



## **Education and Sport Development**

Department of Education and Sport Development  
Departement van Onderwys en Sport Ontwikkeling  
Lefapha la Thuto le Tihabololo ya Metshameko  
**NORTH WEST PROVINCE**

**PROVINCIAL ASSESSMENT**

**GRADE 12**

**ECONOMICS P2**

**MAY/JUNE 2018**

**MARKING GUIDELINES**

**MARKS: 150**

This marking guideline consists of 17 pages.

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

1.1.1 D average costs ✓✓

1.1.2 B cartel ✓✓

1.1.3 B feasibility study. ✓✓

1.1.4 B Zero. ✓✓

1.1.5 A decreases ✓✓

1.1.6 A unique. ✓✓

1.1.7 A internal ✓✓

1.1.8 A electricity. ✓✓

(8 x 2) (16)

**1.2 MATCHING**

1.2.1 C actual costs that a business pays for its operations ✓

1.2.2 E when a perfect competitor is making neither profit nor loss ✓

1.2.3 A the organisational features of the markets ✓

1.2.4 B value of inputs owned by the entrepreneur and used in production ✓

1.2.5 H a market controlled by two sellers ✓

1.2.6 D buyers are charged differently for the same product ✓

1.2.7 F the increase in percentage output is less than the increase in percentage input ✓

1.2.8 G extra money earned when additional unit is sold ✓

(8 x 1) (8)

**1.3 ONE WORD ITEMS**

1.3.1 Subsidy✓

1.3.2 Fixed costs✓

1.3.3 Opportunity cost✓

1.3.4 Long-run✓

1.3.5 Pareto efficiency✓

1.3.6 Normal profit✓

(6x1)(6)

**TOTAL SECTION A: 30**

**SECTION B**

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

**QUESTION 2**

2.1 Answer the following questions

2.1.1 **Name any TWO examples of perfectly competitive firms.**

- Agricultural produce markets✓
- The JSE✓
- Accept any other relevant answer (2x1) (2)

2.1.2 **Why do perfectly competitive firms make normal profits in the long run?**

- Because in the short run they make economic profit which then attracts other potential firms who will wipe away all the economic profit as it is now shared amongst many firms instead of the few that previously existed. ✓✓ (1x2) (2)

2.2 Study the graphs below and answer the questions that follow.

2.2.1 **Identify the type of market above.**

- Perfect market✓ (1)

2.2.2 **What is the selling price in the market above?**

- R8✓ (1)

2.2.3 **Briefly describe the concept *industry*.**

- A group of firms that produce and sell the same products or offer a similar service✓✓ (2)

2.2.4 **Why is a perfectly competitive firm having no control over price?**

- There are price takers.✓✓
- They operate on the price that they find existing in the market.✓✓
- They have no influence/control over prices. ✓✓ (1 x2) (2)

2.2.5 **How will price and quantity be affected in the industry if a new firm enters the market?**

- Quantity supplied will increase.✓✓
- Price will decrease. ✓✓ (4)

2.3 Study the extract below and answer the questions that follow.

2.3.1 **Identify two reasons why saint Gobain (Pty) Ltd and D&D Roof CC are prosecuted for price fixing from the above extract.**

- D&D Roof will stop importing base material and source finish glass wool finished products from St Gobain ✓✓
- They would not do business with customers that belonged to each other ✓✓
- They would not provide competitive quotes to customers not allocated to each of them in order to sustain the customer allocation arrangement ✓✓
- They agreed on the price they will charge when supplying their glass wool products to their respective customers. ✓✓ (2 x 1) (2)

2.3.2 **Briefly describe the concept *price fixing*.**

- An unethical practice whereby two or more rival firms come to an illicit agreement not to sell goods or services below a certain price. ✓✓
- Accept any other relevant answer. (2)

2.3.3 **What advice will you give to these two companies if they are unhappy with being found guilty for price fixing?**

- They must approach the Competition Appeal Court to lay a formal complaint. ✓✓ (2)

