



Province of the  
**EASTERN CAPE**  
EDUCATION

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**SEPTEMBER 2018**

**ECONOMICS P2  
MARKING GUIDELINE**

**MARKS: 150**

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This marking guideline consists of 17 pages.

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

- |       |   |    |                                  |         |      |
|-------|---|----|----------------------------------|---------|------|
| 1.1.1 | C | ✓✓ | $P < AC$ .                       |         |      |
| 1.1.2 | C | ✓✓ | kinked                           |         |      |
| 1.1.3 | A | ✓✓ | lack of information              |         |      |
| 1.1.4 | D | ✓✓ | low growth and high unemployment |         |      |
| 1.1.5 | B | ✓✓ | the Isimangaliso Wetland Park    |         |      |
| 1.1.6 | B | ✓✓ | non-renewable                    |         |      |
| 1.1.7 | C | ✓✓ | increase                         |         |      |
| 1.1.8 | B | ✓✓ | average revenue                  | (8 x 2) | (16) |

**1.2 MATCHING ITEMS**

- |       |   |   |   |         |     |
|-------|---|---|---|---------|-----|
| 1.2.1 | D | ✓ | licence to pollute to a certain degree  |         |     |
| 1.2.2 | E | ✓ | resources are allocated such that one party benefits at the disadvantage of the other |         |     |
| 1.2.3 | F | ✓ | a world heritage site   |         |     |
| 1.2.4 | B | ✓ | changes with changes in production  |         |     |
| 1.2.5 | I | ✓ | maximum permitted level of emission   |         |     |
| 1.2.6 | G | ✓ | cannot be retrieved if businesses exit the industry                                   |         |     |
| 1.2.7 | C | ✓ | direct regulation of an industry through laws that state what is allowed and legal    |         |     |
| 1.2.8 | A | ✓ | investigate and evaluate restrictive business practices                               | (8 x 1) | (8) |

**1.3 GIVE ONE TERM**

- 1.3.1 Diseconomies ✓
- 1.3.2 Cultural tourism ✓
- 1.3.3 Deflation ✓
- 1.3.4 Preservation ✓
- 1.3.5 Externalities ✓
- 1.3.6 Monopolistic competition ✓

(6 x 1) (6)

**TOTAL SECTION A: 30**

## SECTION B

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

### QUESTION 2: MICROECONOMICS

#### 2.1 Answer the following questions.

##### 2.1.1 Name any TWO methods of non-price competition in monopolistic competition.

- Product differentiation ✓
- Advertising ✓
- Branding ✓

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

##### 2.1.2 Why do businesses in an oligopolistic market collude with one another?

They collude to remove uncertainty of what the competitors may be doing in the market. ✓✓

Maximise profits. ✓✓ (Any 1 x 2) (2)

#### 2.2 2.2.1 Identify the equilibrium point of an individual firm above.

A ✓ (1)

##### 2.2.2 Which time period is depicted in the graph above?

Short run ✓ (1)

##### 2.2.3 What is the reason for the downward sloping demand curve of the industry?

- The law of demand – the higher the price the lower the quantity demanded and vice versa. ✓✓
- Substitution effect ✓✓
- Income effect ✓✓

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

##### 2.2.4 Why are businesses in this industry referred to as price takers?

There are many small businesses in the industry and none of them can influence the price. ✓✓

(Accept any relevant response.) (2)

##### 2.2.5 How will new entrants (businesses) affect the perfect market?

New entrants will affect the perfect market by:

- Shifting the industry's supply to the right leading to an increase in quantity supplied and the price will drop ✓✓
- Applying a lower price from the industry and produce at the lowest turning point of the long-term average cost curve ✓✓

(Accept any other relevant correct response.) (2 x 2) (4)

## 2.3 DATA RESPONSE

### 2.3.1 Give ONE form of barrier to entry in a monopoly.

- Patents ✓
- Exclusive rights ✓
- Licences ✓

(Accept any other correct relevant response.)

(1)

### 2.3.2 What is the nature of the products sold by monopolies?

Unique ✓

(1)

### 2.3.3 Briefly describe the term *natural monopoly*.

- Natural monopolies have high development costs. ✓✓
- This type of business is frequently owned or regulated by the government. ✓✓

(Accept any other relevant correct response.)

