

SA's Leading Past Year

Exam Paper Portal



You have Downloaded, yet Another Great Resource to assist you with your Studies 😊

Thank You for Supporting SA Exam Papers

Your Leading Past Year Exam Paper Resource Portal

Visit us @ www.saexampapers.co.za





Province of the
EASTERN CAPE
EDUCATION



NATIONAL SENIOR CERTIFICATE

GRADE 12

JUNE 2024

ECONOMICS P2 MARKING GUIDELINE

MARKS: 150

This marking guideline consists of 18 pages.



**SA EXAM
PAPERS**

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

1.1.1 C ✓✓ (break-even)

1.1.2 B ✓✓ (price-taker)

1.1.3 D ✓✓ (Competition Act)

1.1.4 A ✓✓ (monopoly)

1.1.5 C ✓✓ (minimum prices)

1.1.6 B ✓✓ (public sector projects)

1.1.7 A ✓✓ (profits)

1.1.8 D ✓✓ (sin tax)

(8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 E ✓ – Actual expenditure of businesses

1.2.2 A ✓ – An institution that investigates restrictive business practices

1.2.3 F ✓ – A market structure in which there are many buyers and sellers

1.2.4 B ✓ – A group of producers who form a collective monopoly

1.2.5 G ✓ – Costs paid by the consumer when goods are purchased

1.2.6 H ✓ – An illegal market in which goods are bought and sold

1.2.7 C ✓ – Goods that are beneficial to society

1.2.8 D ✓ – Refers to the extra amount of income gained by selling one more unit of production

(8 x 1) (8)

1.3 GIVE ONE TERM

1.3.1 Homogenous ✓

1.3.2 Total revenue ✓

1.3.3 Price leadership ✓

1.3.4 Long-run ✓

1.3.5 Productive inefficiency ✓

1.3.6 Subsidies ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICROECONOMICS

2.1 2.1.1 **Name any TWO types of profit in a perfect market.**

- Normal profit ✓
 - Economic profit ✓ / supernormal profit ✓ / abnormal profit ✓
- (2 x 1) (2)

2.1.2 **Why do firms make an economic loss in the short-run?**

- When a business opens, it will be faced with high costs associated with starting a business ✓✓
 - A business can experience a loss of market share, leading to a reduction in total revenue ✓✓
 - A business may experience an increase in total cost ✓✓
- (Accept any other correct relevant response.) (1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 **Identify a break-even point in the graph above.**

- A or B ✓
- (1)

2.2.2 **Name ONE curve that can be used to illustrate the profit maximisation point of a perfectly competitive firm.**

- MR ✓ / MC ✓
 - Marginal revenue curve ✓ / marginal cost curve ✓
 - TR (Total revenue curve) ✓ / TC (Total cost curve) ✓
- (2)

2.2.3 **Briefly describe the term *profit maximisation*.**

- Profit maximisation is the short-run or long-run process by which a firm may determine the price, input and output levels that may lead to the highest possible total profits. ✓✓
- (2)

2.2.4 **Why is the firm above maximising profit when output produced is 40?**

- The gap between TR and TC is the greatest. ✓✓
- (2)

2.2.5 **How does the total revenue (TR) curve of a perfectly competitive firm differ from the one of an imperfectly competitive firm?**

- The TR curve of a perfectly competitive firm is positively sloped (upward sloping from left to right). ✓✓
 - The one of an imperfectly competitive is hump-shaped (starting by rising, reaching the peak and then declines). ✓✓
- (2 x 2) (4)

2.3 DATA RESPONSE

2.3.1 Identify ONE non-price competition method that chain stores use to compete from the extract.

- Online shopping ✓ (1)

2.3.2 Name the market structure associated with chain stores.

- Monopolistic competition ✓ (1)

2.3.3 Briefly describe the term *collusion*.

- An arrangement between businesses with the aim of limiting competition between them by fixing prices. ✓✓

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

2.3.4 Why would a monopolistic competitor not gain a larger market share if they decrease their prices?

- Monopolistic competitors use non-price competition strategies to compete; they do not compete using prices. ✓✓
- Many customers enjoy other benefits that their favourite store offers, therefore they remain loyal (brand loyalty) to Spar even if Shoprite decreases their prices. ✓✓ (2)