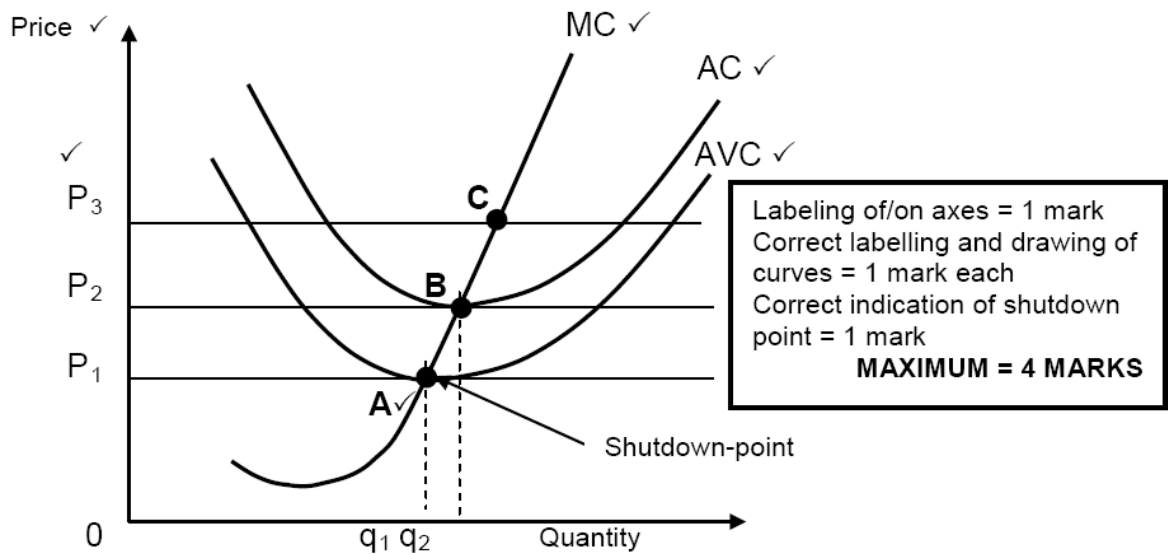
2.3.4 **How should the state ensure that the private sector business adhere to ethical business practices?**

- The state must consider laying criminal charges against the companies that do not adhere to ethical business practices. ✓✓
- Impose heavy fines and including suspensions of the guilty parties. ✓✓
- Accept any other relevant answer. (4)

2.4 **Outline any FOUR aims of competition policy under the Competition ACT of 1998.**

- To promote the efficiency of the economy as its primary importance. ✓✓
- To provide consumers with competitive prices and a variety of products ✓✓
- To promote employment. ✓✓
- To encourage South Africa to participate in world markets and accept foreign competition in South Africa ✓✓
- To enable SMMEs to participate in the economy ✓✓.
- To allow the previously disadvantaged to increase their ownership of businesses ✓✓ (4 x 2) (8)

2.5 Explain by means of a neatly labeled graph the relationship between the shut-down point and the supply curve (MC) of the individual business in a perfect market.



- The rising part of the businesses' marginal cost curve above the minimum of its average variable cost curve represents the **supply curve** of the business. ✓✓
- The supply curve starts at point A (shut-down point) and slopes upward from there due to the marginal cost that increases as output increases. ✓✓
- At a market price of  $P_1$  the business is only able to pay its variable costs. ✓✓
- If the price drops below  $P_1$  the business will be forced to close down and this point (A) is known as **shut-down point**. ✓✓

(8)

[40]

**QUESTION 3**

3.1 Answer the following questions:

**3.1.1 Name any TWO market structures that exist under the conditions of an imperfect market.**

- Monopoly ✓
- Oligopoly ✓
- Monopolistic competition ✓ (2x1) (2)

**3.1.2 How will the producer react if the government implements a maximum price on his product?**

- The producer will reduce the quantity supplied. ✓✓
- Any other relevant responses. (1 x 2) (2)

3.2 Study the table below and answer the questions that follow.

**3.2.1 Which curve is the same as the demand curve in the graph above?**

- AR ✓ (1)

**3.2.2 Identify the profit maximization point from the graph above.**

- Point A ✓ (1)

**3.2.3 Briefly describe the *nature of the product* that is supplied in the market structure above.**

- The nature of the product is unique with no close substitutes. ✓✓ (2)

**3.2.4 Why does the MR curve lie below the AR curve in the graph above?**

- Due to the negative-sloping demand curve, every additional unit is sold at a lower price. ✓✓
- Accept any other relevant response. (2)