(1 x 2) (2)

### 2.3.4 Why would it be necessary to break Multichoice's monopoly?

- Breaking up of monopolies will increase competition as more businesses will enter the market. ✓✓
- The prices will be competitive and more consumers will be able to afford the product. ✓✓
- Consumers will be exposed to a variety of products. ✓✓
- The quality of services provided will improve because each business will be aiming at increasing its market share. ✓✓

(Accept any other relevant correct response.)

(1 x 2) (2)

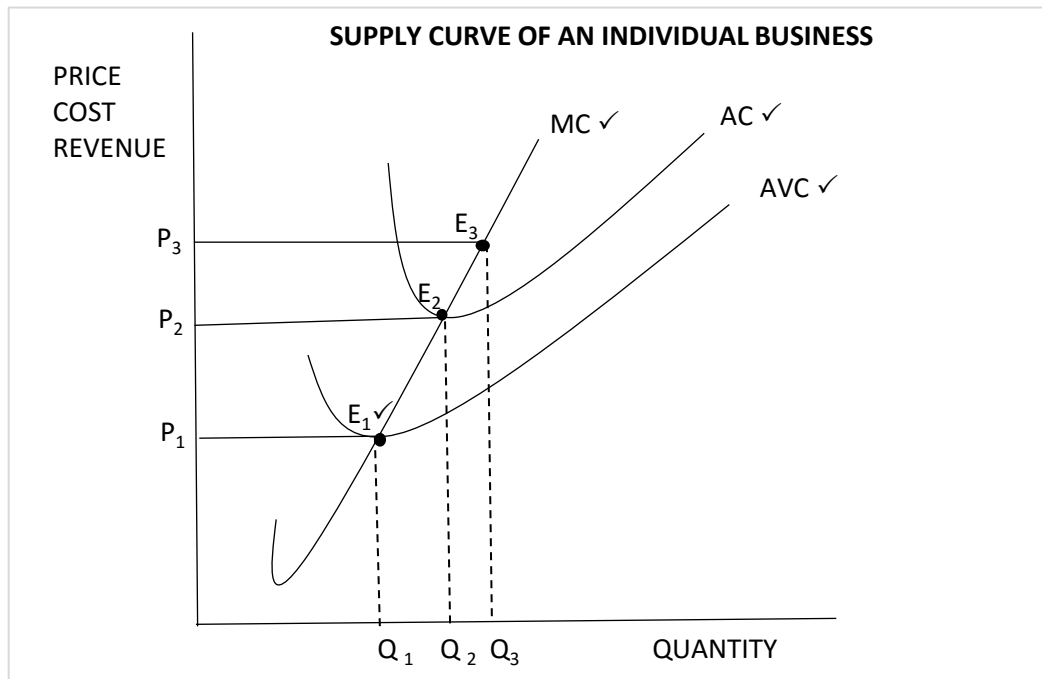
### 2.3.5 How would demerit goods contribute to market failure?

- Demerit goods are goods which are deemed to be socially undesirable, and which are likely to be **over-produced and over-consumed** through the market mechanism. ✓✓
- The consumption of demerit goods **imposes considerable negative externalities** on society as a whole. ✓✓
- The private costs incurred by the individual consumer are less than the social costs experienced by society in general. ✓✓

(Accept any other correct relevant response.)

(2 x 2) (4)

- 2.4 With the aid of a graph, explain the supply curve of a business in a perfect market.



(Max. 4)

The short run supply curve of an individual producer is part of the marginal cost curve that is above the minimum average variable cost. ✓✓

This starts from point E<sub>1</sub> (shutdown point) and moves upwards (E<sub>2</sub>; E<sub>3</sub>.) ✓✓

Below the shutdown point the firm will not sell any goods because the price is below the average variable cost. ✓✓

A firm will sell goods if the price is above shutdown price level. ✓✓ (Max 4) (8)

- 2.5 Evaluate the effects of monopolies on an economy.

#### Positive effects

Monopolies are effective because:

- Some products are dangerous and need to be handled with caution, e.g. electricity by Eskom and water by local municipalities. ✓✓
- Critical products and services are handled by one company which should be held accountable when something goes wrong.
- Quality is maintained in that it is handled by an experienced service provider.