2.3.5 What negative consequences could the closing down of chain store have on employees?

- It could result in the retrenchment of workers ✓✓
- It contributes to less physical interaction and this may lead to anti-social behaviour and less work satisfaction ✓✓
- Older employees will be retrenched, and they will become unemployable ✓✓
- Employees will earn no income and that will decrease their standard of living ✓✓

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

2.4 Briefly describe the objectives of the competition policy in South Africa.

- To help prevent the abuse of economic power, for example by a monopolist ✓✓
- To regulate the growth of market power by means of takeovers and mergers ✓✓
- To prevent restrictive business practices, especially by oligopolies, such as fixing of selling prices, collusion in respect of tenders or price discrimination ✓✓
- Contribute to the development of the five macroeconomic objectives of the state such as price stability and economic equity ✓✓
- To improve efficiency of markets through legislation such as the competition act. ✓✓
- To improve equity in markets by implementing redress methods e.g., Employment Equity Act, BBBEE etc. ✓✓
- To protect the consumer against unfair prices and inferior products e.g., Competition Act ✓✓
- To prevent price fixing usually practiced by oligopolistic firms. ✓✓
(Accept any other correct and relevant response.)
(Allocate a maximum of 4 marks for mere listing of facts.)

(Max. 8)

(4 x 2)

(8)

2.5 How would the implementation of minimum wages impact negatively on the economy?

- Minimum wages will enable citizens to afford basic needs, ✓ leading to an improvement in the standard of living ✓
- Affordability will improve as a result of the imposition of minimum wages ✓✓
- Minimum wages can also increase productivity as workers will become more motivated, and work much harder ✓✓
- Minimum wages also increase the cost of production; hence employers would want to have some way to recover them ✓✓
- The increasing costs will offset the profits of businesses ✓✓
- Some entrepreneurs may opt to hike prices, which may provoke inflation and make it difficult to consumers to afford ✓✓
- Others may scale down their production which may lead to job losses ✓✓
(Accept any other correct relevant response.)
(Allocate a maximum of 2 marks for mere listing of facts.)

(Max. 8)

(4 x 2)

(8)

[40]

QUESTION 3: MICROECONOMICS**3.1 3.1.1 Name any TWO features of public goods.**

- Non-rivalry ✓
- Non-excludability ✓
- Non-rejectability
- Social benefits outstrip social costs ✓
- Continuous consumption

(Any 2 x 1) (2)

3.1.2 How would the reducing of wealth and income gaps affect consumers positively?

- Taxes on wealth will help the government to redistribute to the poor ✓✓
 - More money can be spent on education and improving people's lives to overcome poverty ✓✓
 - Laws can also be used to reduce inequality ✓✓
 - The standard of living of citizens will be improved ✓✓
- (Accept any correct relevant response.)

(Any 2 x 1) (2)

3.2 DATA RESPONSE**3.2.1 Identify the market wage on the graph above.**

- 2 500 ✓

(1)

3.2.2 Name the curve in the graph that represents the employers.

- DD ✓ / Demand curve ✓

(1)

3.2.3 Briefly describe the term *maximum price*.

- It refers to a price set below the market price to accommodate economically marginalised individuals who could not have been able to afford the good or service. ✓✓
- (Accept any other correct relevant response.)

(2)

3.2.4 Why does the government levy indirect taxes on demerit goods?

- They aim to reduce consumption of demerit goods as they are considered harmful to society. ✓✓
 - Taxation helps internalise the external cost (negative externalities) making consumers pay for the full social cost of their consumption choice. ✓✓
 - Indirect taxes generate substantial government revenue, which can be used to fund public services. ✓✓
- (Accept any other relevant correct response.)

