



**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2023

ECONOMICS P2

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. Number the answers correctly according to the numbering system used in this question paper.
3. Write the number of the question above each answer.
4. Read the questions carefully and start each question on a NEW page.
5. Leave 2–3 lines between subsections of questions.
6. 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.
7. Answer only the required number of questions. Answers in excess of the required number will NOT be marked.
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, for example 1.1.9 D.

1.1.1 Expenditure on all factors of production used in the production process is called ...

- A total costs.
- B marginal costs.
- C average costs.
- D fixed costs.

1.1.2 Monopoly based on laws preventing other firms from competing is called a(n) ... monopoly.

- A artificial
- B natural
- C dominant
- D simple

1.1.3 In an imperfect market, prices are determined along the ... curve.

- A average revenue
- B marginal revenue
- C average variable cost
- D average cost

1.1.4 An initiative by government aimed at reducing poverty by providing income relief through temporary work is known as ...

- A cost benefit analysis.
- B Public Works Programme.
- C subsidy
- D Black Economic Empowerment.

1.1.5 A continuous fall in the general price levels over a prolonged period is known as ...

- A hyperinflation.
- B stagflation.
- C deflation.
- D administered inflation.



1.1.6 Activities whereby tourists visit sites of great archaeological significance such as the Cradle of Human-kind is known as ... tourism.

- A leisure
- B business
- C ecotourism
- D Paleo

1.1.7 Setting legal limits on emissions and prosecuting businesses and individuals if these are not adhered to is referred to as ...

- A voluntary agreements.
- B direct control.
- C technology and control.
- D command and control.

1.1.8 The ability of the environment to survive its use for economic activity is called ...

- A environment.
- B environmental sustainability.
- C conservation.
- D preservation.

(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	Marginal product	A	A situation where one firm fixes the price and others accept it as the market price
1.2.2	Imperfect market	B	Works at keeping inflation within the target range
1.2.3	Price leadership	C	Highly toxic with slow decomposition rate
1.2.4	Black market	D	When the market price is not a pure reflection of the scarcity of that good
1.2.5	Monetary Policy Committee	E	Species become extinct and cannot be reversed
1.2.6	Domestic tourism	F	The additional unit of output which is produced as one more unit of the variable input is combined with the fixed input
1.2.7	Biodiversity loss	G	Toxic with negative effect on living beings
1.2.8	Hazardous waste	H	People travelling within their country
		I	Illegal goods are bought and sold

(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 The rising part of the marginal cost curve that is above the minimum average variable cost

1.3.2 Sets its own prices and sells unique products

1.3.3 Goods consumed by one person will not reduce consumption by another individual

1.3.4 An index that is used to calculate all-inclusive inflation where normal prices are converted into real prices

1.3.5 South African citizens travelling to other countries for leisure and business

1.3.6 The removal of trees and forests from the environment without replacing them

(6 x 1)

(6)

TOTAL SECTION A: 30



SECTION B

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

QUESTION 2: MICROECONOMICS**40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Name any TWO characteristics of a monopolistic market. (2)

2.1.2 Why do firms aim at maximising profits? (2)

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

COMPETITION CONCENTRATION AND REMOVAL OF BARIERS TO ENTRY

Competition policy is poised to be a key driver of economic reform in South Africa. In March 2022, the Competition Commission briefed the South African Parliament on its Economic Concentration Report.

The report highlighted patterns of concentration in the South African economy. It included details on the Commission's power to launch market inquiries into highly concentrated industries and its authority to impose structural remedies on businesses in these sectors. Such remedies are deemed necessary to remove barriers to entry for new participants, primarily SMMEs.

[Source: Bizcommunity.com]

