 - Comparing prices ✓ (2)
- 2.2.4 **Identify TWO of South African Airways competitors.**
- Kulula ✓
 - 1time ✓ (2)
- 2.3 2.3.1 **Give the values of A and C.**
- A = 20 ✓
 - C = 5 ✓ (2)
- 2.3.2 **Describe the relationship between average total cost and economies of scale.**
- Economies of scale occur when the cost per unit (average total cost) decreases while the quantities produced increase. ✓✓
 - Due to economies of scale, the long run average total cost curve slopes downwards from left to right. ✓✓
 - (Accept any relevant relationship.) (Any 2 x 2) (4)

2.3.3 Give any TWO examples of fixed cost.

- Rentals ✓
- Insurance premiums ✓
- Loan payments ✓
- (Accept any relevant example) (Any 2 x 1) (2)

2.3.4 Why do variable costs change with output?

- Variable costs change with output because when output is produced more of a particular input factor has been used more, for example electricity, labour; ✓✓
- If less has been produced, less of that input has been used. ✓✓ (Any 1 x 2) (2)

2.4 Distinguish between costs in the short-run and costs in the long run.Short run

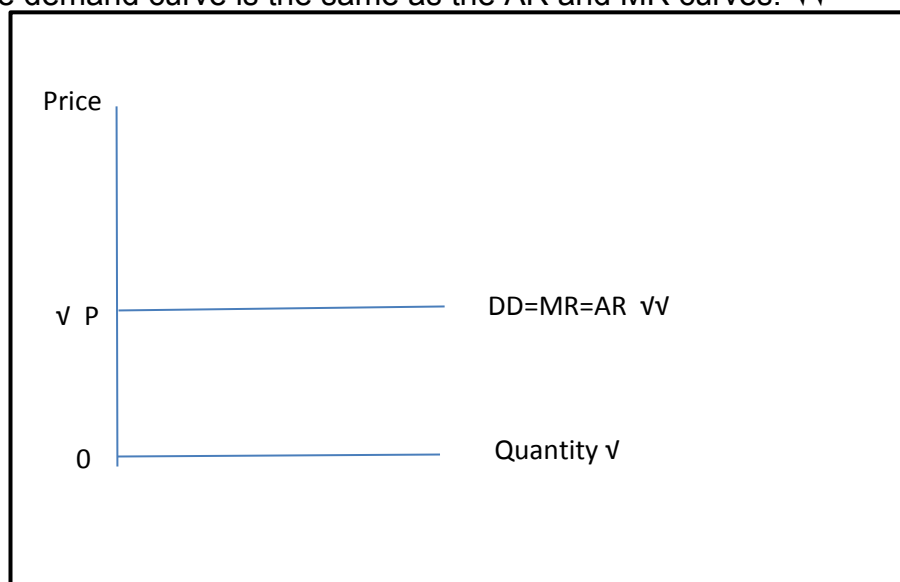
- A period that is short that other factors of production will remain fixed and cannot be changed. ✓✓
- In the short run total costs will be equal to total fixed costs plus total variable costs. ✓✓ (2 x 2) (4)

Long run

- A period long enough so that all factors of production and intermediate inputs can become variable ✓✓
- All factors of production and intermediate inputs can be changed as output changes ✓✓
- In the long run there are no fixed factors of production or other fixed intermediate input ✓✓
- Therefore in the long run, total costs are equal to total variable costs. ✓✓ (Any 2 x 2) (4)

2.5 With the aid of a diagram, explain the relationship between average and marginal revenue when price is constant at all levels of output.