(2 x 1) (2)

3.2.5 **Why is competition in the market good for the economy?**

Competition is good for the economy because:

- it pushes prices down and enables consumers to afford goods and services ✓✓
- when firms compete consumers will benefit from the variety of products available in the market ✓✓
- companies will operate efficiently because they need to stay competitive ✓✓
- competition enables economic growth and promotes global competitiveness ✓✓

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

3.3 **DATA RESPONSE**3.3.1 **Identify the number of houses the market will provide if all resources were spent on houses.**

- 12 000 ✓ (1)

3.3.2 **How many schools should the government provide to reach the socially optimum allocation?**

- 13 000 ✓ (1)

3.3.3 **Briefly describe the term *market failure*.**

- Market failure occurs when the forces of demand and supply fail to allocate resources efficiently. ✓✓

(Accept any other correct relevant description.) (2)

3.3.4 **Why are markets reluctant to provide public goods such as roads?**

- It requires a huge capital outlay which is challenging for the private sector. ✓✓
- It is difficult to charge higher prices and therefore profits are compromised. ✓✓
- The nature of the goods is non-rival (consumption by one does not reduce the amount available for somebody else). ✓✓
- Some of the goods are non-excludable (difficult to prevent people from using the good). ✓✓
- The cost to produce it is too high, and the profit margin is too low. ✓✓

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

3.3.5 How can the government encourage positive externalities?

- The government can provide subsidies who create products or services with positive externalities. ✓✓
- For example, subsidising the production of clean energy technologies to encourage the adoption of environmentally friendly practices, leading to reduced pollution and improved public health. ✓✓
- Subsidies to consumers can make goods or services with positive externalities more affordable. ✓✓
- The government can provide goods and services that generate positive externalities when private markets underproduce them. ✓✓
- Provide tax breaks or credits to individuals or businesses engaged in activities that generate positive externalities. ✓✓
(Accept any other relevant correct answer.) (2 x 2) (4)

3.4 Briefly discuss *non-price competition* and *market entry* as characteristics of monopolistic competition.**Non-price competition**

- Advertising can be used to attract customers. ✓✓
- Products differentiation makes goods different from those of competitors. ✓✓
- Extended shopping hours make shopping convenient for customers. ✓✓

Market entry

- Entry is free and easy, ✓ because there are no barriers like licences, permits or patents that restrict entry. ✓✓
- It is also easy for businesses that want to leave the market to do so. ✓✓
(Accept any other correct relevant response.)
(A maximum of 4 marks will be given for mere listing.) (4 x 2) (8)

3.5 Why are negative externalities considered a consequence of market failure?

- Negative externalities are considered as a consequence of market failure because they represent a situation in which the market does not allocate resources efficiently. ✓✓
- This creates a situation of market failure where the market is not achieving optimal outcome from the perspective of society as a whole. ✓✓
- Markets are often imperfect and there may be a divergence between private and social costs. ✓✓
- The market price does not reflect the full cost of production, and some costs are covered by third parties who are not involved in the transaction. ✓✓
- The market price does not reflect the full cost of production; the market will tend to produce too much of the good or service that generates the negative externality, leading to an inefficient allocation of resource. ✓✓
(Accept any other relevant correct response.)
(Allocate a maximum of 2 marks for a mere listing of facts/examples.) (4 x 2) (8)

[40]

QUESTION 4: MICROECONOMICS

4.1 4.1.1 **Name any TWO examples of explicit cost.**

- Wages ✓
- Interest ✓
- Leasing of land ✓
- Expenditure on raw materials ✓

(Accept any other relevant correct response.)

(Any 2 x 1) (2)

4.1.2 **Why is the private sector reluctant to provide community goods?**

- Producers cannot withhold the goods for non-payment and are much more driven by the economic motive in the endeavour. ✓✓

(Accept any other correct relevant response.)

(2 x 1) (2)

4.2 **DATA RESPONSE**

4.2.1 **Identify the market price from the graph above.**

- P ✓

(1)

4.2.2 **Which part of the demand curve is elastic on the graph above?**

- BC ✓ / Bottom segment ✓ / Lower segment ✓

(1)

4.2.3 **Briefly describe the term *oligopoly*.**

- It is a market structure dominated by few sellers selling a differentiated or homogeneous product. ✓✓

(2)

4.2.4 **Why is the demand curve of an oligopoly kinked?**

- Oligopolies behave differently when the prices increase or decrease. ✓✓
- The demand curve of an oligopolist is kinked, because it has two elasticities, the upper part is relatively inelastic while the bottom part is relatively elastic. ✓✓

(Accept any other correct relevant response.)

