



education

Department:
Education
North West Provincial Government
REPUBLIC OF SOUTH AFRICA

PROVINCIAL ASSESSMENT

GRADE 12

**ECONOMICS P2
MARKING GUIDELINES
JUNE 2024**

MARKS: 150

These marking guidelines consist of 20 pages.

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

- 1.1.1 C/ implicit ✓✓
- 1.1.2 A/ homogeneous. ✓✓
- 1.1.3 D/ demand ✓✓
- 1.1.4 B/ Pareto ✓✓
- 1.1.5 A/ private ✓✓
- 1.1.6 D/ duopoly. ✓✓
- 1.1.7 B/ leadership. ✓✓
- 1.1.8 C/ limit ✓✓

(8 x 2)

(16)

1.2 MATCH ITEM

- 1.2.1 C/ decrease in average cost of production per unit as output increases ✓
- 1.2.2 E/ mechanism that brings together buyers and sellers of goods and services ✓
- 1.2.3 F/ quantities change without a change in the price ✓
- 1.2.4 A/ occurs when inputs increase, while outputs are increasing by less than the percentage increase in inputs ✓
- 1.2.5 H/ extra income the seller earns if one more unit of a product is produced and sold ✓
- 1.2.6 B/ the exclusive right to manufacture a product ✓
- 1.2.7 D/ a form of financial grant to support an economic activity ✓
- 1.2.8 G/ paid by society ✓

(8 x 1)

(8)

1.3 GIVE THE TERM

1.3.1 Variable costs ✓

1.3.2 Opportunity cost ✓

1.3.3 Homogeneous ✓

1.3.4 Natural monopoly ✓

1.3.5 Normal profit ✓

1.3.6 Market structure ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICROECONOMICS

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

2.1 Answer the following questions

2.1.1 **Name any TWO examples of a perfect market structure.**

- Agricultural sector ✓
- Stock exchange ✓
- Foreign exchange market ✓

(Accept any other relevant correct response)

(2 x 1) (2)

2.1.2 **What is the main purpose of markets in the economy?**

Markets bring buyers and sellers together / to determine a price/ regulate the production of goods and services / allocate resources/mechanism to exchange goods and services ✓✓

(Accept any other relevant correct response)

(1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **Name the period under which the market above is operating.**

Long run/long term ✓

(1)

2.2.2 **Identify the nature of profit that the individual producer is making in the graphs above.**

Normal profit ✓

(1)

2.2.3 **Briefly describe the term *industry*.**

A group of firms selling similar products or rendering the same service. ✓✓

(Accept any other relevant correct response)

(2)

2.2.4 **Why does the individual business take the price determined by the industry?**

- An individual firm is very small in relation to the industry and does not influence the market price. ✓✓
- If individual firms were to charge higher prices, they may either lose customers or market share. ✓✓
- When firms charge lower prices, they can incur losses. ✓✓

(Accept any other relevant correct response)

(2)

2.2.5 Explain why the prices are decreasing from R7 to R5 in the market above.

- Economic profits attract new entrants into the market which will increase the market supply thus lowering its price from R7 to R5. ✓✓
- The individual firm is a price taker and the lower price will wipe out economic profits until the price (average revenue) will be equal to average cost. ✓✓
- The long-run equilibrium position is where normal profit will prevail. ✓✓
(Accept any other relevant correct response) (2 x 2) (4)

2.3 DATA RESPONSE

2.3.1 Identify the date on which the revised minimum wage came into effect.
1 March 2024 ✓ (1)

2.3.2 Name any other group of workers that benefit from minimum wages apart from farm and domestic workers.

- Farm workers ✓
- Domestic workers ✓
- Expanded public works programme workers ✓
- Learnership agreements workers ✓
(Accept any other relevant correct response) (1)

2.3.3 Briefly describe the term *minimum wage*.

The wage below which no employer should pay his or her workers./ the minimum remuneration a worker should earn legally per hour, day or week for work done. ✓✓

(Accept any other relevant correct response) (2)