2.2.1 Identify a participant from the extract that is likely to be affected by barriers to entry. (1)

2.2.2 Name any other competition institution besides the one mentioned in the extract. (1)

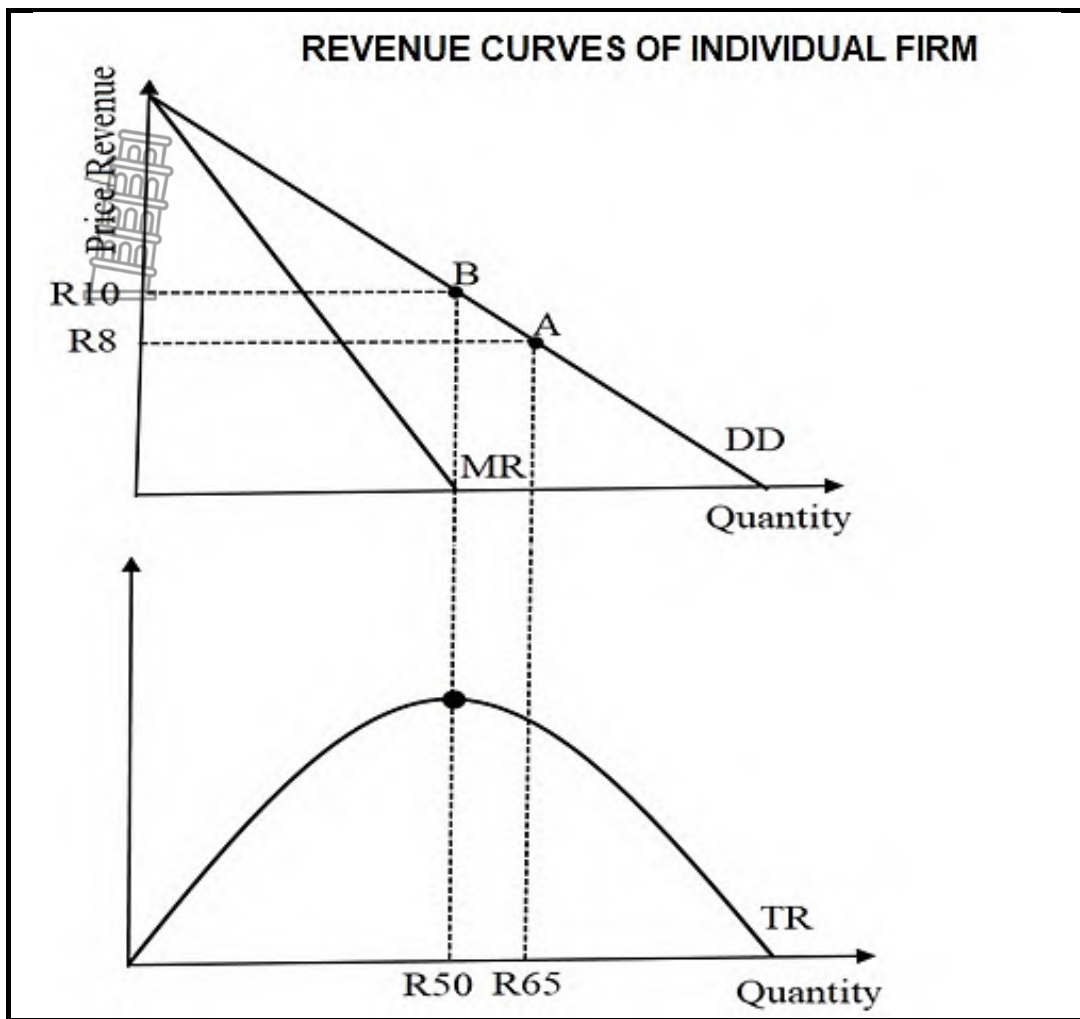
2.2.3 Briefly describe the *long run period*. (2)

2.2.4 Explain the role of the Competition Commission. (2)

2.2.5 How would businesses benefit from the Competition Commission policy? (4)



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



- 2.3.1 Identify the curve that depicts average revenue. (1)
- 2.3.2 At which point is price determined from the graph above? (1)
- 2.3.3 Briefly describe the term *total revenue*. (2)
- 2.3.4 Explain the relationship between marginal revenue and average revenue curves in a monopoly market. (2)
- 2.3.5 Calculate average revenue. Show ALL calculations. (4)
- 2.4 With the aid of a graph explain the derivation of the demand curve for the individual business in a perfect market. (8)
- 2.5 How can firms in a monopolistically competitive market increase market share? (8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES**40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name any TWO types of inflation. (2)

3.1.2 Why is it important to sustain the environment? (2)

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

[Source: cartoonstock.com/directory/e/ecotourism.asp]

3.2.1 Which form of travelling can be regarded as environmentally friendly? (1)

3.2.2 Give any example of eco-tourism. (1)

3.2.3 Briefly describe a reason for growth of the tourism sector. (2)

3.2.4 Explain *labour intensive* in relation to tourism. (2)

3.2.5 How important is promoting foreign tourism for the South African economy? (4)



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

CONSUMER PRICE INDEX AND WEIGHTING						
Group	Weight 100	Index Dec. 2021 = 100			Percentage change	
		Sept 2021	Aug 2022	Sept 2022	Sept 2021 vs Aug 2022	Sept 2021 vs Sept 2022
All items (CPI headline)	100	98,7	106,0	106,1	0,1	7,5
CPI for all goods	48,68	98,0	108,7	108,5	-0,2	10,7
Durable good	7,59	99,0	103,3	103,2	-0,1	4,2
Semi- durable goods	5,38	99,6	102,3	102,8	0,5	3,2
Non- durable goods	35,71	97,6	110,7	110,2	-0,5	12,9
Services	51,32	99,4	103,3	103,7	0,4	4,2

[Adapted from statssa/publications/September 2022]

- 3.3.1 Identify any ONE example, of an item that is excluded from the CPI basket. (1)
- 3.3.2 From the table above, which type of good has more weight? (1)
- 3.3.3 Briefly describe the term *consumer price index*. (2)
- 3.3.4 Briefly explain the impact of cost push inflation on the economy. (2)
- 3.3.5 Calculate inflation rate for all goods for the period September 2021 and September 2022. (4)

3.4 Differentiate between *conservation* and *preservation* as creative means of ensuring the continuity and functioning of the environment. (8)

3.5 Analyse the importance of assigning weights in a basket of goods and services. (8)

[40]



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

4.1 Answer the following questions.

4.1.1 Name any TWO types of pollution. (2)

4.1.2 Why does a monopoly make economic profits even in the long run? (2)

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

COLLUSION IN AN OLIGOPOLY MARKET

Two firms share the market, already colluding and maintaining high prices. Each firm can decide to stop colluding and start a price war in order to increase their market share or even for the other to quit the market. If they both agree to collude they get 5,5. If one of them decides to start a price war, they both share 4,3 and 3,4 respectively, depending on who started the war.