(2)

4.2.5 **How can the government correct allocative distortions caused by oligopolies?**

- They can invite competition from abroad to restrain harmful practices of local oligopolies ✓✓
- The government strengthen the implementation of the Competition Act 89 of 1998 to promote competition and erase exploitation and allocative distortions caused by oligopolies. ✓✓
- The government has established the Competition Commission, Competition Tribunal and Competition Appeal Court to enhance the level of competition in the economy. ✓✓

(Accept any other correct relevant response.)

(2 x 2) (4)

4.3 DATA RESPONSE

- 4.3.1 **Identify an institution that is responsible for investigating anti-competitive behaviour in the extract above.**
 • The Competition Commission ✓ (1)
- 4.3.2 **Which institution rules on the cases submitted by businesses that are not satisfied with the rulings made by the Competition Tribunal?**
 • The Competition Appeal Court / CAC ✓ (1)
- 4.3.3 **Briefly describe the term *implicit costs*.**
 • The value of skills owned by the entrepreneur and used in the production process. ✓✓
 (Accept any other correct relevant response.) (2)
- 4.3.4 **Explain the way in which dominant businesses can abuse their market powers.**
 Business can abuse their market power by:
 • excessive pricing of goods or service, denying competition access to an essential facility, price discrimination (unjustifiably charging customers different prices for the same goods or services). ✓✓
 • refusal to supply scarce resources to a competitor. ✓✓
 • inducing suppliers or customers not to deal with a competitor. ✓✓
 • charging prices that are below cost so as to exclude rivals.
 • bundling of goods or services and buying up a scarce input required by a competitor. ✓✓
 (Accept any other correct relevant response.) (2)
- 4.3.5 **How can small, medium and micro enterprises (SMME) contribute to the goals of the competition policy?**
 • They provide more competition which will prevent monopolies from abusing their power/prevent some firms from using restrictive practices like price fixing. ✓✓
 • SMME's are an indication that all South African businesses, small and big are provided with equal opportunities to participate in the economy. ✓✓
 • The labour-absorptive capacity of small businesses sector is higher than that of other sizes. ✓✓
 • The average capital cost of the job created in the SMME sector is lower than in the big businesses sector. ✓✓
 • They provide opportunities for aspiring entrepreneurs, especially those who are unemployed, under employed or retrenched. ✓✓
 • Workers at the smaller end of the scale often require limited or no skills or training, they learn on the job. ✓✓
 (Accept any other correct relevant response.) (2 x 2) (4)

4.4 **Briefly discuss overt collusion and tacit collusion.****Overt collusion**

- It is an organisation of oligopolistic business that comes into existence in an industry with the specific aim of forming a collective monopoly. ✓✓
- It is when oligopolies collude openly and formally. ✓✓
- Cartels control the production of goods and this influences the prices of products ✓✓ e.g., OPEC (oil). ✓ (Max. 4)

Tacit collusion

- The behaviour by firms is motivated by an arrangement that is not formal. ✓✓
- Price signals are frequently the key element to tacit collusion. ✓✓
- One business increases its price in the hope that the rivals will increase their prices – a firm like this is known as a price leader. ✓✓
- When the other businesses follow with the increase, they are known as price followers. ✓✓
- Price leaders are usually the strongest and most dominant business whose production cost is the lowest, e.g. steel industry, transport industry. ✓✓

(Accept any other correct relevant response.)

(A maximum of 4 marks must be allocated for mere listing of facts.)

(Max. 4) (8)

4.5 **Examine the conditions under which perfect competition successfully operates.**

- 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. ✓✓
- Perfect competitor produces large quantities and sell at lower prices which benefits the consumer. ✓✓
- Products are already known in the market therefore producers save on advertising. ✓✓
- Consumers are not exploited since 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. ✓✓

(Accept any other correct relevant response.)

(A maximum of 2 marks may be allocated for mere listing of facts.)

