



education

Department:  
Education  
PROVINCE OF KWAZULU-NATAL

**NATIONAL  
SENIOR CERTIFICATE**

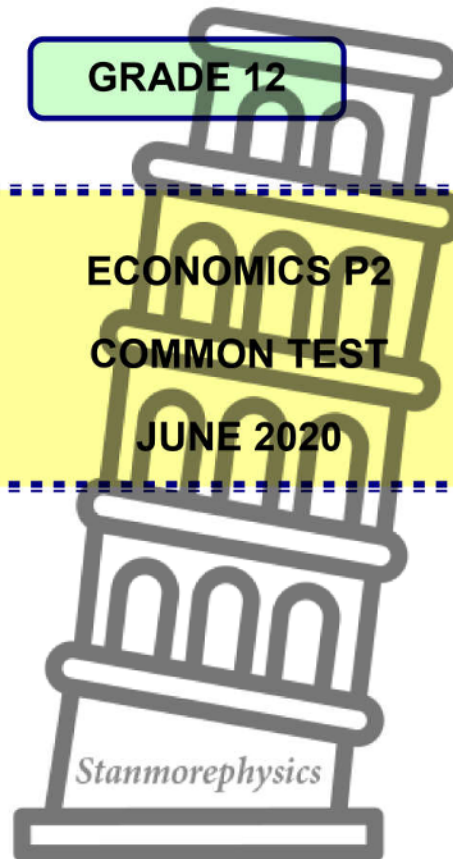
**GRADE 12**

**ECONOMICS P2  
COMMON TEST**

**JUNE 2020**

**MARKS: 150**

**TIME: 2 Hours**



**This question paper consists of 13 pages.**

**INSTRUCTIONS AND INFORMATION**

1. Answer FOUR questions as follows in the **ANSWER BOOK**.
  - **SECTION A** : COMPULSORY
  - **SECTION B**: Answer any **TWO** of the three questions.
  - **SECTION C** : Answer any **ONE** of the two questions
2. Write the question number above each answer.
3. Answer only the required numbers of questions. Answers in excess of the required number will not be marked.
4. 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.
5. Number the answers correctly according to the numbering system used in this question paper.
6. Read the questions carefully.
7. Start each question on a new page.
8. Leave 2-3 lines between sub sections of questions.
9. Use only black or blue ink.
10. You may use a non- programmable pocket calculator.
11. Write legible and present your work neatly.



**SECTION A: COMPULSORY****QUESTION 1****30 MARKS – 20 MINUTES**

1.1 Various options are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A-D) next to the question number (1.1.1-1.1.8) in the ANSWER BOOK, for example 1.1.9. D.



1.1.1 An example of a variable cost in a bakery is ...

- A electricity.
- B rent.
- C insurance
- D interest

1.1.2 The business in a perfect competition makes ...profit in the long run.

- A abnormal
- B economic
- C perfect
- D normal

1.1.3 The perfect market will shut down when price is ...

- A equal to AR.
- B equal to MC.
- C equal to demand.
- D below AVC

1.1.4 The market produces merit goods in ... quantities

- A enough
- B insufficient
- C large
- D sufficient

1.1.5 A key feature of public goods is their ...

- A limited consumption.
- B non excludability
- C rivalry
- D rejectability



1.1.6 Price set by the government below market price is called ...

- A equilibrium
- B price floor
- C minimum price
- D price ceiling



1.1.7 The cost and benefits for third parties that are not included in the price are called ...

- A externalities.
- B private cost.
- C social cost.
- D social benefits.

1.1.8 The value of the alternative that is sacrificed when a choice is made when producing two products is called ...

- A profit
- B opportunity cost
- C savings
- D economies of scale

(8 x 2) (16)



- 1.2 Choose a description from COLUMN B that matches the 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 Marginal cost	A Actual expenditure of business e.g. insurance.
1.2.2 Competition tribunal	B Occurs when the gap between TR and TC is the greatest.
1.2.3 Break-even point	C A mechanism that bring together buyers and sellers.
1.2.4 Industry	D Adjudicate in the case of misconduct and issue orders on matters presented by competition commission.
1.2.5 Explicit cost	E A group of businesses which produce similar and related products.
1.2.6 Black market	F Costs incurred for producing an additional unit of a product.
1.2.7 Renewable resources	G A situation where a business does not make profit or loss.
1.2.8 Profit maximization point	H A situation in which illegal goods are bought and sold.
	I That which can be returned to its natural habitant

(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 NOT be accepted.