[Source: policonomics.com]

4.2.1 Identify the consequence of competing with prices in an oligopoly. (1)

4.2.2 Name any type of collusion. (1)

4.2.3 Briefly describe non-price competition. (2)

4.2.4 Explain the implication of a kinked demand curve. (2)

4.2.5 How would smaller companies / new businesses in an oligopoly be affected by competing with prices? (4)



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

RISING INFLATION BRINGS A STRIKING FALL IN REAL WAGE

The severe inflationary crisis combined with a global slowdown in economic growth – driven in part by the war in Ukraine and the global energy crisis are causing a striking fall in real monthly wages in many countries.

The crisis is reducing the purchasing power of the middle classes and hitting very hard, particularly low-income households.

Global monthly wages fell in real terms to minus 0,9% in the first half of 2022. These placed millions of workers in a dire situation as they face increasing uncertainties.

[Source: ilo.org/global/newsroom.com]

- 4.3.1 Identify the decline of wages in real terms. (1)
- 4.3.2 Name any category of households affected by the rising inflation. (1)
- 4.3.3 Describe the term *inflation*. (2)
- 4.3.4 Explain the consequence of inflation on debtors. (2)
- 4.3.5 How does inflation impact on low-income earners? (4)
- 4.4 Briefly discuss the level of entry and nature of products in a perfect market. (8)
- 4.5 How best can the South African Reserve Bank reduce demand pull inflation? (8)

[40]

TOTAL SECTION B: 80



SECTION C

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

Your answer will be assessed as follows.

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower-order response. <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 saying in the introduction what you are going to discuss in the body. 	Max. 2
Body Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain Additional part: 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	Max. 26 Max. 10
Conclusion Any higher-order conclusion should include: <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 the causes of market failure. (26 marks)
- Examine the impact of income inequality in the economy. (10 marks) **[40]**

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES**40 MARKS – 40 MINUTES**

- Discuss in detail the benefits of tourism. (26 marks)
- Analyse the importance of indigenous knowledge systems in strengthening South Africa's tourism profile. (10 marks) **[40]**

TOTAL SECTION C: 40
GRAND TOTAL: 150



**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2023

**ECONOMICS P2
MARKING GUIDELINE**

MARKS: 150



This marking guideline consists of 20 pages.

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

1.1.1 A – total costs ✓✓

1.1.2 C – artificial monopoly ✓✓

1.1.3 A – AR curve ✓✓

1.1.4 B – Public Works Programme ✓✓

1.1.5 C – deflation ✓✓

1.1.6 D – Paleo tourism ✓✓

1.1.7 D – command and control ✓✓

1.1.8 B – environmental sustainability ✓✓

(8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 F – The additional unit of output which is produced as one more unit of the variable input is combined with the fixed input ✓

1.2.2 D – When the market price is not a pure reflection of the scarcity of that good ✓

1.2.3 A – A situation where one firm fixes the price and others accept it as the market price ✓

1.2.4 I – Illegal goods are bought and sold ✓

1.2.5 B – Works at keeping inflation within the target range ✓

1.2.6 H – People travelling within their country ✓

1.2.7 E – Species become extinct and cannot be reversed ✓

1.2.8 C – Highly toxic with a slow decomposition rate ✓

(8 x 1) (8)



1.3 GIVE ONE TERM

1.3.1 Supply curve ✓

1.3.2 Monopoly ✓

1.3.3 Non-rival goods ✓

1.3.4 GDP deflator/implicit deflator ✓

1.3.5 Outbound tourism ✓

1.3.6 Deforestation ✓

(6 x 1) (6)

TOTAL SECTION A: 30



SECTION B

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

QUESTION 2: MICROECONOMICS

2.1 Answer the following questions.

2.1.1 **Name any TWO characteristics of a monopolistic market.**

- Large number of buyers and sellers ✓
- Differentiated products ✓
- Entry and exit are relatively easy ✓
- Little control over prices ✓
- Incomplete market information ✓

(Accept any other relevant correct response.)

(Any 2 x 1)

(2)

2.1.2 **Why do firms aim at maximising profits?**

Businesses owners need to cover their costs and sustain their businesses, and that includes investing in their businesses.

(Accept any other correct relevant response.)

