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**LIMPOPO**  
PROVINCIAL GOVERNMENT  
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF  
**EDUCATION**

**MOPANI WEST DISTRICT**

**GRADE 12**

**ECONOMICS P2**

**PRE- MID YEAR EXAMINATION**

**MARKING GUIDELINES**

**MARKS: 150**

**This marking guidelines consist of 22 pages**



**SECTION A****QUESTION 1****1.1 MULTIPLE CHOICE**

- 1.1.1 C (Monopolistic competition)
- 1.1.2 B (average variable cost)
- 1.1.3 A (selling price)
- 1.1.4 C (cost equals marginal revenue)
- 1.1.5 D (monopoly)
- 1.1.6 A (training programmes)
- 1.1.7 B (community)
- 1.1.8 D (productive)

**1.2 MATCHING ITEMS**

- 1.2.1 C (extra income the seller earns if one more unit of a product is produced and sold)
- 1.2.2 H (occurs if inputs are increased and output is increased by more than the percentage increase in inputs)
- 1.2.3 F (two firms that dominate the industry)
- 1.2.4 I (an example of tacit collusion with regard to pricing)
- 1.2.5 B (exists because of barriers to entry which are not economic in nature)
- 1.2.6 G (businesses in the same industry come to an agreement to determine prices and quantities)
- 1.2.7 D (spill-over effects of an economic activity on third parties)
- 1.2.8 A (these are undersupplied by the market but beneficial to the society)

**1.3 ONE TERM /CONCEPTS**

1.3.1 Homogeneous

1.3.2 Fixed

1.3.3 Monopolistic competition

1.3.4 Overt/ explicit/ formal collusion

1.3.5 Minimum price

1.3.6 Pareto efficiency

**TOTAL SECTION A: 30**



**SECTION B**

Answer any TWO of the three questions in this section in the ASWER BOOK

**QUESTION 2**

2.1 Answer the following questions

**2.1.1 Name TWO types of inefficiencies that can exist in the imperfect market.**

- Allocative inefficiency✓
- Productive inefficiency✓ (2)

**2.1.2 Why are implicit costs important to the entrepreneur?**

- They show the entrepreneur the interest that he could have earned if the capital was invested elsewhere rather than in his business✓✓ (2)

**2.2 DATA RESPONSE**

**2.2.1 Identify the market structure depicted in the above picture.**

- Oligopoly✓ (1)

**2.2.2 What kind of demand curve is associated with this market structure?**

- Kinked demand curve✓ (2)

**2.2.3 Briefly describe the concept tacit collusion.**

- Tacit collusion occurs when oligopolies collude silently and informally amongst themselves on prices and quantities in order to maximise profits✓✓ (2)
- Accept any correct response

**2.2.4 What does interdependency of businesses in this market structure imply?**

- Only few sellers dominate the market, therefore each seller is influenced by the actions of other sellers✓✓ (2)

**2.2.5 Why businesses in this industry will be reluctant to decrease the price of their product?**

- Decreasing the price might lead to price war which will drive prices down✓✓
- Decreased price can results in lower profits✓✓

- Due to kinked nature of the demand curve, they will lose more revenue than they would gain via increased sales✓✓  
(Max: 4)

## 2.3 DATA RESPONSE

### 2.3.1 Identify the market structure depicted in the above extract

- Monopolistic competition✓ (1)

### 2.3.2 Give any ONE example of the hybrid market structure.

- Supermarkets✓
  - Fast-food restaurants
  - Clothing shops
  - Furniture shops
  - Medical doctors
  - Hair dressers
  - Car dealers✓ (1)
- Accept any correct response

### 2.3.3 Describe the concept product differentiation.

- Method used by suppliers to distinguish their goods or service from competitors and thereby drawing customers to them✓✓ (2)

### 2.3.4 Briefly explain the benefits of product differentiation to producers of goods and services.

- Producers will benefit because their products will be easily recognisable from similar products of other businesses✓✓
- When consumers are able to identify with the product, brand loyalty is developed which will benefit the producer✓✓
- Producers will earn more revenue/profit from goods that show a relatively inelastic demand✓✓
- Producers can easily penetrate the market and gain more market share through product differentiation✓✓ (2)

