



## **Education and Sport Development**

Department of Education and Sport Development  
Departement van Onderwys en Sportontwikkeling  
Lefapha la Thuto le Tlhabololo ya Metshameko

**NORTH WEST PROVINCE**

### **PROVINCIAL ASSESSMENT**

**GRADE 12**

**ECONOMICS P2**  
**JUNE 2019**  
**MARKING GUIDELINES**

**MARKS: 150**

**TIME: 2 hours**

**This marking guideline consists of 13 pages.**



NW/JUNE/ECOM/ EMIS/6\*\*\*\*\*

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

- 1.1.1 C - fixed ✓✓  
 1.1.2 B - quantity demanded is equal to quantity supplied ✓✓  
 1.1.3 C - negatively ✓✓  
 1.1.4 D - conglomerates ✓✓  
 1.1.5 A - public goods ✓✓  
 1.1.6 B - failure ✓✓  
 1.1.7 D - feasibility study ✓✓  
 1.1.8 A - monopoly ✓✓ (8 x 2) (16)

**1.2 MATCH ITEMS**

- 1.2.1 D occurs when total costs are greater than total revenue ✓  
 1.2.2 C value of inputs owned by entrepreneur and used in the production process ✓  
 1.2.3 F When resources are not allocated in the right proportions and product mix does not match consumers' tastes ✓  
 1.2.4 B products are similar but slightly different ✓  
 1.2.5 A the time is long enough for variable and fixed factors to change ✓  
 1.2.6 H are the costs that consumers pay when they buy goods ( price) ✓  
 1.2.7 E situation in which two suppliers dominate the market for service or a product ✓  
 1.2.8 G the item that is sacrificed when a choice is made ✓ (8 x 1) (8)

**1.3 GIVE THE CONCEPT.**

- 1.3.1 Demerit goods ✓  
 1.3.2 Externalities ✓  
 1.3.3 Price Ceiling ✓  
 1.3.4 Average revenue ✓  
 1.3.5 Sunk costs ✓  
 1.3.6 South African Bureau of Standards ✓ (6 x 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****40 MARKS – 30 MINUTES**

2.1 Answer the following questions:

2.1.1 **Name any TWO examples of perfect competition.**

- Agricultural Market ✓
- JSE ✓

Any other relevant example (2 x 1) (2)

2.1.2 **How does the Competition Commission deal with restrictive trade practices?**



- The commission fines firms that are guilty of price fixing . ✓✓ (1 x 2 ) (2)

## 2.2 DATA RESPONSE GRAPH:

- 2.2.1 **What market structure is depicted above?**  
perfect market ✓ (1)
- 2.2.2 **Identify the total cost of production in the graph above**  
R10 x 130 / 1300 ✓ (1)
- 2.2.3 **Briefly describe the concept *economic profits***  
Profits that are made in addition to normal profits. ✓✓ (2)
- 2.2.4 **What is the significance of point a on the graph?**  
Point a. It is the point of profit maximization/ MR = MC. ✓✓ (2)
- 2.2.5 **Argue whether collusion is possible under condition of perfect market.**  
Collusion cannot occur under perfect competition ✓✓, each producer acts independently and is so small in relation to the total market that it cannot influence the market price by manipulating its supply. ✓✓ (4)

## 2.3 DATA RESPONSE EXTRACT:

### 2.3.1 Identify a cost and a benefit from the above extract.

#### Costs:

high capital costs, ✓ fuel prices, ✓ fuel use patterns ✓ Any ( 1 x1)

#### • Benefits:

Energy efficiency, ✓ low cost housing, ✓ solar water heaters ✓  
Any (1 x1)

### 2.3.2 Explain the concept *cost benefit analysis*.

CBA is a tool that is used to evaluate an investment project by weighing total social cost against total social benefits ✓✓ (2)

### 2.3.3 Highlight the challenge for applying CBA

- Is to put a financial valuation on all external cost and benefits ✓✓
- It is more of guess work, mixture of approximations and forecasts ✓✓  
(Accept any other relevant response) (Any 1 x 2)