2.3.4 How can employers improve the quality of their labour force?

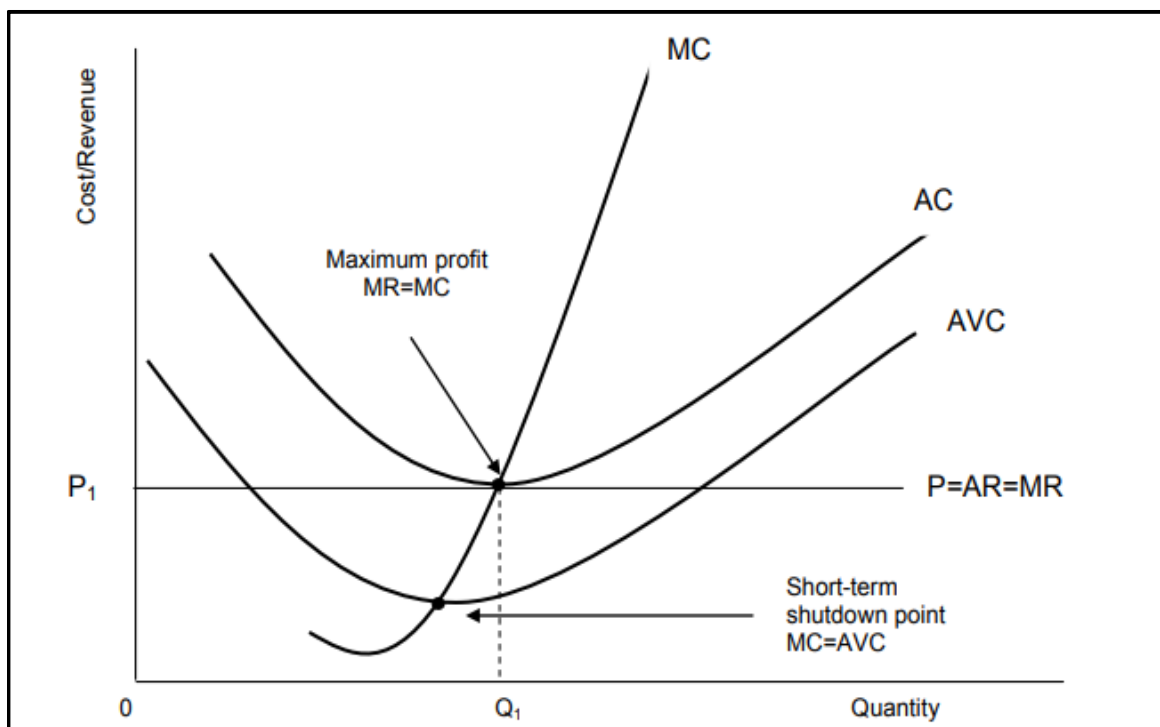
Through reskilling, workshops, team-building exercises and all other non-monetary motivational aspects. ✓✓

(Accept any other relevant correct response) (2)

2.3.5 Explain the negative consequences of minimum wages for the economy.

- Minimum wages will result in an increase in unemployment due to reduced demand for labour. ✓✓
- Since wages form a large part of the cost of production, output and competitiveness is compromised. ✓✓
- The government's tax revenue is reduced through lower employment which increases the social welfare burden of the government ✓✓
- Due to lower employment, production will decrease which can lead to inflation. ✓✓
(Accept any other relevant correct response) (4)

2.4 Draw a clearly labelled graph indicating the shut-down point for the perfect competitor and briefly explain why a business will stop producing goods at this point.



Correct labelling of the axis	= 1 mark
Correct intersection of MC and AVC	= 1 mark
Correct positioning of the cost curves	= 1 mark
Correct positioning of the revenue curves	= 1 mark
Indication of the profit maximisation point/ quantity	= 1 mark
Indication of shut-down point	= 1 mark
Max. 4 marks	

- A firm will shut down if it cannot meet its average or total variable costs ✓✓
- The firm will not produce here because $AR < AVC$ ✓✓
- The firm will not keep on producing from the shut-down point down because the firm cannot meet its operational cost ✓✓
- Below the shut-down point, the firm will not sell any goods. A firm will sell goods if the price is above the shutdown price level (supply curve) ✓✓
(Accept any other relevant correct response)

(8)