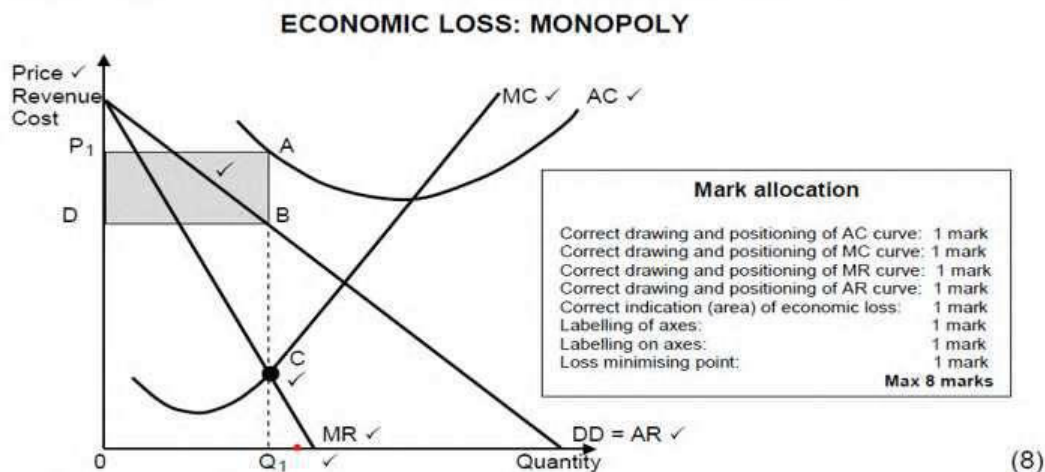
### 2.3.5 Why are the prices of the monopolistic competitor lower than the prices of the monopolist?

- Monopolistic competitor has greater competition because there are many sellers✓✓
- Monopoly market has a higher price because it's the single supplier of a good or service✓✓
- The monopolist sells unique products with no close substitutes✓✓ (4)

## 2.4 Briefly discuss the reasons for a cost-benefit analysis.

- CBA helps to make better decisions on how scarce resources are allocated to satisfy wants ✓✓
  - Involves making decisions based on comparing economic benefits with economic costs of a project ✓✓
  - The feasibility of the project is determined by subtracting costs from benefits, if the difference is positive (benefits > costs) then the project could be undertaken ✓✓
  - Greater objectivity in decision making ✓✓
  - There are no market signals like supply and demand to guide efficient resource allocation (leads to subjectivity in decision making) ✓✓ (8)
- (Accept any other correct relevant response)

## 2.5 Draw a fully labelled graph to illustrate the economic loss of the monopoly market structure



[40]



**QUESTION 3**

3.1 Answer the following questions.

**3.1.1 Name TWO methods of non-price competition**

- Advertising✓
- Loyalty point
- Door-door sales
- After hours sales services
- Packaging
- Branding✓

Accept any correct response

(2)

**3.1.2 How effective has government spending been in addressing market failure?**

- Transferring income directly to the poor such as child support grants, unemployment benefits and thereby reducing income inequalities✓✓
- Providing goods free of charge✓✓ e.g., community goods, education etc. ✓ and allowing access to basic needs to all citizens✓✓
- Implementing employment creation programmes, which will create jobs and improve skills for all types of labour✓✓ e.g., public works programme, subsidising producers to encourage production of merit goods as they are beneficial to the society✓
- Spending on campaigns that will inform public about policies and legislation that protects them against exploitation✓✓
- Investing on infrastructure development such as roads, railways and communication networks as private sector find these unprofitable or difficult to finance✓✓

Accept any correct response

(2)

**3.2 DATA RESPONSE****3.2.1 Identify the minimum wage to be implemented as per the graph above.**

- 3 500✓

(1)

**3.2.2 Give any ONE example of sector in South Africa where minimum wages should be applied according to the above graph.**

- Contract Cleaning services ✓
- Domestic Workers ✓
- Farm Workers ✓
- Forestry ✓
- Hospitality ✓



- Private Security✓
  - Wholesale and Retail✓
  - Taxi✓
- Accept any correct response (1)

### 3.2.3 Briefly describe the concept minimum wage

- Minimum wage is the least amount of money that can be paid to employees✓✓
- Accept any correct response

### 3.2.4 What is the advantage of having a national minimum wage instead of minimum wage per sector.

- Prevent discrimination among workers in the different sectors ✓✓
  - That national minimum wage could be higher\_which will improve the standard of living✓✓
- (2)