### 2.3.4 How is CBA related to market failure?

- Market fails because of inappropriate allocation of resources ✓✓
- CBA seeks to correct project appraisal for market failure ✓✓
- A need for cost benefit analysis arises in cases of market failure where government seeks to provide services needed ✓✓ (Accept any other relevant response) Any (2x2) (4)

## 2.4 Distinguish between *price leadership* and *cartels* as forms of collusion

### Cartel

When collusion occurs openly it is referred to as a cartel ✓✓

- A cartel can be defined as an organisation of oligopolistic businesses that comes into existence in an industry with the specific aim of forming a collective monopoly ✓✓

### Price leadership

- This type of price determination is tacit ✓✓



- A firm will announce its intention to increase prices and hope its rivals will follow ✓✓
- The price leader is usually the largest or dominant business in the industry ✓✓

(2x4) (8)

## 2.5 Evaluate measures used by government to encourage and discourage externalities?

- The government can **reduce negative externalities** ✓✓
- The government has carried out campaigns in order to change/persuade people from causing negative externalities. ✓✓
- Levying taxes on goods that cause negative externalities ✓✓ e.g. taxes are levied on cigarettes and alcohol. ✓
- Passing laws and regulations to prevent activities that cause negative externalities ✓✓
- e.g. tobacco companies are not allowed to advertise. ✓
- The government introduced laws that regulate the amount of air pollution and waste. ✓✓
- (Accept any other correct relevant response) (Max 4)
- The government encourages positive externalities by: ✓✓
- Advertising on the radio or television encouraging South African citizens to use scarce resources supplied by government in a specific way ✓✓
- Providing education, health care and other services at a low cost or free to previously disadvantaged communities ✓✓
- Providing consumer subsidies to poor communities ✓✓✓
- (Accept any other correct relevant response) (Max 4) (8) [40]

### QUESTION 3

40 MARKS – 30 MINUTES

3.1 Answer the following questions:

3.1.1 Give any **TWO** benefits of Competition in an economy.

- Lower prices ✓
- A wide range of products ✓
  - High quality products ✓
  - Increased output ✓

Any (2x1) (2)

3.1.2 How would producers benefit from minimum prices?

- It allows producers to make a fair profit ✓✓

(1x2) (2)

### 3.2 DATA RESPONSE: GRAPH.

3.2.1 What is the selling price of the business above?

R60 ✓

(1)

3.2.2 What unit price will the monopolist charge to maximise profit?

R60 ✓

(1)

3.2.3 Briefly describe the term *monopoly*

It is a market structure where only one seller or producer operates ✓✓

(2)

3.2.4 What is required for monopoly to be classified as an artificial monopoly?

If entry is restricted by factors such as legal requirement e.g. licencing,

patents and copyrights ✓✓

(2)

3.2.5 Calculate the economic profit that this monopolist makes. Show ALL calculations.

(4)



- Total Profit = Total revenue – Total Cost  
 = (60 x 50) – (30 x 50)✓  
 = 3 000 – 1 500✓  
 = 1 500✓✓

OR

- Total Profit = Unit profit x quantity  
 = (60-30) ✓ x 50 ✓  
 = R1 500✓✓

(2)

### 3.3 DATA RESPONSE EXTRACT :

3.3.1 Mention any TWO institutions which are responsible for the implementation of effective competition policies in South Africa.