(4 x 2) (8)

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

SECTION C

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

QUESTION 5: MICROECONOMICS

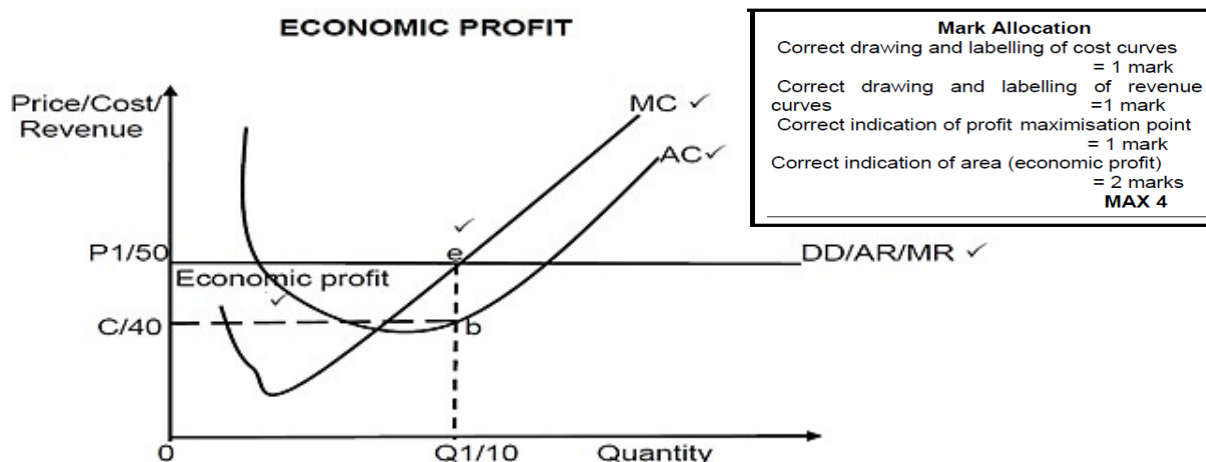
- With the aid of a graph discuss in detail the various equilibrium positions under perfect market conditions. (26 marks)
- Why are South African state monopolies unable to achieve economic profit? (10 marks)

INTRODUCTION

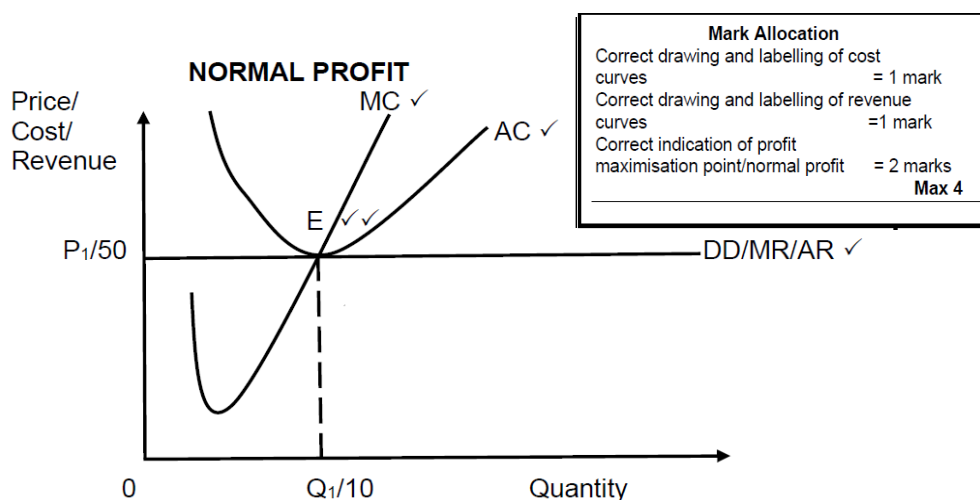
- A perfect market is a market structure that consists of many sellers of homogenous products. ✓✓/ A market is an institution or mechanism that brings together buyers and sellers of goods and services. ✓✓/ A market structure is how markets are organised. ✓✓

(Accept any other correct relevant response.)