**3.2.5 Calculate the economic profit in the graph above. Show ALL the calculations.**

$\begin{aligned} \text{Profit} &= \text{TR} - \text{TC} \\ &= (P \times Q) - (Q \times C) \\ &= (R80 \times 200) - (200 \times R60) \checkmark \\ &= R16\ 000 - R12\ 000 \checkmark \\ &= \underline{R\ 4000} \checkmark \checkmark \end{aligned}$	<b>OR</b> $\begin{aligned} \text{Profit} &= P - C \times Q \\ &= R80 - R60 \times 200 \checkmark \\ &= R20 \times 200 \checkmark \\ &= \underline{R4000} \checkmark \checkmark \end{aligned}$
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(4)

3.2 Study the illustrations below and answer the questions that follow.

3.3.1 Identify TWO social benefits from the project above.

- New job opportunities✓
- Quality service delivery✓
- High quality product✓ (2 x 1) (2)

3.3.2 Why do you think the government should proceed with the project above?

- Because the benefits exceed the costs✓✓, i.e. R16 m > R12 m.✓✓ (2)

3.3.3 What will the government benefit from the approval of the project above?

- There will be an increase in the tax base which will result in more revenue for the state. ✓✓
- Accept any other correct relevant response. (2)

3.3.4 How can the government reduce the external cost of the project above?

The government can:

- Install equipment that will reduce pollution. ✓✓
- Design the plant in such a way that pollution will be limited to the minimum✓✓
- Tax the polluter
- Issue marketable permits✓✓
- Set the maximum levels of pollution✓✓
- Accept any other correct relevant response. (2 x 2) (4)

3.3 Distinguish between a *natural monopoly* and an *artificial monopoly*.

**Natural monopolies:**

- High development or economic costs prevent others from entering the market. ✓✓
- The government supplies the product. E.g. Electricity in South Africa is provided by the government enterprise, Eskom. ✓✓ It costs billions of rands to build and maintain power stations and therefore there are no other suppliers. ✓✓

**Artificial monopolies**

- Here the barriers to entry are not economic in nature. ✓✓
- Examples to barriers is patents and licenses. ✓✓
- A patent is a legal and exclusive right to manufacture a product, e.g. Denel Land Systems manufacturing Casspirs. ✓✓ (2 x 4) (8)



**3.5 Explain why governments sometimes proceed with a project even if the private cost exceed the private benefits?**

Governments might proceed with a project when:

- When the project is to provide public goods and service. ✓✓
- A service is vital for the existence of the community ✓✓
- When a need for infrastructure is necessary but might not offer any benefits in terms of profits, e.g. building a community centre or a bridge. ✓✓
- Funding of these projects are mainly financed through tax revenue and does not impoverish any individual as such. ✓✓
- This infrastructure adds to the welfare of the community at large and is non-excludable to anyone using it. ✓✓
- Accept any other correct relevant response.

(8)  
[40]

**QUESTION 4**

4.1 Answer the following questions:

**4.1.1 Name any TWO sectors that will be considered for minimum wages in South Africa.**

- Civil engineering ✓
- Contract cleaning services ✓
- Domestic workers ✓
- Farm workers ✓
- Forestry ✓
- Hospitality ✓
- Taxi drivers ✓
- Any other correct relevant respons.

(2x1)(2)

**4.1.2 What would happen if firms in an oligopolistic market compete on prices?**

- There will be price wars. ✓✓ (2)

4.2 Study the information below and answer the questions that follow.

**4.2.1 Which mobile network firm that has the largest market share from the above information?**

- Vodacom ✓ (1)

**4.2.2 Name one barrier to entry into the market above.**

- Licenses ✓ (1)

**4.2.3 Briefly describe the term *sunk cost*.**

- Costs that an entity has incurred, and which it can no longer recover by any means ✓✓ and should not be considered when investing on an ongoing project, since they cannot be recovered ✓✓ (2)

**4.2.4 Explain the nature of the demand curve that is faced by an oligopolistic firm.**

- It is negatively sloped/ downward sloping with a kink. ✓✓
  - It has two segments, the upper part is elastic and the lower part is inelastic. ✓✓
- (2)

**4.2.5 How do mobile firms compete to increase their market share in South Africa?**

Market share can be increased by:

- Advertising their products to existing and potential customers. ✓✓
- Selling different products at competitive prices, like airtime and data bundles. ✓✓
- Offering individual-based contracts and upgrades to loyal customers and clients. ✓✓
- Extended shopping hours by cellphone outlets. ✓✓
- After-sales services to both business, pay as you go and contract customers. ✓✓
- Sales promotions for both pay as you go and contract customers, e.g. free mode face book, free twitter, power hour, etc. ✓✓
- Accept any other correct relevant response. (2x2) (4)

4.3 Study the graph below and answer the questions that follow.

**4.3.1 Identify the market clearing wage from the graph above.**

- R2 500 ✓ (1)

**4.3.2 What does point e represent in the graph above?**

- Point of equilibrium ✓ (1)

**4.3.3 Briefly describe the term *minimum wage*.**

- It is the minimum remuneration a worker should earn legally per hour, per day or week for work done. ✓✓ (2)

**4.3.4 Why is the national minimum wage advantageous than the minimum wage per sector?**

- Prevent discrimination among workers in the different sectors ✓✓
- The national minimum wage could be higher which will improve the standard of living. ✓✓
- Accept any other correct relevant response. (2)

**4.3.5 Use the graph above and explain how the R3 500 minimum wage imposed by the government will impact on South Africa's labour market.**

- 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, supply exceeds demand and unemployment will increase. ✓✓ (2 x 2) (4)

**4.4 Explain the roles of the *competition commission* and *competition tribunal* in the competition policy of South Africa.**

**The Competition Commission**

- It investigates restrictive business practices ✓✓
- Prevents the abuse of dominant positions and mergers in order to achieve equity and efficiency in the South African economy ✓✓

**The Competition Tribunal**

- It grants exemptions, authorise or prohibit large mergers ✓✓
- Adjudicate if any misconduct takes place ✓✓
- Issues an order for costs on matters presented to it by the Competition Commission ✓✓ (2 x 4) (8)

**4.5 How does collusion influence the behavior of oligopolists?**

- No business is ever sure about the policy of competitors and function in an uncertain environment ✓✓
- To reduce uncertainty, oligopolists collude – they agree on prices and quantities they are going to produce – higher profits ✓✓
- Two forms: **cartels**: ✓ where collusion occurs openly and formally, their aim is a collective monopoly ✓✓, frequent problems are members cheating by cutting prices and selling more than its quota ✓✓.
- Price leadership ✓: where collusion is forbidden by law ✓✓, the one business fixes the price and other act as price followers the price leader is usually the largest or dominant business in the industry with the lowest production costs. ✓✓
- Collusion is more successful when a small number of firms are involved, which makes communication more effective ✓✓, it firms face more or less the same cost of production ✓✓, if the product is homogeneous, if there are barriers to entry, if the government does not interfere ✓✓ (8)

[40]

**TOTAL SECTION B: 80**

**SECTION C**

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

**QUESTION 5: MICRO-ECONOMICS**

- **Compare the market structure of a monopolistic competition with that of a perfect competition.** (26)
- **Explain, with the aid of a graph, how economic profit is achieved for a perfect competitor.**

**INTRODUCTION**

• A market is an institution or mechanism that brings together the buyers and sellers of goods or services ✓✓ / A market structure is a framework of how a market is organised / ✓✓

- Monopolistic competition is a monopolistic market structure with many buyers and sellers where entry is relatively easy but the product is differentiated /
- Perfect competition is a market structure with many buyers and many sellers ✓✓

(Accept any other correct relevant response)

Max (2)

**MAIN PART****Number of businesses** ✓

• There is a number of sellers that are so large ✓✓ in the **perfect market** that individual market participants are insignificant in relation to the market as a whole. An example of a **perfect market** is the Securities Exchange, or the produce market. ✓

• A large number of sellers are active in the **monopolistic competitive market** ✓✓. Examples of monopolistic markets are producers of cleaning materials, cold drinks, toothpaste or soap ✓

**Nature of the product** ✓

All products sold in the **perfect market** are homogeneous. ✓✓. All these products are exactly the same regarding quality, appearance it makes no difference to a buyer where and from whom he or she buys the product ✓✓.

Goods produced by businesses in a **monopolistic competitive market** are heterogeneous. ✓✓. They may differ slightly in appearance, shape, size and taste. Differences may be imaginary ✓✓. e.g. medicine may have different brand names, but contain exactly the same basic ingredients ✓✓.