(Any 2 x 1)

(2)

2.2 2.2.1 **Identify a participant from the extract that is likely to be affected by barriers to entry.**

- SMME's

(1)

2.2.2 **Name any other competition institution besides the one mentioned in the extract.**

Competition Tribunal/Competition Appeal Court ✓

(1)

2.2.3 **Briefly describe the *long run period*.**

Long run period is a period long enough for a producer to be able to vary its factors of production. ✓✓

(2)

2.2.4 **Explain the role of the *Competition Commission*.**

The Competition Commission refers to the institution that investigates restrictive business practices, abuse of dominant positions and mergers in order to achieve equity in the South African economy. ✓✓

(Accept any other relevant correct response.)

(2)



2.2.5 **How would businesses benefit from the Competition Commission policy?**

Businesses would benefit from the competition policy because:

- Competition policy establishes a business culture which maintains competition between businesses in the economy ✓✓
- Businesses get the opportunity to improve and develop in order to remain a strong competitor in the field of business ✓✓
- Through competition, productivity growth is improved amongst various businesses ✓✓
- Competition policy guards against anti-competitive behaviour by large businesses and therefore promotes fair competition between businesses ✓✓

(Accept any other correct relevant response.)

(Any 2 x 2)

(4)

2.3 **DATA RESPONSE**

2.3.1 **Identify the curve that depicts average revenue.**

- DD curve ✓

(1)

2.3.2 **At which point is the price determined from the graph above?**

- Point B ✓

(1)

2.3.3 **Briefly describe the term *total revenue*.**

Total revenue is the value of all sales that have taken place. ✓✓

(Accept any other correct relevant response.)

(2)

2.3.4 **Explain the relationship between marginal revenue and average revenue curves in a monopoly market.**

- Both average revenue and marginal revenue are the same for the first unit, which is why they start at the same point on graphs
- Average and marginal revenue curves both slopes downwards from left to right and marginal revenue is always lower than average revenue. ✓✓
- Marginal revenue decreases faster than average revenue when the firm decreases its price. ✓✓

(Accept any other correct relevant response.)

(2)

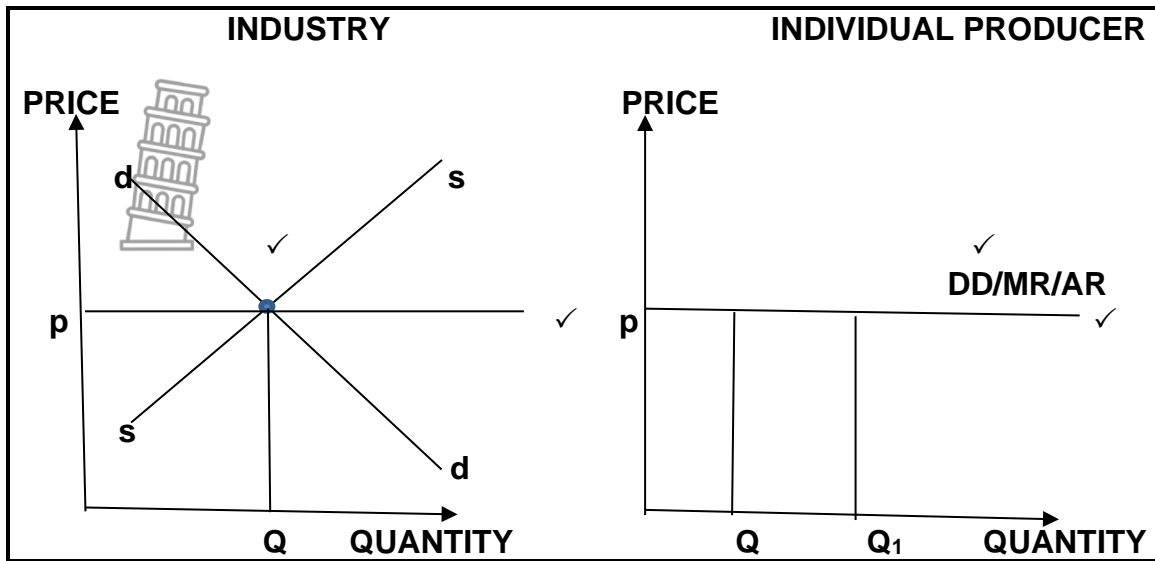
2.3.5 **Calculate average revenue. Show ALL calculations.**

$$\begin{aligned}
 AR &= TR/Q \quad \checkmark \\
 &= (10 \times 50)/50 \quad \checkmark \\
 &= 500/50 \quad \checkmark \\
 &= R10 \quad \checkmark
 \end{aligned}$$



(4)

2.4 With the aid of a graph explain the derivation of the demand curve for individual business in a perfect market.



Mark allocation	
Correct drawing of the demand curve of individual firm	1 mark
Indication of demand and supply curves of the industry	1 mark
Correct link of market price and price of individual firm	1 mark
Correct labelling of demand curve of individual firm	1 mark
Max. 4	

