



LIMPOPO

PROVINCIAL GOVERNMENT  
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF  
EDUCATION



**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

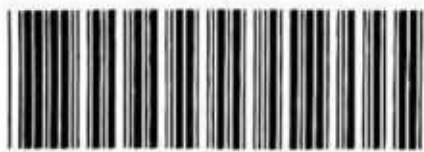
**ECONOMICS PAPER 2**

**JUNE 2022**

*Stanmorephysics.com*

**MARKS: 150**

**TIME: 2 HOURS**



MEECONP2

**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 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. Write the question number above each answer.
5. Read the questions carefully.
6. Start EACH question on a NEW page.
7. Leave 2–3 lines between subsections of questions.
8. 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.
9. Use only black or blue ink.
10. You may use a non-programmable pocket calculator.
11. 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 number (1.1.1–1.1.8) in the **ANSWER BOOK**, for example 1.1.9 C.

1.1.1 The perfect competitor in a perfect market must be able to cover its ... costs to prevent a shutdown of his/her business.

- A average variable
- B average
- C marginal
- D total

1.1.2 Goods that are non-excludable and non-rival are known as ... goods.

- A consumer
- B capital
- C community
- D scarce

1.1.3 When a business does not produce at its lowest possible cost, it is called as ... inefficiency.

- A allocative
- B consumer
- C goods
- D productive

1.1.4 The nature of a product in monopolistic competition is...

- A homogenous.
- B differentiated.
- C complimentary.
- D dynamic.

1.1.5 Amounts of money invested in a business that cannot be recovered even if the business closes down are known as ... costs.

- A average
- B marginal
- C sunk
- D variable



1.1.6

A social benefit is the sum of private and ... benefit/cost.

- A external
- B internal
- C private
- D marginal

1.1.7

The supply curve of the oligopolistic competitor is ...sloped.

- A negatively
- B horizontally
- C positively
- D vertically

1.1.8

In any market, the average revenue is the same as the...

- A marginal revenue.
- B price.
- C marginal cost.
- D total revenue.

**(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 number (1.2.1 – 1.2.8) in the **ANSWER BOOK**.

COLUMN A		COLUMN B	
1.2.1	Explicit costs	A	Businesses selling or producing similar products
1.2.2	Cartel	B	Requires huge development costs
1.2.3	Industry	C	Situation where it is impossible to increase welfare of one individual without making another worse off
1.2.4	Missing markets	D	Actual expenditure that a business incurs for inputs in the production process
1.2.5	Pareto optimum	E	Incomplete because it cannot meet the demand for certain goods
1.2.6	Heterogeneous	F	Businesses in the same industry come to an agreement to determine quantities and prices for their goods and services
1.2.7	Natural monopoly	G	Products have different varieties, qualities and brand names
1.2.8	Patent	H	Exclusive right to manufacture a product
		I	Easily available on credit

(8 x 1)

(8)

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1–1.3.6) in the **ANSWER BOOK**. Abbreviations, acronyms and examples will **NOT** be accepted



- 1.3.1 Tacit collusion where a dominant firm sets the price and others follow
- 1.3.2 Costs paid by the consumer that are not included in the market price
- 1.3.3 The period during which a perfect competitor can make economic profit
- 1.3.4 Prices set by government on certain goods and services below the market price
- 1.3.5 The costs that remain the same even if output changes
- 1.3.6 The marginal cost is the supply curve in this market (6 x1) (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 natural monopolies. (2 x 1) (2)

