



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

**SENIOR CERTIFICATE/
NATIONAL SENIOR CERTIFICATE**

GRADE 12

ECONOMICS P2

NOVEMBER 2020

MARKS: 150

TIME: 2 hours

This question paper consists of 12 pages.

INSTRUCTIONS AND INFORMATION

1. Answer FOUR questions as follows in the ANSWER BOOK:

SECTION A: COMPULSORY
SECTION B: Answer TWO of the three questions.
SECTION C: Answer ONE of the two questions.
2. Answer only the required number of questions. Answers in excess of the required number will NOT be marked.
3. Number the answers correctly according to the numbering system used in this question paper.
4. Read the questions carefully.
5. Start EACH question on a NEW page.
6. Leave 2–3 lines between subsections of questions.
7. Answer the questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
8. Use only black or blue ink.
9. You may use a non-programmable pocket calculator.
10. Write neatly and legibly.

SECTION A (COMPULSORY)

QUESTION 1

30 MARKS – 20 MINUTES

1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question numbers (1.1.1 to 1.1.8) in the ANSWER BOOK, e.g. 1.1.9 D.

1.1.1 The government can intervene to reduce the production and consumption of a demerit good ...

- A by using excise tax.
- B through public-sector provisioning.
- C by granting subsidies.
- D by implementing a progressive system of taxation.

1.1.2 Advertising and branding play a key role in a/an ... market.

- A monopoly
- B formal
- C oligopoly
- D monopolistic competitive

1.1.3 In a perfect market, normal profit is also known as the ... point.

- A minimum
- B break-even
- C maximum
- D zero

1.1.4 Social costs consist of the sum of private and ... costs.

- A internal
- B public
- C external
- D variable

1.1.5 Development in media technology is important for tourism as part of the ... infrastructure.

- A transport
- B communication
- C energy
- D basic service

1.1.6 When a country experiences high inflation, high unemployment and low economic growth, it is called ...

- A disinflation.
- B deflation.
- C inflation target.
- D stagflation.

1.1.7 Which ONE of the following is a fiscal measure to combat inflation?

- A A decrease in direct taxation
- B An increase in productivity
- C A decrease in government expenditure
- D Increased import control

1.1.8 The development of environmentally friendly technology refers to ... measures to ensure sustainability.

- A market-related
- B international
- C voluntary
- D government

(8 x 2) (16)

1.2 Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A–I) next to the question numbers (1.2.1 to 1.2.8) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.2.1	Short run	A	visiting a country to see sites of archaeological significance, such as the Cango Caves
1.2.2	Marginal cost	B	the period of production where at least one factor of production remains fixed
1.2.3	Direct control	C	a duty charged on the production of products that causes external environmental costs
1.2.4	Maximum prices	D	the expense incurred to produce an extra unit
1.2.5	Climate change	E	the measurement of the production cost of goods over time
1.2.6	Paleo tourism	F	sacrificing one good for another
1.2.7	Production price index	G	government intervenes to make goods more affordable
1.2.8	Green tax	H	bills passed by the government that regulate negative externalities generated by businesses
		I	a significant and sustained variation in the normal weather pattern

(8 x 1) (8)

- 1.3 Give ONE term for each of the following descriptions. Write only the term next to the question numbers (1.3.1 to 1.3.6) in the ANSWER BOOK. Abbreviations, acronyms and examples will be NOT be accepted.
- 1.3.1 When it is impossible to increase the welfare of one individual without making things worse for another individual
- 1.3.2 The point where the marginal cost or average revenue is equal to the average variable cost
- 1.3.3 Where goods are bought and sold illegally
- 1.3.4 The activities of people travelling outside their usual environment for not more than a year
- 1.3.5 Type of inflation where prices of goods and services are set by government
- 1.3.6 The introduction of waste matter in the environment which damages the ecosystem (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

40 MARKS – 30 MINUTES

2.1 Answer the following questions.

2.1.1 Give TWO examples of explicit cost for a firm. (2 x 1) (2)

2.1.2 Why is monopolistic competition regarded as a *hybrid* structure? (1 x 2) (2)

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



[Adapted from Google Images]

2.2.1 Identify the type of monopoly depicted in the above cartoon. (1)


2.2.2 What is the nature of the product offered by monopolies? (1)

2.2.3 Briefly describe the term *patent* as used in Economics. (2)

2.2.4 How does the slope of a monopolist's demand curve differ from that of a monopolistic competitor? (2)

2.2.5 Why do state-owned monopolies in South Africa find it difficult to make an economic profit? (2 x 2) (4)

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

MARKET FAILURE – Government Intervenes	
<p>There are many causes of market failure, such as externalities, merit goods and unequal income distribution.</p> <p>In January 2019, government intervened to address unequal income distribution and announced a <i>national minimum wage</i>. This announcement was supported by Cosatu and the Federation of Unions of South Africa.</p> <p style="text-align: right;">[Adapted from <i>FIN24</i>, 1 January 2019]</p>	

- 2.3.1 Name ONE type of inefficiency that results from market failure. (1)
- 2.3.2 Give ONE redress policy that the government uses to redistribute income. (1)
- 2.3.3 Briefly describe the term *merit goods*. (2)
- 2.3.4 Why does a negative externality result in the overproduction of goods and services? (2)
- 2.3.5 Explain the negative consequences of minimum wages for the economy. (2 x 2) (4)
- 2.4 Draw a fully labelled graph to show the economic loss in a monopoly market structure. (8)
- 2.5 Evaluate the impact of *producer subsidies* by government on the business sector. (8)
- [40]**