2.5 **How would the implementation of maximum prices impact negatively on the economy?**

- Maximum prices may cause a shortage of goods and services in the economy.✓✓
- The shortage in supply will result in the economy declining.✓✓
- Black markets often develop where producers may attempt to sell the goods at higher prices.✓✓
- Producers of goods and services may leave the market as they are not making sufficient profits.✓✓
- Investors may withdraw their investment due to low return on their investment.✓✓
- A decline in economic growth and investment withdrawal will result in loss of jobs leading to an increase in the level of unemployment.✓✓
- Maximum prices result in a decrease in supply which leads to an increase in prices of goods and services.✓✓

(Accept any other correct relevant response)

Allocate a maximum of 2 marks for mere listing of facts

(4 x 2)

(8)
[40]

QUESTION 3: MICROECONOMICS

3.1 Answer the following questions.

3.1.1 **Give any TWO examples of fixed cost.**

- Rent✓
- Administrative✓
- Insurance✓
- Depreciation✓
- Salaries✓
- Interest on capital✓
- Property taxes✓

(Accept any other correct relevant response)

(2 x 1)

(2)

3.1.2 **What is the impact of price fixing on the market?**

- Consumers may end up paying higher prices for goods and services✓✓
- Businesses may be forced to pay penalties if they are found guilty of price fixing✓✓
- Demand for the product may decrease as customers fail to afford the higher prices✓✓
- Businesses may temporarily enjoy high profits which may increase supply of the product✓✓

(Accept any other relevant and correct response)

(1 x 2)

(2)

3.2 DATA RESPONSE**3.2.1 Identify the elastic segment of the demand curve.**

DE✓

(1)

3.2.2 Name the demand curve demand curve depicted in the graph above.

Kinked ✓

(1)

3.2.3 Briefly describe the term *overt collusion*.

A formal agreement among competing oligopolistic firms in an industry designed to control the market and raise the market price to form a collective monopoly, e.g. cartels. ✓✓

(Accept any other relevant and correct response)

(2)

3.2.4 Why does an oligopoly fail to achieve productive efficiency?

An oligopoly fails to minimize average cost or produce output at the lowest point of the average cost curve/ An oligopolist does not produce at the lowest possible cost/ Resources are not used appropriately to produce the maximum number of goods. ✓✓

(Accept any other relevant and correct response)

(2)

3.2.5 Why will the producer be reluctant to decrease the price from R40,00 to R28,00? Show ALL calculations.

- The producer's revenue will decrease. ✓✓
- At a price of R40,00 the producer will earn R28 000 (40 x 700) ✓✓ compared to an income of R22 400 (28 x 800) at a price of R28 ✓✓

OR

- At R40,00 the revenue would be R28 000 ✓✓ compared to R22 400 at a price of R28,00. ✓✓ Therefore the producer's revenue will decrease. ✓✓

OR

- By reducing the price the firm will operate on the inelastic part of the demand curve, whereby the percentage increase in market share will be less than the percentage decrease in price ✓✓
- %-decrease in price = $\frac{12}{40} \times 100 = 30\%$ ✓✓
- %-increase in market share = $\frac{100}{700} \times 100 = 14,3\%$ ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

