



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2017

**ECONOMICS P2
MARKING GUIDELINE**

MARKS: 150

This marking guideline consists of 16 pages.

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

- 1.1.1 D ✓✓ social benefits exceed social costs.
- 1.1.2 B ✓✓ explicit
- 1.1.3 D ✓✓ normal
- 1.1.4 A ✓✓ suffering an economic loss.
- 1.1.5 C ✓✓ inbound
- 1.1.6 B ✓✓ unadjusted CPI
- 1.1.7 C ✓✓ low growth, high unemployment and high inflation.
- 1.1.8 C ✓✓ eradicate (8 × 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 F ✓ occurs when average revenue is less than average variable costs
- 1.2.2 H ✓ transfer of ownership of assets from the private sector to the public sector
- 1.2.3 G ✓ set by governments to protect consumers against exploitation
- 1.2.4 A ✓ paid by society which is not included in the actual price of goods and services
- 1.2.5 B ✓ occurs when the marginal rate of taxation is higher, even when real income remains unchanged
- 1.2.6 C ✓ an American travelling through South Africa to Kenya
- 1.2.7 D ✓ it is about to keep the resources that are non-renewable intact
- 1.2.8 I ✓ Vredefort dome (8 × 1) (8)

1.3 GIVE A CONCEPT

- 1.3.1 Minimum wages ✓
 - 1.3.2 Biodiversity ✓
 - 1.3.3 Pollution / Air Pollution / Green house gases ✓
 - 1.3.4 Collusion ✓
 - 1.3.5 Administered prices ✓
 - 1.3.6 Price taker ✓ (6 × 1) (6)
- [30]**

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICRO ECONOMICS

2.1 2.1.1 **Name any TWO characteristics of oligopolistic markets.**

- Products can be homogenous or differentiated ✓
- Barriers make it difficult to enter the market ✓
- Producers have considerable control over prices ✓
- Oligopolies are interdependent ✓
- Buyers and sellers have incomplete information ✓

(Accept any other relevant response)

(Any 2 × 1) (2)

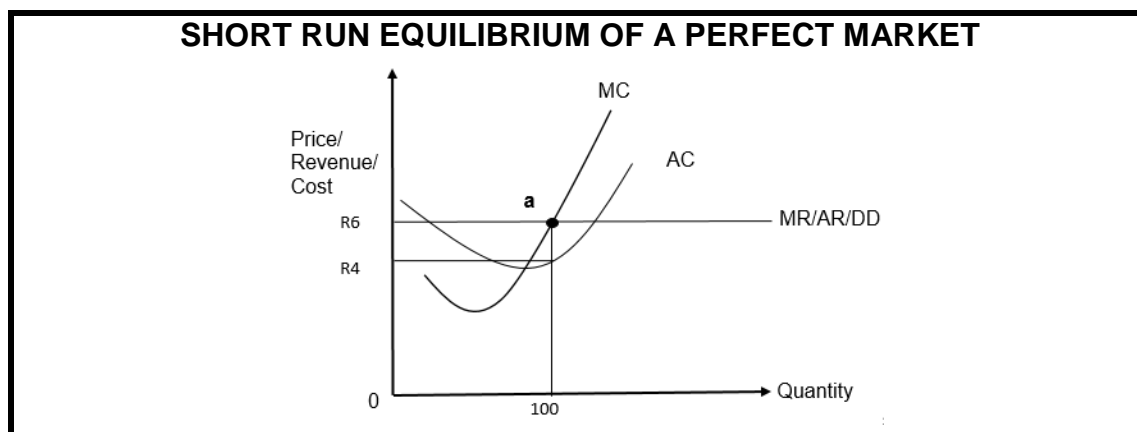
2.1.2 **Why is it only possible in the long run to vary all factors of production?**

- In the long run firms shall have acquired profit to enable them to expand their plant ✓✓
- There will be enough time for new business to enter into the market ✓✓
- The mobility of factors of production improve in the long-run ✓✓

(Accept any other correct relevant answer)

(Any 1 × 2) (2)

2.2



2.2.1 **Which market structure is depicted in the graph above?**

Perfect market ✓

(1)

2.2.2 **Identify profit maximisation point in the above graph.**

Point a ✓

(1)

2.2.3 **Briefly describe the demand curve in the graph above.**

The demand curve is horizontal / perfectly elastic ✓✓

(2)