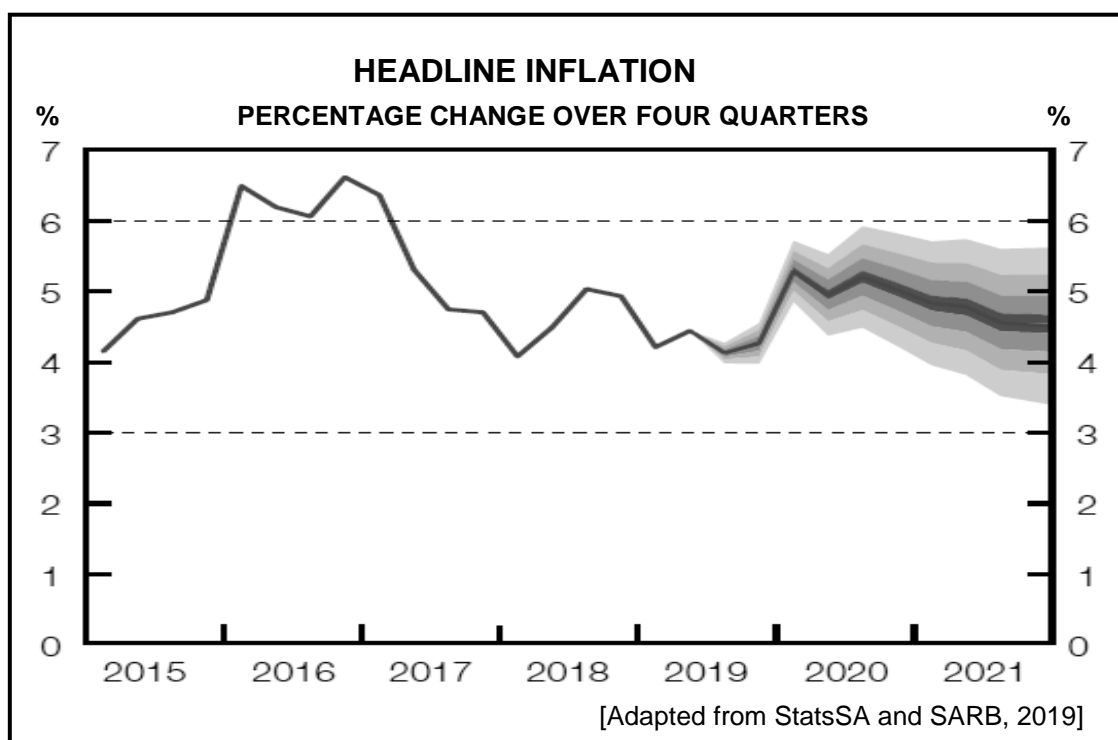
QUESTION 3: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Give TWO examples of World Heritage Sites in South Africa. (2 x 1) (2)

3.1.2 How can the tourism sector help to reduce poverty among the local people in the community? (1 x 2) (2)

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



3.2.1 What do the TWO dotted lines in the graph refer to? (1)

3.2.2 During which year would the Monetary Policy Committee more likely increase the repurchase (repo) rate? (1)

3.2.3 Briefly describe the term *headline inflation*. (2)

3.2.4 Explain the influence of inflationary expectations on consumption expenditure. (2)

3.2.5 How would an increase in value-added tax impact on the economy? (2 x 2) (4)

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

TOURISM FACES CHALLENGES

During the 2018 Africa Travel Indaba held in Durban, exhibitors complained that township tourism faced high crime rates, a lack of security and funding.

Emerging businesses in the industry experience economic backlog and marketing challenges, and although a weakened rand encouraged international tourists to travel to South Africa, only 5% of the world's tourists visit Africa.

SATourism requested that the government should not try to run the industry, but rather to create a space for business to operate successfully.

[Adapted from @SABCNewsOnline, 2019]

- 3.3.1 Give the term used to describe tourists from another country visiting South Africa. (1)
 - 3.3.2 State ONE purpose of tourism. (1)
 - 3.3.3 Briefly describe the term *indigenous knowledge*. (2)
 - 3.3.4 Why is marketing as a tourism policy important? (2)
 - 3.3.5 How can tourism have a negative impact on the environment?
(2 x 2) (4)
 - 3.4 Briefly explain the benefits of tourism for the household. (4 x 2) (8)
 - 3.5 How will the consumer price index influence the economy? (8)
- [40]**



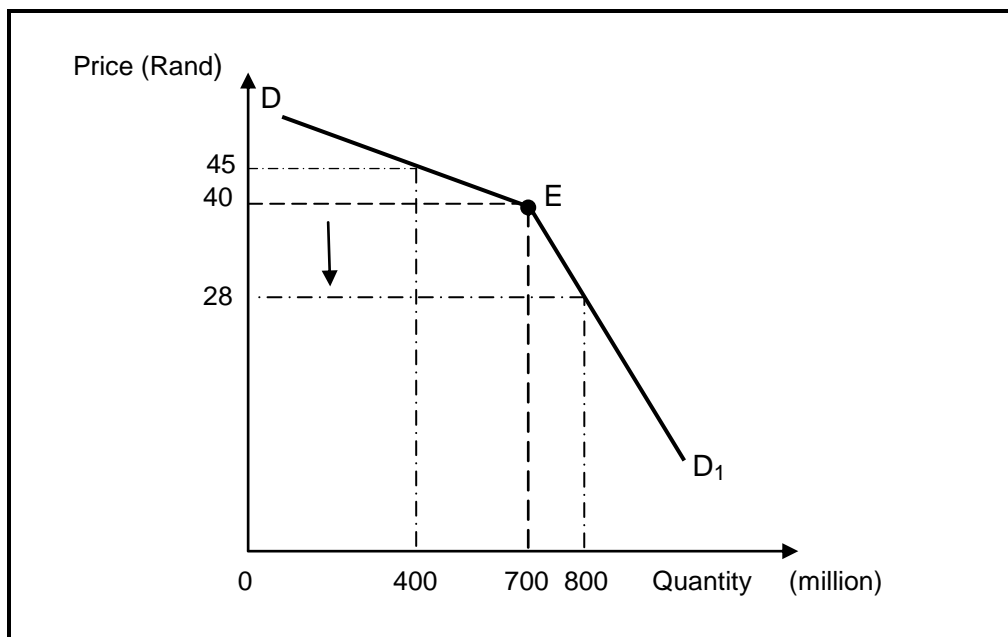
QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES
40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Name TWO institutions responsible for regulating competition in South Africa. (2 x 1) (2)