- An individual business in a perfect market derives the price from the market price that the industry determines through interaction of demand and supply curves ✓✓
- The demand curve of an individual firm is horizontal (perfectly elastic) ✓✓ so even a small change in price will cause an infinitely large change in the quantity demanded ✓✓
- The price of the individual business is exactly at the level of the market price determined in the industry ✓✓
- So, for every unit that the business sells, it receives the same price. ✓✓
(Accept any other correct relevant response.) (Max. 4) (8)

2.5 How can firms in a monopolistically competitive market increase market share?

- Monopolistic firms produce products that are imperfect substitutes by using product differentiation and this will attract more customers ✓✓
- Firms use distinctive marketing strategies and branding to distinguish their products ✓✓
- Products could be sold in large volumes at lower prices sacrificing a higher profit margin to gain large volume of sales ✓✓
- Provision of consistent quality of products will attract more consumers ✓✓
- Monopolistic firms may use better packaging that will suggest good quality products which is really preferred by consumers ✓✓
- The firm may engage in intensive advertising making customers aware of the availability of the product and where to find it ✓✓

(8)
[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES3.1 3.1.1 **Name any TWO types of inflation.**

- Consumer inflation ✓
- Producer inflation ✓
- Hyperinflation ✓
- All-inclusive inflation ✓

(Any 2 x 1) (2)

3.1.2 **Why is it important to sustain the environment?**

- The environment should be sustained because sustainability improves the quality of people's lives and protects the ecosystem ✓✓
- Sustainability preserves natural resources for future generations ✓✓

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

3.2 **DATA RESPONSE**3.2.1 **Which form of travelling can be regarded as environmentally friendly?**

- Flying (1)

3.2.2 **Give an example of eco-tourism.**

- Camping ✓
- Hiking ✓
- Wildlife / Zoo ✓

(Accept any other correct relevant response.) (Any 1 x 1) (1)

3.2.3 **Briefly describe a reason for growth of the tourism sector.**

The tourism industry has increased due to the following:

- An increase in disposable income ✓✓
- A reduction in working hours ✓✓
- More awareness of leisure and recreation ✓✓
- Improved transport, communication and accommodation facilities ✓✓
- Increase in advertising and promotion. ✓✓

(Any 1 x 2) (2)

3.2.4 **Explain *labour intensive* in relation to tourism.**

- Many jobs require human resource capital in the tourism sector ✓✓
- Tourism is regarded as labour intensive because it has the lowest ratio in employment creation ✓✓
- More jobs are created with every unit of capital invested in tourism than elsewhere ✓✓
- Many tourism activities are within the reach of small operators ✓✓

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

3.2.5 **How important is promoting foreign tourism for the South African economy?**

- Tourism contributes 3,7% to South Africa's GDP, mainly in the agricultural sector. ✓✓
 - It is responsible for promoting natural resources, culture, heritage etc. ✓✓
 - It brings in foreign currency, and may have the potential to attract foreign investment. ✓✓
 - Foreign tourists contribute immensely to economic growth because of the amount of money that is spent in the country.
 - The difference between inbound tourism and outbound tourism is known as tourism trade balance with the rest of the world. ✓✓
 - South Africa has been experiencing a positive trade balance. ✓✓
- (Accept any other correct relevant response.) (Any 2 x 2) (4)



3.3 **DATA RESPONSE**

3.3.1 **Identify any ONE example, of items that is excluded from the CPI basket.**

- Fresh and frozen meat and fish ✓
- Interest rates on mortgage bonds ✓
- Vegetables ✓
- VAT and assessment rates ✓

(Accept any other correct relevant response.) (Any 1 x 1) (1)

3.3.2 **From the table above which type of goods have more weight?**

Services ✓ (1)

3.3.3 **Briefly describe the term *consumer price index*.**

Consumer price index is the index that measures the price of a fixed basket of consumer goods and services relating to cost of living ✓✓
(Accept any other correct relevant response.) (2)

3.3.4 **Briefly explain the impact of cost push inflation on the economy.**

- Cost push inflation is highly dangerous to the economy because high prices are combined with a decrease in national output. (2)

3.3.5 **Calculate inflation rate for all goods for the period September 2021 and September 2022.**

$$\begin{aligned} \text{Inflation rate} &= \text{CPI 2022} - \text{CPI 2021} \checkmark / \text{CPI 2021} \times 100 \checkmark \\ &= 108,5 - 98,0 / 98,0 \times 100 \checkmark \\ &= 8,5\% \checkmark \end{aligned}$$

(4)



3.4 Differentiate between **conservation** and **preservation** as creative means of ensuring the continuity and functioning of the environment.

