



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

JUNE 2018

ECONOMICS P2

MARKS: 150

TIME: 2 hours



This question paper consists of 13 pages.

INSTRUCTIONS AND INFORMATION

1. Answer FOUR questions as follows:
SECTION A: COMPULSORY
SECTION B: Answer any TWO of the three questions.
SECTION C: Answer ONE of the two questions.
2. Answer only the required number of questions. Answers in excess of the required number will NOT be marked.
3. Answer the questions in full sentences and the format, content and the context of your responses must comply with the cognitive requirements of the questions.
4. Number the answers correctly according to the numbering system used in this question paper.
5. Write the question number above each answer.
6. Read ALL the questions carefully.
7. Start EACH question on a NEW page.
8. Leave 2–3 lines between subsections of questions.
9. Use only black or blue ink.
10. You may use a non-programmable pocket calculator.
11. Write neatly and legibly.

SECTION A (COMPULSORY)**QUESTION 1****30 MARKS – 20 MINUTES**

- 1.1 Various options are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A–D) next to the question number (1.1.1–1.1.8) in the ANSWER BOOK, for example 1.1.7 D.

1.1.1 Microeconomics studies the behaviour of ...

- A sectors.
- B industries.
- C the world economy.
- D individual businesses.

1.1.2 Internal costs are known as ... costs.

- A private
- B social
- C public
- D additional

1.1.3 A firm will shut down if it cannot meet its ... costs.

- A marginal
- B average variable
- C total
- D average fixed

1.1.4 A major non-profit competition strategy used in monopolistic competition is ...

- A door-to-door.
- B saving.
- C cost-cutting.
- D advertising.

1.1.5 Selling of identical products to different consumers at different prices is price ...

- A fixing.
- B discrimination.
- C setting.
- D taking.

1.1.6 Market equilibrium occurs when the ...

- A individual business changes the price.
- B producer is a price taker.
- C quantity demanded is equal to quantity supplied.
- D producer sets its own price.

1.1.7 Maximum profit is always earned at that point where marginal revenue is equal to ... cost.

- A total
- B average
- C marginal
- D fixed

1.1.8 By imposing price controls the government can ... the economic profits of producers to make the industry more competitive.

- A reduce
- B increase
- C eliminate
- D maximise

(8 x 2) (16)

- 1.2 Choose a description in COLUMN B that matches an item in COLUMN A. Write only the letter (A–I) next to the question number (1.2.1–1.2.8) in the ANSWER BOOK, for example 1.2.9 J.

COLUMN A		COLUMN B	
1.2.1	Perfect competition	A	the holder is the only one who can produce the product
1.2.2	Fixed costs	B	makes super-normal profit in both the short and long term
1.2.3	Patent rights	C	is an example of a negative externality
1.2.4	Sunk costs	D	used in making the decision whether to accept/reject the project
1.2.5	Monopoly	E	buyers and sellers do not have market power
1.2.6	Common property	F	cannot be recovered should the firm leave the industry
1.2.7	Pollution	G	do not change as output change
1.2.8	Cost Benefit Ratio	H	there are few businesses
		I	often exploited due to absence of ownership

(8 x 1) (8)

- 1.3 Give the correct concept for each of the following phrases.

- 1.3.1 The additional unit of output which is produced as one more unit of the variable input is combined with the fixed input
- 1.3.2 A price set below the equilibrium price/market price to make goods affordable
- 1.3.3 The maximum return the owner of a firm expects to receive to keep on operating in the industry
- 1.3.4 Benefits to society often not calculated by an individual
- 1.3.5 An individual who benefits from a good or service even if one does not pay for it
- 1.3.6 A market structure where the industry is dominated by two large producers

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2**40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 List any TWO examples of perfectly competitive markets. (2)

2.1.2 How can the government use taxes to reduce production and consumption? (2)

2.2 Study the table below and answer the questions that follow.

REVENUE OF A MONOPOLY

Quantity	Price	Total revenue	Marginal revenue	Average revenue
1	50	50	50	50
2	40	80	30	40
3	30	90	10	30

A monopoly, the only seller, lowers the price in order to increase the demand for its products.

2.2.1 How many sellers are in a monopoly? (1)

2.2.2 Which revenue is equal to the price? (1)


2.2.3 What is the formula for calculating marginal revenue? (2)

2.2.4 Briefly explain economies of scale as a barrier to entry in a monopoly. (2)

2.2.5 How are consumers affected by the existence of monopolies? (4)

2.3 Study the information below and answer the questions that follow.

UNIONS HAVE MIXED REACTION TO NATIONAL MINIMUM WAGE ANNOUNCEMENT



President Jacob Zuma's cabinet has approved the implementation of the national minimum wage and government policy and wants it to take effect in May 2018 at R3 200 a month or R20 per hour. Some low-income professions such as farm workers and domestic workers would however be exempted. Unions have mixed reaction to minimum wage announcement. Cosatu and Fedusa welcomed the policy, stating that it will help us reduce inequality and poverty. Income is very important for the working people. This will help stimulate the economy because more consumers will be able to spend more money on the economy. South African Federation of Trade Unions (Safu), rejected it.