- **Marginal revenue (MR)** refers to the additional revenue that the firm gains, if it sells an additional unit. ✓
- MR can be calculated as follows: $MR = \frac{\text{Change in total revenue}}{\text{Change in units sold}}$ ✓
- In firms where the price is constant, an additional unit sold increases total revenue by the same amount which the same as the price. ✓✓
- **Average revenue (AR)** is the revenue per unit.
AR is calculated as follows: $\frac{\text{Total revenue}}{\text{Number of units}}$ ✓
- Since the price is constant the revenue received for each unit is equal to the price. ✓✓
- Therefore MR and AR are equal to the price. $P=MR=AR$. ✓✓
- The demand curve is the same as the AR and MR curves. ✓✓



(8)
[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES**3.1 3.1.1 List any TWO positive consequences of globalisation.**

- Economic growth ✓
- Employment opportunities ✓
- Foreign direct investment ✓
- Balance of payments ✓
- Poverty alleviation ✓
- Increased competition ✓
- Spread of culture ✓
- Spread of education ✓
- Increased flow of data ✓
- Free movement of people ✓
- (Accept any other positive consequence) (Any 2 x 1) (2)

3.1.2 Briefly explain how poverty leads to environmental degradation.

- When people have little to survive from day to day, it makes them less sensitive to maintaining the natural environmental resources. ✓✓
- Poor households often depend on wood as a source of energy and this leads to deforestation ✓✓
- Individuals survive by cultivating erosion-prone hills ✓✓
- Clear natural vegetation to make space for houses and crops and make use of the soil without restoring the nutrients. ✓✓
- (Accept any relevant explanation) (Any 1 x 2) (2)

3.2 3.2.1 Explain the concept *free trade*.

- Free trade means that there is free movement of goods and services between countries ✓✓
- Trade restrictions (import quotas, customs duties, etc.) between countries are removed. ✓✓ (Any 1 x 2) (2)

3.2.2 Mention TWO negative impacts of free trade according to the cartoon.

- Workers are losing their jobs ✓✓
- There are massive layoffs ✓✓
- Slave wages are paid. ✓✓ (Any 2 x 2) (4)

3.2.3 Briefly describe the role of the WTO.

- Facilitate international trade agreements ✓✓
- Ensures that international trade agreements are honoured. ✓✓
- Acts as a mediator in trade disputes. ✓✓ (Any 2 x 2) (4)

3.3 3.3.1 **What does *conservation of water* mean?**

Wise use of water such that the future generations have sufficient reserves. ✓✓

(Accept any reasonable explanation.)

(2)

3.3.2 **According to the extract, what is the reason behind water conservation?**

- There is limited supply of water. ✓✓
- The only water that is available is the underground water. ✓✓

(Any 1 x 2)

(2)

3.3.3 **Briefly explain any measures that can be taken to conserve water.**

- Reduce the contamination by keeping the water, the ground and the air free of pollutants ✓✓
- People can use just the amount of water that they need ✓✓
- Industries can recycle their process water or pre-treat their wastewater so that it is easier to purify for drinking and other purposes ✓✓
- Communities can educate residents about local water resources and work together to implement land use strategies that will protect and sustain water supplies in future ✓✓
- Develop plans to handle water shortages without waiting for a water emergency and can help residents dispose of harmful products properly by offering hazardous waste collection days. ✓✓
- Integrating environmental issues into school curricula. ✓✓
- (Accept any relevant measure)

(Any 2 x 2)

(4)

3.3.4 **Which government department has the responsibility to ensure water conservation?**

Department of Water Affairs (DWA) ✓✓

(2)

3.4 **Explain the *poverty gap* as a measure of poverty.**

- It is the average shortfall of the total population from the poverty line ✓✓
- The non-poor have zero shortfalls ✓✓
- It measures the total amount needed to raise everyone who is below the poverty line up to the line. It is also known as the global safety net. ✓✓
- It measures the depth of poverty as well as where it occurs. ✓✓
- The poverty gap is calculated for each country and year based on the poverty headcount ratio and mean income level. ✓✓
- The poverty headcount is the number of people living in poverty in a country or region. ✓✓

(Any 4 x 2)

(8)