### 3.2.5 Explain the implication of the R3 500 minimum wage imposed by the government

- The wage rate will be higher than the market rate of R2 500✓✓
  - At this rate more people will avail themselves, therefore the supply of labour will increase from 200 to 300 ✓✓
  - On the other side, the demand for labour will decrease from 200 to 100 ✓✓
  - This will create an oversupply of workers as supply exceeds demand / unemployment will increase ✓✓
- (4)

## 3.3 DATA RESPONSE

### 3.3.1 Identify the market in which the demand curve shows the downward slope.

- Market B✓
- (1)

### 3.3.2 What is the nature of product sold in market B

- Unique✓
  - Differentiated✓
- (1)

### 3.3.3 Briefly describe the term marginal cost

- The additional cost incurred when an additional unit is produced✓✓
- Accept any correct response (2)

**3.3.4. Why is it difficult for other producers to supply the same product as the monopolist?**

- There are barriers that prevent them to enter the product market due to high development costs✓✓
- There are obstacles which are not of economic nature like patents, copyrights, licensing, exclusive ownership etc. which makes it difficult to enter the market✓✓ (2)

**3.3.5 Calculate the marginal revenue for market B at quantity 2. Show all the calculations**

$$\begin{aligned}
 MR &= \Delta TR / \Delta Q \checkmark \\
 &= (16 - 10) / (2 - 1) \checkmark \\
 &= 6/1 \checkmark \\
 &= 6 \checkmark
 \end{aligned}
 \quad (4)$$

**3.4 Examine briefly control over price and market information as characteristics of monopolistic competition**

**Control over prices**

- Monopolistic competition has some degree of control over the price but not to the same extent as oligopoly and monopoly✓✓
- Monopolistic competitor has limited control over price due to product differentiation✓✓
- Monopolistic competitor is regarded as a price maker as the demand of goods and services is not perfectly elastic✓✓

**Market information**

- There is incomplete information available to buyers and amongst sellers✓✓
- Due to many suppliers in a monopolistic competitive market, the monopolistic competitor might decide to withhold pertinent market information in order to gain a competitive advantage over other supplier✓✓

**3.5 Why do oligopolies often collude though it is illegal in South Africa?**

**Because:**

- It is an effort to try reduce uncertainty✓✓
- They will like to enjoy the advantage of high profit and limit other businesses to enter the market✓✓
- They want to control the market and form collective monopoly✓✓
- The cost of doing business in oligopoly is very high, and requires a large amount of money✓✓
- Firms are mutually interdependent and large amount of money is required to monitor each other's actions and this increases the firm's

- total cost of doing business✓✓
- Collusion makes firms to engage in cooperation with one another instead of competing✓✓

(8)

[40]



**QUESTION 4**

4.1 Answer the following questions

**4.1.1 Name TWO institutions responsible for regulating competition in South Africa.**

- Competition commission✓
- Competition tribunal✓
- Competition appeal court✓ (2)

**4.1.2 Why does the government provide subsidies to producers?**

- Subsidies reduce the cost of production which will encourage producers to increase production of certain goods✓✓ (2)
- Accept any correct response

**4.2 DATA RESPONSE**

**4.2.1 Identify the market structure referred to in the above extract.**

- Perfect competition/ perfect market✓ (1)

**4.2.2 What is the nature of product sold in the above market structure?**

- Homogeneous✓ (1)

**4.2.3 Briefly describe the concept market.**

- The mechanism that brings together buyers (demand) and sellers (supply)✓✓ (2)

Accept any correct response

**4.2.4 What would the impact on the market be if many firms leave this industry?**

- The supply curve in the market will shift to the left / decrease in supply✓✓ (2)
- Market price will increase✓✓

**4.2.5 Why is it not possible for a single business to adjust its selling price in this market structure?**

- There are many sellers in the market and a single business is very small to influence the market price ✓✓

- They are price takers, if they increase prices, they won't sell anything / If they decrease prices, they will make a loss✓✓ (4)  
Accept any correct response

### 4.3 DATA RESPONSE

#### 4.3.1 What is the equilibrium price from the above graph?

- 120✓ (1)

#### 4.3.2 Identify the quantity of goods above that will be supplied if a maximum price of R70 is implemented.

- 50✓ (1)

#### 4.3.3 Briefly describe the term *market failure*.

- Market failure occurs when the best available (optimal) production has not been achieved / when there is allocative and/or productive inefficiency✓✓ (2)