Competition Commission✓

Competition Tribunal✓

Competition Appeal Court ✓

Any (2x1) (2)

3.3.2 Which one of these institutions has the highest authority?

Competition Appeal Court ✓✓

(2)

3.3.3 Analyze whether the above policy has succeeded in relation to its objective  
 in South Africa

**Positive:** The application of the policy is very good a very few cases of monopoly/collusions/price fixing still occurs in SA. A variety of cases were investigated

E.g. Cell phone companies, Bread (Tiger Brands), cement and vehicle industries.✓✓

(2)

OR

**Negative:**

The application of the policy is not good too many cases of collusions/price fixing/monopolies exist. Look at the negative effects of a monopoly in the energy provision Eskom ✓✓ (2)

3.3.4 Evaluate the advantages of vigorous competition

Vigorous competition has the following advantages:



- Lower prices for the consumer ✓✓
- Good quality products / service ✓✓
- Encourage the producer to be more effective ✓✓(2 x2) (4)

**3.4 Explain reasons why cost-benefit analysis is used in practice. (8)**

- 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 will be undertaken. ✓✓(4 x 2)

**3.5 How successful are the market forces in influencing monopolies?**

- Due to the fact that monopolies decide on production levels and determine their own prices, consumers (demand) do not influence the price or supply. ✓✓
  - ♦ The monopoly is however influenced by the limited budget of consumers as they decide how much they will spend on a particular product. ✓✓
  - ♦ Even though the monopoly is the only supplier of the product consumers may decide not to buy the product. ✓✓
  - ♦ In as much as there are no close substitutes consumers may still substitute the product of a monopolist ✓✓ e.g. paraffin for electricity ✓
- (Accept any other relevant response) (Max 8)

(8)

**QUESTION 4**

4.1. Answer the following questions

**4.1.1 Name any two market structures of an imperfect market?**

- Monopoly ✓✓
  - Oligopoly ✓✓
  - Monopolistic competition ✓✓
- Any two (2 x 1) (2)

**4.1.2 What is the relationship between MC Curve and AC curve? (1x2) (2)**

- The MC Curve will always cut the AC at its minimum point. ✓✓

**4.2 DATA RESPONSE GRAPH :**

**4.2.1 Which market structure is illustrated above?**

Oligopoly ✓ (1)

**4.2.2 Name the downward sloping demand curve above.**

Kinked demand curve ✓ (1)

**4.2.3 Explain how price leadership works in this type of market.**

The dominant firm will initiate a change in price, e.g. increase. They will realise economic profits (abnormal profits) ✓✓



Other competitors will also increase their prices ✓✓

**OR**

- Dominant firm will decrease prices, persuading customers away from other firms in the market ✓✓
- Other competitors will decrease price not to lose their market share ✓✓ (2x2) (4)

**4.2.4 Assume that the current selling price is R90. Explain why this business will not lower prices to 50 to improve its sales.**

Below price of R90, the firm sees the demand curve as being relative price inelastic, the firm thinks that if it reduces the price of its product, other firms will follow its lead. ✓✓ As a result all the other firms will sell a bit more output, but the firms will no longer be producing their profit maximisation output. ✓✓

If the firm lowers its prices to R50 the total income will be:

R9 500 (50 X 190) compared to the original income of R13 500 (90 x 150) ✓✓ The firm suffers a loss of R4 000 ✓✓ (2 x 2) (4)

**4.3. DATA RESPONSE ILLUSTRATION:**

**4.3.1 What type of inefficiency is evident in the illustrations above?**

Productive inefficiency ✓ (1)

**4.3.2 What will happen when supply is less than demand?**

Market disequilibrium/Shortage/Shortfall ✓ (1)

**4.3.3 Briefly describe the concept *productive inefficiency*.**

Productive inefficiency is when a business does not produce at the lowest possible cost. ✓✓ (2)

**4.3.4 Explain the effect on price following this situation in the illustration.**

Prices will increase if there is a shortage on the market. ✓✓ (2)

**4.3.5 How can subsidies be use to remedy the situation?**

- A subsidy is usually in the form of a financial grant to support the production of goods by the government. ✓✓
- Subsidies can be direct (such as cash grants and interest free loans) ✓✓ or
- It can be indirect (depreciation, write-offs, rent rebates and meeting expenses) on behalf of the business. ✓✓
- The business can use these forms of subsidies to increase their output, thus minimizing the shortage on the market. ✓✓ (4)