Conservation

- Conservation deals with the sustainable use and management of natural resources so that they are available for use by future generations. ✓✓
- Renewable resources such as forests and fish stocks are scarce and potentially sustainable, it is therefore important to conserve and properly manage these resources, so they are not depleted. ✓✓
- Conservation seeks creative continuity of the environment while ensuring that environmental changes consider the quality of life for both present and future generations ✓✓
- It relates to the preservation of natural resources to ensure they are not completely used up and disappear from the environment ✓✓
- Management of the environment in ways that prevent it from being damaged or destroyed ✓✓
- Conservation of certain plants and animal species is vital for their survival. ✓✓

Preservation

- Preservation means to keep something unharmed when no development takes place in a specific area. ✓✓
- It involves the elements of the environment that are threatened by extinction e.g. indigenous forests. ✓✓
- Environmental preservation is an essential basis for sustainable development and poverty alleviation. ✓✓
- Preservation is to keep the resources that are non-renewable intact e.g. ecological systems, heritage sites. ✓✓
- Preservation is linked to conservation. ✓✓
- It is about preserving existing assets to ensure they do not get used in a way that is destructive to the environment. ✓✓

(Accept any other correct relevant response.)

(8)



3.5 **Analyse the importance assigning weights in a basket of goods and services**

- The weights are meant to reflect the relevant importance of the goods and services as measured by the shares in the total consumption of households. ✓✓
- The weights attached to each good/service determines the impact that its price change will have on the overall index. ✓✓
- Expenditure weights should be updated regularly to ensure that they do not become unrepresented and irrelevant. ✓✓
- Weights need to be updated to reflect the introduction of new items and removal of old ones. ✓✓
- Increasing frequency of updating weights minimises the distorting impact that changes in consumer preferences and item substitution might have on the index. ✓✓
- At some point it becomes desirable to use the weights of a more recent period to ensure that the index is weighting appropriately the price changes faced by consumers. ✓✓
- A CPI is usually calculated as a weighted average of the price change of the goods and services covered by the index. ✓✓

(Accept any other correct relevant response.)

(8)
[40]



QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 4.1.1 **Name any TWO types of pollution.**

- Air pollution ✓
- Water / sea pollution ✓
- Land / environmental pollution ✓
- Noise pollution ✓

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

4.1.2 **Why does a monopoly make economic profits even in the long run?**

- Existence of high barriers to entry prevents firms from entering the market even in the long run, therefore, it is possible for the monopolist to avoid competition and continue making supernormal profits in the long run ✓✓
- Monopoly has control over the prices to be fixed and the entry of new firms is also restricted ✓✓

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

4.2 DATA RESPONSE

4.2.1 **Identify the consequence of competing with prices in an oligopoly.**

- Price wars (1)

4.2.2 **Name any type of collusion.**

- Tacit / informal / explicit ✓
- Overt / implicit / formal ✓

(Accept any other correct relevant response.) (Any 1 x 1) (1)

4.2.3 **Briefly describe non-price competition.**

- Non-price competition occurs when businesses use various other strategies other than price to increase their market share. ✓✓

(Accept any other correct relevant response.) (2)

4.2.4 **Explain the implication of a kinked demand curve.**

- It implies that prices are stable only at the kink of the kinked demand curve. Above the kink, market share is lost, below the kink, price wars war occurs, disadvantaging all businesses. ✓✓

(2)

4.2.5 **How would smaller companies / new businesses in an oligopoly be affected by competing with prices?**

- Smaller companies with fewer financial resources are likely to be driven out of business. ✓✓
- New businesses would find it hard to enter the market, because they would not be able to maintain themselves without making enough profit. ✓✓
- They would not be able to cover their costs. ✓✓

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

4.3 DATA RESPONSE**4.3.1 Identify the decline of wages in real terms.**

- - 0,9%

(1)

4.3.2 Name any category of households affected by the rising inflation.

- Middle class
- Low-income households

(Accept any other correct relevant response.)

(1)

4.3.3 Describe the concept *inflation*.

Inflation is a sustained and significant increase in the general price level over a period of time and a simultaneous decline in the purchasing power of money. ✓✓

(Accept any other correct relevant response.)

(2)

4.3.4 Explain the consequence of inflation on debtors.

Debtors benefit from inflation because they receive money with a high purchasing power and repay their debt with low purchasing power, ✓✓

(Accept any other correct relevant response.)

(2)

4.3.5 How does inflation impact on low-income earners?

- Low-income earners are most stressed by inflation because they spend more of their income on necessities such as food, gas and rent ✓✓ which are categories with greater than inflation rate, leaving few ways to reduce spending ✓✓
- Low-income earners are likely to have smaller cash buffers to tide them over a period of high inflation ✓✓
- They would not stock up when prices are discounted. They buy in bulk and save, as well as delay purchases if there is an opportunity to save in the future. ✓✓

(Accept any other correct relevant response.)

(Any 2 x 2)

(4)



4.4 **Briefly discuss the level of entry and nature of products in a perfect market.**

Nature of the product

- All firms sell homogenous products which are identical and buyers cannot distinguish between products that any businesses sell. ✓✓
- It makes no difference to a buyer where or from whom to buy because all the products are exactly the same. ✓✓
- Buyers cannot prefer one buyer over the other. ✓✓

Level of entry

- There is complete freedom of entry and exit into the market ✓✓
 - The market is totally accessible to all buyers and sellers at large ✓✓
 - There are no legal, financial or technical barriers to enter the market ✓✓
- (Accept any other correct relevant response.)