2.2.4 **Briefly explain the output level of a perfect competitor.**

- A perfectly competitive firm can sell any number of units of output at exactly the same price ✓✓
- The firm can sell more / less than 100 units at price R6 ✓✓

(Accept any other correct answer)

(Any 1 × 2) (2)

2.2.5 Calculate the profit/loss of the individual firm above. Show ALL calculations.

$$\begin{array}{ll}
 \text{Profit} = \text{TR} - \text{TC} \checkmark & \text{AR} - \text{AC} \times \text{units} \\
 = (100 \times 6) - (100 \times 4) \checkmark & \text{OR} \quad = 6 - 4 \times 100 \checkmark \checkmark \\
 = 600 - 400 & = 200 \checkmark \checkmark \\
 = 200 \checkmark \checkmark &
 \end{array}$$

(4)

2.3 DATA RESPONSE

MARKET FAILURE

Unemployment has been rising in South Africa for the past three decades, leading to an official unemployment rate of 27,7%. This implies a jobless total of 8,49 million, with more than 40% of the rural population unemployed and the development of a growing pool of workers who are excluded from the labour market.

The South African economy is facing market failure with labour supply increasingly outstripping demand, due to a lack of information and other factors.

[Source: <http://www.opensadnu.uct.ac.za>]

2.3.1 What is the official unemployment rate in South Africa?

27,7% ✓

(1)

2.3.2 Identify a reason for market failure mentioned in the extract above.

Lack of information ✓

(1)

2.3.3 Explain why more labourers are being excluded from the labour market.

- More companies are closed down due to economic decline ✓✓
- Mining sector is laying off workers ✓✓
- The farming sector is affected by drought as a result workers lose their jobs ✓✓
- Unfair competition in the textile industry ✓✓

(Accept any other correct relevant response)

(Any 2 × 2) (4)

2.3.4 How can the market failure mentioned in the extract above be resolved?

- The DTI provides information and assistance to broaden the participation. ✓✓
- The government makes businesses supply certain information on the packaging of their products. ✓✓

(Accept any other correct relevant response)

(Any 2 × 2) (4)

2.4 Explain **free competition** and **nature of the product** as characteristics of perfect markets.

FREE COMPETITION:

- Buyers must be free to buy whatever they want from any firm and in any quantity ✓✓
- Sellers must be free to sell what, how much and where they wish ✓✓
- There should be no state interference and no price control ✓✓
- Buyers should not form groups to obtain lower prices ✓
- Sellers should not combine to enforce higher prices ✓✓ (max 2 × 2)(4)

NATURE OF THE PRODUCT:

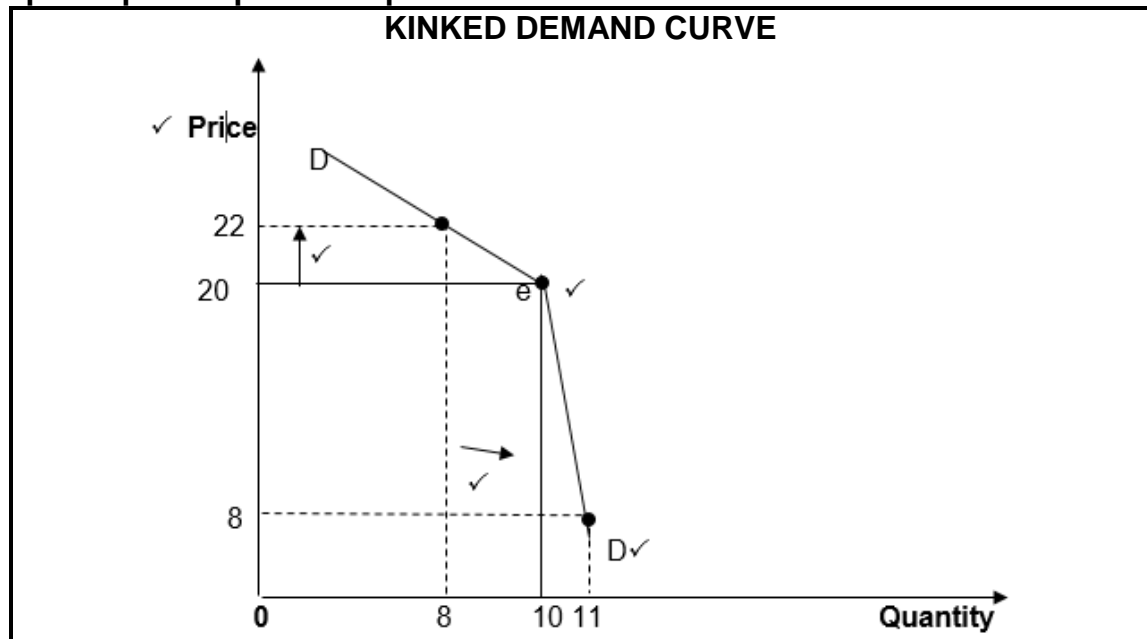
- All products sold in a specific market are homogenous ✓✓
- They are exactly the same in quality and appearance ✓✓
- It makes no difference to a buyer where or from whom he / she buys the product ✓✓ (max 2 × 2)(4)