(2)

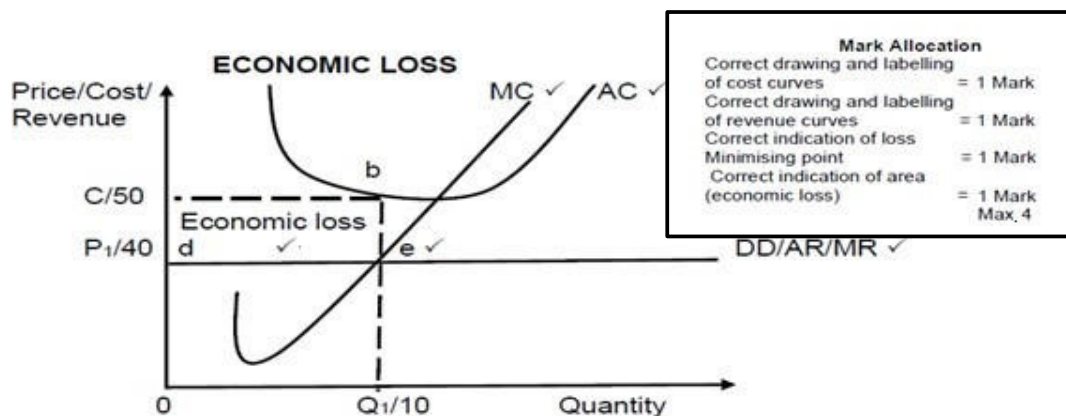
BODY: MAIN PART

- The minimum point of the short-term average cost curve is lower than the market price. ✓✓
- The business is in equilibrium (maximising profits) at point e where $MR = MC$. ✓✓
- Total revenue is equal to $OQ1 \times OP1$ (50×10) and total cost is equal to $OQ1 \times OC$ (40×10). ✓✓
- The economic profit is represented by area $CP1EB$ (R100). ✓✓



At point e where $MC = MR$ the business will produce Q_1 and at market price P_1 ✓✓

- The lowest point of AC is tangent to the AR/MR ✓✓
- This implies that $AC = AR$ and local total cost (50×10) = total revenue (50×10) ✓✓
- Normal profit is the minimum earnings required to prevent the entrepreneur from leaving the market. ✓✓



- The minimum point of the short-term average cost curve (AC) is above the market price. ✓✓
- The business is in equilibrium (minimising loss) at point e where $MR = MC$ and the business will produce at quantity Q_1 and market price P_1 . ✓✓
- Total revenue is equal to $OQ_1 \times OP_1$ (10×40) and total cost is equal to $OC \times OQ_1$. ✓✓
- The loss is represented by the area P_1CBE (100). ✓✓ (Max. 26) (26)

ADDITIONAL PART

Why are the South African state monopolies unable to achieve economic profit?

- Monopoly firms in South Africa supply goods and services to the whole country and find it difficult to set very high prices to achieve profits. ✓✓
- They are subjected to regulations which determine the selling price of their product to be affordable to the poor. ✓✓
- They experience high maintenance costs due to the destruction of their infrastructure which compromises their profits. ✓✓
- Revenue seems to be less than costs due to corruption and theft and non-payment by large number of users. ✓✓
- Monopolies cannot manipulate their quantities to increase the price but fail to provide adequate quantities. ✓✓
- Most of monopolies are parastatals which lack accountability and poor management. ✓✓

(Allocate a maximum of 2 marks for mere listing of facts.)

(5 x 2)

(10)

CONCLUSION

It is important to note that the industry demand curve in perfect markets, like all other market structures, slopes downwards from left to right. ✓✓

(Accept any other correct relevant and higher order response.)