#### 4.3.4 Why will a government implement maximum prices of certain goods?

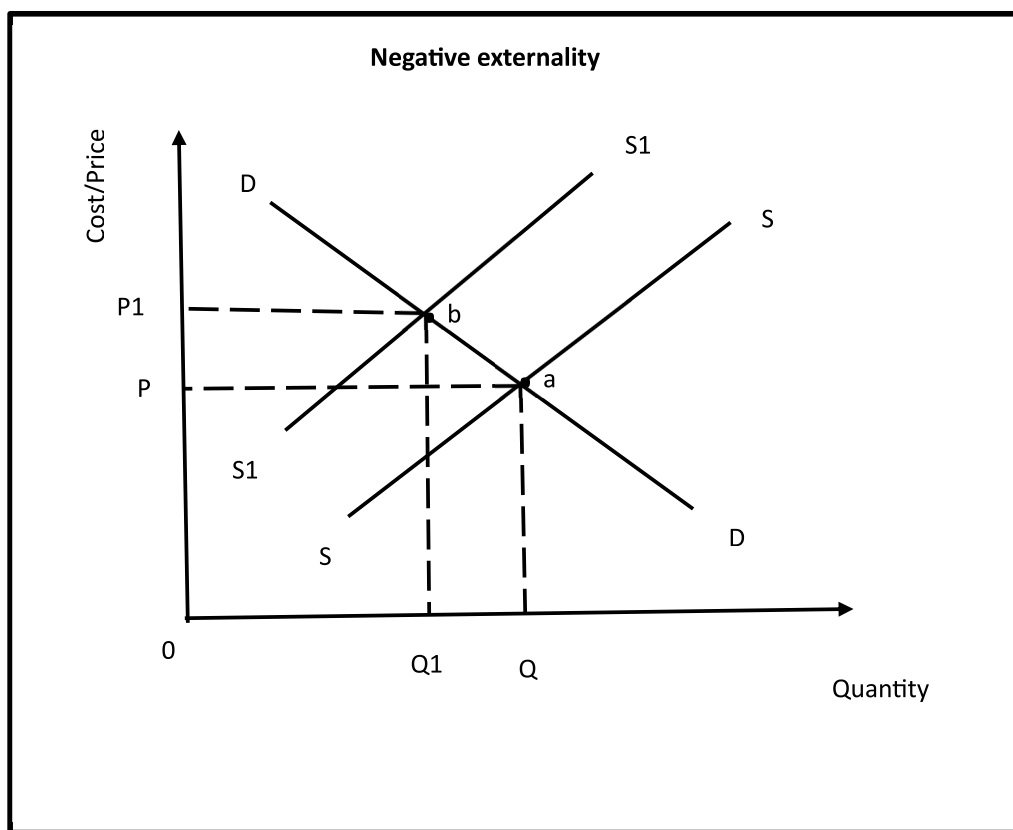
To make goods more affordable / give the poor greater access to certain goods and services / safeguard the interest of the consumer✓✓ (2)  
Accept any correct response

#### 4.3.4 Explain the impact of maximum prices on the market with reference to the above graph.

- At the maximum price at R70 suppliers will reduce the supply 50 ✓ while consumers will increase their demand to 150 ✓
- The demand will exceed the supply by 100, therefore creating a shortage on the market ✓✓ (4)  
Accept any correct response

#### 4.4 How effective is competition policy in regulating mergers and takeovers in South Africa?

- The competition policy is effective in:
- Putting in place the competition commission, competition tribunal and competition appeal court to investigate and approve mergers and takeovers, investigating whether it is going to substantially prevent or lessen competition ✓✓
- Taking into account the public interest effects such as its impact on employment ✓✓
- Considering the ability of small businesses owned by disadvantaged to become competitive ✓✓
- Ascertaining the merger of Massmart and Walmart where they ensured no job losses occurred for a certain period of time ✓
- Providing services to local businesses to ensure sustainability of local producers ✓✓
- Ensuring that mergers are not for the sake of creating market power ✓✓
- Looking into the details of each case and come to a suitable decision ✓✓
- Declining the merger where Air Link wanted to acquire SAfair in 2018, to limit competition due to a few firms in that market ✓✓
- Approving mergers with conditions, e.g., between Regent and Hollard insurance companies in 2017 ✓✓ The condition was that no employees may be retrenched for a period of 3 years after the merger ✓✓
- Approving a successful merger with no conditions attached, in the Mondi acquiring Excelsior technologies in 2017 ✓✓ (Max: 8)  
(Accept other correct relevant higher order response)