(Accept any other correct relevant answer)

(2 × 4) (8)

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

2.5 With the aid of a diagram explain why oligopolists are reluctant to participate in price competition.



Maximum 4 marks for graph

- Suppose the oligopolist is selling at the original / present price of R20 and 10 units of output are sold. Total revenue is $R20 \times 10 = R200$ ✓✓
- If the firm tries to increase profit by increasing the price by R2 to R22, quantity demanded would fall to 8 units and total revenue would decrease to R176 ($R22 \times 8$) ✓✓
- If the firm tries to increase profit by reducing the price by R12 to R8 and increasing its total sales, total revenue would be R88 ✓✓
- The oligopolist is therefore faced with a difficult decision because in both instances it will not benefit ✓✓
- Increasing the price of goods or reducing the price to increase sales will not lead to greater revenue earned ✓✓

(Accept any other correct relevant answer)

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

(8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES**3.1 3.1.1 Name TWO positive effects that tourism will have on our economy.**

It will increase the following:

- economic growth / GDP ✓
- employment opportunities ✓
- investment ✓
- the standard of living of the poor ✓

(Any 2 × 1) (2)

3.1.2 How does air pollution effect the environment?

Air pollution contributes towards:

- global warming ✓✓
- depletion of the ozone layer ✓✓
- acid rain ✓✓
- greenhouse gases ✓✓

(Any 1 × 2) (2)

3.2 Study the information below and answer questions that follow.**CULTURAL TOURISM AT ITS BEST**

The world tourism organisation claims that cultural tourism accounts for 37% of global tourism and continues to grow at 15% per year. Destinations should leverage what makes their societies unique and invest in developing cultural tourism, because it allows travellers to enjoy local rituals and taking home photos of shared memories and unique experiences. By embracing cultures, South Africa can boost economic growth.

[www.solimarinternational.com June 2015]

3.2.1 What type of tourism is portrayed in the picture above?

Cultural tourism ✓

(1)

3.2.2 At what rate is cultural tourism growing worldwide?

15% ✓

(1)

3.2.3 Briefly describe the term *Indigenous Knowledge Systems*.

Indigenous knowledge systems refers to local knowledge or a traditional way of doing things that is unique to a given culture or society ✓✓

(2)

3.2.4 **Explain ONE reason for growth in the tourism industry.**

- Increased disposable income ✓✓
- Less working hours; so more time to travel ✓✓
- An awareness of leisure and recreation ✓✓
- Improved transport, communication and accommodation facilities ✓✓
- Increased advertising and promotion ✓✓
- Enjoying the benefits of holidays and travel ✓✓
- Easily obtainable foreign exchange ✓✓

(Accept any other correct relevant answer)

(Any 2 × 1) (2)

3.2.5 **How can South Africa use its world heritage sites more effectively to promote tourism?**

World heritage sites can be promoted by:


- advertising through various types of media ✓✓
- advertising sites domestically and abroad ✓✓
- create excitement around these sites, by for example inviting well known artists ✓✓
- keeping the sites well cared for ✓✓

(Accept any other correct relevant answer)

(Any 2 × 2) (4)

3.3 Study the information below and answer questions that follow.

ENEMY NUMBER ONE FOR OUR ECONOMY



Rising prices for energy, food, commodities and other goods and services affect the entire economy. Inflation impacts the cost of living, cost of doing business, borrowing money and every other facet of the economy. When the economy is healthy, there is low unemployment and wage increases as business demand labour to meet the growing economy.