(2)

[40]

QUESTION 6: MICROECONOMICS

- **Discuss in detail, that lead to the misallocation of resources in the market under the following headings:**
 - **Missing markets** (10 marks)
 - **Lack of information** (8 marks)
 - **Immobility of factors of production** (8 marks)
- **How effective is the government's intervention strategy on the redistribution of wealth in South Africa?** (10 marks)

INTRODUCTION

Market failure is when the forces of demand and supply fail to allocate resources efficiently. ✓✓

(Accept any other correct relevant introduction.) (2)

BODY: MAIN PART**Missing markets**

- Markets are incomplete because they cannot meet the demand for certain goods. ✓✓
- Public goods (community and collective goods) are in high demand but are not supplied by the market because of the low profit gained from them and the cost of capital needed to supply. ✓✓
- Since private producers cannot withhold these goods for non-payment, they are reluctant to provide these goods. ✓✓
- The government thus provides these goods and services. ✓✓

Public goods ✓

- This includes community and collective goods and has two features:
- Non-rivalry: Consumption by one person does not reduce consumption by another individual ✓✓ for example, a lighthouse. ✓
- Non-excludability: Consumption cannot be confined to those who pay for it (free-riders can use them) ✓✓ e.g., radio and television ✓
- Social benefits outstrip private benefits for example health care and education. ✓✓
- Non-rejectability: Individuals are not able to abstain from consumption ✓✓, e.g. streetlighting. ✓
- Continuous consumption for example, traffic lights. ✓

Community goods ✓

- These are goods such as defence, police services, prison services, street lighting, flood control, storm water drainage and lighthouses. ✓✓

Collective goods ✓

- These are goods such as parks, beach facilities and streets. ✓✓
- Markets are incomplete and cannot meet the demand for these goods. ✓✓
- The government provides public goods which consist of lighthouses, parks, roads, bridges etc. ✓✓

Merit goods ✓

- These are highly desirable for general welfare, but not highly rated by the market e.g., health care, education and safety. ✓✓
- If people had to pay the market price for them, very little would be consumed. ✓✓
- The market will fail because the market produces less than the desired quantity. ✓✓

Demerit goods ✓

- These are over-consumed goods for example, cigarettes and alcohol thus more goods are produced than is socially desirable. ✓✓
- The government bans or reduces consumption of these products through taxation and provides information to the population on their harmful effects. ✓✓

(Max. 10) (10)

Lack of information

- Consumers, workers and entrepreneurs do not have necessary information to make rational decisions. ✓✓
- This results in resources not being allocated efficiently. ✓✓
- For consumers to maximise their benefits, they need detailed information about goods and services. ✓✓
- Although technology offers this to the consumer, they obviously do have perfect information. ✓✓
- Workers are often unaware of job opportunities. ✓✓
- Entrepreneurs lack information on costs, availability and productivity of factors of production, which impacts their effectiveness. ✓✓

(Max. 8 marks) (8)

Immobility of factors of production

- Labour takes time to move from one area to another and it takes time to change as the training of labour is costly. ✓✓
- The supply of skilled labour cannot be increased because of the time it takes to be trained or educated. ✓✓
- Physical capital such as factory buildings or infrastructure such as telephone lines cannot be reallocated easily. ✓✓
- Structural changes such as a change from producing plastic packets to paper packets or shifting from labour-intensive production to computer-based production requires a change in labourers' skills, employment and work patterns. ✓✓

(Maximum of 8 marks for mere listing of facts/examples.)

(Max. 8 marks) (8)

(Max. 26) (26)

ADDITIONAL PART

How effective is the government's intervention strategy on the redistribution of wealth in South Africa?

The government was effective in redistributing wealth

- South Africa has one of the most unequal wealth distributions in the world. ✓✓
- The government used transfers, social spending and BBBEE to reduce Inequalities created by apartheid. ✓✓
- The government has made limited use of wealth taxation / a wealth tax could reduce wealth inequality while also providing additional revenue. ✓✓
- Government failed to promote significant inclusive economic growth. ✓✓
- Government successfully used the education policy to create opportunities for the disadvantaged to obtain qualifications and earn higher incomes. ✓✓
- Despite some positive measures overall, government was ineffective in reducing the wealth gap as it continues to widen. ✓✓

(Accept any other correct relevant high order response.)

(A maximum of 4 marks will be allocated for mere listing/facts.) (Max. 10) (10)

CONCLUSION

The government should intervene to help these markets function better and promote a more equitable distribution of wealth and income to improve the standard of living in the country. ✓✓

(Accept any other correct relevant high-order conclusion.) (Max. 2) (2)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150