**4.4 Distinguish between a natural monopoly and an artificially monopoly.**

<p>Natural monopolies:</p> <ul style="list-style-type: none"> <li>• High development or economic costs prevent others from entering the market. ✓✓</li> </ul>	<p>Artificial monopolies:</p> <ul style="list-style-type: none"> <li>• Here the barriers to entry are not economic in nature. ✓✓</li> <li>• Examples to barriers is patents and</li> </ul>
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<ul style="list-style-type: none"> <li>• The government enterprise, Eskom. It costs billions of rands to build and maintain power stations and therefore there are no other suppliers. ✓✓</li> </ul>	<ul style="list-style-type: none"> <li>licenses. ✓✓</li> <li>• A patent is a legal and exclusive right to manufacture a product, e.g. Denel Land Systems manufacturing Casspirs ✓✓</li> </ul>
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(4x2) (8)

#### 4.5 In your opinion, why does the government produce certain goods and services

- Markets are often incomplete in the sense that they cannot meet the demand for certain goods. ✓✓
- Government takes it upon itself to produce these goods and services because the production of these goods and services are often under-minded because it is not profit orientated or beyond the capacity of the market to produce. ✓✓
- Public goods or government services are categorized into two groups:
- Community goods, e.g. defense, police services, prison services, street lightning etc. ✓✓
- Collective goods, e.g. parks, beach facilities, public transport, refuse removal, sewerage systems, waste removal, pavements etc. ✓✓
- Public goods are not provided by the price 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 for establishing a market price. ✓✓
- Some goods are highly desirable for the general welfare of the country are often not highly rated by the market. ✓✓
- If people had to pay for them, relatively little would be consumed, e.g. healthcare, education, skills training, safety etc. ✓

(8) [40]

#### TOTAL SECTION B: 80

#### SECTION C

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

STRUCTURE OF ESSAY	MARK ALLOCATION
<p><b>Introduction</b></p> <p>The introduction is a lower-order response.</p> <ul style="list-style-type: none"> <li>• A good starting point would be to define the main concept related to the question topic.</li> <li>• Do not include any part of the question in your introduction.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	<p>Max. 2</p>





<p><b>Body:</b></p> <p><b>Main part:</b> Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain/ Assess/Debate</p> <p><b>Additional part:</b> 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</p>	<p>Max. 26</p> <p>Max. 10</p>
<p><b>Conclusion</b></p> <p>A higher-order conclusion should include:</p> <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	<p>Max. 2</p>
<p>TOTAL</p>	<p>40</p>

## QUESTION 5

- **Examine the characteristics of oligopoly in detail.** (26)
- **Briefly compare an oligopoly and a perfect competitor in terms of the demand curves, products, prices, output and equilibrium positions.** (10)

### INTRODUCTION

An oligopoly is a market structure dominated by few producers, each of which has control over the market. ✓✓ (Max 2)

### Body : MAIN PART

#### Characteristics of oligopolies are as follows:

- **Number of businesses** ✓: a few big firms dominate the market in an oligopoly. ✓✓
- If there are only two firms in the market, it is called a **duopoly**. ✓✓
- **Nature of the product** ✓: the product may be identical or differentiated. ✓✓
- If the product is homogeneous, the market is pure oligopoly. If the product is differentiated the market is called a differentiated oligopoly. ✓✓
- **Entry** ✓: new producers have free entry to an oligopolistic market, although this is not easy as illustrated by the fact that there are only few businesses in the market. ✓✓ Firms under oligopoly advertise extensively. ✓✓ This in itself is a barrier to entry to other firms. Advertising is very expensive and firms who cannot afford to do so will lag behind the competition. ✓✓
- **Interdependent decision-making** ✓: firms in an oligopoly are interdependent in their decision-making because there are so few competitors in the market. ✓✓ Any decision and action of one will have a direct effect on the profits of the others who will retaliate by changing



prices and output. In an oligopoly, a firm not only considers the market demand for its product, but also the reactions of other firms to its price and output policies. ✓✓