**4.5 Describe negative externality with the aid of the well labelled graph. (8)****Marks allocation**

Correct labelling of axes: 1 mark

Correct drawing and labelling of original demand and supply curves: 1 mark

Correct labelling and shift of supply curve: 1 mark

Correct indication of new equilibrium point: 1 mark

Total 4 Marks

- At point a, the price charged for the good is P and Q is the quantity sold ✓✓
  - This represents private costs ✓✓
  - However, if it was possible to calculate the external costs, these could have been added to the private costs ✓✓
  - If consumers were required to pay the full cost (social cost), a different equilibrium would prevail at b, giving a higher price of P1 and a reduced output of Q1 ✓✓
- Accept any other correct relevant response

(4)

(8)

**[40]****TOTAL SECTION B: 80**



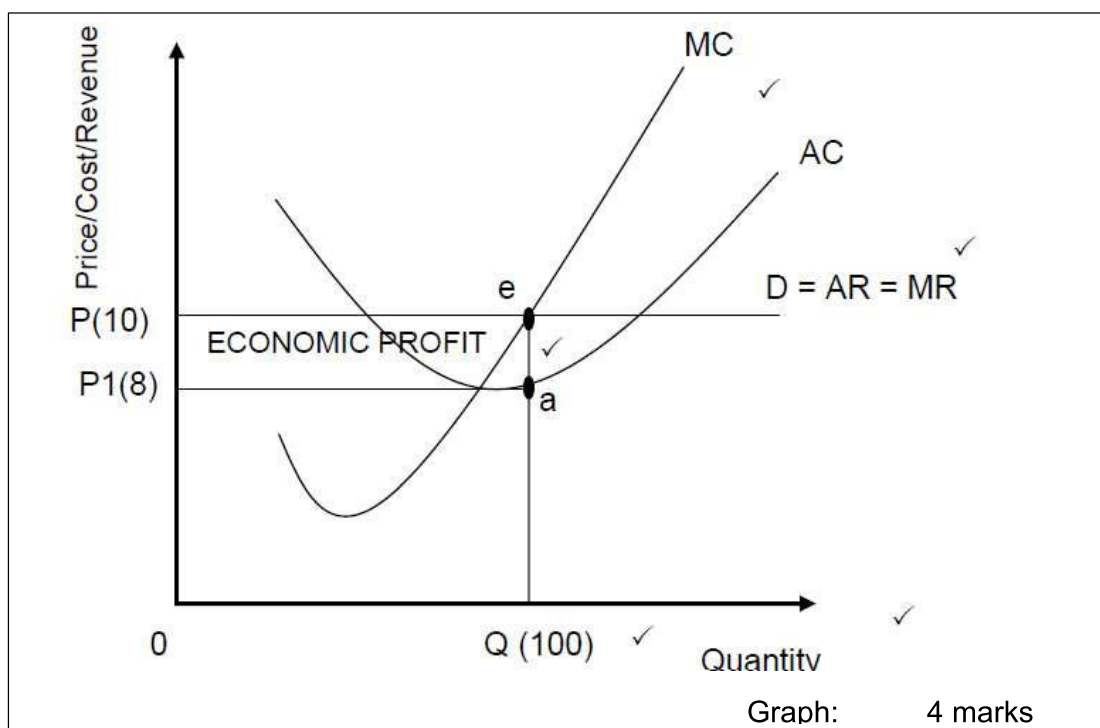
**QUESTION 5**

**With the aid of graphs, discuss the various short-run equilibrium positions in a perfect market**

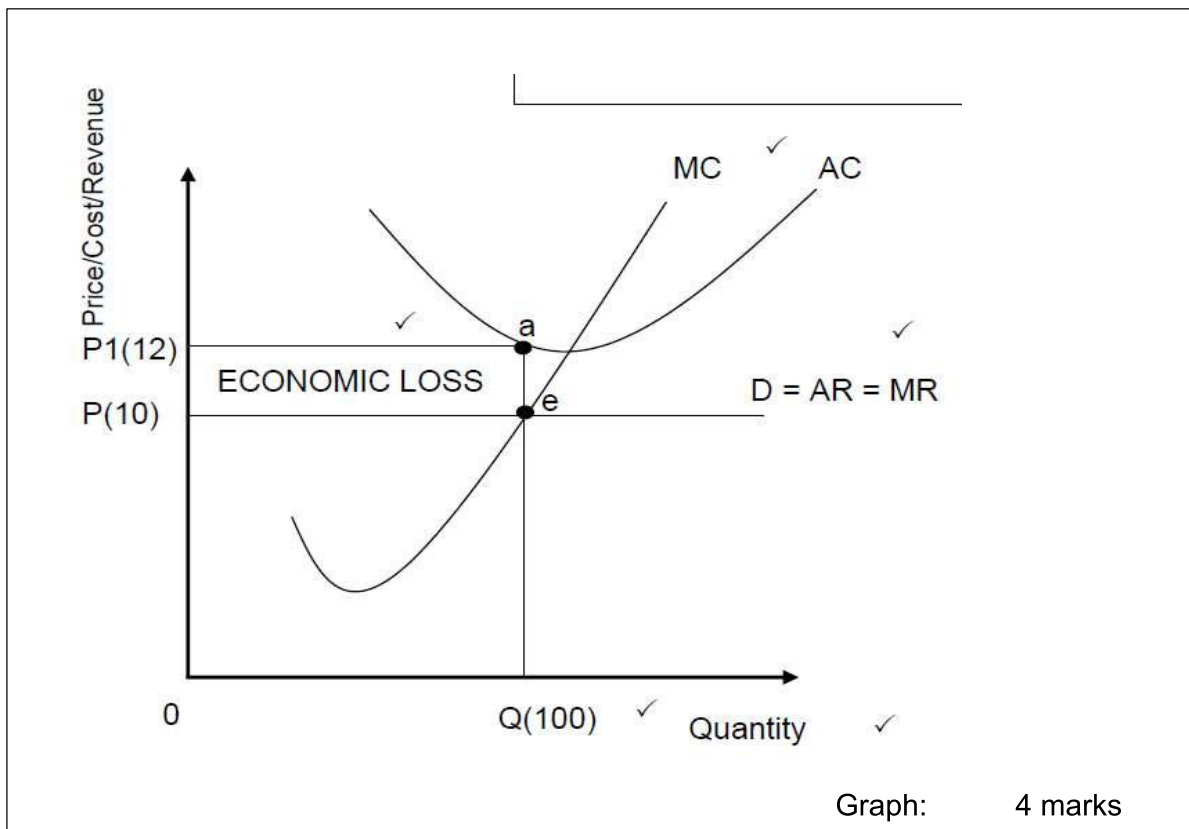