1.3.1 A period of production where all costs of production are variable.

1.3.2 A group of producers forming a collective monopoly.

1.3.3 When buyers are charged differently for the same product.

1.3.4 A point where MC equals MR yet the business is making an economic loss.

1.3.5 An instrument used to determine the feasibility of the project.

1.3.6 A situation where businesses fail to meet the needs of consumers.

(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: MACROECONOMICS**

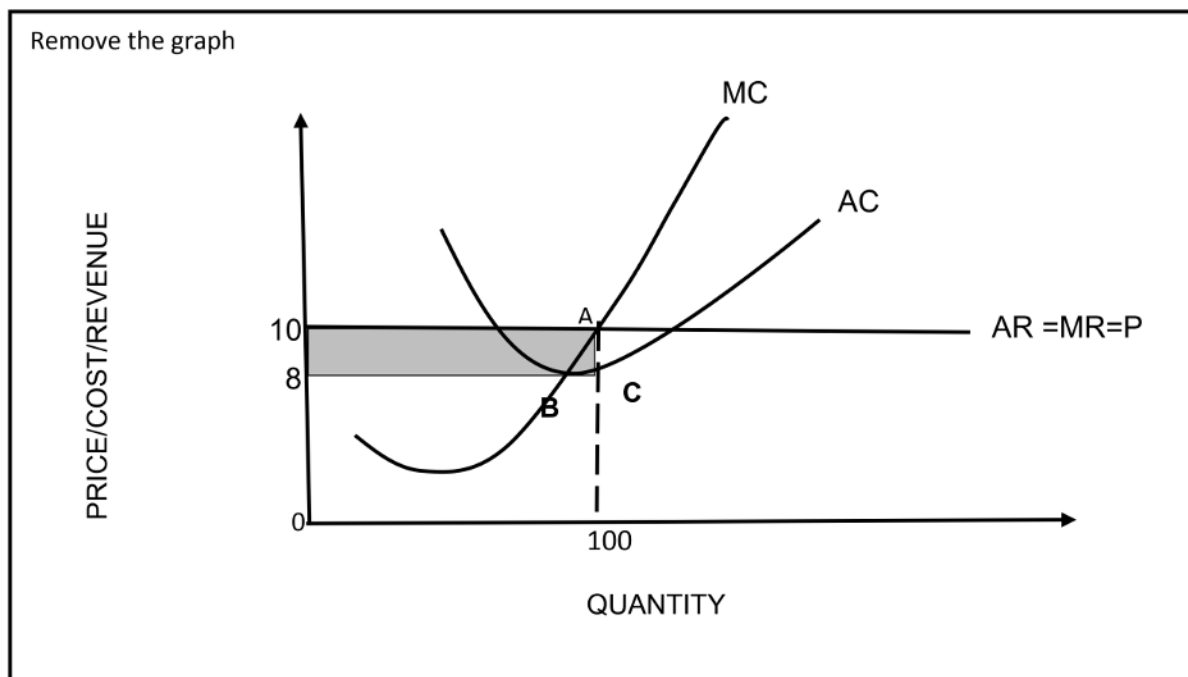
**40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Give TWO types of monopolies. (2x1) (2)

2.1.2 Why are businesses in a monopoly market regarded as price setters? (1x2) (2)

2.2 Study the graph below and answer the questions that follow



2.2.1 What does point A in the graph above represent? (1)

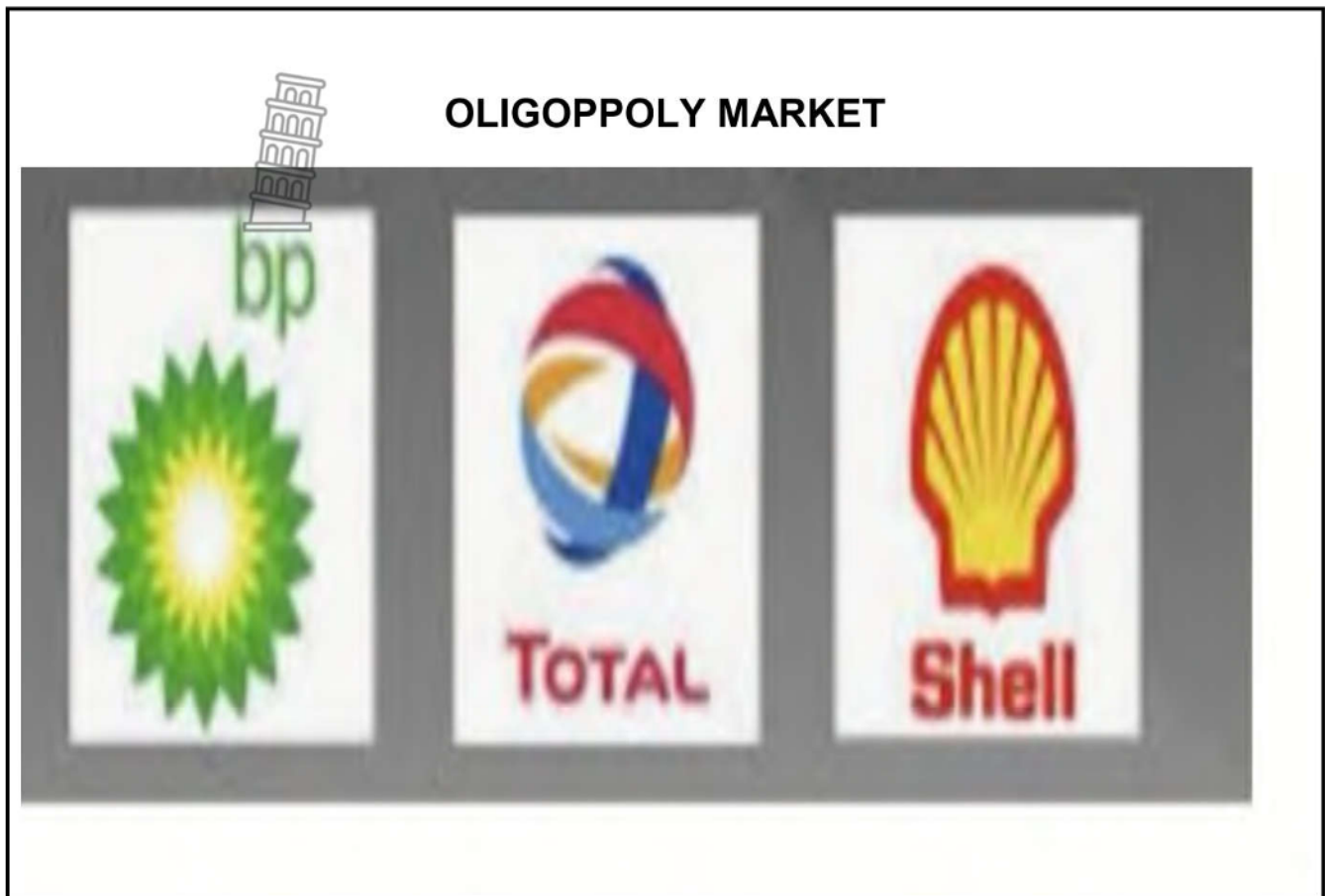
2.2.2 Why would the above graph be regarded as that of a perfect competitor? (1)