4.1.2 Why would high inflation lead to retrenchment in the workplace? (1 x 2) (2)

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



4.2.1 Identify the *inelastic segment* of the demand curve. (1)

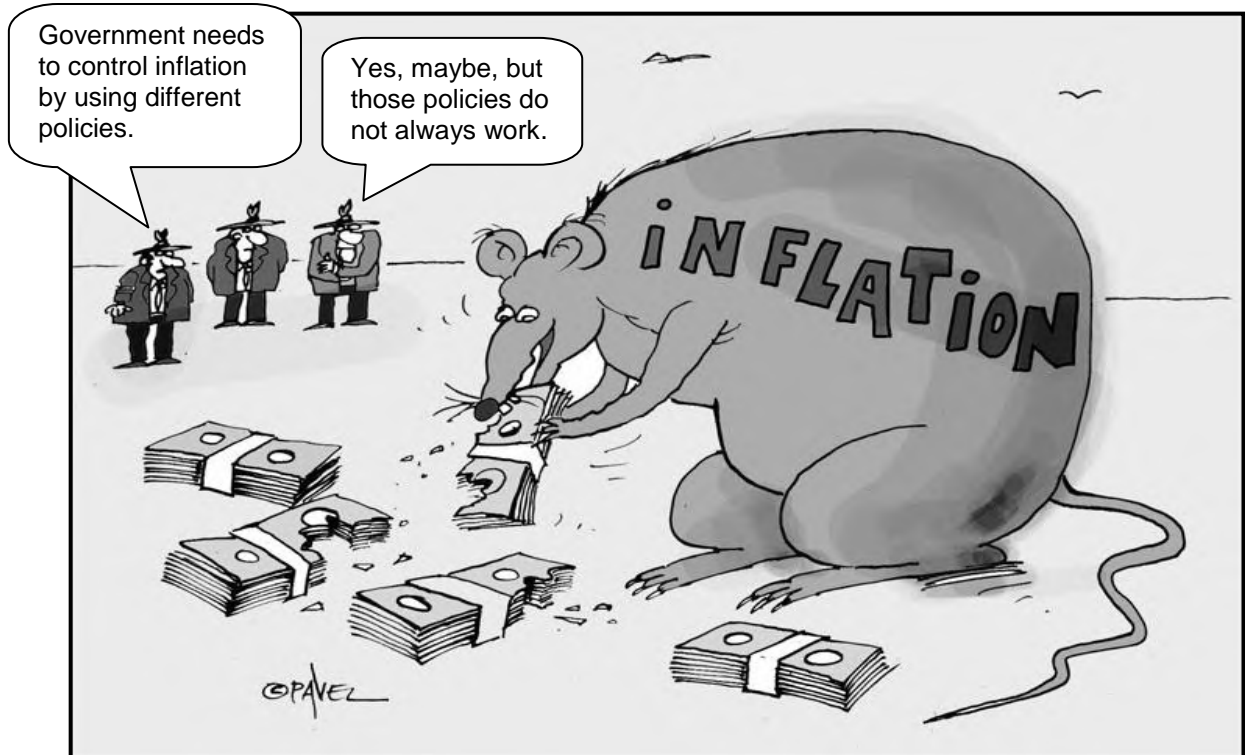
4.2.2 Name the demand curve above. (1)

4.2.3 Briefly describe the term *tacit collusion*. (2)

4.2.4 How does the profit of an oligopoly differ from the profit of a monopolistic competitor in the long run? (2)

4.2.5 Why will the producer be reluctant to decrease the price from R40,00 to R28,00? Show ALL calculations. (2 x 2) (4)

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



[Adapted from Google Images]

- 4.3.1 Name the South African institution responsible for combatting inflation. (1)
- 4.3.2 Which school of thought believes that inflation is influenced by the total money supply? (1)
- 4.3.3 Briefly describe the term *hyperinflation*. (2)
- 4.3.4 How would the cost of imported *key inputs* contribute to a higher inflation rate? (2)
- 4.3.5 Why is a monetary policy effective in reducing demand-pull inflation? (2 x 2) (4)
- 4.4 Briefly explain the reasons for a cost-benefit analysis. (4 x 2) (8)
- 4.5 Why is investment in tourism important for the economy? (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>Introduction The introduction is a lower-order response.</p> <ul style="list-style-type: none"> • A good starting point would be to define the main concept related to the question topic. • Do NOT include any part of the question in your introduction. • Do NOT repeat any part of the introduction in the body. • Avoid mentioning in the introduction what you are going to discuss in the body. 	Max. 2
<p>Body Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/Compare/Distinguish/Differentiate/Explain/Asses/Debate/Draw a graph and explain/Use the graph given and explain/Complete the given graph Additional part: Give own opinion/Critically discuss/Evaluate/Critically evaluate/Deduce/Compare/Distinguish/Interpret/Briefly debate/How/Suggest/Analyse</p>	Max. 26 Max. 10
<p>Conclusion Any higher-order conclusion should include:</p> <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned • Any opinion or value judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations 	Max. 2
TOTAL	40