#### Negative effects

- Because it is the only producer, products and services tend to be expensive. ✓✓
- Quantity tends to be limited. ✓✓
- Products are produced at high cost and welfare tends to be reduced. ✓✓
- Lack of competition, which means choice for consumers is limited. ✓✓

(Accept any other correct relevant response)

(A learner can focus on one side or both sides.)

(4 x 2) (8)

[40]

**QUESTION 3: CONTEMPORARY ECONOMIC ISSUES**

- 3.1 3.1.1 **List any TWO goods where prices are administered by the government.**
- Petrol ✓
  - Bread ✓
  - Dairy products ✓
- (2 x 1) (2)

- 3.1.2 **Why do countries engage in deforestation?**
- Some industries use trees for production of goods for example furniture, paper. ✓✓
  - Areas with forests are cleared to make space for the construction of industries, housing and roads. ✓✓
  - As a result, employment opportunities are created for many people. ✓✓
- (Accept any other correct relevant response.) (1 x 2) (2)

**3.2 DATA RESPONSE**

- 3.2.1 **List any example of a good or service on which CPI's are based.**
- Food ✓
  - Clothing ✓
  - Shelter ✓
  - Transportation ✓
  - Doctors ✓
  - And other goods ✓
- (Any 1 x 1) (1)

- 3.2.2 **How is the Consumer Price Index calculated?**
- Price changes for various items are aggregated using weights. ✓ (1)

- 3.2.3 **Briefly describe the term *hyperinflation*.**
- An inflation rate above 50% per month and it is also called run-away inflation. ✓✓
- (Accept any other relevant correct response.) (2)

- 3.2.4 **Briefly explain *consumer spending* as a cause of demand pull inflation.**
- The increase in consumer spending due to less savings, reduction in taxes and access to credit will lead to a decrease in aggregate supply and as a result prices will increase. ✓✓
- (Accept any relevant response.) (2)

- 3.2.5 **Why are products with volatile prices excluded from the consumer price index?**
- To determine core inflation ✓✓
  - To exclude variation in food prices so that core inflation rates are more stable ✓✓
  - The excluded products can have temporal price shocks which may give a false measure of inflation. ✓✓
- (Accept any other relevant response) (2 x 2) (4)

### 3.3 DATA RESPONSE

#### 3.3.1 Give any country that is part of the G-8 nations.

- France ✓
- Germany ✓
- Italy ✓
- The United Kingdom ✓
- Japan ✓
- The United States ✓
- Canada ✓
- Russia ✓

(1)

#### 3.3.2 According to the extract, what are the G-8 nations known for?

Pollution ✓

(1)

#### 3.3.3 Briefly describe the term *environmental sustainability*.

It is the environment's ability to survive its use for future economic activities. ✓✓

(Accept any other correct relevant response.)

(2)

#### 3.3.4 Explain the effect of greenhouse gases on the environment.

- CO<sub>2</sub> creates a blanket in the atmosphere that traps the heat and causes a greenhouse effect, leading to global warming. ✓✓
  - Global warming results in climate change. ✓✓
- (Accept any other correct relevant response.)

(2)

#### 3.3.5 How can the economy be developed without harming the environment?

This could take place by:

- Living within the limits of what the environment can provide ✓✓
  - Understanding the links between the economy, society and the environment ✓✓
  - Distributing of resources and opportunities evenly ✓✓
- (Accept any correct relevant response.)

(2 x 2) (4)



3.4 **Explain *fiscal and monetary policies* as measures to combat inflation.**

**Fiscal measures:**

- The measures are aimed at discouraging consumer spending. ✓✓
- Taxes are increased to reduce disposable income and curb excessive demand. ✓✓
- Reduce government spending to reduce disposable income. ✓✓
- Implementing measures to improve productivity, such as tax rebates, to improve the supply position. ✓✓ (Max. 4)

**Monetary measures:**

- These steps are taken by SARB and the National Treasury. ✓✓
  - Increase the repo rate to banks, to reduce the availability of credit by banks. ✓✓
  - Increase interest rates to the same effect as above. ✓✓
  - Decrease money supply by means of open market transactions. ✓✓
  - Increase banks cash reserve requirements to reduce the availability to customers. ✓✓
  - Introduce exchange and credit control. ✓✓ (Max. 4)
- (Accept any other correct relevant response.)  
(A maximum of 4 marks may be allocated for mere listing and examples.) (8)