2.1.2 Why are markets so important in the economy? (1 x 2) (2)

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

### SCHOOL UNIFORMS, A BIG PROBLEM FOR PARENTS

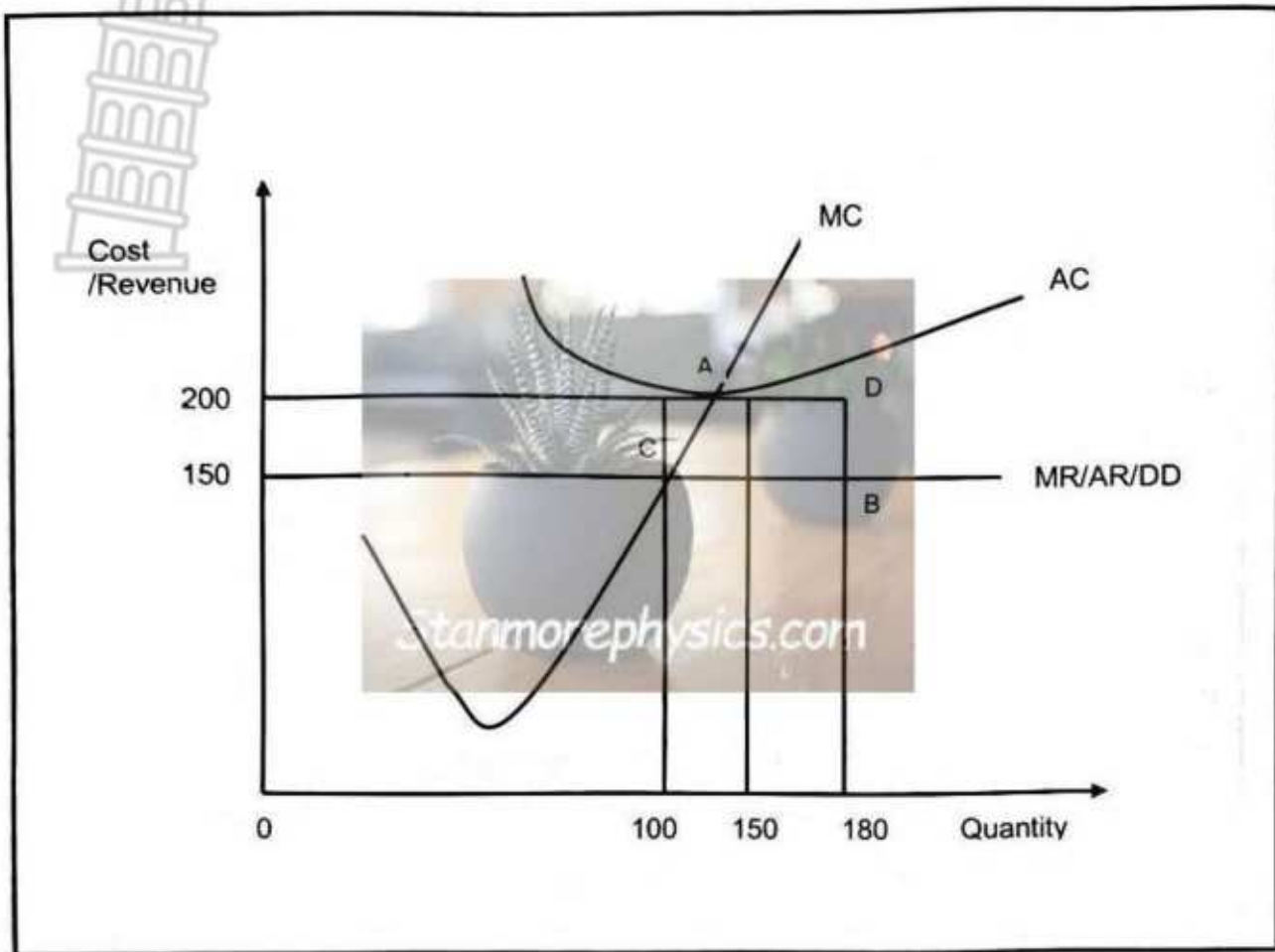
Schools can no longer force parents to buy their children's uniforms at specific suppliers. This comes after a consent agreement between the Competition Tribunal and some uniform suppliers. The agreement ends the exclusivity supply agreement deals of school uniforms to schools. The process aims to increase competition and ensure cheaper prices amongst the suppliers.

The decision comes after years of investigations into complaints made by parents who said they were forced to buy school uniforms from exclusive suppliers. The commission will monitor general compliance by all schools in the country to ensure that they adhere to the new guidelines on school uniforms.

[Adapted from google]

- 2.2.1 Which Act, establishes the Competition Commission of South Africa? (1)
- 2.2.2 What is the role of the Competition Appeal Court? (1)
- 2.2.3 Briefly describe the term *price discrimination*. (2)
- 2.2.4 How does competition in the market benefit the consumer? (2)
- 2.2.5 Why is the competition policy of South Africa important to small business or entrepreneurs in the economy? (2 x 2) (4)

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



- 2.3.1 What is the selling price for the above business? (1)
- 2.3.2 Identify a letter in the graph above, which represents loss minimising point. (1)
- 2.3.3 Briefly describe the term *perfect competition*. (2)
- 2.3.4 Why is the equilibrium position for the business above typical of the short run? (2)
- 2.3.5 Determine the loss for this business. Show all calculations. (4)
- 2.4 With the aid of a clearly labelled graph, explain the economic profit in a monopoly. (8)
- 2.5 Evaluate the impact of collusion on the economy. (4 x 2) (8)