[Adapted from: www.Cartoons]

3.3.1 **Who is the number one enemy for our economy depicted in the cartoon above?**

Inflation ✓

(1)

3.3.2 **What happens to the economy according to the cartoon above?**

It decreases / slows down ✓

(1)

3.3.3 **Briefly describe the term *hyperinflation*?**

An inflation rate above 50% / People lose confidence in the value of money and start bartering goods and services ✓✓

(2)

3.3.4 **How can taxation be used to reduce inflation?**

Taxes are increased to reduce the buying power ✓✓

(2)

3.3.5 **What is the relation between inflation and wage demands?**

- as prices increases the real wage decreases ✓✓
- as a result workers demand higher wages ✓✓
- the higher the inflation the higher the demand for wages ✓✓

(Accept any other relevant answer)

(Any 2 × 2)

(4)

3.4 **Discuss *income* and *infrastructure* as benefits of tourism to households. Households:**

- Income: members of households receive income by acquiring jobs in the tourism industry ✓✓
- Many households are indirectly involved in tourism as employees in the hotel industry, financial institutions, transport and trading industries, businesses that provide services to tourists. ✓✓ So tourism also contributes to the incomes of these households. ✓✓
- Entrepreneurs from households that operate as curio producers, musicians, interpreters and tour guides also earn income from tourism.

(2 × 2) (4)

- Infrastructure: infrastructure built for tourists is available both for tourists and local people's use. ✓✓
- Infrastructure is built to promote tourism, but is ultimately used by households. ✓✓
- for e.g., roads that are built to improve access to a region for a special event will continue to benefit the local population long after the event is over. ✓✓

(2 × 2) (4)

(Accept any other correct relevant answer)

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

(8)

3.5 **What role does South Africa play in alleviating the negative effects of global warming?**

South Africa alleviates the effects by:

- committing voluntary commitment to combat climate change. ✓✓
- reducing greenhouse gases by 34% by 2020 ✓✓
- playing a leading role in international climate negotiations ✓✓
- greening its cities with actions like reducing energy load in buildings ✓✓
- creating a recycling economy ✓✓
- restoring wetlands and protecting previous water resources ✓✓
- supporting programmes also forms part of international climate initiative ✓✓

(Accept any other correct relevant answer)

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

(Any 4 × 2)

(8)

[40]

QUESTION 4 MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES**4.1 4.1.1 Name TWO examples of renewable resources.**

- Timber ✓
- Agricultural products ✓
- Recycling water ✓
- Electricity generated by wind ✓

(Any 2 × 1) (2)

4.1.2 What is the purpose of inflation targeting?

The purpose of inflation targeting is to create price stability ✓✓ (1 × 2) (2)

4.2 Study the extract below and answer the questions that follow.**WATER CRISIS IN THE EASTERN CAPE**

Large parts of the Eastern Cape have been gripped by drought and water shortage so severe that rivers, dams and boreholes are bone-dry.

Farmers are recording millions of rand's in losses due to spoilt crops and unproductive livestock, while others are raking up even more debt just to be able to feed their animals.

The areas that have been hit hard in the province are the Joe Gqabi and the Chris Hani districts, as well as Mhlontlo district.

This has placed food security in the country under threat as many maize and lucerne crops have been destroyed.

[Source: <http://www.heraldlive.co.za>]

4.2.1 Which serious problem is currently experienced in the Eastern Cape?

Shortage of water ✓

(1)

4.2.2 Why is food security threatened in the country?

Maize and lucerne crops have been destroyed ✓

(1)

4.2.3 How can the public sector use education to ensure environmental sustainability?

- Incorporating topics on the protection of the environment in the school curriculum ✓✓
- People should be made aware of environmental issues and the consequences of their actions ✓✓
- Education play an important role in improving people's ability to manage the environment ✓✓

(Any 2 × 2) (4)

4.2.4 **What can the government do to solve the water crisis in the country?**

- The government should ensure speedy leak detection and repair ✓✓
- There should be pressure management of water to avoid bursting of pipes ✓✓
- Pipes should be protected from any danger ✓✓
- There should be water management programme to avoid unauthorised connection ✓✓
- Encourage water harvesting – install water tanks to conserve rain water ✓✓
- Municipalities should encourage wise use of water, e.g. not to wash cars with hosepipes ✓✓

(Accept any other correct relevant answer)

(Any 2 × 2) (4)

4.3 Study the extract below and answer questions that follow.

MONOPOLISTIC COMPETITION

Monopolistic competition as a market structure was first identified in the 1930s by the economist Edward Chamberlin.