3.5 **How successful has the South African government been to support a green economy?**

The South African government has been successful in:

- Educating society about the disadvantages of deforestation in order to assist in reducing the effects of global warming. ✓✓
  - Encouraging the planting of trees and the necessity to take care of our natural vegetation. ✓✓ e.g. National Arbor Week in South Africa is a time when South Africans are encouraged to celebrate the beauty and importance of trees. ✓✓
  - Encouraging the use of solar energy because it is very safe and environmentally friendly, ✓✓ fewer fossil fuels will be burnt, reducing the amount of pollution in the air. ✓✓
  - Rekindling old subsistence farming methods and gardening in general, including the indigenous methods of sustaining our natural vegetation. ✓✓
  - Providing incentives to technology that emit less pollution, this includes government intervention methods i.e. subsidising technology that emits less pollution, command and control systems etc. ✓✓
- (Accept any other correct response)  
(A maximum of 2 marks may be allocated for mere listing and examples.) (8)

**[40]**

## QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

### 4.1 4.1.1 Name any TWO features of public goods.

- No rivalry ✓
- Non-rejectable ✓
- Non-excludable ✓
- Social benefit outstrips private benefit ✓
- Continuous consumption ✓

(2 x 1) (2)

### 4.1.2 What positive effect will the granting of property rights have on the environment?

The environment will be well taken care of and will have a balanced ecosystem because people granted with property rights will play their part in ensuring that natural resources are well taken care of. ✓✓

(Accept any correct relevant response.)

(1 x 2) (2)

## 4.2 DATA RESPONSE

### 4.2.1 Give an example of a basic food item that is exempted from VAT.

- Maize meal; ✓ Rice; ✓ Brown bread; ✓ Dried beans; ✓ Vegetables; ✓ Fruit; ✓ Samp; ✓ Vegetable oil ✓ Mielie Rice; ✓ Legume; ✓ Pilchards; ✓ Eggs; ✓ Dried mealies; ✓ Milk; ✓ Cultured milk; ✓ Dairy Powdered Blend; ✓ Milk powder; ✓ Lentils; ✓ Brown Wheaten Meal ✓

(Accept any other correct relevant response.)

(1)

### 4.2.2 Which type of inflation is depicted in the extract above?

Cost push ✓

(1)

### 4.2.3 Briefly describe inflation targeting in South Africa.

A monetary policy framework in which the South African Reserve Bank announced an explicit inflation target of 3%–6% and implements policy to achieve this target directly. ✓✓

(2)

### 4.2.4 How are creditors affected by inflation?

They suffer during inflation because they receive money with a low purchasing power. ✓✓

(Accept any correct relevant response.)

(2)

### 4.2.5 How can the effect of an increase in VAT be combated?

- The increase in VAT should be accompanied by an increase in wages and salaries. ✓✓
- Wage increases should be accompanied by productivity increases. ✓✓
- Government subsidies to producers should be implemented to lower the cost of production. ✓✓
- More goods should be exempted from VAT. ✓✓

(Accept any other correct relevant response)

(2 x 2) (4)

### 4.3 DATA RESPONSE

#### 4.3.1 Give ONE type of non-price competition that exists in oligopolies.

- Advertising ✓
- Extended shopping hours ✓
- After sales services ✓
- Product differentiation ✓
- Brand loyalty ✓
- Product proliferation ✓

(Accept any other correct relevant response.)

(1)

#### 4.3.2 What characterises the products sold by oligopolies?

Product sold can be homogenous or differentiated. ✓

(1)

#### 4.3.3 Briefly explain the term *duopoly*.

A duopoly is a market structure dominated by two large firms. ✓✓

(2)

#### 4.3.4 What makes it difficult for new businesses to enter into an oligopoly?

- There are high costs in starting up a business ✓✓
- Firms that are already in the market use branding to crowd-out new competition. ✓✓
- Advertising extensively may be costly for new firms. ✓✓

(Accept any other correct relevant response.)