3.3 DATA RESPONSE

- 3.3.1 **Name the type of market depicted in the picture above.**
Imperfect market.✓ (1)
- 3.3.2 **What is the nature of the product that is sold in the market above?**
Differentiated/heterogeneous.✓ (1)
- 3.3.3 **Briefly describe the term *hybrid structure*.**
Hybrid structure describes the fact that the monopolistic competition is comprised of the characteristics of both the perfect competition and monopoly✓✓
(Accept any other relevant correct answer) (2)
- 3.3.4 **How does the profit of a monopolistic competitor differ from that of an oligopoly in the long run?**
A monopolistic competitor makes normal profit in the long run✓ whereas an oligopolist makes economic profit in the same period.✓
(Accept any other correct relevant response) (2)
- 3.3.5 **How will a monopolistic competitor, like McDonald's, compete with other fast food burger outlets to increase its market share?**
- The monopolistic competitor can increase its market share by competing on non-price factors.✓✓
 - McDonald's might use unique spices (recipe) or new product lines to offer a differentiated product.✓✓
 - Using unique red packaging with big distinctive golden/yellow 'M' to promote McDonald's -branding.✓✓
 - Aggressive advertising campaigns can be launched by focusing on the use of billboards/sponsorships like swimming in DOHA and team South Africa at the Commonwealth games in 2022.✓✓
 - Extending shopping hours at more McDonald's branches, will be more convenient for customers in close vicinity to make use of their services (e.g. 24-hour service).✓✓
 - Providing more free deliveries within a certain range of the business will ensure an edge over other competition.✓✓
 - The monopolistic competitor can increase its market share by competing on promotional specials based on price✓✓
 - Promoting online purchases, which makes it easier for customers to shop around without any additional cost/variety of goods available to make comparisons✓✓
 - Implementing product differentiation, products might slightly differ in terms of physical appearance, packaging etc.✓✓
- (Accept any other relevant correct answer) (2 x 2) (4)

3.4 Briefly explain the reasons for a cost-benefit analysis.

A cost benefit analysis is used:

- in public sector projects as there are no market signals to guide decision making✓✓ e.g. roads and bridges✓
- to identify all the relevant benefits and costs of a project before an informed decision can be made✓✓
- to ensure economic efficiency in resource allocation✓✓
- to include a wider social impact and includes externalities in the decision-making process to estimate the effect of investment on social welfare and the environment✓✓
- to bring greater objectivity to decision making to avoid subjectivity✓✓

(Accept any other correct relevant responses)

Allocate a maximum of 4 marks for mere listing of facts.

(4 x 2)

(8)

3.5 Evaluate the impact of imperfect competition on consumers.**Negative impact**

- Most businesses operating in imperfect markets maximise profits by supplying less than the optimal quantity of goods or services produced which means that some consumers needs may not be met✓✓
- Reduced quantities lead to higher prices which may exclude lower income groups✓✓
- New businesses are sometimes prevented from entering the industry, thereby limiting competition, which prevents consumers from enjoying lower prices and a variety of goods✓✓
- Collusion which is rife in oligopoly markets results in higher prices which at times prevent some consumers to afford the product✓✓
- Consumers pay higher prices in the imperfect markets due to the fact that production does not take place at the lowest point of the LAC-curve✓✓

Positive impact

- Imperfect markets can stabilise supply or output of certain goods and services, that requires a vast amount of input capital, ensuring a variety of goods available to consumers✓✓
- Imperfect markets can also provide a better quality product to the consumer; large corporations have Research and Development units that constantly develop new technology and improved production methods✓✓
- Patent rights give the patent holder exclusive rights to produce a product; this stimulate innovations and inventions (new products) that could be beneficial to consumers✓✓

(Accept any other correct relevant response)

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

(4 x 2)

(8)

[40]

QUESTION 4: MICROECONOMICS

4.1 Answer the following questions.

4.1.1 **State any TWO objectives of the competition policy.**

- Prevent monopolies from abusing their power✓
- Regulate formation of mergers and acquisitions who wish to exercise market power✓
- To stop firms from using restrictive practices like fixing prices, dividing markets✓

(Accept any other relevant and correct answer) (2 x 1) (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.✓✓

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

4.2 DATA RESPONSE

4.2.1 **Identify the official pension fund for the employees of Sasol Ltd.**

Sasol fund✓ (1)

4.2.2 **Which competition regulatory institution has the same standing as the high court?**

Competition Appeal Court✓ (1)

4.2.3 **Briefly describe the term *merger*.**

A consolidation of two or more companies into a single entity/ occurs when two businesses decide to combine their operations, assets, and resources to form a new, larger organization✓✓

(Accept any other correct relevant response) (2)

4.2.4 **How does competition in the market benefit the consumer?**

The consumer benefits from:

- larger variety to choose from✓✓
- lower prices paid for products✓✓
- better quality of goods and services✓✓
- equal opportunities to participate in the economy✓✓

(Accept any other relevant correct response) (2)