**Entry and exit from the market** ✓

• There is complete freedom of entry and exit of buyers and sellers in the **perfect market** ✓✓. Entry is not subject to any restrictions in the form of legal, financial, technological or other barriers ✓✓.

- Entry into the **monopolistic competitive market** is easy and free ✓✓. There are no barriers such as licences, permits, patents and other restrictions ✓✓

### Control over price ✓

- There are so many businesses in the **perfect market** that the individual business is so small that no single business has control over the price of the product ✓✓. The price is determined through market forces. ✓✓ In other words, the business can be regarded as a price taker ✓✓

- The individual business in the **monopolistic competitive market** has some control over the price of a product ✓✓. The control over price depends entirely on the strength of brand loyalty ✓✓. The business can be regarded as a price setter ✓✓

### Collusion ✓

- Collusion is not possible under **perfect market** conditions ✓✓. There is no need for businesses to collude because they have no control over price setting ✓✓. In addition, the market share of the individual business is so small and insignificant that it cannot manipulate the market in any way ✓✓

- Collusion does not occur in the **monopolistic competitive market**. Individual businesses rely on brand loyalty to determine prices ✓✓. Prices can be manipulated by the strength of their brand loyalty ✓✓. Prices are normally higher in cases where brand loyalty is intense ✓✓. Control over the market (output) is subject to brand loyalty due to product differentiation ✓✓

### Marketing ✓

- There is no need for marketing strategy in the **perfect market** due to complete market knowledge ✓✓

- Marketing strategy is applied in the **monopolistic competitive market**. Deliberate advertising campaigns is launched to create brand loyalty ✓✓

### Profits ✓

- The firm can realise economic profits in the short term ✓✓, but only normal profits in the long run in the **perfect market** ✓✓

- The firm can realise economic profits in the short term as well as the long run in the **monopolistic competitive market** ✓✓

### Demand curve ✓

- The demand curve for the firm in the **perfect market** is horizontal ✓✓!

- $D=AR=MR$  ✓✓

- The demand curve for the firm in the **monopolistic competitive market** is downward sloping. ✓✓

- $AR=D$  (average revenue curve is also known as the demand curve) ✓✓

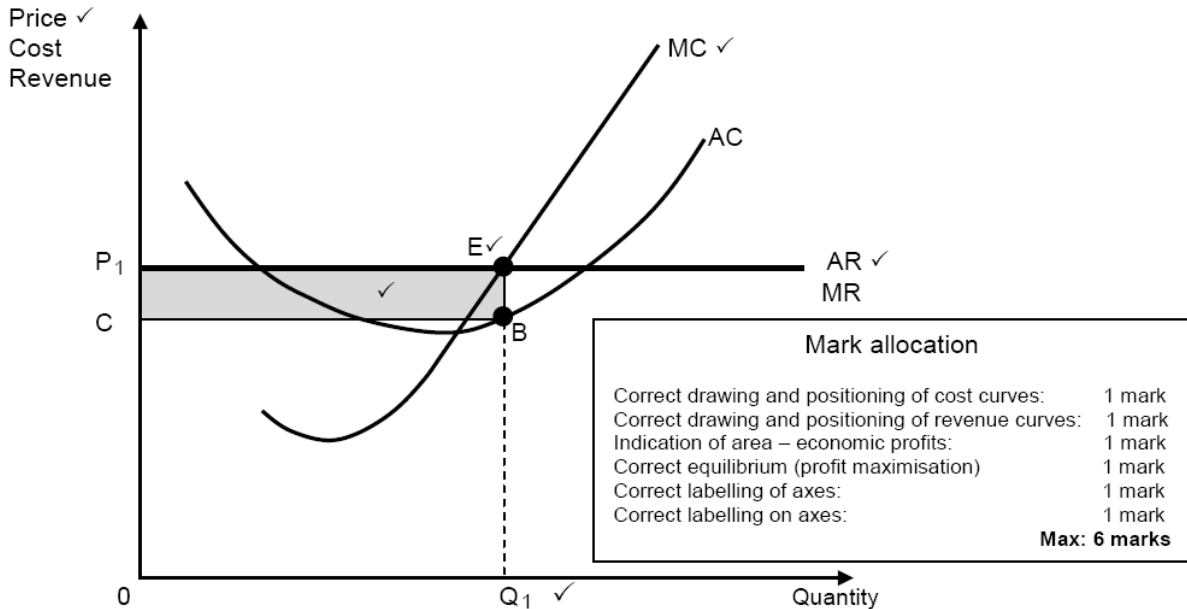
- The MR curve lies below AR curve ✓✓

(Allocate a maximum of 8 marks for mere listing of facts/examples)