[Source: Adapted: *ECONOMY*, 5 November 2017]

- 2.3.1 Identify from the extract, TWO groups of workers who are not included in this minimum wage agreement. (2)
- 2.3.2 Briefly describe the concept *minimum wage*. (2)
- 2.3.3 Explain the impact of a minimum wage on demand and supply of labour. (2)
- 2.3.4 Why is the national minimum wage good for South Africa's economy? (2 x 2) (4)
- 2.4 Distinguish between a *perfect* market and a *monopoly* with regard to prices, profit, quantity and cost. (4 x 2) (8)
- 2.5 How will new entrants in the perfect competitive market impact on the profit level of existing businesses? (8)
- [40]**

QUESTION 3**40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 List TWO types of monopolies. (2)

3.1.2 What will the effect be if a firm in a perfect market decides to increase the price of its product? (2)

3.2 Study the information below and answer the questions that follow.

THE DEMAND CURVE OF AN OLIGOPOLISTIC FIRM

The demand curve of an oligopolistic firm was developed in 1939 by the American economist Paul Sweezy.

The kinked demand curve illustrates the importance of interdependence and uncertainty in an oligopolistic market and explains why there is a degree of price stability in such a market.

Each firm will face a market demand curve with two segments for its product. The two segments are elastic and inelastic.

3.2.1 Who developed the theory on the demand curve of an oligopolistic firm? (1)

3.2.2 What is the demand curve of an oligopolist firm called? (1)

3.2.3 Briefly explain an *inelastic demand*. (2)

3.2.4 Explain *mutual dependence* as a characteristic of oligopoly. (2)

3.2.5 Draw a fully labelled kinked demand curve. (4)

3.3 Study the information below and answer the questions that follow.

JASCO GIVES UP ON CROSS FIRE ACQUISITION

Jasco Electronics Holdings has terminated a planned acquisition of Cross Fire Management after the competition authorities ruled against the merger last month.

The Competition Commission prohibited the proposed merger, saying it would likely “substantially prevent or lessen competition in the provision of active fire protection systems”, particularly in the Western Cape and Gauteng regions.



[Source: Adapted from *fin24*, 3 August 2017]

- 3.3.1 Which authority did not allow the merger of Jasco and Cross Fire? (1)
- 3.3.2 What was the reason for the denial of the merger? (1)
- 3.3.3 Explain any other TWO objectives of the Competition Policy, other than the one in the extract. (2 x 2) (4)
- 3.3.4 In your opinion, how will the economy benefit from fair competition? (2 x 2) (4)
- 3.4 Distinguish between the *short* and *long term/run*. (2 x 4) (8)
- 3.5 Explain with the aid of a well-labelled graph, the effect of providing subsidies to producers as a form of government intervention during market failure. (8)

[40]

QUESTION 4**40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

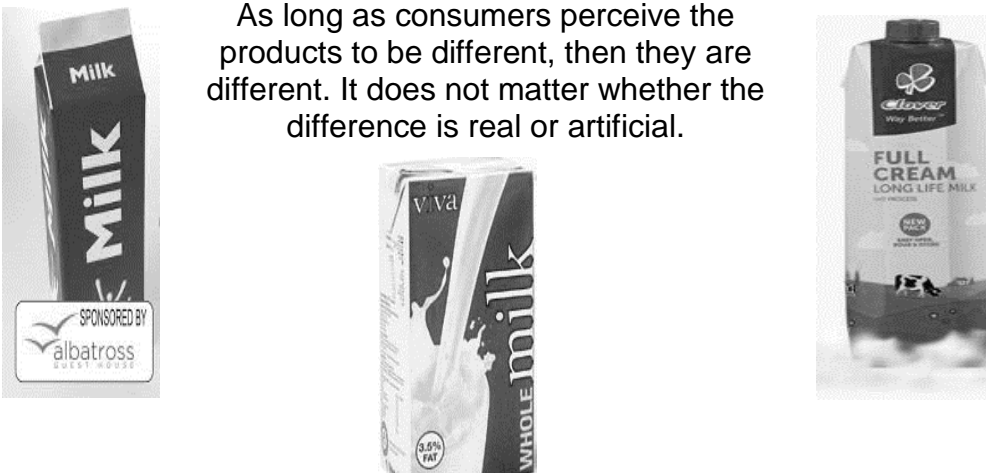
4.1.1 List TWO examples of community goods. (2)

4.1.2 Why would society accept the existence of differentiated products as opposed to homogeneous products? (2)

4.2 Study the information below and answer the questions that follow.

MONOPOLISTIC COMPETITION

As long as consumers perceive the products to be different, then they are different. It does not matter whether the difference is real or artificial.