4.2.5 How will this merger benefit the companies involved?

- By merging, the company would have different services available to cater for consumer demand. ✓✓
 - Sasol Pension Fund will have access to more potential clients which can improve their profit ✓✓
 - Eliminate the duplication of management personnel. ✓✓
 - Risks and responsibilities will be shared because they access to more capital. ✓✓
 - Due to the advantage of combined resources, the new company can afford to undertake product innovation. ✓✓
 - Increased revenue and profit can be earned as a result of larger market share. ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

4.3 DATA RESPONSE**4.3.1 Identify the deadweight loss area in the graph above.**

Area bcd ✓

(1)

4.3.2 Where does the marginal cost curve (MC) intersect the average cost curve (AC) in the graph above?

At lowest/ minimum/turning point of the AC curve/ point e. ✓

(1)

4.3.3 Briefly describe the term *marginal cost*.Additional cost incurred when one more unit of a product is produced ✓✓
(Accept any other relevant correct response)

(2)

4.3.4 Why does the MR curve always lie below the AR curve in a monopolistic market?

- Due to the negative-sloping demand curve, every additional unit is sold at a lower price. ✓✓
 - For a monopolist to sell more units, it must decrease the price and therefore the extra revenue earned will always be lesser than the revenue earned at the reduced selling prices. ✓✓
- (Accept any other correct relevant response) (2)

4.3.5 Determine the loss for this business. Show ALL calculations.

$$\begin{aligned} \text{Loss} &= \text{Total Revenue} - \text{Total Cost} \\ &= (150 \times 100) - (200 \times 100) \checkmark \\ &= 15\,000 \checkmark - 20\,000 \checkmark \\ &= -5\,000 \checkmark \end{aligned}$$

OR

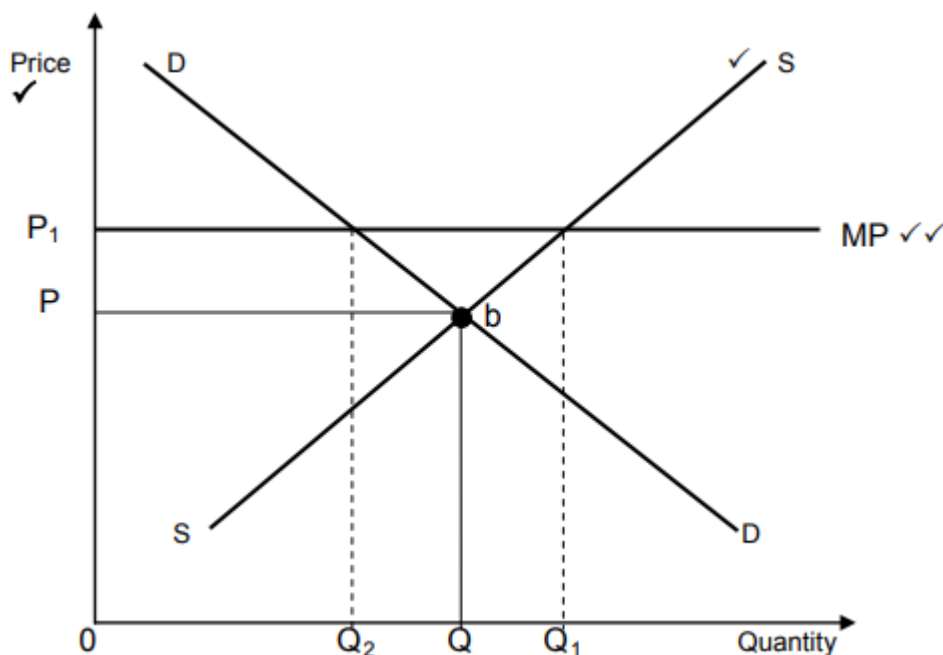
$$\begin{aligned} \text{Loss} &= \text{unit loss } (150 - 200) \checkmark \times \text{quantity } (100) \checkmark \\ &= -50 \times 100 \checkmark \\ &= -5\,000 \checkmark \end{aligned}$$

OR

$$\begin{aligned} \text{Loss} &= (\text{AR} - \text{AC}) \times Q \\ &= (150 - 200) \checkmark \times 100 \checkmark \\ &= -50 \times 100 \checkmark \\ &= -5\,000 \checkmark \end{aligned}$$