(Accept any other correct relevant response)  
 Accept tabular form Max (26)

**ADDITIONAL PART**

**Explain, with the aid of a graph, how economic profit is achieved for a perfect competitor.**



- The minimum point of the short-term average cost (AC) is lower than the market price  $P_1$  ✓✓
- The business is maximising profit at  $MR = MC$  at point E, the business will therefore produce quantity  $Q_1$  at the market price  $P_1$  ✓✓
- Total revenue is equal to  $0P_1 \times 0Q_1$  and total cost is equal to  $0C \times 0Q_1$  ✓✓
- Total revenue exceeds total cost, which means the business is making a profit that is represented by area  $P_1CBE$  ✓✓
- This profit is known as economic profit, which is profit that is made in addition to normal profit ✓✓

**Max (6) for graph - Max (6) explanation (Max 10)**

**CONCLUSION**

Whilst perfect market does not exist, it serves as a standard that imperfect markets, such as monopolistic competition, should strive to achieve. ✓✓

Max (2)  
 (10)  
**[40]**

**QUESTION 6: MICRO-ECONOMICS  
MINUTES****40 MARKS - 40**

- Discuss in detail how the following factors lead to the misallocation of resources in the market without using graphs:
  - Externalities (8)
  - Missing markets (10)
  - Lack of information (8) (26)
- With the aid of a graph (Production Possibility Curve) explain how productive efficiency can be achieved in the market. (10)

**INTRODUCTION**

Market failure means that the best available resources or optimal production outcome has not been achieved ✓✓

(Accept any other correct relevant response)

(Max 2)

**MAIN PART****EXTERNALITIES**

- Sometimes ideal market conditions prevail and the mechanisms of the market work perfectly, however, the market does not produce optimally ✓✓  
In certain instances, people gain while other people losses out. This is because externalities prevail ✓✓

Externalities (external effects) are also known as spill-over effects or third party effects ✓✓

Externalities are the cost and benefits that convert private cost and benefits into social cost and benefits ✓✓

**Private cost** ✓

Internal costs are also known as private costs ✓✓

They are the usual costs that consumers incur when they buy goods and services ✓✓

E.g. a family buys a car ✓

**Private benefits** (internal benefits) ✓

These benefits accrue to those who buy the goods and those who produce the goods ✓✓

E.g. the family enjoy using the car and the producer sells it (profit) ✓✓

**Social costs** ✓

This is the costs of goods or services to those who create them and to society at large ✓✓

E.g. pollution caused by waste products, such as tyres, batteries, oil ✓

No value is given for these extra or external costs because no market exists to price them ✓✓

Private costs plus external costs is equal social cost ✓✓

**Social benefits✓**

Sometimes externalities are positive, e.g. municipalities provide clean water, for which consumers pay✓✓

Consumers pay for a private benefit, however, society at large has the benefit of fewer illnesses from contaminated water✓✓

A healthier workforce can work more productively and is often absent from work less✓✓

These are external benefits✓✓

Private benefits plus external benefits are equal to social benefits✓✓

With negative externalities, goods are over-produced and with positive externalities goods are under-produced. Both result in a misallocation of resources✓✓ (8)

**MISSING MARKETS**

• A significant market failure is the failure to produce some goods and services despite it being needed✓✓

Markets can only perform under certain conditions and when these conditions are absent, markets may struggle to exist✓✓

**Community goods✓**

These are goods such as defence, police services, prison services, street lighting etc. ✓

**Collective goods✓**

These are goods such as parks, beach facilities, streets, pavements, roads, bridges etc. ✓

**Public goods✓**

Community and public goods are known as public goods✓✓ They have two features: Non-rivalry✓\_the consumption by one person does not in any way reduce the consumption by another person✓✓ E.g. a lighthouse or street light✓✓