**How is perfect competition beneficial as a market structure?**

**INTRODUCTION**

A perfect market/ competition is a market structure with a large number of buyers and sellers. ✓✓ (2)

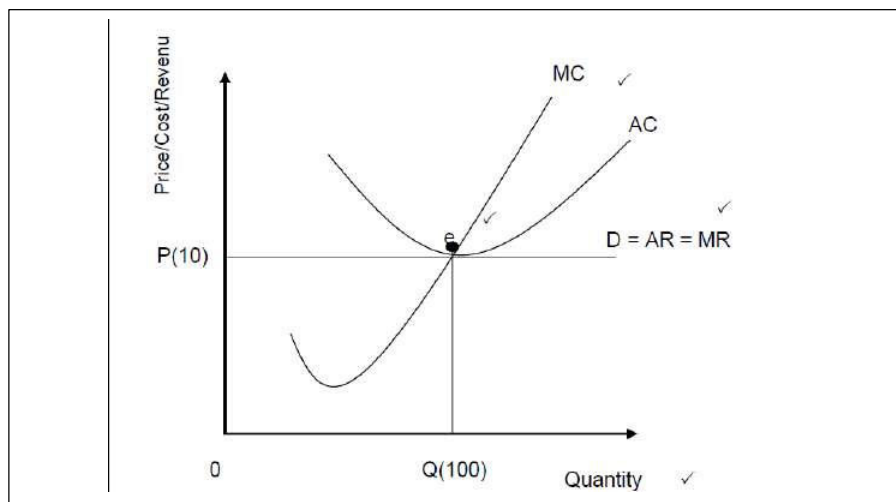
**BODY/MAIN PART****ECONOMIC PROFIT**

- Economic profit is the profit that is made in addition to the normal profit/When average revenue is greater than average cost the firm makes economic profit. ✓✓
- The firm produces at point e where  $MR=MC$  ✓✓
- At e, Q/100 units are produced at P/R10. ✓✓
- At point e, AR (P/R10) is greater than AC (P1/R8). ✓✓
- The firm makes an economic profit of  $P_e - P_1 / TR - TC$  ( $R1000 - R800 = R200$ ) /  $R2 \times 100 = R200$ ). ✓✓

**ECONOMIC LOSS**

- Economic loss occurs when total costs are greater than the total revenue/when average revenue is lower than the average cost. ✓✓
- The firm produces at point e where  $MR=MC$ . ✓✓
- At e, Q/100 units are produced at P/R10. ✓✓
- At point e, AR (P/R10) is less than AC (P1/R12). ✓✓
- The firm makes an economic loss of  $PP1ae / TR - TC (R1000 - R1200 = -R200) / R10 - R12 = -R2$ .