[40]



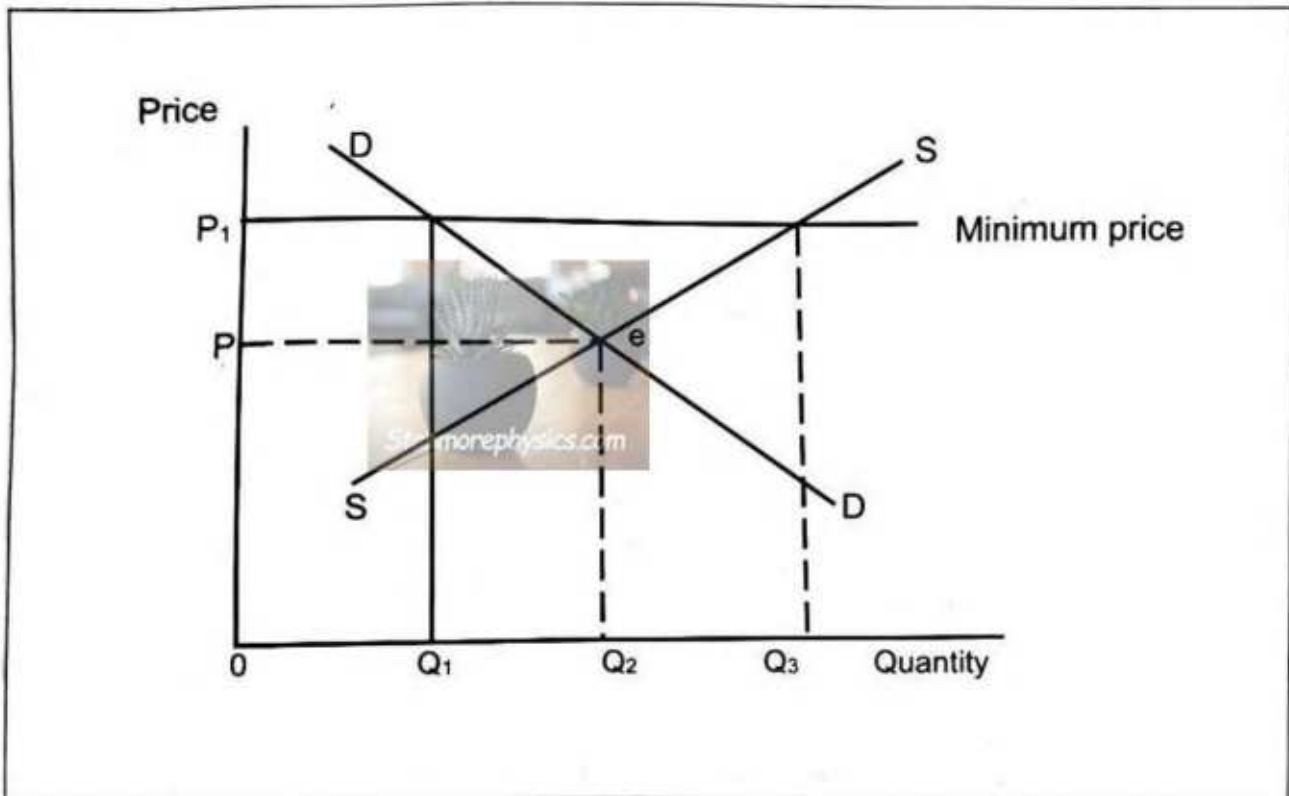
**QUESTION 3: MICROECONOMICS****40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name **TWO** causes of market failures. (2 x 1) (2)

3.1.2 What impact do cartels have on the economy? (1 x 2) (2)

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



3.2.1 Which type of workers are affected by this kind of government intervention in the country? (1)

3.2.2 Identify the market price in the graph above. (1)

3.2.3 Briefly describe the term *minimum prices*. (2)

3.2.4 What is the effect of minimum prices on the products? (2)

3.2.5 Why would the government impose minimum prices on certain products? (2 x 2) (4)

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



- 3.3.1 Which market structure is represented by the picture above? (1)
- 3.3.2 Identify the industry shown by the picture above. (1)
- 3.3.3 Briefly describe the term *hybrid structure*. (2)
- 3.3.4 Why do businesses in this market structure only make normal profits in the long run? (2)
- 3.3.5 Why would there be no collusion in this industry among businesses? (2 x 2) (4)
- 3.4 With the aid of a graph, explain why a freely operating market would fail to produce enough goods with positive externalities. (4 x 2) (8)
- 3.5 Why is it important for government departments to undertake a cost-benefit analysis process before deciding on any government project? (8)
- [40]**