3.5 Explain why the theory of comparative advantage is used to argue for free international trade.

- Comparative advantage occurs when a country specialises in producing the products that it can make more efficiently (i.e. with lower opportunity cost) compared to other countries. ✓✓
- Countries will benefit more by producing and exporting goods they can produce more efficiently, at a lower cost and using less capital, than other goods and services. ✓✓
- If a country chooses to trade in the goods in which it has the best comparative advantage, it can benefit from international trade. ✓✓
- Even if a country has no absolute advantage in producing both goods, it will still be beneficial for it to produce only the good in which it has a comparative advantage (i.e. it uses the least resources.) ✓✓
- Countries gain from trade because production is efficient in both countries and there is no waste of limited resources. ✓✓

Explanation using an example

Unit output from one unit of resource(input)		
✓	Textile ✓	Steel ✓
Country A	320	40
Country B	80	20
Totals	400	60

- Country A can produce far more textile units than steel using one unit of input. ✓✓
- For Country A the opportunity cost of producing 1 unit of steel is 8 units of textile. ✓✓
- Therefore it would be better for Country A to use its resources to produce textiles and trade some of its textiles for steel from Country B. ✓✓
- Country B produces 4 fewer units of textiles to produce 1 more unit of steel. ✓✓
- It can be seen from this that Country B's opportunity costs of producing steel rather than textiles are lower than Country A's (even though Country A can produce more of both goods). ✓✓
- If both countries specialise to a degree (Country A in producing textiles and Country B in producing steel) and then trade with one another, both can benefit from the more efficient output. ✓✓

(Any 4 x 2) (8)
[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMICS ISSUES

- 4.1 4.1.1 **List any TWO kinds of profit.**
- Accounting profit ✓
 - Economic profit ✓
 - Normal profit ✓
- (Any 2 x 1) (2)
- 4.1.2 **Explain ONE impact of deforestation.**
- Leads to increased soil erosion. ✓✓
 - Endangers the drainage of water into rivers and lakes. ✓✓
- (Any 1 x 2) (2)
- 4.2 4.2.1 **Identify and explain the type of elasticity illustrated above.**
- Perfectly inelastic demand. ✓
 - At any level of price the quantity demanded remains constant. ✓✓
- (Accept any relevant explanation) Any (1 + 2) (3)
- 4.2.2 **Which type of goods would fall under this type of elasticity? Give a reason for your answer.**
- No goods ✓
- No one can afford to pay an infinite price for a good. ✓✓
- OR**
- Goods that have very few substitutes. E.g. Reading glasses. ✓
- The buyer cannot live without the product therefore he buys it even if the price is high. ✓✓
- (Accept any relevant explanation) Any (1 + 2) (3)
- 4.2.3 **Of what benefit is this type of elasticity to the seller?**
- Since the demand is entirely unresponsive to the price changes, the buyers buy the same quantity at any price. ✓✓
 - The seller can charge higher prices without any fear of losing customers, ✓✓
 - and thereby increase the revenue and profit. ✓✓
- (Any 2 x 2) (4)
- 4.3 4.3.1 **In your own words explain the phrase *environmentally friendly*.**
- Environmentally friendly means using resources or products that do not harm the environment. ✓✓
- (2)

4.3.2 What impact would the car in the cartoon have in the environment?

- The car will cause air pollution. ✓✓
- The vehicle emission will have an effect on:
 - climate change ✓✓,
 - unstable weather patterns, drought,
 - floods. ✓✓
- Excessive carbon dioxide pollution can also lead to global warming. ✓✓

(Accept any relevant impact)

(Any 2 x 2) (4)

4.3.3 Explain the measures taken by South Africa to reduce the impact of the vehicle in the cartoon.

- South Africa implemented a carbon dioxide vehicle emission tax in 2010. ✓✓
- New passenger vehicles are taxed on their certified CO₂ emissions at R75 per g/km for each g/km above 120g/km. ✓✓
- The aim of this tax is to encourage South Africans to move towards more energy-efficient and environmentally friendly vehicles. ✓✓

(Any 2 x 2) (4)

4.4 Briefly explain the characteristics of an oligopoly.

- Each firm produces different products, some produce Homogenous products. ✓✓
- Many similar products sold at different products. ✓✓
- Firms engage in non-price competition. ✓✓
- Small number of fairly large producers ✓✓
- Strong barriers that prevent firms from joining or leaving the market. ✓✓
- (Accept any relevant characteristic)

(Any 4 x 2) (8)

4.5 Explain how the demand for a good is affected by the prices of its related goods. Give examples.

Related goods are either substitutes or complementary.