Many small businesses operate under conditions of monopolistic competition, including independently owned and operated high-street stores and restaurants.

In the case of restaurants, each one offers something different and possesses an element of uniqueness, but all are essentially competing for the same customers.

[Adapted from: www.economicsonline.co.uk]

4.3.1 **Who was the first economist to identify monopolistic competition?**

Edward Chamberlin ✓

(1)

4.3.2 **Give an example of a business operating in a monopolistic market.**

- Restaurants ✓
- Kentucky fried chicken ✓
- Link Pharmacy ✓

(Accept any correct relevant answer)

(1)

4.3.3 **Briefly describe the *hybrid structure* as a feature of monopolistic competition.**

- Monopolistic competition is a combination of perfect competition and a monopoly ✓✓
- There are many sellers of differentiated products, and that each market is a relatively small in relation to the market as a whole ✓✓
- Every monopolistic competitive business has a certain degree of monopolistic power and is actually a mini monopoly in that it is the only producer of that specific brand or variant product ✓✓

(Any 2 × 2) (4)

4.3.4 How can restaurants use differentiated strategies to attract more customers?

- Quick and better service to customers ✓✓
- Clean and healthy environment ✓✓
- Consistent and good preparation of recipe ✓✓
- Awarding of discounts and loyalty points to regular customers ✓✓
- Special programs for children for example playing games and birthday parties ✓✓

(Accept any other correct relevant answer)

(Any 2 × 2) (4)

4.4 Explain externalities as a cause of market failures without a graph.

- Externalities are costs not included in the pricing of goods / services, and consequently there is a difference between the private costs / benefits and the social costs / benefits of production. ✓✓
- Private costs / internal costs are cost of producing the good or service which translates into the prices that consumers pay. ✓✓
- Private benefits are internal benefits that accrue to those who produce goods and buy these goods, e.g. producing a bicycle (for producer) and using the bicycle (consumer). ✓✓
- Social costs these are total costs incurred by society as a whole. Social cost = private costs plus external costs. ✓✓
- Social benefits include the total benefit experienced by society as a whole. Social benefits = private benefits plus external benefits. ✓✓
- Negative externalities are things like pollution, tobacco smoking and alcohol abuse. ✓✓ The costs of negative externalities are paid by society rather than by the producers. ✓✓
- Positive externalities are the positive effects of products to third parties which are not paid for. ✓✓
- Negative externalities are often over-produced while positive externalities are under-produced. This leads to market failure. ✓✓

(Accept any other correct relevant answer)

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

(Any 4 × 2) (8)

4.5 How has the implementation of minimum wages benefited workers in South Africa?

Minimum wages benefited workers by:

- Increasing their buying power to afford more goods and services ✓✓
- Improving their living standards by being able to satisfy more wants ✓✓
- Improving the distribution of income to those people who received very low wages in the past ✓✓
- Protecting workers from being exploited by employers ✓✓

(Accept any other correct relevant answer)

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

(8)

[40]

TOTAL SECTION B: 80

QUESTION 5: MICROECONOMICS

A monopoly is one of the extreme ends of our market structures and is an integral part of our economy.

- ***Examine the characteristics of a monopoly as a market structure.*** (26)
- ***Why, in your opinion, is a monopoly an undesirable type of market structure?*** (10)

INTRODUCTION

A monopoly exists when there is one seller of a good or service for which there is no close substitute. ✓✓

(Accept any relevant introduction) (2)

BODY

- **Number of businesses** ✓
 - Exists when one large business can supply the entire market at a lower price than two or more similar ones. ✓✓
 - It represents the entire industry ✓✓
- **Nature of product** ✓
 - The product of the monopoly is unique and has no close substitutes ✓✓
 - e.g. Eskom and the rail transport ✓✓
- **Entrance and exit** ✓
 - There are barriers to entry, some producers are unable to enter the market. ✓✓
 - Government sometimes use patents, which are licences and copy rights for people who invent products, to protect them against competition. ✓✓
 - Legal restrictions are also used to give one firm exclusive rights to produce a particular product or to provide a particular service ✓✓
 - e.g. Post Office ✓
- **Control over prices** ✓
 - A monopoly has full control over price of product or a service. ✓✓
 - They control price by manipulating output and can restrict their output to create a shortage which causes an increase in price. ✓✓
 - The monopolist also withholds information from consumers ✓✓
- **Demand Curve** ✓
 - Monopolists are faced with demand curves for their product, because the law of demand applies ✓✓
 - As the monopolist is the only supplier, it can decide on what point on the demand curve they wish to be. ✓✓
- **Economic Profit** ✓
 - It is possible for the monopolist to make economic profit both in the short and the long run. ✓✓
 - This is because it faces no completion from new entrance as a result of barriers to entry. ✓✓