(2)

#### 4.3.5 How is the economy negatively affected by oligopolistic tendencies?

- Collusion affects consumers negatively in that firms charge high prices which consumers cannot afford. ✓✓
- Consumers do not have access to and cannot freely select the quality and variety of goods and services they desire. ✓✓

(Accept any relevant response.)

(2 x 2)

(4)

#### 4.4 Explain *biodiversity loss and chemical waste* as problems in sustaining the environment.

##### **Biodiversity:**

Biodiversity is the number of different species and subspecies which are found within an area. ✓✓

The depletion of natural resources could cause the extinction of species, and in so doing decrease biodiversity. ✓✓ (Max. 4)

##### **Chemical waste:**

Chemical waste is toxic (it has a negative effect on living beings and can cause infertility or death). ✓✓

It needs to be carefully managed to ensure it does not seep into the ground water. ✓✓ (Max. 4)

(Accept any other correct relevant response)

(A maximum of 4 marks may be allocated for mere listing and examples.)

(8)

**4.5 What does the South African government hope to achieve through competition policies?**

Competition policies should be achieved by:

- Preventing unfair methods of achieving market power ✓✓
  - Increasing fair competition among firms ✓✓
  - Improving efficiency in markets where producers produce according to the needs of consumers ✓✓
  - Discouraging the existence of monopolies created by take-overs and mergers ✓✓
  - Preventing price fixing and collusion by oligopolies ✓✓
  - Promoting SMMEs for the development of our economy ✓✓
  - Using the Competition Authorities (Competition Commission, Competition Tribunal and Competition Appeal Court) effectively ✓✓
- (Accept any correct relevant response.)  
(A maximum of 2 marks for mere listing and examples.)

(8)  
**[40]**

**TOTAL SECTION B: 80**

## SECTION C

Answer ONE of the two questions from this section in the ANSWER BOOK.  
Your answer will be assessed as follows.

### QUESTION 5

- With the aid of graphs, discuss in detail state intervention as a consequence of market failures under the following headings:
  - Minimum wages (13 marks)
  - Subsidies on goods and services (13 marks) (26 marks)
- How can cost benefit analysis reduce market failure? (10 marks)

### INTRODUCTION

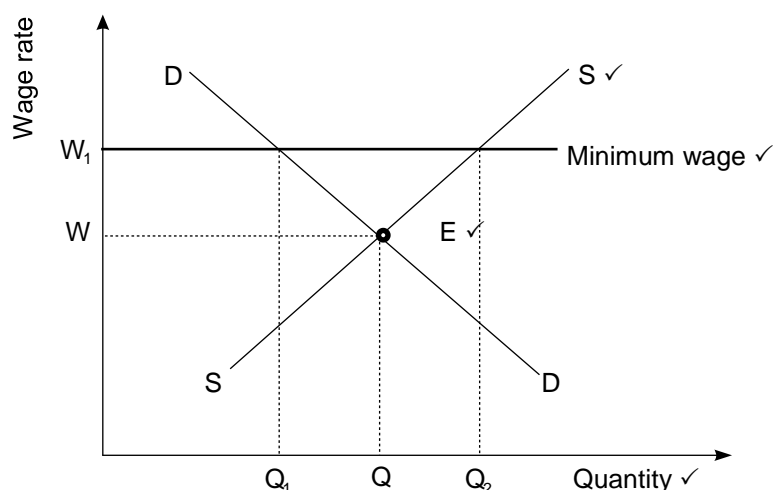
Participants in the economy, at times, engage in activities that are not aligned with market forces. As a result, there are shortages here and there, and therefore, government is required to take action. ✓✓

(Accept any other correct relevant introduction.)

(2)

### MAIN PART

#### MINIMUM WAGE



#### Allocation of marks

Correct labelling of both axes	= 1
Equilibrium point	= 1
Minimum wage	= 1
Demand and supply	= 1
Maximum mark	= 4

A minimum wage is a wage rate set by the government, below which no employer can pay their workers. ✓✓

Point E is the market equilibrium price where workers receive an income at W, and the amount of workers available is at Q. ✓✓