2.2.3 Describe the term *long-run*. (2)

2.2.4 Briefly explain how an individual business can increase its profit. (2)

2.2.5 Calculate the total profit made by the above firm. Show all calculations. (4)

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



[Source: [www.google.com](http://www.google.com)]

- 2.3.1 In which industry do these firms operate? (1)
- 2.3.2 Give the type of product sold in the oligopoly market. (1)
- 2.3.3 Describe the term *price leadership*. (2)
- 2.3.4 Briefly explain the barriers to enter into an oligopoly market. (2)
- 2.3.5 How does the oligopolist increase its market share without causing price wars? (2 x 2) (4)
- 2.4 With an aid of a well labeled graph discuss negative externality. (8)
- 2.5 How does a monopolist negatively impact consumers? (8)



**[40]**

**QUESTION 3: MICROECONOMICS**

**40 MARKS – 30 MINUTES**

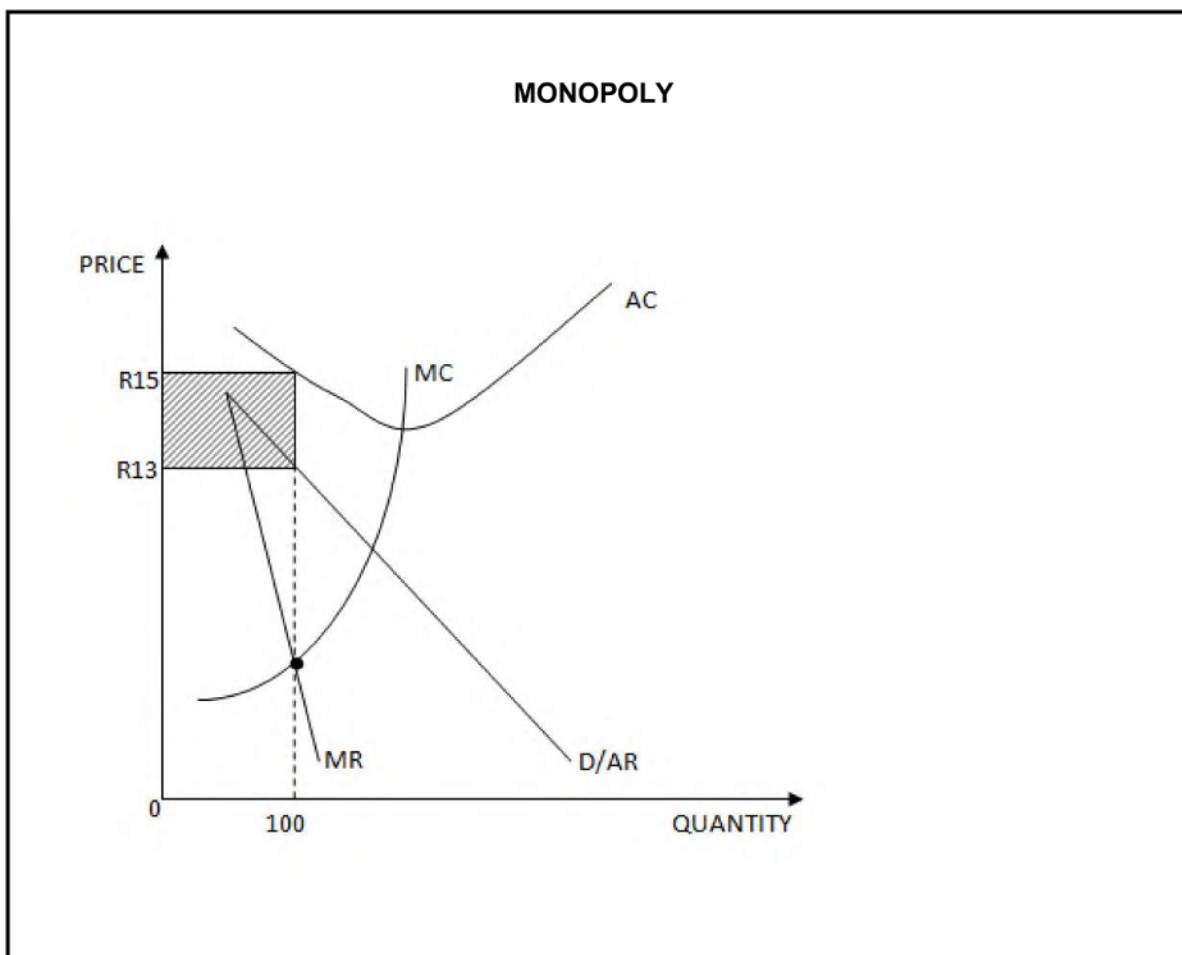
3.1 Answer the following questions.