QUESTION 5: MICROECONOMICS

40 MARKS – 40 MINUTES

- Discuss in detail, without the use of graphs, perfect competition as a market structure. (26 marks)
- Evaluate the competition policy in promoting a more competitive economy. (10 marks)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

40 MARKS – 40 MINUTES

- Discuss the major environmental problems that affect countries globally. (26 marks)
- Evaluate the success of the international measures adopted to address environmental problems. (10 marks)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150



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GRADE 12

ECONOMICS P2

NOVEMBER 2020

MARKING GUIDELINES

MARKS: 150

These marking guidelines consist of 19 pages.

SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE CHOICE

- 1.1.1 A by using excise tax ✓✓
- 1.1.2 D monopolistically competitive ✓✓
- 1.1.3 B break-even ✓✓
- 1.1.4 C external ✓✓
- 1.1.5 B communication ✓✓
- 1.1.6 D stagflation ✓✓
- 1.1.7 C a decrease in government expenditure ✓✓
- 1.1.8 A market-related ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS TYPE

- 1.2.1 B the period of production where at least one factor of production remains fixed ✓
- 1.2.2 D the expense incurred in producing an extra unit ✓
- 1.2.3 H bills passed by government that regulate negative externalities generated by businesses ✓
- 1.2.4 G government intervenes to make goods more affordable ✓
- 1.2.5 I a significant and sustained variation in the normal weather pattern ✓
- 1.2.6 A visiting a country to see sites of archaeological significance such as the Cango caves ✓
- 1.2.7 E the measurement of production cost of goods over time ✓
- 1.2.8 C duty charged on the production of products that cause external environmental costs ✓ (8 x 1) (8)

1.3 ONE TERM

- 1.3.1 Pareto efficiency ✓
- 1.3.2 shutdown / closing-down ✓
- 1.3.3 black market / underground market ✓
- 1.3.4 tourism ✓
- 1.3.5 administered price ✓
- 1.3.6 pollution ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

Answer any TWO of the three questions in this section.

QUESTION 2: MICROECONOMICS

2.1 Answer the following questions.

2.1.1 Give TWO examples of explicit cost for a firm.

- Rent ✓
- Interest ✓
- Wages ✓

(Accept any other correct relevant response)

(2 x 1) (2)

2.1.2 Why is monopolistic competition regarded as a hybrid structure?

The monopolistic competitor is a combination of a perfect market and a monopoly ✓✓

(1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 Identify the type of monopoly depicted in the above cartoon.

Artificial / legal / statutory ✓

(1)

2.2.2 What is the nature of the product offered by monopolies?

Unique with no close substitutes ✓

(1)

2.2.3 Briefly describe the term *patent* as used in Economics.

It gives one exclusive (legal) rights to manufacture a product ✓✓
(Accept any other correct relevant response)

(2)

2.2.4 How does the slope of the monopolist's demand curve differ from that of a monopolistic competitor?

The slope of the monopolist demand curve is relative inelastic (steeper sloped) compared to that of a monopolistic competitor where it is relative elastic (less steep) ✓✓
(Accept any other correct relevant response)

(2)

2.2.5 **Why do state-owned monopolies in South Africa find it difficult to make an economic profit?**

- Some state-owned monopolies in South Africa have a history of corruption and incompetence which compromises the ability to make profits ✓✓
- Due to the huge maintenance costs, revenue is not sufficient to cover all expenses ✓✓
- Non-payment of debt of municipalities, reduces the revenue of State Owned Enterprises ✓✓
- Regulation bodies such as NERSA limit high price increases that reduces revenue ✓✓
- Over-reliance on bail-outs leads to inefficiencies in management decision-making processes ✓✓
- Some state-owned enterprises provide essential goods and services such as water, which makes it difficult to set very high prices to cover costs ✓✓

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

2.3 **DATA RESPONSE**

2.3.1 **Name ONE type of inefficiency that results from market failure.**

- Productive / technical ✓
 - Allocative ✓
- (1)

2.3.2 **Give ONE redress policy that government uses to redistribute income.**

- BEE / BBBEE ✓
- Affirmative action ✓
- Land restitution ✓
- Land redistribution ✓
- Minimum wage ✓



(Accept any other correct relevant response) (1)

2.3.3 **Briefly describe the term *merit goods*.**

Goods that are beneficial to society where every individual should consume them irrespective of their income ✓✓
(Accept any other correct relevant response) (2)

2.3.4 **Why does a negative externality result in the overproduction of goods and services?**

The external/third party cost is not included in the market price, thus lowering the cost which allows producers to produce more than they should ✓✓
(Accept any other correct relevant response) (2)