Non-excludability✓\_the consumption of a good cannot be confined to those who have paid for it, so there are free-riders✓✓

People enjoy the product without paying for, e.g. radio and television services✓✓

Public goods are not provided by the price mechanism because producers cannot withhold the goods for non-payment and there is no way of measuring how much a person consumes, there is no basis for establishing a market price✓✓ (10)

**Lack of information**

Consumers, workers and entrepreneurs do not have the necessary information to make rational decisions. ✓✓ This results in resources not being allocated efficiently. ✓✓

• Consumers: To maximise their benefits, consumers need detailed information about goods and services. ✓✓ Although technology offers this to the consumer, they obviously do have perfect information.✓✓

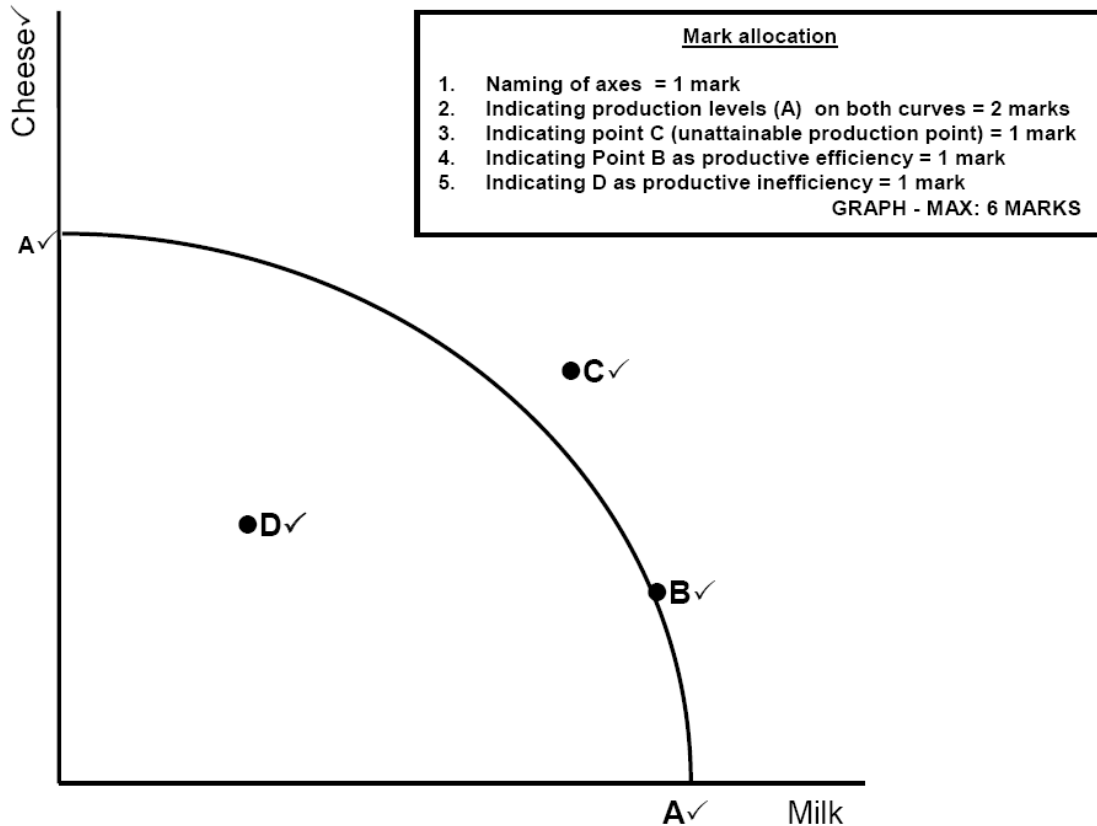
• Workers: Are often unaware of job opportunities. ✓✓

• Entrepreneurs: Lack of information on costs, availability and productivity of factors of production impacts their effectiveness.✓✓ (8)



**ADDITIONAL PART**

Explain the production possibility curve.

**EXPLANATION**

- D (a point to the left of the PPC curve) is inefficient – resources are wasted ✓✓
- C (a point to the right of the PPC curve) not possible because of scarcity (lack of resources) ✓✓
- B (a point on the PPC curve) is efficient – production is maximized – no wasted resources ✓✓

(Accept the explanation of a trade-off if two points appear on the PPC) (Max 6)

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