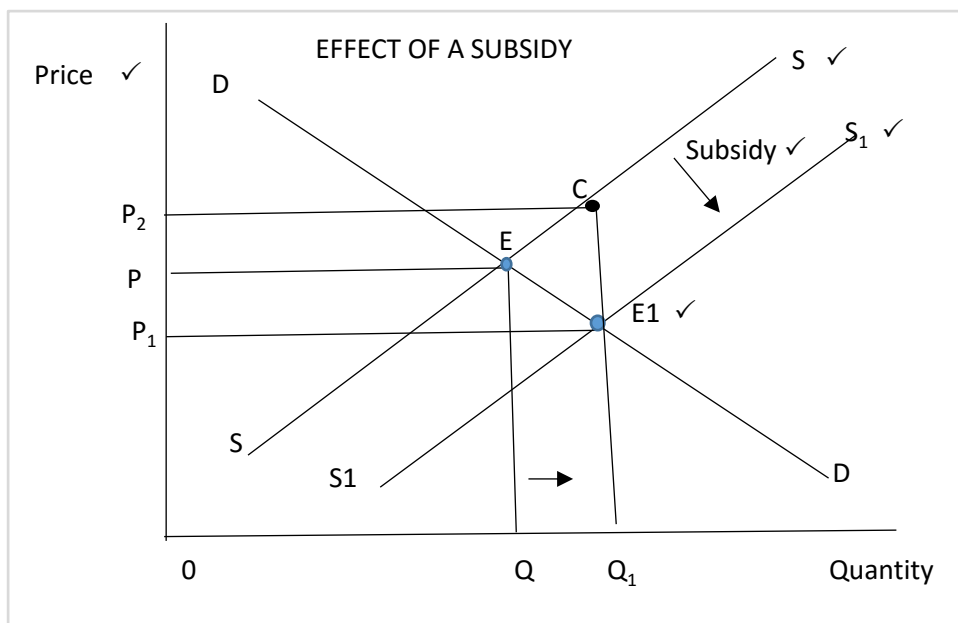
The government intervenes by setting the minimum wage rate at  $W_1$ . ✓✓

above market equilibrium price (W). ✓✓ At the new wage level, the supply of workers is at  $Q_2$ , while the demand of workers is at  $Q_1$ . ✓✓

Therefore the introduction of minimum wage leads to an excess supply of labour. ✓✓

(Max. 9)

## SUBSIDIES ON GOODS AND SERVICES



### Allocation of marks

Correct labelling of both axes	=1
Demand and supply	= 1
Increase in supply ( $S_1S_1$ )	= 1
Equilibrium point (Intersection of $DD$ and $S_1S_1$ )	= 1
Subsidy	= 1
Maximum mark	= 4

A subsidy is a form of financial grant to support production of goods and services or the consumption of goods and services. ✓✓

The original equilibrium is at point E; at price P and quantity Q. ✓✓

When a subsidy is introduced:

The supply shifts from SS to  $S_1S_1$  and the new equilibrium is formed at point  $E_1$ , at a price of  $P_1$  and quantity  $Q_1$

The price for the producer increases from P to  $P_2$  ✓✓

The price for the consumer decreases from P to  $P_1$  ✓✓

Subsidy amounts to  $P_1P_2$  C  $E_1$  ✓✓

The introduction of a subsidy benefits the producer in that the producer is able to make a profit of  $PP_2$  C E ✓✓

It also benefits the consumers by saving  $PEE_1P_1$  ✓✓

(Max 9.) (26)

**ADDITIONAL PART- How can Cost Benefit Analysis reduce market failure?**

The South African government hopes to achieve this by:

- Ensuring that costs and benefits are taken into account before the government embarks on a big project ✓✓ for example roads, bridges, etc. ✓
- Assessing whether the new project will be feasible, ✓✓ considering that social benefits are more than social costs. ✓✓
- Making objective decisions ✓✓ as it removes subjectivity in decision-making because all decisions are based on practical facts. ✓✓
- Ensuring economic efficiency in resource allocation ✓✓ and eliminating unfruitful expenditure. ✓✓

(Accept any other correct relevant response.)

(10)

**CONCLUSION**

The government is trying its best to safeguard the interests of the poor but still more needs to be done. ✓✓

(Accept any other high order conclusion.)

(2)

**[40]**

**QUESTION 6**

- **Examine in detail the effects of tourism.** (26 marks)
- **How can government sustain the positive impacts of tourism?** (10 marks)

**INTRODUCTION**

Tourism is the activities of people travelling to places outside their usual environment. It may be for leisure or business as long as one is not going to be remunerated. ✓✓  
(Any other correct relevant introduction.)