3.1.1 Name TWO variables that determine profit. (2 x 1)(2)

3.1.2 Why are markets not willing to supply merit goods? (1 x 2)(2)



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



3.2.1 Give the name of the shaded area in the graph above. (1)

3.2.2 Which curve is the same as the demand curve in the graph above? (1)

3.2.3 Describe the term *monopoly*. (2)

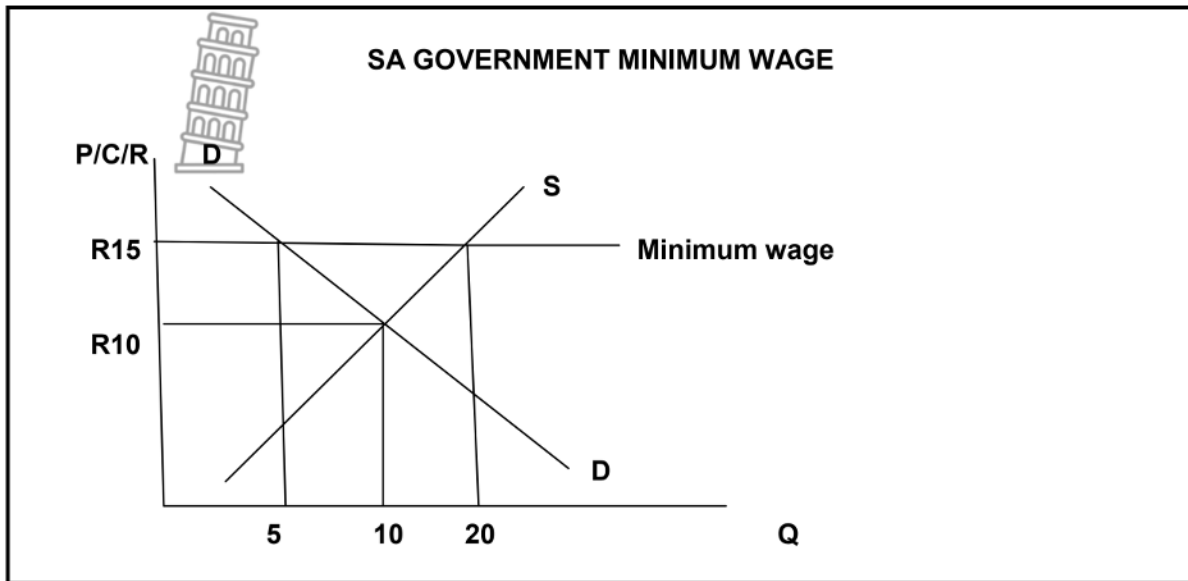


3.2.4 Briefly explain why is the above equilibrium position typical of the short-run? (2)

3.2.5 Calculate the loss made by the firm in the graph above. (4)



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



- 3.3.1 Identify the minimum wage rate in the above graph. (1)
  - 3.3.2 Which sector benefit from the imposing minimum wage? (1)
  - 3.3.3 Describe the term minimum wage. (2)
  - 3.3.4 Briefly explain the reason for the government to provide public goods? (2)
  - 3.3.5 What negative impact does the minimum wage have on the economy? (2 x 2) (4)
  - 3.4 Briefly discuss the objectives of the Competition Act. (8)
  - 3.5 How do firms in the oligopoly industry use collusion maximize their profits? (8)
- [40]**



**QUESTION 4      MACROECONOMICS AND ECONOMIC PURSUITS****40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

4.1.1 Give the TWO market forces. (2 x1) (2)

4.1.2 Why is socially optimum output beneficial to society? (1x2) (2)

4.2 Read the extract below and answer the questions that follow.

**A MONOPOLY AS AN IMPERFECT MARKET**

A monopoly is a good example of a market where profit is maximized to the detriment of the consumers. This type of market is often unregulated which causes failure to produce an ideal state of affairs. Lack of direct competition, due to the nature of their products, causes pure monopolies not to exist, resulting in inefficiencies and customer exploitation.

A monopoly contrasts with a monoposony. It is characterized by profit maximization, high barriers to entry and price discrimination. It is a business entity that has a significant market power.

[www.economicsonline.co.com](http://www.economicsonline.co.com)

4.2.1 How many businesses are found in a monopoly? (1)

4.2.2 Give an example of a monopoly in South Africa. (1)

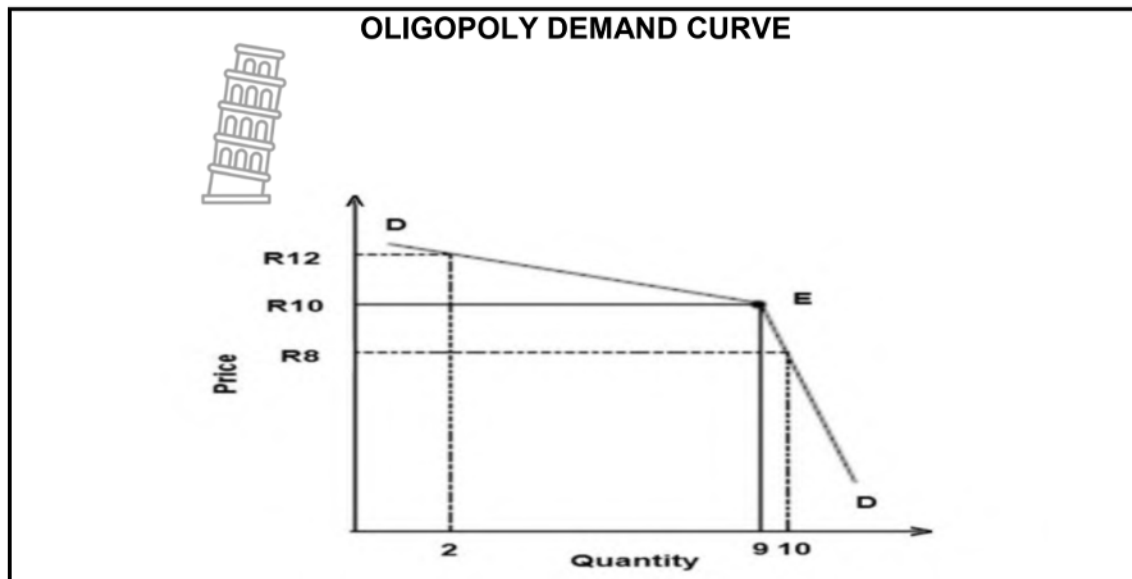
4.2.3 Describe the term *artificial monopoly*. (2)