(8)

4.5 **How best can the South African Reserve Bank reduce demand pull inflation?**

The Reserve bank can do any of the following:

- Can keep the inflation within the target range of 3%–6%. ✓✓

Can use the monetary policy ✓ in the following ways:

- Increase interest rates so as to discourage borrowing by the various participants of the economy which would eventually increase demand ✓✓
- Reduce the supply of money, this can be done by raising the banks reserve requirements, so as to decrease the size of money supply ✓✓
- Persuade commercial banks to reduce credit to consumers and producers, so as to decrease the rate of demand of goods and services ✓✓

(Accept any other correct relevant response.)

(8)

[40]

TOTAL SECTION B: 80



SECTION C

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

QUESTION 5: MICROECONOMICS

- Discuss in detail the causes of market failure. (26 marks)
- Examine the impact of income inequality in the economy. (10 marks)

INTRODUCTION

Market failure occurs when the market is unable to achieve the efficient allocation of scarce resources and is therefore not able to achieve the best available outcome. ✓✓

(Accept any other correct relevant response.) (Max. 2) (2)

BODY: MAIN PART**Missing markets/public goods**

- Missing markets can only form under certain conditions and when these conditions are absent, markets struggle to exist. ✓✓
- Public goods are not provided for by market mechanism because producers cannot withhold the goods for non-payment and since there is often no way of measuring how much a person consumes, there is no basis to establish a market price. ✓✓
- Merit goods are those goods that are highly desirable for the general welfare of the people and are often not highly rated by the market ✓✓
- If people have to pay market prices for them, relatively little would be consumed ✓✓
- There are those goods like cigarettes, and alcohol, which are over-consumed in a free market ✓✓
- Government can ban their consumption or reduce it by means of taxation such as excise duties and by providing information about their harmful side effects ✓✓
- Producers produce goods in order to make a profit, hence they produce only goods which they can earn a profit, hence, they fail to produce enough ✓✓
- Public goods are consumed by the community and no one can be excluded from consuming the product ✓✓
- As a result of this non-excludability, the private sector is usually unwilling to provide these public goods ✓✓



Imperfect information/lack of information

- Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make rational decisions ✓✓
- Consumers do not have perfect information through advances in technology, increase the amount of information to which people have access ✓✓
- Workers may be unaware of job opportunities outside their current employment ✓✓
- Entrepreneurs may lack information about the costs, availability and productivity of some factors of production and may be operating on the basis of incorrect information ✓✓
- Incomplete information about production techniques, cost of production, needs and wants of households etc. means that factors of production are employed without answering the three basic questions of the economy ✓✓
- Producers do not know exactly what the demand will be and thus cannot adjust their supply to be more efficient ✓✓

Immobility of the factors of production

- Labour may take time to move into new occupation and geographically, to meet the changes in consumer demand ✓✓
- Physical capital e.g. factory buildings, telephone lines, bridges etc. are not moveable at will, this capital lasts for years but cannot be moved to fit changes in demand ✓✓
- Technological applications change production methods, but it takes time for most industries to adjust with greater technological changes ✓✓
- Markets may not respond to changes in consumer demand if resources cannot be easily reallocated, this means that businesses will not use factors of production optimally ✓✓
- Workers are reluctant to change to another job, the worker has to give notice, this means that supply of labour will not always meet the demand for it, therefore, markets fail ✓✓

Imperfect distribution of income and wealth

- Market system is neutral on issues of income distribution ✓✓
- Discrimination distorts earnings for women and minority groups, disabled persons and people subject to illness and incapacity ✓✓
- The market produces goods and services only for those who can afford and this leads to some people having too many goods while others have too few goods ✓✓
- If initial distribution is unequal, the final distribution will be unequal too and for this reason it is often argued that the market fails ✓✓

Imperfect competition

- In market economies competition is often impaired by power of certain producers to prevent new businesses from entering the market ✓✓
- Power often lies to a greater extent with producers than with consumers and this leads to inefficient allocation of resources ✓✓

- Most businesses operate under conditions of imperfect competition that allow producers to restrict output, raise prices and produce where price exceeds marginal cost. ✓✓
- Imperfect market does not allow price negotiations. ✓✓

Externalities

- Externalities are the effects of the actions of one party on other parties who was not involved in the transaction. ✓✓
- They cause market mechanism to allocate resources inefficiently because the market price does not reflect the full costs/benefits of the economic activity. ✓✓
- The market price only reflects private costs and private benefits. ✓✓

Negative externalities

- These are costs to the third party that are not included in the market price e.g. pollution. ✓✓
- The costs of negative externalities such as ill health are not paid by the producers ✓✓
- These harmful goods are often over produced in the economy which is not socially desirable ✓✓

Positive externalities

- These are benefits to the third party from the actions of another party which are not included in the market price e.g. education, health. ✓✓
- Markets fail when goods with positive externality are often under produced and the government steps in to produce for the shortfall ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 2 marks for mere listing of facts/examples.) (Max. 26) (26)