Substitutes: ✓

- When price of a substitute falls, it becomes cheaper than the given good. So, the consumer substitutes it for the given good. ✓✓
- Hence the demand for the given good will decrease. ✓✓
- Similarly, a rise in the price of substitute will result in an increase in the demand for given good. ✓✓
- For example Tea and Coffee. ✓✓

Complementary: ✓

- When the price of a complementary good falls, its demand rises and the demand for the given good will increase and vice versa, ✓✓
- for example pen and ink. ✓✓

2 + (Any 3 x 2) (8)

[40]

TOTAL SECTION B: 80

SECTION C

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

The 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 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. 26
	Max. 10
Conclusion	Max. 2
TOTAL	40

QUESTION 5: MICROECONOMICS

Price elasticity of supply will always be positive because of the law of supply.

- With the aid of graphs describe the various categories of price elasticity of supply. (26)
- Explain the price elasticity of supply for maize in the short and long term. (10)

INTRODUCTION

Price elasticity of supply measures how sensitive the market supply is to change in the price of the product. √√

(Accept any relevant introduction)

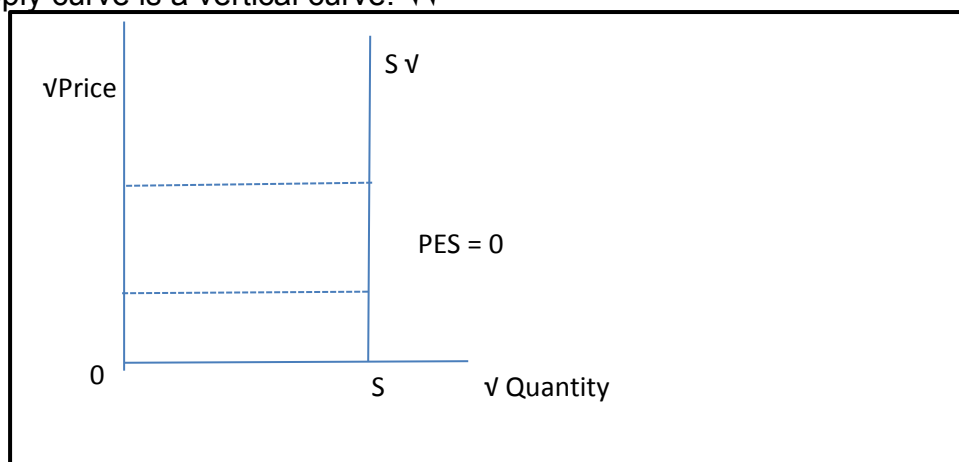
(2)

BODY

Price elasticity of supply is composed of the following categories:

Perfectly inelastic supply √

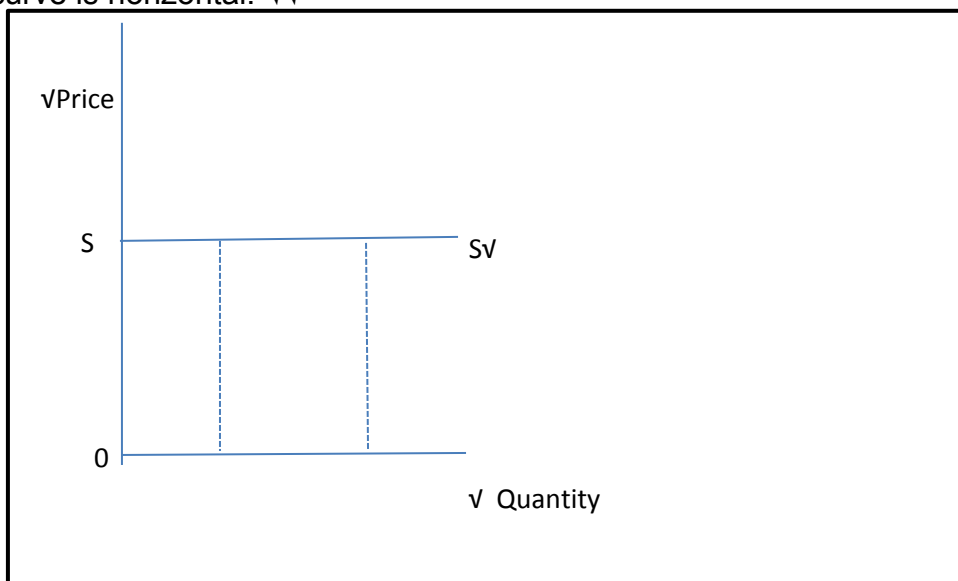
- Any % change in price will have no effect on quantity supplied √√
- Producers are unable to increase supply at all
- $PES = 0$ √√
- Supply curve is a vertical curve. √√



(max 6 incl. graph)

Perfectly elastic supply ✓

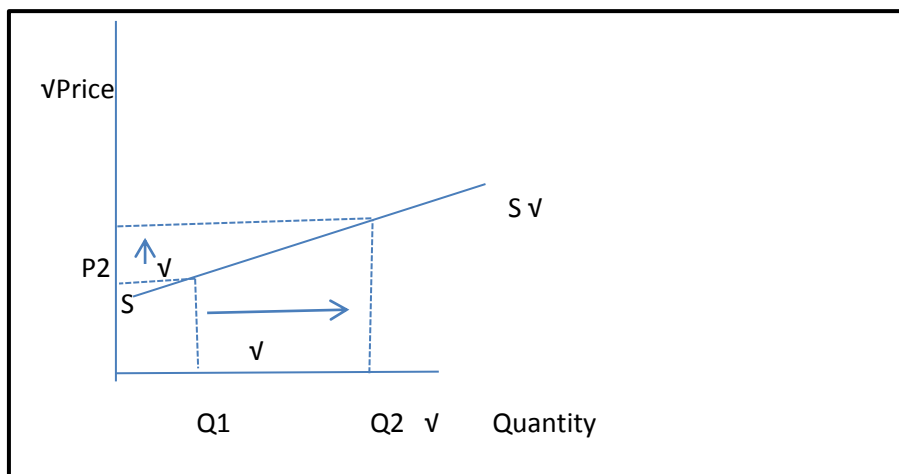
- Even the smallest change in price will cause an infinitely large change in quantity supplied ✓✓
- $PES = \infty$ ✓✓
- Supply curve is horizontal. ✓✓



(max 6 incl. graph)

Relatively elastic supply ✓

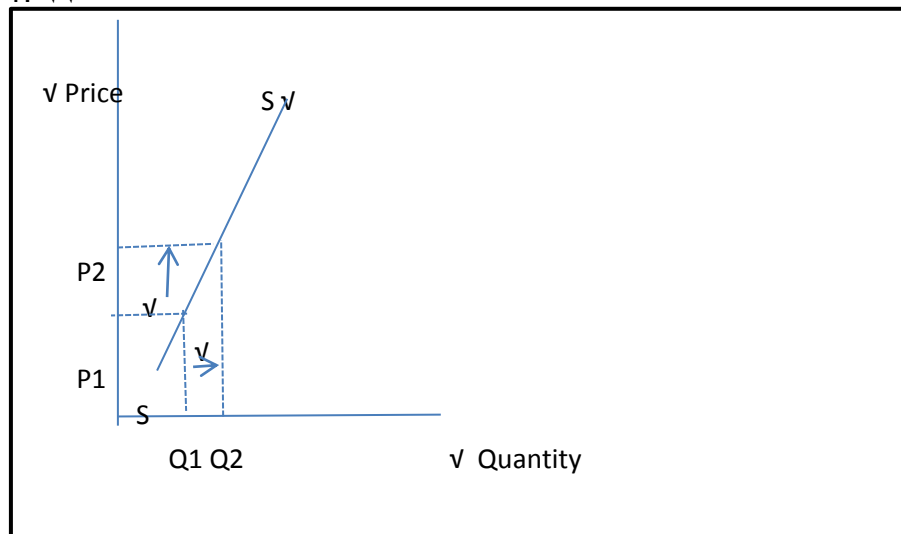
- Percentage change in quantity supplied is more than the % change in price ✓✓
- Producers are easily able to increase production. ✓✓
- $PES > 1$. ✓✓
- Supply curve is flat, the slope of the graph starts on the y-axis, at a level above zero. ✓✓