(A maximum of 8 marks may be allocated for mere listing of facts / examples)

(Accept any other correct relevant response)

(26)

ADDITIONAL PART

Monopolies may be undesirable because:

- they set a price higher than in a competitive market, leading to a fall in consumer surplus. ✓✓
- they are allocatively inefficient because at the quantity it sells, price is greater than marginal cost. ✓✓
- it is also productively inefficient because it is not the lowest point on the average cost curve. ✓✓
- it may also have fewer incentives to cut costs because of a lack of competitors. ✓✓
- the cost curves of a monopoly will be higher than they would if there was more competitive pressure. ✓✓
- they lack the incentives to develop new products and offer a good quality service ✓✓
- they make supernormal profit and this can be said to be an inequitable and unfair distribution of resources in society. ✓✓
- they tend to exploit the consumers because they rely only on the firm for the product / service since there are no close substitutes for the product. ✓✓

(Accept any other relevant correct response)

(Max 10) (10)

CONCLUSION:

Monopolies are crucial in as far as providing unique goods and services, but inefficient in that they tend to provide less at high prices and exploit consumers in the process ✓✓

(Accept any relevant conclusion)

(2)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUE

In today's declining economic climate, all the sectors of the economy are adversely affected by the negative effects of inflation.

- Analyse the causes of cost push inflation. (26)
- What impact does inflation have on the households? (10)

INTRODUCTION

Cost push Inflation is caused by an increase in the costs of goods and services that are important in the economy and which no alternative exists. ✓✓ (2)

MAIN BODY**CAUSES OF COST-PUSH INFLATION**

- **Increase in Wages:** ✓
 - In South Africa, increase in wages constitute more than 50% of Gross Value Added at basic prices ✓✓
 - If the increase in wages is not accompanied by an increase in production, the cost of production will rise ✓✓
 - Producers will increase the prices of their products to offset the high cost of production ✓✓
- **Key inputs / increase in prices of imported capital goods** ✓
 - When the prices of key inputs that are imported increase, domestic cost of production increases especially in the manufacturing sector ✓✓
- **Exchange rate depreciation** ✓
 - A decrease in the value of the rand will result in an increase in prices of imports ✓✓
- **Profit margins** ✓
 - When firms increase profit margins, the prices that consumers pay also increase ✓✓
 - Sometimes firms use their market power to push up prices ✓✓
- **Productivity** ✓
 - Less productive factors of production will lead to increased cost per unit ✓✓
 - Strikes and stay-aways often reduce production output and can result in price increases ✓✓
- **Natural disasters** ✓
 - Natural disasters such as drought, flood and global warming can increase the cost of production ✓✓
 - This is often the case in relation to food prices ✓✓

(A maximum of 8 marks may be allocated for mere listing of facts / examples) (26)

ADDITIONAL PART**What impact does inflation have on the households?**

Households are often stressed by the high rates of inflation because of the following:

- inflation affects the distribution of real income.✓✓
- people on fixed incomes suffer as the purchasing power of their incomes(their real income) decrease as price levels rise.✓✓
- people whose incomes rise faster than the rate of inflation experience an increase in their real wage✓✓
- inflation tends to result in a more unequal distribution of income as those on lower incomes find their wages do not rise as quickly as those on higher incomes.✓✓
- in times of high inflation households tend to purchase real assets(e.g. houses, gold, antiques, paintings etc) that retain their real value since their prices rise faster than the inflation rate.✓✓
- as employees nominal wages increase with inflation their real wage(the purchasing power of nominal wages) may remain constant. ✓✓
- under progressive tax system increased nominal wages may put wage earners into higher tax brackets(higher marginal tax rate).✓✓
- the percentage on income paid in tax rises even though real wages remain constant.✓✓

(Accept any other correct relevant answer)

(Max 10) (10)

CONCLUSION

Inflation is very detrimental to the economy, amongst other things it leads to the depreciation of the rand and it hits hard on the poor, lowering the standard of living in the process. ✓✓

(Accept any other correct relevant higher order conclusion)

(2)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150