**QUESTION 4: MICROECONOMICS**

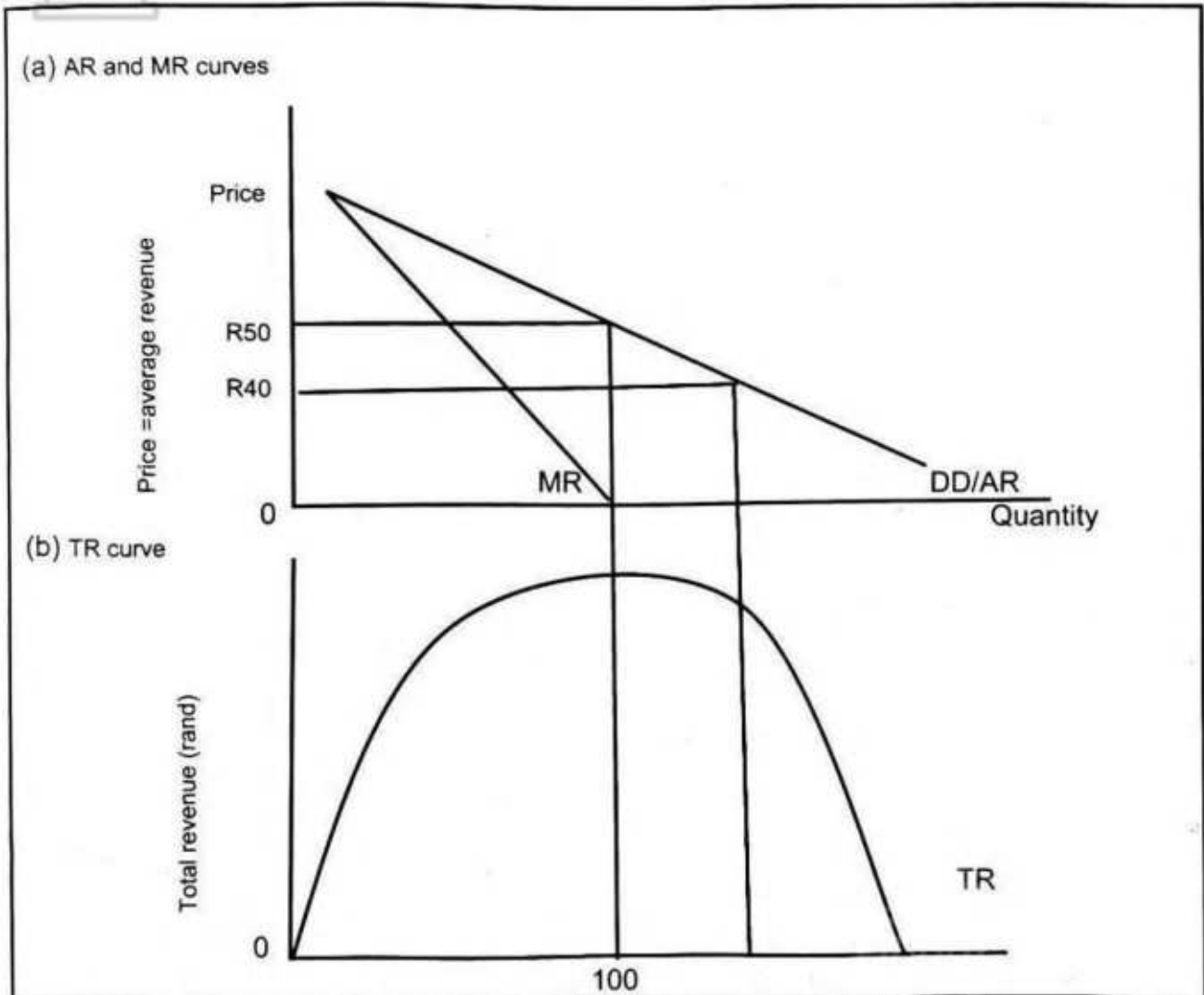
**40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