(max 6 incl. graph)

Relatively inelastic supply ✓

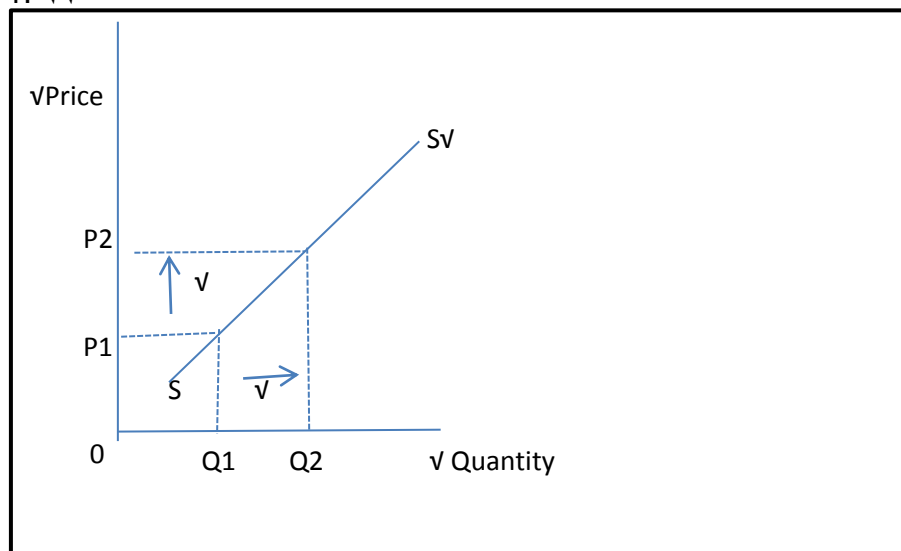
- Percentage change in the quantity supplied is less than the percentage change in price ✓✓
- Producers struggle to adapt to the price increase. ✓✓
- $PES < 1$. ✓✓



(max 6 incl. graph)

Unitary elastic supply ✓

- A change in price will cause exactly the same change in quantity supplied ✓✓
- The supply curve looks exactly like the normal supply curve that slopes upwards from left to right at 45° angles. ✓✓
- $PES = 1$. ✓✓



(max 6 incl. graph) (26)

ADDITIONAL PART

Explain the price elasticity of supply for maize in the short and long term.

Short term

- In the short run most supply curves are inelastic ✓✓ as suppliers do not have sufficient time to respond to price change. ✓✓
- If the maize price increases, farmers need a full growing season to adjust their production to the price increase. ✓✓
- A fall in price will not necessarily result in a rapid reduction in the quantity supplied. ✓✓
- Farmers with maize will probably still be forced to harvest and sell maize at the lower price rather than lose all their income ✓✓

Long term

- The price elasticity becomes elastic in the long term. ✓✓
- In the long term farmers can adjust their levels of production in response to changes in price. ✓✓

(10)

CONCLUSION

- The key to predicting elasticity of supply is knowing whether the producers are able to increase production. ✓✓
 - A producer's ability to adapt to price changes depends on the cost, availability and mobility of factors of production. ✓✓
- (Accept any relevant conclusion.)