4.2.4 Briefly explain the shape of the demand curve of a monopoly market. (2)

4.2.5 How can legal requirements cause monopolies in the market? (2x2) (4)



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



[Source: google.com]

- 4.3.1 Which market structure is depicted on the graph above? (1)
- 4.3.2 Identify the shape of the demand curve. (1)
- 4.3.3 Describe the term duopoly. (2)
- 4.3.4 Briefly explain the interdependence of decision making in the above market structure. (2)
- 4.3.5 Why is it preferable for the firm in this market structure to sell at the market price? (2x2) (4)
- 4.4 Briefly discuss the rationale behind cost benefit analysis without using a graph. (8)
- 4.5 How can the government discourage the production of demerit goods (8)


**[40]**

**TOTAL SECTION B: [80]**



**SECTION C**

Answer any ONE of the two questions in this section in the ANSWER BOOK.  
Ensure that your answer follows the structure indicated below in order to obtain maximum marks:

STRUCTURE OF ESSAY	MARK ALLOCATION
 <p><b>Introduction</b> The introduction is a lower order-response</p> <ul style="list-style-type: none"> <li>• A good starting point would be to define the main concept related to the question topic.</li> <li>• Do not include any part of the question in your introduction.</li> <li>• Do not include any part of the introduction in your body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max. 2
<p><b>Body</b> <b>Main part:</b> Discuss in detail/ In depth discussion/ Examine/ Critically discuss/ Analyse/ Compare/ Evaluate/ Distinguish/Differentiate/ Explain.</p> <p><b>Additional part:</b> Give own opinion/ Critically discuss/ Evaluate/ Critically evaluate/ Draw a graph and explain/ Use the graph given and explain/ Complete the given graph/ Calculate/ Deduce/ Compare/ Explain/ Distinguish/ Interpret/ Briefly debate/ How/ Suggest</p>	Max. 26  Max. 10
<p><b>Conclusion</b> Any high-order conclusion should include:</p> <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned.</li> <li>• Any opinion or value judgment on the facts discussed.</li> <li>• Additional support information to strengthen the discussion/ analysis.</li> <li>• A contradictory viewpoint with motivation, if required.</li> <li>• Recommendations.</li> </ul>	Max. 2
<b>TOTAL</b>	<b>40</b>

**QUESTION 5: MICROECONOMICS****40 MARKS – 40 MINUTES**

Compare the characteristics of the perfect market and the monopolistic competition.  
(26 marks)

How has the Competition Act of South Africa succeeded in promoting fair competition?  
(10 marks)

**[40]**

**QUESTION 6:****40 MARKS – 40 MINUTES**

- Examine in detail the causes of market failure. (26 marks)
- How does the South African government intervene in the economy to limit market failure? (10 marks)

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



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**GRADE 12**

**ECONOMICS P2  
COMMON TEST - JUNE 2020  
MEMORANDUM**

**MARKS : 150**

**DURATION : 2 Hours**

This marking guidelines consists of 16 pages.



**SECTION A: COMPULSORY**

**QUESTION 1**

**30 MARKS – 20 MINUTES**

**1.1. MULTIPLE-CHOICE QUESTIONS**

1.1.1 A (electricity) ✓ ✓

1.1.2 D (normal) ✓ ✓

1.1.3 D (below AVC) ✓ ✓

1.1.4 B (insufficient) ✓ ✓

1.1.5 B (non-excludability) ✓ ✓

1.1.6 D (price ceiling) ✓ ✓

1.1.7 C (social cost) ✓ ✓

1.1.8 B (opportunity cost) ✓ ✓

(8 x 2) (16)

**1.2 MATCHING ITEMS**

1.2.1 F ✓

1.2.2 D ✓

1.2.3 G ✓

1.2.4 E ✓

1.2.5 A ✓

1.2.6 H ✓

1.2.7 I ✓

1.2.8 B ✓

(8 x 1) (8)

**1.3 GIVE THE TERM**

1.3.1 Long-run ✓

1.3.2 Cartel ✓

1.3.3 Price discrimination ✓

1.3.4 Loss minimizing point ✓

1.3.5 Cost benefit analysis ✓

1.3.6 Allocative inefficiency ✓

(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: MACROECONOMICS****40 MARKS – 30 MINUTES****2.1. Answer the following questions.****2.1.1 Give TWO types of monopolies.**

- Natural monopoly ✓ (2x1) (2)
- Artificial monopoly ✓

**2.1.2 Why are businesses in a monopoly market regarded as price setters?**

(1x2) (2)

In a monopoly market there is only one business without competition which allows the business to control the price. ✓✓  
(Accept any relevant and correct response)

**2.2 DATA RESPONSE****2.2.1 What does point A in the graph above represent?**

(1)

Profit maximization point ✓

**2.2.2 Why would the above graph be regarded as that of a perfect competitor?**

(1)

- Horizontal demand curve ✓
- $AR = MR$  ✓

**2.2.3 Describe the term *long-run*.**

(2)

Long-run is a period of production where all factors of production whether fixed or variable can change. ✓✓  
(Accept any relevant and correct response)

**2.2.4 Briefly explain how an individual business can increase its profit.**

(2)

An individual business can increase its profits by increasing quantity produced or sold. ✓✓