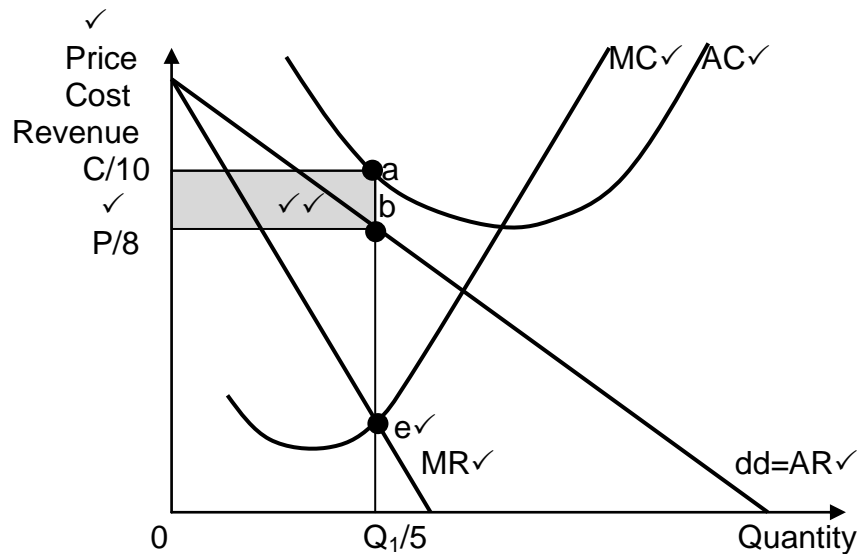
2.3.5 Explain the negative consequences of minimum wages on the economy.

- 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 ✓✓
- Government's tax revenue is reduced through lower employment which increases the social welfare burden of government ✓✓
- Due to lower employment, production will decrease which can lead to inflation ✓✓

(Accept any other correct relevant response)

(4)

2.4 Draw a fully labelled graph to show the economic loss in a monopoly market.



ALLOCATION OF MARKS

- Correct labelling of axes = 1 mark
- Correct drawing/positioning and labelling of MC curve = 1 mark
- Correct drawing/positioning and labelling of AC curve = 1 mark
- Correct drawing/positioning and labelling of MR curve = 1 mark
- Correct drawing/positioning and labelling of AR curve = 1 mark
- Loss minimizing point = 1 mark
- Indication of economic loss = 2 marks
- Correct labelling on axes = 1 mark

Maximum marks = 8 marks

(8)

2.5 Evaluate the *impact of producer subsidies* by government on the business sector.

Positives

Producer subsidies will:

- stimulate production and helps to keep prices low which will improve their competitiveness ✓✓
- encourage businesses to provide more merit goods and services which are said to generate positive externalities ✓✓
- reduce the cost of capital investment projects which will stimulate the growth of related businesses ✓✓
- enable businesses to earn more profits due to lower cost ✓✓

Negatives

Producer subsidies:

- are sometimes not allocated fairly to all businesses thus compromising the survival of some businesses ✓✓
- might distort market prices, for example, export subsidies give an advantage over their competitors in the trade in goods and services ✓✓
- sometimes protect inefficient firms when there might be a need to restructure ✓✓
- causes firms to become too dependent on it and the business might struggle if the subsidy is withdrawn ✓✓

(Accept any other correct relevant response)

(Max 8)

(8)

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

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

3.1 Answer the following questions

3.1.1 Give TWO examples of world heritage sites in South Africa.

- Mapungubwe ✓
 - The Vredefort Dome ✓
 - Sterkfontein Caves / Cradle of Humankind ✓
 - Robben Island ✓
 - Richtersveld Cultural and Botanical Landscape ✓
 - iSimangaliso Wetland Park ✓
 - The Cape Fynbos Region ✓
 - uKhahlamba Drakensberg Park ✓
 - Khomani ✓
 - Makhonjwa Mountains ✓
- (2 x 1) (2)

3.1.2 How can the tourism sector help to reduce poverty among the local people in the community?

The local unemployed people can earn an income by supplying of goods and services to tourists ✓✓ / Local people form partnerships with businesses to supply arts and crafts to curio shops to sell to tourists ✓✓ e.g. beadwork ✓
(Accept any other correct relevant response) (1 x 2) (2)

3.2 eop

3.2.1 What do the two dotted lines in the graph refer to?

Inflation target ✓ (1)

3.2.2 During which year would the Monetary Policy Committee more likely increase the repurchase (repo) rate?

2016 ✓ (1)

3.2.3 Briefly describe the term *headline inflation*.

The inflation rate that represents the cost of a basket of goods of an average South African household which is measured by the Consumer Price Index / unadjusted CPI figure ✓✓
(Accept any other correct relevant response) (2)

3.2.4 Explain the influence of inflationary expectations on consumption expenditure.

- Under inflationary conditions, consumers expect prices to rise further, and start to buy more goods ✓✓ e.g. petrol prices ✓
 - Labour unions wish to protect their members' income against erosion of purchasing power caused by inflation ✓✓
- (Accept other correct relevant response) (2)

3.2.5 **How would an increase in value-added tax impact on the economy?**

An increase in VAT could:

- ensure increased government revenue which would allow government to provide more social services to benefit communities ✓✓
- lead to a decrease in government revenue due to consumers reducing their consumption ✓✓
- influence production (supply) negatively, due to a decrease in demand through higher prices ✓✓
- impact the lower income groups more adversely due to the regressive nature of the taxation ✓✓
- impact negatively on the level of aggregate demand due to increased prices, that might lead to more unemployment ✓✓
- stabilize the inflation rate due to a lower demand ✓✓

(Accept other correct relevant response) (2 x 2) (4)

3.3 **DATA RESPONSE**

3.3.1 **Give the term used to describe tourists from another country visiting South Africa.**

International / foreign / inbound tourists ✓ (1)

3.3.2 **State ONE purpose of tourism.**

- Leisure and recreation ✓
- Business and professional ✓
- Studying ✓
- Medical purposes ✓
- Cultural tourism ✓

(Accept other correct relevant responses) (1)

3.3.3 **Briefly describe the term *indigenous knowledge*.**

Knowledge that has practical application for the daily survival of traditional communities / the local knowledge or traditional way of doing things that are unique to a culture or a society ✓✓

(Accept any other correct relevant response) (2)