(Any 1 x 2)

(2)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

A great percentage of our population still lives under adverse conditions of poverty.

- **Elaborate on the causes of poverty.** (26)
- **Highlight the various strides that the government has undertaken to resolve poverty problems between the years 1994 and 2014.** (10)

INTRODUCTION

- Poverty seeks to undermine the dignity of human beings, bringing about a sense of worthlessness to most South Africans. √√
 - One major cause of poverty is joblessness, resulting in an inability to satisfy basic needs. √√
- (Accept any relevant introduction.) (Any 1 x 2) (2)

BODY

- **Unemployment** √
 - Without a decent income, people cannot fulfil their basic needs. √√
 - Poor people live in rural areas and depend on subsistence farming for a living. √√
- **Insufficient Infrastructure:** √
 - This is a major cause of poverty in South Africa. √√
 - It is caused by a large size of rural areas and an uneven distribution of the majority of the population between rural and urban areas. √√
 - This makes it expensive to provide sufficient infrastructure √√
 - This refers to services like: transport, clean water and sanitation & energy √√
- **Lack of productive resources:** √
 - Poor countries do not have productive resources to ensure sustainable livelihoods. √√
 - Human capital is low due to hunger, disease, and low literacy levels.
 - Natural resources decline, because trees are cut down and soil is exhausted. √√
 - The resources cannot provide enough food to support the population
 - Capital is needed for future investments, but lack of savings makes it impossible. √√
 - Entrepreneurship is non-existent because of lack of education and skills development. √√
- **Poor health conditions:** √
 - Diseases decrease the amount of work that weak or ill people can do. √√
 - This reduces their income and drives them deeper into poverty. √√
 - Diseases like HIV and Aids can cause death that cuts off main sources of income for families. √√

- **Lack of Education** ✓
 - Lack of education keeps people from getting decent jobs, which would lift them and their families out of poverty. ✓✓
 - It also increases the gap between the skills needs of the economy and supply of these needs. ✓✓
- **Global financial crisis:** ✓
 - Poor countries don't have money for investments which are important for development and growth. ✓✓
 - The world economic crisis further widens the gap between the rich and the poor. ✓✓
- **Dysfunctional governments:** ✓
 - Many government sectors are plagued by instability and corruption. ✓✓
 - They do not respect and honour budgets procedures and protocols. ✓✓
 - A lack of government infrastructure such as social welfare, schools, housing and public sanitation can be crippling for the poor. ✓✓
- **Environment and climate change:** ✓
 - Increasing drought, flooding and changing climate patterns demand a shift in crops and farming practices that people may not be able to make easily. ✓✓
 - Poor people are also ill-equipped to adapt to changing rainfall patterns and shorter growing seasons. ✓✓
- **War and conflict:** ✓
 - A large proportion of today's global poverty is found in war torn and post conflict countries. ✓✓
 - Money is often wasted on weapons. ✓✓
 - Education gets disrupted, which causes further poverty. ✓✓

(26)

ADDITIONAL PART

- **The government has:**
 - Promoted universal access to education by ensuring that all the children between the ages 7 and 15 years are in school. ✓✓
 - Many learners are entering university, and financial assistance in the form of NSFAS is available. ✓✓
 - Has promoted Adult Education i.e. AET. ✓✓
 - With issues of infrastructure there has been development of a single common National Infrastructure plan that will be monitored and centrally driven. ✓✓
 - There has been access to electricity by people residing in rural areas. ✓✓
 - The millennium development goals have promoted amongst other things gender equality. ✓✓
 - The building of RDP houses for the poor, although the queue is still long. ✓✓
- (Any other relevant answer) (Any 5 x 2) (10)

CONCLUSION

- Poverty is a big challenge for many developing economies like is the case in South Africa. ✓✓
 - This requires a government which is really committed to the course of alleviating poverty and is free of corruption and instability. ✓✓
- (Any 1 x 2) (2)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150