ADDITIONAL PART

- A high level of economic inequality means a higher level of poverty. ✓✓
- Poverty is associated with increased crime and poor public health which places a burden on the economy ✓✓
- In the face of increasing food prices and lower incomes, support for pro-growth government policies decline ✓✓
- Wealthy citizens maintain disproportionate political power compared to poorer citizens which encourages the development of inefficient tax structures skewed in favour of the wealthy ✓✓
- Unequal income distribution increases political instability which threaten property rights, increases the risk of state rejected contracts and discourages capital accumulation ✓✓
- A widening rich poor gap tends to increase the rate of rent seeking and predatory market behaviours that hinder economic growth ✓✓
- Growth is suppressed in economically unequal societies by decreasing availability of investments for human capital ✓✓

(Max. 10) (10)

CONCLUSION

- Market failure can have devastating effects on the economy which requires government to intervene to reduce consequences. ✓✓
(Accept any other relevant conclusion.)

(Max. 2) (2)

[40]



QUESTION 6

- **Discuss in detail the benefits of tourism.** (26 marks)
- **Analyse the importance of indigenous knowledge systems in strengthening South Africa's tourism profile.** (10 marks)

INTRODUCTION

Tourism is the activities of people travelling and staying in places outside their usual environment for not more than one consecutive year and for business, leisure and visiting friends and family. ✓✓

(Accept any other correct relevant response.)

(Max. 2) (2)

BODY**Households**

- Households benefit from tourism through tourists spending which is an income to households because of salaries and wages they earn through employment in the tourism industry. ✓✓
- Tourism provides indirect employment in the form of financial and retail services. ✓✓
- Most of the infrastructure created for use by tourists is also available for use by local people. ✓✓
- Households benefit from a variety of skills required by tourism for which education and training are needed and allows them to be employed. ✓✓
- Households become exposed to foreign culture which impacts on cultural and social knowledge and enjoyment ✓✓
- Individuals receive income through employment in the tourism industry ✓✓ as waiters, coach drivers etc. ✓

Businesses

- Tourism provides many direct and indirect opportunities for entrepreneurs and the government uses a number of incentives to promote businesses in the tourism sector ✓✓
- Tourism benefits local businesses and companies through an increase in expenditure on the goods and services offered by local businesses ✓✓
- The informal sector benefits because of trading in traditional products such as crafts and arts ✓✓
- The business environment is stimulated in rural and urban areas promoting entrepreneurial opportunities and assisting with BEE. ✓✓
- Tourism destinations are developed through the public and private partnerships (PPPs) ✓✓
- Through public-private partnership, for tourism to perform at its best, basic physical and services infrastructure is provided by the government and private institutions provide the superstructure ✓✓



Government

- The government benefits through an increase in tax revenue. ✓✓
- Government may levy a small tax to cover the cost of providing services such as showers and toilets at a beach ✓✓
- The government may also charge tax in the form of airport departure taxes. ✓✓
- Taxes are charged for two reasons:
 - To recover for external costs – this assists the host community for providing infrastructure ✓✓
 - To raise revenue – with the growth of tourism, many countries levy tax which are used as a source of revenue ✓✓
- Tourism helps to create jobs at little cost to the government especially in the informal sector, such as tour guides, curio seller and musicians. ✓✓
- Income earned is used to promote tourism in the country and through the government is enabled to achieve its socio-economic objectives, informal sector growth, BEE and SMMEs development.

Infrastructure development

- A country should have a well-maintained and adequate infrastructure for it to be considered a tourist destination ✓✓
- Together with the private sector the government has to develop and upgrade infrastructure to meet the demands and expectations of tourists ✓✓
- Locals and tourists benefit from the infrastructure ✓✓
- Tourists require social infrastructure e.g. clinics and ambulances ✓✓
- Adequate and well maintained physical and basic services infrastructure are essential for tourist destinations ✓✓
- The government has prioritised economic infrastructure to promote tourism growth ✓✓

(Accept any other correct relevant response.)

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

(Max. 26) (26)

ADDITIONAL PART

- Indigenous knowledge system has contributed to the operation of cultural tourism through preservation of culture, learning community history ✓✓
 - Indigenous culture in South Africa is a huge tourist attraction that has brought many different cultures together ✓✓
 - Millions of foreign tourists are attracted by the diverse and rich culture in South Africa ✓✓
 - Foreign tourists are fascinated to experience local pottery, handcrafted art, traditional dance, music, cooking methods and food ✓✓
 - Tourists seek authenticity and uniqueness at destinations and want to understand culture, history and environment which is provided by the IKS ✓✓
 - Tourism ventures are an important way to protect and promote indigenous knowledge while creating a source of income ✓✓
- (Accept any other correct relevant response.)

(Max. 10) (10)

CONCLUSION

Tourism is a much wider concept and can be quite demanding but very interesting when it is related to a specific community. ✓ ✓

(Accept any other correct relevant response.)

(Max. 2) (2)

[40]



TOTAL SECTION C: 40
GRAND TOTAL: 150