3.3.4 **Why is marketing as a tourism policy important?**

- Marketing will sustain demand in existing markets or generate demand from new markets ✓✓
- Marketing helps to rectify the negative images of the country ✓✓

(Accept any other correct relevant response) (2)

3.3.5 How can tourism have a negative impact on the environment?

- The features of the tourist site will be destroyed if the carrying capacity of the area is exceeded ✓✓
 - Destroying environmental sensitive areas, will destroy both cultural and natural assets ✓✓
 - Environmental stress leads to a loss of wildlife species due to safari hunting ✓✓
 - Environmental cost involves the generation of waste and pollution and the unsustainable use of water ✓✓
- (Accept any other correct relevant responses) (2 x 2) (4)

3.4 Briefly explain the benefits of tourism for the household.

- Spending by tourists leads to increased income to households through direct involvement in tourism ✓✓ e.g. travel agents or tour operators ✓
 - Indirect involvement in tourism as employees in trading businesses and the hotel industry contributes to incomes of households ✓✓
 - Most infrastructure created for tourists is also available for use by local people ✓✓ e.g. roads and electricity ✓
 - Tourism requires a variety of skills for which education and training is needed. ✓✓ Schools and education institutions offer a number of travel and tourism programmes to benefit the individual ✓✓
 - Tourism allows exposure to foreign cultures which enriches cultural and social knowledge ✓✓
 - Initial involvement of households in the informal sector can lead to future entrepreneurs in the formal sector ✓✓
- (Accept other correct relevant responses)
(Allocate a maximum of 4 marks for mere listing of facts / examples) (4 x 2) (8)

3.5 How will the consumer price index influence the economy?

- Inflation influences the economy by distorting prices and it is no longer a correct indicator of the value of goods and services ✓✓
 - Supply useful indicators of price movements, which might channel investment in a certain direction ✓✓
 - Compare price indexes of different months, that helps to assess the state of the economy ✓✓
 - Trade unions negotiate wage increases that are not in line with an increase in productivity of workers ✓✓
 - SARB uses the CPI to apply suitable monetary policy options, that will help to pursue the inflation target of 3 – 6% ✓✓
 - The selection of goods and services in the calculation of the CPI does not always represent the average household and might influence each household differently ✓✓
 - Households are worse off as the CPI is not a true reflection of the real impact to households in the economy ✓✓
- (Accept any other correct relevant responses)
(Allocate a maximum of 2 marks for mere listing of facts/examples) (8) [40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 Answer the following questions.

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

- Competition commission ✓
 - Competition tribunal ✓
 - Competition appeal court ✓
- (2 x 1) (2)

4.1.2 Why would high inflation lead to retrenchment in the workplace?

Higher inflation would result in lower production where businesses require less labour ✓✓
(Accept other correct relevant responses) (1 x 2) (2)

4.2 Data response

4.2.1 Identify the *inelastic segment* of the demand curve.

ED₁ / below the kink / second segment ✓ (1)

4.2.2 Name the demand curve above.

Kinked ✓ (1)

4.2.3 Briefly describe the term *tacit collusion*.

The behaviour by firms is motivated by an arrangement that is not formal / Unspoken actions between oligopolistic firms that are likely to minimise a competitive response / When a dominant firm increase its price and hope that its rivals will see it as a market signal and increase their prices ✓✓
(Accept any other correct relevant response) (2)

4.2.4 How does the profit of an oligopoly differ from the profit of a monopolistic competitor in the long run?

The oligopoly will make economic profit over the long run compared to a monopolistic competitor making a normal profit only ✓✓ (2)

4.2.5 **Why will the producer be reluctant to decrease his 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 = $\frac{12}{40} \times 100 = 30\%$ ✓✓

$$\text{-increase in market share} = \frac{100}{700} \times 100 = 14,3\% \quad \checkmark\checkmark$$

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

4.3 **DATA RESPONSE**

4.3.1 **Name the South African institution responsible for combatting inflation?**

South African Reserve Bank / SARB ✓ (1)

4.3.2 **Which school of thought believes that inflation is influenced by the total money supply?**

Monetarist ✓ (1)

4.3.3 **Briefly describe the term *hyperinflation*.**

When a country experiences extravagant and unrestrained general price increases / in excess of 50% / that leads to the value of the currency becoming worthless. ✓✓

(Accept any other correct relevant response) (2)

4.3.4 **How would the cost of imported key inputs contribute to a higher inflation rate?**

When key inputs (machinery) are imported from countries that experience inflation, the cost of locally produced goods will increase /

If supplier countries experience inflation, countries that import key inputs from them will experience a higher inflation as the cost of production will increase ✓✓ (2)

4.3.5 **Why is a monetary policy effective in reducing demand-pull inflation?**



- Monetary policy decreases aggregate spending by increasing interest rates ✓✓
- An increase in the cash reserve requirements limits the amount available to consumers, which reduces demand ✓✓
- Sale of government bonds (open market transactions) reduces the money supply where banks have less money to supply ✓✓
- Banks can be persuaded by the central bank to limit the amount of credit ✓✓
- Helps to raise the cost of credit in the various sectors of the economy ✓✓

(Accept other correct relevant responses) (2 x 2) (4)

4.4 **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) (4 x 2) (8)

(Allocate a maximum of 4 marks for mere listing of facts/examples)

4.5 **Why is investment in tourism important to the economy?**

Tourism investment is important to the economy because:

- it links markets to rural areas where production takes place, due to the upgrading of transport infrastructure to tourist sites in rural areas ✓✓
- it improves the efficiency to conduct business by supplying effective communication infrastructure at hotels (telephone lines and internet access) ✓✓
- it provides a reliable energy infrastructure, for example lights and hot water to improve the quality and comfort of the tourists' stay which will grow tourism further ✓✓
- it requires basic services infrastructure which can lower the level of unemployment / ensure clean water and refuse removal at tourist sites and in the local community ✓✓
- it leads to the establishment of businesses near tourist sites such as a general dealer, chemists, a spa, restaurants which will increase GDP ✓✓
- it allows the tourist to enjoy a unique experience of the country, through a variety of recreational activities such as abseiling, 4x4 drives, game drives and hikes ✓✓
- an increase in capital formation could solve the large socio-economic problem of unemployment, by focusing on this labour-intensive industry ✓✓
- a large part of the South African population lives in areas that are characterised by extreme poverty and underdevelopment, where various major tourist attractions could lead to development of projects to solve these problems ✓✓
- negative externalities like carbon emissions could be limited through carbon taxes or tradable carbon permits as additional income to the government ✓✓

(Accept any other correct relevant response)

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

(8)

[40]

TOTAL SECTION B:

80

SECTION C

Answer any ONE question in this section.

QUESTION 5: MICROECONOMICS

- Discuss in detail, without the use of graphs, perfect competition as a market structure. (26 marks)
- Evaluate the competition policy in promoting a more competitive economy. (10 marks)

INTRODUCTION

The perfect market is a market structure where an infinite number of businesses can operate in the market / There are various market structures that exist in the economy, each with its own peculiar set of characteristics ✓✓

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

BODY: MAIN PART

Nature of products ✓

- Products must be homogenous (i.e. identical) ✓✓
- There should be no differences in style, design and quality ✓✓
- In this way products compete solely on the basis of price and can be purchased anywhere ✓✓
- If products differ, sellers can persuade buyers to buy their more expensive products by grading them ✓✓
- The markets for maize and coal consist of homogenous products which are graded ✓✓

Number of businesses ✓

- There should be a large number of buyers and sellers ✓✓
- It should not be possible for one buyer or seller to influence the price / When there are many sellers the share of each seller to the market is so small that the seller cannot influence the price ✓✓
- Sellers are price takers; they accept the prevailing market price ✓✓
- If businesses increase prices above the market price, they will lose customers ✓✓

No preferential treatment/Discrimination ✓

- Buyers and sellers base their actions solely on price; homogenous products fetch the same price and therefore no preference is shown for buying from or selling to any particular person ✓✓

Collusion ✓

- No collusion takes place ✓✓
- Each seller acts independent of one another / impossible for sellers to form groups to enforce higher prices ✓✓

Free competition ✓

- Buyers must be free to buy whatever they want from any firm and in any quantity ✓✓
- Sellers must be free to sell what, how much and where they wish ✓✓
- They should be no state interference and no price control ✓✓

Mobility of factors of production ✓

- They can move freely between markets without any restrictions ✓✓

Perfect knowledge of market conditions. ✓

- All buyers and sellers must be fully aware of what is happening in any part of the market ✓✓
- Technology has increased competition as information is easily obtained via the internet ✓✓

Entry to markets ✓

- There is complete freedom of entry and exit – a market that is fully accessible ✓✓
- Entry is not subject to any restrictions in the form of legal, financial, technological or other barriers that curtail the freedom of movement of buyers and sellers ✓✓

Profits ✓

- In the short run the firms can make economic profit, economic loss and normal profit ✓✓
- In the long run the firms make normal profit ✓✓

Control over prices ✓

- Each seller is a price-taker and regards the market price as given ✓✓
- The market price is determined by the interaction of the market supply and market demand – if a producer tries to change a price above market price, consumers will get a better price from someone else ✓✓
- When an excess demand of supply exists, the price will respond to ensure that equilibrium is reached again ✓✓

Efficiency ✓

- The perfect competitor produces at the lowest cost over the long run ✓✓ (Max 26)
(Accept any other correct relevant responses)
(A maximum of 8 marks will be allocated for mere listing of facts/examples).

ADDITIONAL PART

Evaluate the competition policy in promoting a more competitive economy.

The competition policy has promoted a competitive economy by:

- successfully investigating and prosecuting unfair competition on a regular basis in the country ✓✓
 - making recommendations about penalties for businesses found guilty of abuse and this has been endorsed and fines imposed ✓✓
 - implementing the Competition Tribunal who accepts or rejects the investigation and recommendation of the Competition Commission and confirms penalty imposed ✓✓
 - The Competition Amendment Bill has improved the competition policy by holding directors/owners accountable for uncompetitive behaviour ✓✓
 - making it possible for businesses to appeal for a penalty imposed by the Competition Appeal Court ✓✓
 - curbing the economic power of big conglomerates to arrive at a more equitable distribution of income and wealth ✓✓
 - regulating mergers and takeovers to regulate market power of mergers such as Massmart and Walmart where conditions were imposed to prevent possible unemployment that may result ✓✓
- (Accept practical examples where competition policy has succeeded)
(Accept any other correct relevant response)

The competition policy did not promote a competitive economy because:

- there are still frequent occurrence of collusive behaviour, despite fines being imposed ✓✓ e.g. construction/cement/steel/bread/bank industries ✓ / fines were too lenient and did not act as a deterrent to collusive behaviour ✓✓
 - too many dominant firms prevented disadvantaged black industrialists entering into the market (BEE) ✓✓
 - the original competition policy did not take into account the impact of mergers and acquisitions on SMME's in terms of fair pricing ✓✓
 - the shortcomings of the competition policy has led to the adoption of the Competition Amendment Bill which will promote competition further ✓✓
- (Accept any other correct relevant response) (Max 10)