(2)

**BODY****MAIN PART – EFFECTS OF TOURISM**

**GROSS DOMESTIC PRODUCT (GDP)** ✓

Tourism is a service-based industry. It is responsible for 65% of the GDP in developed countries and 40% of the GDP in developing countries. ✓✓

Tourism can influence the GDP both directly and indirectly. ✓✓

A direct impact on the GDP comes from services tendered to tourists ✓✓ which may be 7–9% of the GDP in South Africa. ✓✓

An indirect contribution would be products sold to businesses involved in tourist industry. ✓✓ For example, wholesalers supply ingredients to hotels which sell the final meal to tourists. ✓

(Max. 4)

**EMPLOYMENT ✓**

Tourism industry employs 7% of South Africa's workforce. ✓✓

Tourism is the largest provider of jobs because it is:

- Labour intensive ✓✓
- Employs many different kinds of skills ✓✓
- Provides immediate employment ✓✓
- Provides entrepreneurial opportunities ✓✓

(Max. 4)

**POVERTY ✓**

Poverty is most evident in rural areas due to lack of job opportunities. ✓✓

Tourism can alleviate poverty in the following ways:

- Tourism is a fast and effective mechanism for distributing resources to rural areas to develop them as tourist sites. ✓✓
- Many prime attractions are located in rural areas. ✓✓

Tourist developments in rural areas increase the number of available jobs. ✓✓

Tourism promotes a balanced and sustainable form of development. ✓✓ People are able to earn a living in their home areas resulting in a reduction in urbanisation. ✓✓

(Max. 4)

**EXTERNALITIES ✓**

Externalities are costs and benefits that result from a specific activity. ✓✓ Tourism results in both. ✓✓

**Positive externalities ✓**

Tourism: Attracts large amounts of revenue ✓✓

Leads to an improvement in infrastructure development ✓✓

Stimulates employment indirectly ✓✓

Can help conserve natural and cultural assets and alleviate poverty ✓✓

**Negative externalities ✓**

- Tourism can cause environmental damage if not managed correctly. ✓✓
- It can result into a lot of waste and damage to sensitive tourist sites. ✓✓
- The infrastructure of tourist sites can come under pressure in catering for increased tourist numbers. ✓✓
- It leads to increased prices of tourist goods. ✓✓

(Max. 6)

**THE ENVIRONMENT ✓**

- Tourism can result in environmental stress. ✓✓

It can result in:

- Permanent restructuring of the landscape e.g. construction work on highways ✓✓
- Additional waste products, e.g. biological (sewerage) and non-biological (litter) waste ✓✓
- 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 ✓✓

(Max. 4)



**INVESTMENT ✓**

Tourist destinations require adequate physical (hotel rooms), economic (ATM'S) and basic (water and electricity) services infrastructure. ✓✓

This includes:

- Transport infrastructure, e.g. improved roads are needed to access tourist sites ✓✓
- Communication infrastructure, e.g. hotels need telephone lines to take bookings at tourist sites ✓✓
- Energy infrastructure, e.g. tourists need electricity at tourist sites ✓✓ (Max. 4)  
(Accept any other correct relevant response)  
(Max. 8 marks for mere listing and examples)

(26)

**ADDITIONAL PART**

The government can sustain the positive impacts of tourism by:

- Maintaining infrastructure and keeping it in a good condition so that the needs of the tourists are well catered for ✓✓
- Implementing policies around safeguarding and maintaining tourist sites and keeping them attractive ✓✓
- Expanding and creating new tourist attraction sites to cater for the potentially increasing volume of tourists ✓✓
- Promoting domestic tourism because it has the potential of increasing tourism ✓✓
- Decreasing the crime rate so that tourists can move freely and safely; tourists will then have a feeling of being home away from home, so they can keep coming ✓✓
- Maintaining our indigenous knowledge and culture because tourists want to see what is new and authentic. ✓✓  
(Accept any other correct higher order relevant response.)

(10)

**CONCLUSION**

South Africa is a very beautiful country. It has the potential of being the number one tourist destination, so government should do more to enhance it. ✓✓

(Accept any other correct relevant higher order conclusion.)

(2)

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