- **Price control/market power** ✓✓: there are limited competitors in an oligopoly which makes firms price-makers. ✓✓ The oligopolist has limited but fierce competitors, and must therefore consider their possible reaction. ✓✓ An oligopoly is characterised by price rigidity because if one firm cuts their price, rival firms retaliate by cutting theirs as well. ✓✓
- **Price and profits** ✓✓: prices of goods and services are higher in general in imperfect markets than in perfect competition. ✓✓ Oligopolies develop brand loyalty amongst their customer base that they are able to generate economic profit. ✓✓
- **Market concentration** ✓✓: market concentration refers to the number of firms and the size of their market share. ✓✓ For example, a four firm concentration ratio of 80% illustrates the market is highly concentrated. Other, smaller firms comprise the rest of the market. ✓✓
- **Non-price competition by oligopolists**
  - Oligopolists try to avoid using prices to compete ✓✓ If all firms lower their price, it will result in a price war and lower profits for everyone. ✓✓
- Non-price competition takes the following forms:
  - **Product development** ✓✓ new products with unique features and variations in quality are introduced to attract new customers. ✓✓
  - **Advertising** ✓✓ firms spend large amounts to establish brand loyalty and to attract new customers using media, special offers, publicity stunts and discounts. ✓✓
  - **Loyalty schemes** ✓✓ getting customers to sign up for loyalty cards encourages buyers to shop in one place. ✓✓ This creates an inelastic demand curve as substitute goods are essentially eliminated. ✓✓
  - **Branding** ✓✓ branding is when a product or business is given a particular image which is appealing to consumers. ✓✓  
This image includes a visual identity and values, attitudes and behaviours. ✓✓ Branding is used to attract and appeal to a certain kind of consumer.
  - Free deliveries and installation. ✓
  - Extended warranties for consumers and credit facilities. ✓
  - Longer trading hours. ✓
  - Extensive after-sales service. ✓
  - Expansion into new markets by diversifying the product range. ✓

Max = 26

## Additional Part

### A comparison of an oligopoly with a perfect competitor

Ensure that you do comparison in full sentences, and not in tables.

### Demand curves

The demand curve for the oligopoly is kinked, meaning that there is an elastic and



inelastic parts in the curve ✓✓

The demand curve for the perfect market is horizontal which indicated that the perfect competitor in a price taker ✓✓

### Products

Products sold for an Oligopoly are homogeneous but differentiated. Non- price competition will be used to attract buyers ✓✓

Products sold for Perfect competition are homogeneous. This does not restrict the buyers to buy from a specific seller because the products are the same in quality and standard ✓✓

### Prices

Oligopolists charge higher prices because they are faced up with a downwards sloping demand curve indicating that they are the pricemakers ✓✓ While perfect competitors charge lower prices because their prices are determined by the industry meaning that they are the price takers ✓✓

### Output

The output produced is less for the oligopolist. Collusion can lead to restriction in output so as to charge higher prices ✓✓ The producer in perfect market has to produce more in order to increase his revenue. This comes from the prices determined by the market ✓✓

**Equilibrium positions** Economic profit is made in the long run for the oligopoly. (Positive profit) ✓✓ Normal profit is made in the long run for the perfect competitor. ✓✓

### Conclusion

In South Africa, cartels are illegal and are punishable by law. ✓✓

Any other relevant higher order conclusion.