**NORMAL PROFIT**

- Normal profit is the minimum earnings required to prevent the entrepreneur from leaving the industry. ✓✓
- Normal profit occurs when total revenue equals total cost/ when average revenue equals average cost. ✓✓
- The firm produces at point e where  $MR=MC$ . ✓✓
- At e, Q/100 units are produced at P/R10. ✓✓
- At point e, AR (P/R10) is equal to AC (P/R10). ✓✓
- The firm makes normal profit of  $P \times Q - AC \times Q / R1000 - R1000 = R0 / R10 - R10 = R0$ . ✓✓

(26)

Accept any correct response and correct values given and corresponding with the explanation

**ADDITIONAL PART**

- The costs of production are lower due to allocative efficiency. ✓✓
- There are no barriers to entry in the market, aspiring businesses can easily enter the market. ✓✓
- Perfect market increases competition which lowers the prices for the consumer. ✓✓
- A perfect competitor produces large quantities and sell at lower prices which benefits the consumers. ✓✓
- The products are already known in the market therefore producers save on advertising costs. ✓✓
- Consumers are not exploited since perfect competitors are price takers and sell at a market price. ✓✓
- The costs of production are lower as the firms produce at the lowest point of the average cost curve. ✓✓

(Max: 10)

**CONCLUSION**

Businesses under perfect competition can only realise normal profits in the long-run. This is due to the number of businesses entering in the market to share in the profits being made in the short-run. ✓✓ (2)

Accept any correct response

**[40]**

**QUESTION 6****Discuss the causes of market failure in detail****Analyse productive inefficiency with the aid of the production possibility curve graph****INTRODUCTION**

Market failure occurs when market forces of demand and supply do not ensure the correct quantity of goods and services are produced to meet demand at the right price. ✓✓ (Max 2)

(Accept any other correct relevant response)

**BODY/MAIN PART****Externalities**

- These are known as spill-over effects to third party which is not directly involved in the production process ✓✓
- As externalities in production and consumption often exist and output is usually based on private costs and benefits, this is a significant cause of market failure. ✓✓

Negative externalities ✓

- Negative externalities are costs to third parties that are not included in the market price ✓✓ e.g. pollution, ✓
- The costs of negative externalities such as ill health are not paid by the producers. ✓✓
- Harmful these good are often over produced in the economy which is not socially desirable. ✓✓

Positive Externalities ✓

- A positive externality occurs when a benefit to a third party from the action or decision of another party. ✓✓ e.g., Education ✓
- These goods are often under-produced by the market and government steps in to provide for the short fall. ✓✓

( A maximum of 4 marks will be allocated for graphical illustration)

**Public goods/Missing markets ✓**

- Can only form under certain conditions and when these conditions are absent, markets struggle to exist. ✓✓
- Public goods are not provided for by market mechanism because producers cannot withhold the goods for non-payment and since there is often no way of measuring how much a person consumes, there is no basis to establish a market price. ✓✓

- Markets measuring how much a person consumes, there is no basis for establishing a market price
- lightning, flood control, storm water drainage and lighthouses.

**Collective goods:** these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals. ✓✓

- **Community goods:** these are goods such as defence, police services, prison services, streetlights: these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals. ✓✓

### **Merit goods and demerit goods:**

- **Merit goods:** Some goods are highly desirable for the general welfare of the people of the country and are often not highly rated by the market. ✓✓
- If people have to pay market prices for them, relatively little would be consumed. ✓✓
- **Demerit goods:** Items such as cigarettes, alcohol, and non-prescriptive drugs are example of demerit goods. ✓
- In a free market economy, these goods are over-consumed. ✓✓
- Government can ban their consumption or reduce it by means of taxation such as excise duties ✓✓ and by providing information about their harmful side effects. ✓✓