(Accept any relevant and correct response)

**2.2.5 Calculate the total profit made by this firm above. Show all calculations.**

(2X2)(4)

Profit =  $TR - TR$

Profit =  $(100 \times R12) - (100 \times R8)$  ✓

Profit =  $R1200 - R800$  ✓

Profit =  $R400$  ✓✓





## 2.3 DATA RESPONSE

2.3.1 **In which industry do these firms operate?**  
Oil and petroleum ✓ (1)

2.3.2 **Give the type of product sold in the oligopoly market.**  
Heterogenous ✓ (1)

2.3.3 **Describe the term *price leadership*.** (2)  
Price leadership is a situation where one firm fixes a price and the others accept it as a market price. ✓✓  
(Accept any relevant and correct response)

2.3.4 **Briefly explain the barriers to enter into an oligopoly market.** (2)

- Entry is not free since it is not easy to obtain a trading license. ✓✓
- Existence of large and well established businesses makes it difficult for new firms to compete in this market. ✓✓

(Accept any relevant and correct response)

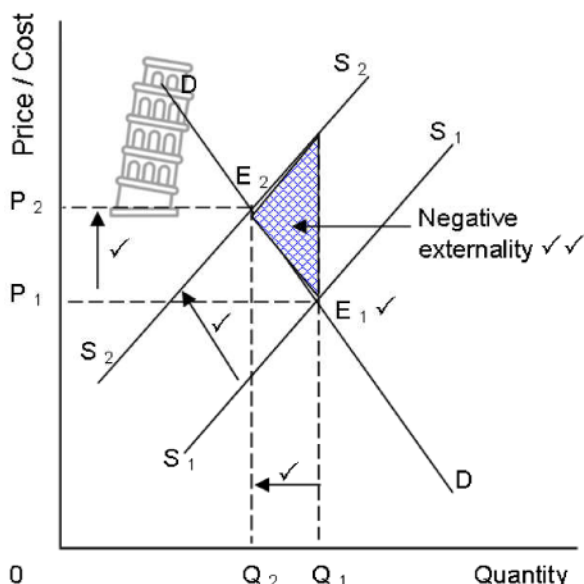
2.3.5 **How does the oligopolist increase its market share without causing price wars?** (4)

- branding their product the business creates an impression that its product is for a particular age group or income group. ✓✓
- aggressive advertising which inform customers about the business or product it provides. ✓✓
- using appealing packaging to bring out important features of their product. ✓✓
- improving their customer service in order to ensure that they return to their businesses. ✓✓

(Accept any relevant and correct response)



2.4 With an aid of a well labeled graph discuss negative externality. (8)



**Explanation**

- As a result of the negative externality e.g. pollution, the marginal social cost (MSC) represented by  $S_2$  is greater than Marginal Private Cost. ✓✓
- Lesser quantity  $Q_1$  is produced at higher price  $P_2$  which causes social inefficient solution. ✓✓
- The shaded angle represents negative externality (welfare loss). ✓✓

2.5 How does a monopolist negatively impact consumers? (8)  
The monopolist negatively impact consumers by:

- maximizing their profits by supplying less than optimum quantity of goods and services which do not meet consumer needs. ✓✓
- reducing quantities leading to higher prices which excludes lower income groups. ✓✓
- preventing entry into the market which limits competition which would have increased consumer choice on variety of goods in the market. ✓✓
- being unable to produce at the lowest possible cost which would have made their goods and services become more affordable to consumers. ✓✓
- owning exclusive rights to produce particular products which discourage innovations and inventions which could be beneficial to the consumers on quality goods. ✓✓

(Accept any relevant and correct response) [40]

**QUESTION 3: MICROECONOMICS 40 MARKS – 30 MINUTES****3.1 Answer the following questions.****3.1.1. Name TWO variables that determine profit.**

- Total costs and total revenue ✓
- Marginal revenue and marginal cost ✓
- Average revenue and average cost ✓

(2 x 1) (2)

**3.1.2. Why are markets not willing to supply merit goods ?**

(1 x 2) (2)

Merit goods are expensive to produce and yield low profits. ✓✓

(Accept any relevant and correct response)

**3.2 DATA RESPONSE****3.2.1 Give the name of the shaded area in the graph above.**

(1)

Economic loss. ✓

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

(1)

AR ✓

**3.2.3 Describe the term *monopoly*.**

(2)

Monopoly is a market situation where only one firm control the market.

(Accept any relevant and correct response)

**3.2.4 Why is the above equilibrium position typical of the short-run?**

(2)

An economic loss is only possible for the monopolist in the short run.

(Accept any relevant and correct response)

**3.2.5 Calculate the loss made by the firm in the graph above.**

(4)

Loss = TR – TC

$$= (13 \times 100) \checkmark - (15 \times 100) \checkmark$$

$$= 1300 - 1500 \checkmark$$

$$= -200 \checkmark$$

**3.3 DATA RESPONSE****3.3.1 Identify the minimum wage rate in the above graph.**

(1)

R15 ✓

**3.3.2 Which sector benefit from the imposing minimum wage?**

(1)

Employees / workers ✓

**3.3.3 Describe the term minimum wage.**

(2)

Minimum wage is a wage rate set by the government below which no employer can pay their workers. ✓✓

(Accept any relevant and correct response)

3.3.4 **Briefly explain the reason for the government to provide public goods?** (2)

- The governments provide public because private sector is reluctant to provide them because their characteristics. ✓✓
- High production costs. ✓✓
- Low or no profits. ✓✓

(Accept any relevant and correct response)

3.3.5 **What negative impact does the minimum wage have on the economy?** (2 x 2) (4)