(4)

4.4 With the aid of a correctly labelled graph, explain the impact of minimum prices on the market.



Correct indication of minimum price =	2 marks
Correct labelling of the axis =	1 mark
Correct drawing and labelling of curves =	1 mark
Max. 4 marks	

- A minimum price is set to help producers because the equilibrium price is too low✓✓
 - It enables producers to make a comfortable profit✓✓
 - It encourages producers to supply important essential goods✓✓
 - A minimum price will create a surplus in the economy (difference between Q2 and Q1) ✓✓
 - A surplus will mean that government will have to buy the surplus and dump it locally or abroad✓✓
- (Accept any other correct relevant response) (4 max) (8)

4.5 **Outline the challenges that the competition policy in South Africa faces in achieving its goals.**

Challenges experienced by the competition policy are that:

- fines charged are too lenient and do not cover the costs suffered by consumers. ✓✓
- fines are too lenient to act as a deterrent to other businesses colluding which is evident from the larger number of firms being investigated regularly ✓✓
- a lack of human resources results in some investigations or act of collusion sometimes goes undetected ✓✓
- cases of restrictive practices take longer to investigate and lose merit in the process. ✓✓
- corruption and political interference/interests prevent some acts of collusion from being investigated properly. ✓✓
- some mergers and acquisitions only protect workers in the short term. Eventually workers are retrenched. ✓✓
- artificial monopolies and other powerful businesses abuse their market power as the competition policy fails to create opportunities for new entrants to the market. ✓✓
- the monitoring measures to identify collusion practices are compromised due to a lack of information as many investigations takes place after a long period of collusion. ✓✓
- the monitoring and enforcement of competition policies is difficult due to the vastness of areas. ✓✓

(Accept any other correct relevant response)

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

(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:

QUESTION 5: MICROECONOMICS

- **Examine the characteristics of monopoly in detail.** (26)
- **Why is it difficult for monopolies to charge excessive prices for their products?** (10)

INTRODUCTION

Monopoly exists where there is only one seller of a product, where the product has no close substitutes, and where barriers block entry into the market completely. ✓✓
(Accept any other correct relevant introduction) (Max. 2)

BODY**MAIN PART****Number of firms/businesses** ✓

- The monopolist is the only supplier of a product which implies that there is no competition in this market structure. ✓✓
- The monopoly also responsible for the industry's total output ✓✓ such as De Beers and Eskom. ✓

Nature of product ✓

- The product is unique and it has no close substitutes which implies that consumers' choice is limited ✓✓
- The product has relatively inelasticity demand which means that quantity demanded less responsive to price changes ✓✓

Market entry ✓

- Market entry refers to how easy or difficult for the businesses to enter or to leave the market. ✓✓
- Market entry into a monopoly market is entirely/completely blocked. ✓✓
- The reason why other producers are unable to supply the same product as the monopolist is that there are barriers that prevent them from entering the product market, ✓✓ such as high development costs, limited size of the market, exclusive ownership of raw materials, patents, licensing, sole rights, import restrictions. ✓
- These barriers can be divided into two main groups:

Natural monopolies. ✓

- High development costs are frequently a reason for the existence of natural monopolies ✓✓
- The provision of electricity is an example of natural monopoly because building power stations and transmission lines to distribute electricity costs billions of rand. ✓✓
- Natural monopolies are frequently owned or regulated by the government and can serve the whole market at a lower price than two or more businesses together. ✓✓

Artificial monopolies.✓

- Artificial monopolies exist due to barriers to entry are not economic in nature such a patent.✓✓
- A patent is the legal and exclusive right of a patent holder to manufacture a product using his or her unique invention.✓✓
- Licences protect operators against the entry of competitors and is another way in which an artificial monopoly may exist.✓✓
- In South Africa licences are required for radio and TV broadcasting, telephone and cellular phone communication networks, and commercial production of electricity.✓✓