### **Imperfect competition** ✓

- In market economies, competition is often impaired by power. ✓✓
- Power often lies to a greater extent with producers than with consumers. ✓✓
- Most businesses operate under conditions of imperfect competition that allow producers to restrict output, raise prices and produce where price exceeds marginal cost. ✓✓

### **Lack of information** ✓

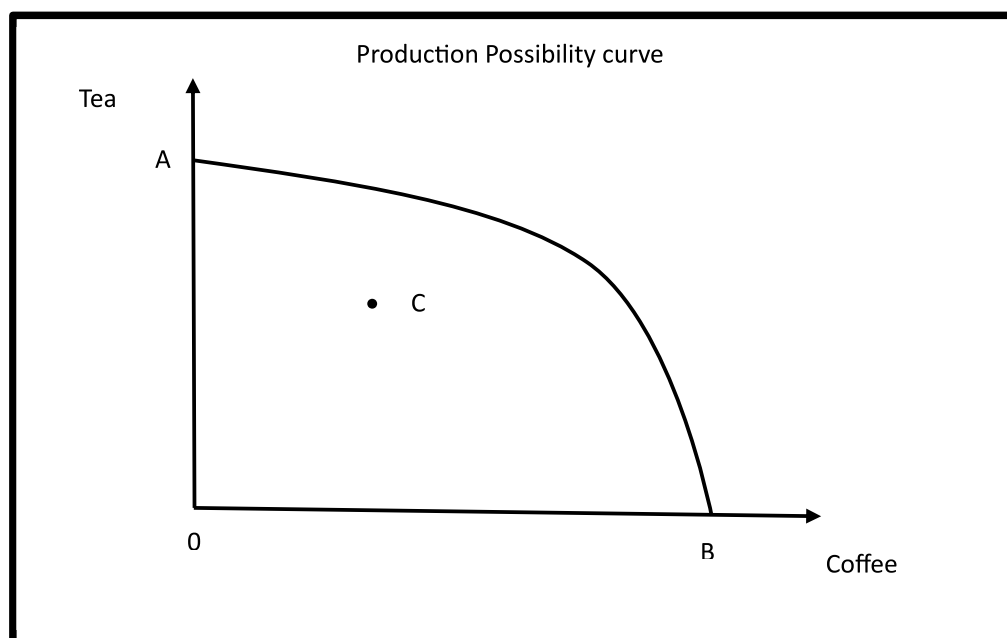
- Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make rational decisions. ✓✓
- **Consumers:** Although advances in technology increase the amount of information to which people have access, they obviously do not have perfect information. ✓✓
- **Workers:** They may be unaware of job opportunities outside their current employment. ✓✓
- **Entrepreneurs:** They may lack information about the costs, availability and productivity of some factors of production, and may be operating on the basis of incorrect information. ✓✓

**Immobility of the factors of production: ✓**

- Most markets do not adjust rapidly to changes in supply and demand. ✓✓
- **Labour:** may take time to move into new occupations and geographically to meet the changes in consumer demand. ✓✓
- **Physical capital:** Factory buildings and infrastructure such as telephone lines, bridges, rail links and airports are not moveable at will. ✓✓
- This capital last for many years but cannot be moved to fit change in demand. ✓✓
- **Technological applications change production methods:** Technology used in the production may change such as the use of robots rather than labour in mines. ✓✓
- It takes time for most industries to adapt - with greater technological changes ✓✓
- Workers need to be flexible, upskilled and be able to change employment, as well as work patterns. ✓✓

**Imperfect distribution of income and wealth: ✓**

- The most important shortcoming of market systems is that it is neutral in the issue of income distribution. ✓✓
- If the initial distribution is unequal, the final distribution will be too
- For this reason, it is often argued that the market fails. ✓✓

**ADDITIONAL PART**

Heading: 1 mark  
 PPC: 1 mark  
 Axes: 1 mark  
 Inefficient point: 1 mark  
 Total: 4 marks





- All points on the PPC AB illustrate combinations of tea and coffee produced when resources have been efficiently utilised✓✓
  - Any point on the PPC illustrate productive efficiency.✓✓
  - At point A the business is allocating all of its resources to produce tea
  - At point B all available resources are used to produce coffee✓✓
  - Any point to the left of PPC indicates that resources are not fully utilised and this is point C on the PPC and is known as inefficient point✓✓ (6)
- (10)

### CONCLUSION

Market failures can have devastating effects on the economy which requires government to intervene to reduce their consequences. ✓✓

[40]

**TOTAL SECTION C: 40**

**GRAND TOTAL: 150**