- Minimum wages increase cost of production for business. ✓✓
- Lead to decrease in their demand. ✓✓
- Poverty increase and standard of living decrease. ✓✓
- Supply of labour increase due to a higher wage rate being offered. ✓✓
- Unemployment rate increase to due a decrease in demand for labour. ✓✓

(Accept any relevant and correct response)

3.4 **Briefly discuss the objectives of the Competition Act.** (4 x 2) (8)

Objectives of Competition Act are to:

- Prevent monopolies and other powerful businesses from abusing their power of market control. ✓✓
- Regulate the formation of mergers and acquisitions who wish to exercise market power. ✓✓
- Prevent firms from using restrictive practices like fixing prices. ✓✓
- Promote efficient provision of services in the economy. ✓✓
- Provide consumers with competitive prices and variety of products. ✓✓
- Encourage South Africa to participate in world markets and accept foreign competition in South Africa. ✓✓
- Enable SMMEs to participate in the economy. ✓✓
- Allow the previously disadvantaged to increase their ownership of businesses. ✓✓
- Promote the level of employment. ✓✓

(Accept any relevant and correct response)



**3.5 How do firms in the oligopoly industry use collusion maximize their profits?**

Collusion is an arrangement between businesses with the aim of limiting competition between them by fixing prices.

Firms use collusion to maximize their profits in the following ways:

- Businesses can use tacit collusion where firms in the same industry enter into a formal agreement to collude, this is called a cartel. ✓✓
- Through a cartel businesses form a collective monopoly in order to fix prices and limit supply and competition. ✓✓
- Overt collusion could also be used where a dominant firm controls the price of the product in the market and it is referred to as price leadership. ✓✓
- Price leadership is when a dominating firm will increase the price such that other firms (rivals) will also do the same. ✓✓

(Accept any relevant and correct response)

(8)

[40]



**QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS****40 MARKS – 30 MINUTES****4.1 Answer the following questions.**

4.1.1 **Give the TWO market forces.** (2 x1) (2)

- Demand ✓
- Supply ✓

4.1.2 **Why is socially optimum output beneficial to society?** (1x2) (2)

- At socially optimum businesses pay for the external cost and therefore decrease production to lower the impact of negative externalities on society. ✓✓

(Accept any relevant and correct response)

**4.2 DATA RESPONSE**

4.2.1 **How many businesses are found in a monopoly?** (1)  
One ✓

4.2.2 **Give an example of a monopoly in South Africa.** (1)  
Eskom ✓

4.2.3 **Describe the term *artificial monopoly*.** (2)  
Artificial monopoly occurs when the barriers to enter the market are not of economic nature but man-made e.g. patents.

(Accept any relevant and correct response)

4.2.4 **Briefly explain the shape of the demand curve of a monopoly market.** (2)  
The demand curve of the monopoly is a steep downward sloping demand curve.

4.2.5 **How can legal requirements cause monopolies in the market?** (2X2)(4)

- The patent is a legal right given to the business to be the sole producer of a product. ✓✓ This excludes all other firms from producing the same product. ✓✓
- The law requires a firm to hold a license in order to operate in a specific market. ✓✓ Firms that do not have a license are prevented from entering the market. ✓✓
- The copyright is an exclusive right given to author or artist which prevents other people from using his or her work without permission. ✓✓ A monopoly is then created because other people cannot use the same material without acknowledgement ✓✓

### 4.3 DATA RESPONSE

4.3.1 Which market structure is depicted on the graph above?

Oligopoly ✓

(1)

4.3.2 Identify the shape of the demand curve.

Kinked ✓

(1)

4.3.3 Describe the term duopoly.

Duopoly is a market structure that is dominated by two industries. ✓✓  
(Accept any relevant and correct response)

(2)

4.3.4 Briefly explain the interdependence of decision making in the above market structure.

Businesses in this market make decision based on the actions of their competitors to maintain or even improve their market share. ✓✓

(Accept any relevant and correct response)

(2)

4.3.5 Why is it preferable for the firm in this market structure to sell at the market price?

- If a firm increases its price, the quantity of units sold will decrease, causing a decrease in total revenue and profits. ✓✓
- Again if a firm decrease its price, there will be a slight increase in the quantity of units sold, causing a decrease in total revenue and profits. ✓✓
- The firm is therefore compelled to sell at the market price because that is where the firm makes maximum profits. ✓✓

(Accept any relevant and correct response)

(2x2)(4)

4.4 Briefly discuss the rationale behind cost benefit analysis without using a graph.

Cost benefit analysis is necessary to:

- ensure that scarce resources are used sparingly when building the anticipated project. ✓✓
- ensure objectivity when deciding on the project to be built.
- make a better choice between alternative projects. ✓✓
- Weigh the social benefits against the social costs in order to make and informed decisions. ✓✓
- determine the best option for the benefit of the society. ✓✓

(Accept any relevant and correct response)

(2 x 4) (8)

4.5 **How could government either discourage the production of demerit goods.**

Government will discourage by:

- Carrying out campaigns in order to change or persuade people not to use demerit goods. ✓✓
- Levying taxes on demerit goods such as cigarettes and alcohol. ✓✓
- Passing laws to regulate the use of demerit goods for example companies are not allowed to advertise cigarette. ✓✓
- Regulating the amount of air pollution and waste. ✓✓

(4 x 2) (8)

**[40]**

**TOTAL SECTION B: [80]**





**SECTION C**

Answer any ONE of the two questions in this section in the ANSWER BOOK.  
Ensure that your answer follows the structure indicated below in order to obtain maximum marks:

**QUESTION 5: MICROECONOMICS****40 MARKS – 40 MINUTES**

Compare the characteristics of the perfect market and the monopolistic competition.  
(26 marks)