Control over price✓

- A monopolist has full control over the market price and it is regarded as a price maker. ✓✓
- Monopolists can decide on the price-quantity combination, that suits it the best, on the demand curve.✓✓
- There is always the possibility of consumer exploitation because a monopolist is the only supplier of a product.✓✓
- A monopoly business may restrict output or supply of the product to charge higher price. ✓✓
- However, this is often limited by the market demand since monopolist does not have control over demand.✓✓
- Consumers have limited budgets and a monopoly can therefore not demand excessive prices for its product.✓✓
- The monopolist's product has to compete for consumers' favour (and money) with all the other products available in the economy.✓✓

Market information✓

- All buyers and the single seller have full knowledge about the current market conditions. ✓✓
- This implies that there is a high degree of transparency in the monopoly as there is no incentive for the monopoly to hide information from consumers✓✓

Demand curve✓

- A monopolist is faced with a normal demand curve which slopes downwards from left to right.✓✓
- The demand curve is relatively inelastic because the product has no close substitutes. ✓✓
- The demand curve for a monopoly is equal to its average revenue curve. ✓✓
- For every additional unit sold by a monopoly, marginal revenue is less than the price, thus marginal revenue curve lies below the demand curve.✓✓

Economic profit/loss✓

- A monopolist can earn an economic profit or economic loss in the short run.✓✓
- If a monopoly is making economic loss in the short-run, it will build a new production plant that yields economic profit in the long-run.✓✓
- If a monopoly is making economic profit in the short-run, it will expand its production scale or capacity in order to make more economic profit in the long-run. ✓✓

Decision making✓

- A monopoly business makes decisions independently because there are no competitors✓✓
- However, a monopoly's decisions may be influenced by government laws and regulations,✓✓for instance Eskom's decisions are influenced by NERSA✓

Collusion✓

- Collusion is irrelevant because there is one business in the market ✓✓

Productive efficiency✓

- A monopoly does not achieve productive efficiency because output is produced without minimising the average cost.✓✓

Allocative efficiency✓✓

- There is allocative inefficiency because the output produced by a monopoly does not correspond with the quantity demanded by consumers.✓✓
- Monopoly produces output level where the price is above the marginal cost✓✓
(Accept any other correct relevant response)
(Allocate a maximum of 8 marks for headings and examples) (Max. 26)

ADDITIONAL PART

- Although the monopolist is the only supplier in the market, it is still influenced by market forces.✓✓
- Due to the limited budget that the consumer operates on, if the prices are too high there will not be enough demand for the product.✓✓
- Consumers may switch to other alternative products.✓✓
- Price increases are sometimes regulated by the government to protect the consumer.✓✓
- Although the monopolist can set his own price he cannot do so without affecting the quantity that will be sold.✓✓
- To sell more products a monopolist must decrease the price.✓✓
(Accept any other correct relevant response) (Max. 10)
(Allocate a maximum of 2 marks for mere listing of facts)

CONCLUSION

A monopoly fails to achieve both productive and allocative efficiency as they do not produce at the lowest possible average cost and do not produce at the optimum output level.✓✓

(Accept any other correct relevant conclusion)

(Max. 2)

[40]

QUESTION 6: MICROECONOMICS

- **Discuss the causes of market failure/factors that lead to misallocation of resources in the market in detail.** (26)
- **How can market inefficiency be reduced by global markets (globalisation)?** (10)

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. ✓✓
(max 26)
(Accept any other correct relevant response)

ADDITIONAL PART

- allowing foreign direct investment in the economy to increase supply of goods and services. ✓✓
- increasing competition in local market and reducing the existence of monopolies ✓✓
- increasing the accessibility of information to both consumers and producers for them to make rational or informed decision. ✓✓
- ensuring efficiency allocation of resources by allowing countries to specialize in production of goods that they have comparative advantage in. ✓✓
- increasing mobility of factors of production between different countries. ✓✓
- encouraging businesses to be innovative and produce goods and services of better quality for consumers. ✓✓
- increasing consumers' choice on goods and services. ✓✓
- (Accept any other relevant and correct higher order response)
(Max 10)
(A maximum of 2 marks will be allocated for mere listing of facts)

CONCLUSION

Market failures can have devastating effects on the economy which requires government to intervene to reduce their consequences ✓✓ (Max. 2)
(Accept any other correct relevant conclusion)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150