**[40]**

### QUESTION 6

**Draw a clearly labeled graph explaining the consequences of government intervention in the market for each of the following:**

- **Maximum prices**
- **Taxation** (26)
- **Explain the supply of undesirable goods in South Africa and how the government can deal with it.**



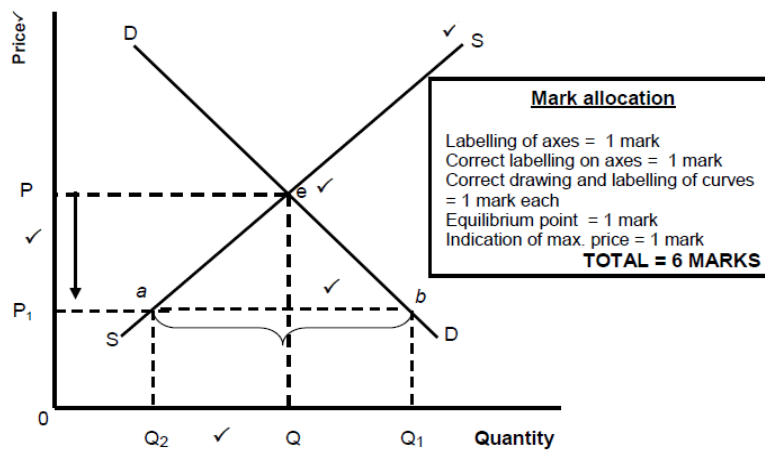
## Introduction

The purpose of government intervention is to ensure that the right quantity of resources is allocated to the production of output so that society as a whole maximizes its benefits. ✓✓

(Max 2)

(Accept any other relevant introduction)

### Maximum prices

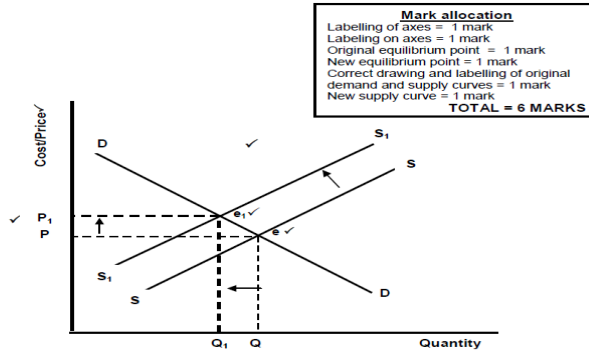


- Sometimes government will set the price of a good or service at a maximum level that is below the market price ✓✓
- The government intervene and passes a law that suppliers may not charge more than the maximum price ✓✓
- The immediate effect is that quantity supply will drop ✓✓
- The original market equilibrium price and quantity is  $P$  and  $Q$  respectively ✓✓
- The price set by the government is  $P_1$ , at this price the demand will increase to  $Q_1$  and the supply will decrease to  $Q_2$  ✓✓
- The difference between  $Q_1$  and  $Q_2$  is the shortfall that will be created on the market ✓✓
- The shortage caused by the price ceiling creates a problem of how to allocate the good since the demand has increased ✓✓
- Black markets start to develop ✓✓

(Mark allocation: Graph 6 and discussion max. 12 marks)



Taxation



- The appropriate way to intervene in the market by government is by levying taxes as a method to recover external cost ✓✓
  - The original market equilibrium at e, with P as the equilibrium price and Q as the equilibrium quantity ✓✓
  - The tax increase will shift the supply curve to the left ✓✓
  - New equilibrium at E1 ✓✓
  - A tax would raise the price from P to P1 ✓✓
  - The production will decrease from Q to Q1 ✓✓
- (Mark allocation: Graph total 6 marks and discussion max 12 marks) (26)

**ADDITIONAL PART**

**Explain the supply of undesirable goods in South Africa and how the government can deal with it.**

Items such as cigarettes, alcohol and non-prescription drugs are examples of demerit or undesirable goods. ✓✓

- These goods are often over supplied in the market, due to the fact that the external cost is not added to the market price. ✓✓
  - Some consumers may be unaware of the true cost of consuming them, their negative externalities. ✓✓
  - Government can ban their consumption or reduce it by means of taxation. ✓✓
  - Taxation on these products will increase the market price and hopefully the demand for these products will drop. ✓✓
- (10 marks)

(Accept any other correct relevant response)

**Conclusion**

The intervention of government ensures that inefficiencies is eliminated and that the market is operating effectively ✓✓ (Max 2)

(Accept any other relevant conclusion)

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