How has the Competition Act of South Africa succeeded in promoting fair competition?  
(10 marks)

**INTRODUCTION**

A market is a situation whereby buyers and sellers communicate to negotiate business transactions. ✓✓

(Accept any relevant and correct introduction)

**BODY**

Characteristic	Perfect Competition	Monopolistic Competition
Number of businesses ✓	<ul style="list-style-type: none"> <li>Many buyers and sellers ✓✓</li> </ul>	<ul style="list-style-type: none"> <li>Many buyers and many sellers ✓✓</li> </ul>
Nature of the product ✓	<ul style="list-style-type: none"> <li>Products are homogeneous. ✓✓</li> </ul>	<ul style="list-style-type: none"> <li>Product is differentiated ✓✓</li> </ul>
Control over price ✓	<ul style="list-style-type: none"> <li>A firm is a price taker / no control over price. ✓✓</li> <li>Price is determined by market forces of demand and supply. ✓✓</li> </ul>	<ul style="list-style-type: none"> <li>A firm is a price taker / no control over price ✓✓</li> <li>Price is determined by market forces ✓✓</li> </ul>
Freedom of entry ✓	<ul style="list-style-type: none"> <li>Entry into the market is free and easy ✓✓</li> </ul>	<ul style="list-style-type: none"> <li>There is freedom of entry and exit ✓✓</li> </ul>
Demand curve ✓	<ul style="list-style-type: none"> <li>Demand curve of a firm is horizontal. ✓✓</li> <li><math>D = AR = MR</math> ✓✓</li> </ul>	<ul style="list-style-type: none"> <li>The demand curve is negatively sloping. ✓✓</li> <li><math>D = AR</math></li> <li>MR curve lies below demand curve</li> </ul>
Market information ✓	<ul style="list-style-type: none"> <li>The availability of information on product and price is complete. ✓✓</li> </ul>	<ul style="list-style-type: none"> <li>The availability of information on product and price is incomplete ✓✓</li> </ul>

(Accept any relevant and correct response)

Max 26 Marks

## ADDITIONAL PART

The Competition Act of South Africa has succeeded in promoting competition by:

- making provision for institution like the Competition Commission, Competition Tribunal and Appeal Court to investigate any unfair competition in the country. ✓✓
- functioning as an investigator and evaluator of restrictive business practices. ✓✓
- making recommendations about penalties for businesses that it finds guilty. ✓✓
- implementing the Competition Tribunal who accepts or rejects the investigations and recommendations of the Competition Commission, therefore confirms the penalty imposed. ✓✓
- making it possible for businesses to appeal for 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 prevent monopolistic tendencies. ✓✓

(Max 10)

## CONCLUSION

Buyers as a group determine the demand and sellers as a group determine the supply.

Markets are established by the interactions between buyers and sellers. ✓✓

(Accept any other relevant response)

(Max 2)



**QUESTION 6****40 MARKS – 40 MINUTES**

- Examine in detail the causes of market failure. (26 marks)
- How does the South African government intervene to limit market failure? (10 marks)

**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. ✓✓

(Accept any relevant and correct answer)

**BODY / MAIN PART****Externalities** ✓

- These are known as spill-over effects to third party which is not directly involved in the production process. ✓✓
- These are those costs and benefits that convert private cost and benefits into social costs and benefits. ✓✓
- 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. ✓✓

**Public goods / Missing markets** ✓

- Significant market failure is to produce some goods and services, despite it being needed or wanted. ✓✓
- 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 for establishing a market price. ✓✓
- Community and collective goods together are known as public goods. ✓✓
- **Community goods:** these are goods such as defense, police services, prison services, street 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. ✓✓



**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. ✓✓
- In this sense, the market fails to detriment of the economy and society. ✓✓
- e.g. health care services, education, skills training, safety, inoculation, car seats belts etc. ✓✓
- **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. ✓✓
- Some consumers may be unaware of the true costs of consuming them that is their negative externalities. ✓✓
- Government can ban their consumption or reduce it by means of taxation (e.g. 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 allows producers to restrict output, raise prices and produce where price exceeds marginal cost. ✓✓
- They can also prevent new businesses from entering the industry, thereby preventing full adjustment to charges in consumer demand occurring. ✓✓

**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. ✓✓
- While this may be due to lack of information, it is also true that resources are very often not mobile. ✓✓
- **Labour:** They 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. ✓✓
- They 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. e.g. the use of robots rather than labour in mines. ✓✓
- However, it takes time for most industries to adapt - with greater technological changes, there is an increasing need for workers to be flexible, to be willing to update their skills throughout their working lives and to change employment, occupations and 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)

**ADDITIONAL PART****How does the South African government intervene in the economy to limit market failure?**

- The government may pass laws on competition and prevent unaffordable prices and limited supply to avoid imperfect competition. ✓✓
- Levy taxes to recover external costs, which would decrease the production of goods causing negative externalities. ✓✓
- Provide producer subsidies to lower cost of producing essential goods and lowering their prices. ✓✓
- Set minimum prices to enable producers to make comfortable encouraging them to supply essential goods. ✓✓
- provide public goods and services which suppliers do not intend to provide because of their non-profitability. ✓✓
- promote the availability of information and quality on goods supplied and services provided for the benefit of consumers. ✓✓

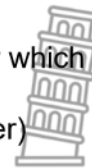
(Max 10)

(Accept any relevant and correct answer)

**CONCLUSION**

- Market failures can have devastating effects on the economy which requires government to intervene to reduce their consequences. ✓✓ (Max 2)

(Accept any relevant and correct answer)

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