CONCLUSION

In reality there are only a few near perfect markets, however there are some sectors such as mining (e.g. gold) and agriculture (e.g. maize) where many of the conditions are met. These sectors illustrate the way in which the market mechanism works ✓✓
(Accept any other correct relevant higher order conclusion) (Max 2)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 40 MINUTES

- **Discuss the major environmental problems that affect countries globally.** (26 marks)
- **Evaluate the success the international measures adopted to address the environmental problems.** (10 marks)

INTRODUCTION

The existence of the environment is under threat due to many problems which intensify as time moves along ✓✓ (Max. 2)

(Accept any other correct relevant response)

BODY: MAIN PART

Loss of biodiversity ✓

- It relates to the number of genetic variety among individual plant and animals within a community of organisms ✓✓
- The depletion of natural resources can lead to extinction of some species and in so doing, decrease biodiversity ✓✓
- Extinction of species is an irreversible process, therefore a major threat to the process of gene transplant among species ✓✓
- Some modern techniques make it possible to transplant desirable genes from one species to another to create a new species, however, the genes used must be diverse ✓✓
- **Convention on International Trade in Endangered Species** bans commercial international trade in an agreed list of endangered species that is reviewed from time to time ✓✓

Chemical waste ✓

- Exposure to chemicals such insecticides and pesticides can result in immediate death ✓✓
- In other instances, it can result in death after a period of time due to digestive incapacity or nerve malfunctioning ✓✓
- In human beings, plants and animals, exposure to toxicity may result in infertility ✓✓
- In normal concentration most chemicals are not toxic, but in excess amount they all can be dangerous ✓✓ e.g. incorrect medicine dosage ✓
- Other chemical such as DDT are by design toxic substances ✓✓
- The production of chemicals result in chemical waste and disposing of such chemicals is always a problem to the environment ✓✓
- The Stockholm Protocol prohibit twelve of the deadliest man-made chemicals ✓✓
- The Rotterdam Convention protects countries which do not have the necessary infrastructure to monitor the trade in hazardous chemicals ✓✓

Climate change ✓

- A build-up of greenhouse gases causes the heat from the sun to be trapped in the atmosphere ✓✓
- The most common greenhouse gas produced in to the atmosphere is carbon dioxide which is released from burning of fossil fuels and wood ✓✓
- The amount of carbon dioxide produced is not being able to be absorbed by available trees ✓✓
- Increasingly natural forests are cut down for human use, therefore increasing greenhouse gases into the atmosphere ✓✓
- Increased greenhouse gasses lead to the damage of the ozone layer and eventually the global warming ✓✓
- Global warming has an effect on the world's weather patterns which include extreme temperatures and a change in rainfall patterns ✓✓
- Voluntary deduction of carbon dioxide levels did not succeed – led to signing of Kyoto Protocol in 1997 ✓✓

Hazardous waste ✓

- These types of waste are dangerous to living organisms and the ecosystem as a whole and because they are very slow into decompose ✓✓
- The Basel Convention allows parties to export hazardous waste that has not banned its import ✓✓

Loss of indigenous knowledge ✓

- The organic methods and natural processes used by traditionally indigenous people are not well-known amongst all local communities or foreign tourists ✓✓
 - Government programmes undertaken to protect these systems, will increase legitimacy and credibility in the eyes of both local people and the outside world ✓✓
 - There is an urgent need to respect and promote inherent rights of indigenous people that they derived from social structures ✓✓
 - Indigenous knowledge provide a powerful basis from which to develop alternative ways of managing resources ✓✓
 - Care should be taken that indigenous knowledge is not overwhelmed and lost forever ✓✓
- (Max. 26)

(Accept any other correct relevant responses)

(Accept any other problems like deforestation, soil erosion, land degradation, over-population, pollution, melting ice caps)

ADDITIONAL PART

The international measures to address the environmental problems have been successful because:

- the United Nations' Convention on Climate Change and the Kyoto Protocol has created an awareness and formulated measures to address climate change ✓✓
- the Kyoto protocol was signed by 186 countries, and binding emission targets (5.2%) was set ✓✓
- the Convention on International Trade in Endangered Species (CITES) has regulated the trade in endangered animals and plants to address biodiversity loss ✓✓ whereby control is carried out through the issuing of permits and quotas to reduce the possibility of extinction ✓✓
- one needs a permit to import plants and animals to South Africa ✓✓
- the United Nations facilitated a number of agreements such as the Stockholm Protocol on Persistent Organic Pollutants to address a problem of toxic wastes world wide ✓✓
- the protocol bans twelve of the most dangerous manufactured substances such as the DDT ✓✓
- the Basel Convention agreed to manage nuclear waste ✓✓

The international measures to address the environmental problems have not been successful because:

- the rate at which greenhouse gases are produced keep on increasing, despite many climate change conventions (UNFCCC) and protocols (Kyoto) ✓✓
- countries still experience the negative effects of climate change in recent year's ✓✓
- extreme natural disasters such as cyclones that caused damage in Mozambique in 2019 ✓✓
- the Paris agreement of climate change (2012) was undermined by the withdrawal by powerful countries such as the USA which has influence in other countries and also is a major polluter ✓✓
- endangered species such as rhinoceros are still being killed for their horns in spite of the measures put in place by CITES ✓✓
- developing countries allow dumping of hazardous waste which encourages the rich industrialized countries to contribute to the problem ✓✓ (Max. 10)

(Accept any other correct relevant higher order response)

CONCLUSION

The success of the efforts made in addressing environmental problems is dependent on whether the governments, businesses and consumers around the world take such measure seriously enough to implement them ✓✓ (Max. 2)

(Accept any other correct higher order conclusion)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150