The image shows three different milk cartons. On the left is a carton labeled 'Milk' with a logo that says 'SPONSORED BY albatross GUEST HOUSE'. In the center is a carton labeled 'viva' with a splash design and 'WHOLE MILK' and '3.5% FAT' visible. On the right is a carton labeled 'Full Cream LONG LIFE MILK' with a cow illustration and 'NEW TASTE' and 'SWEET WITH REAL VANILLA' visible.

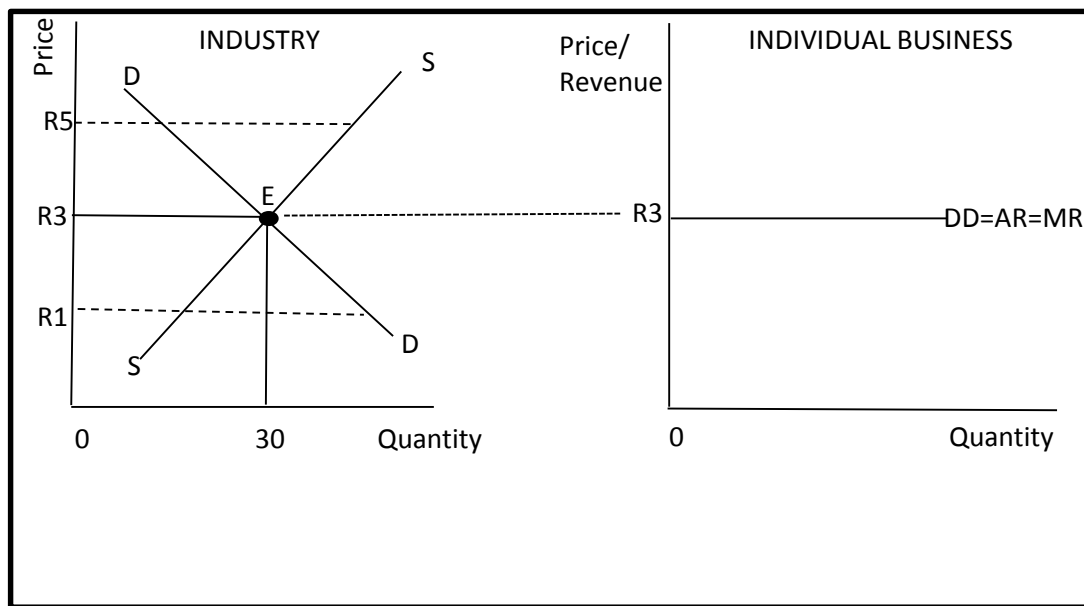
4.2.1 Identify the market structure above. (1)

4.2.2 Is the difference between the products above, real or artificial? (1)

4.2.3 Explain branding as a non-price strategy used by monopolistic competitors. (4)

4.2.4 Why does monopolistic competition not have full control over the price? (4)

4.3 Study the graph below and answer the questions that follow.



4.3.1 At which price will the individual business sell its products? (1)

4.3.2 How is the slope of the demand curve of the industry? (1)

4.3.3 Briefly explain the phrase, '*businesses are price takers*'. (2)

4.3.4 How are prices determined in the industry? (2)

4.3.5 In your ANSWER BOOK redraw the graph of an individual business and insert curves that show the business making economic profit. (4)

4.4 Explain the use of a Cost Benefit Analysis (CBA). (8)

4.5 Why will it not benefit a monopoly to increase its price excessively? (8)

[40]

TOTAL SECTION B: 80

SECTION C

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

Your answer will be assessed as follows:

STRUCTURE OF THE ESSAY	MARK ALLOCATION
Introduction <ul style="list-style-type: none"> A good starting point would be to define a concept or key word that appears in the question. Include other sentences to support the topic. Do not include in your introduction any part of the question. Do not repeat any part of the introduction in the body. Avoid saying in the introduction what you are going to discuss in the body. 	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 Any relevant higher order conclusion that should include: <ul style="list-style-type: none"> A brief summary of what has been discussed/analysed without repeating facts already mentioned in the body An opinion or valued judgement on the facts discussed Additional support information to strengthen the discussion/analysis A contradictory viewpoint with motivation, if so required Recommendations 	Max. 2
TOTAL	40

QUESTION 5

40 MARKS – 40 MINUTES

‘Oligopoly market structures are found throughout the world. Much of the world’s primary manufactured and tertiary output is produced by oligopolistic industries.’

- Examine in detail the oligopoly under the following headings:
 - Nature of the product (6)
 - Control over price (6)
 - Collusion (14) (26 marks)
 - How can firms in an oligopoly increase their market share in the economy? (10 marks)
- [40]**

QUESTION 6**40 MARKS – 40 MINUTES**

‘Reliance on markets for the provision of goods and services is not always a good decision.’

- Discuss the following factors that lead to misallocation of resources in the market.
 - Imperfect competition (8)
 - Merit and demerit goods (10)
 - Immobility of factors of production (8) (26 marks)
- With the aid of a well-labelled graph explain productive inefficiency as a consequence of market failure. (10 marks) **[40]**

TOTAL SECTION C: 40**GRAND TOTAL: 150**