4.1.1 Give **TWO** examples of positive externalities. (2 x 1) (2)

4.1.2 Why do people in rural areas sometimes pay higher prices for goods than those living in urban areas? (1 x 2) (2)

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



4.2.1 Give **ONE** factor that influences the prices of goods and services in a monopoly. (1)

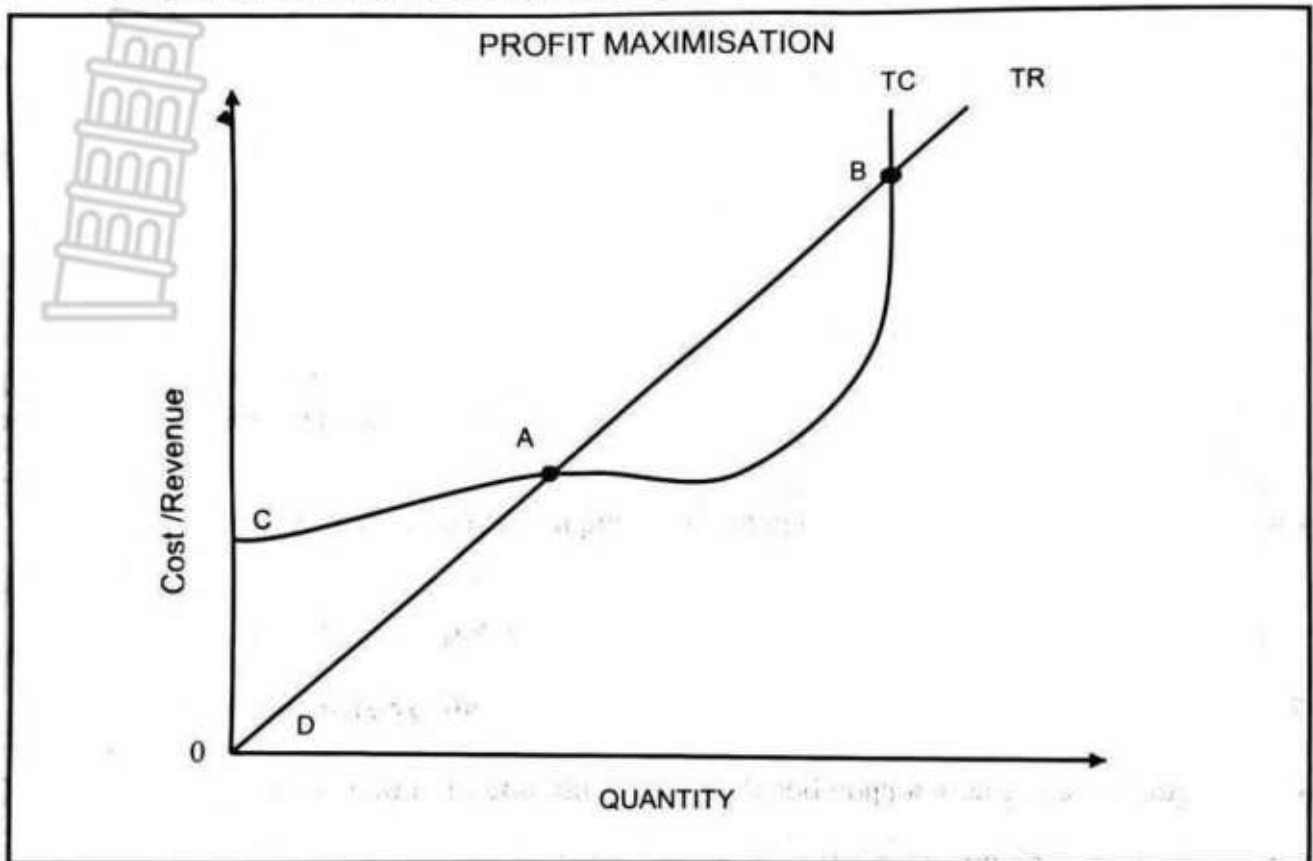
4.2.2 At what price must the monopolist sell to obtain maximum revenue? (1)

4.2.3 Briefly describe the term *monopoly*. (2)

4.2.4 Which curves are required to determine how much profit the monopolist would make? (2)

4.2.5 Why would the monopolist be discouraged from drastically increasing the prices of his/her products? (4)

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



- 4.3.1 What kind of profit is the firm making at point A? (1)
- 4.3.2 What is depicted by the area ACD? (1)
- 4.3.3 Briefly describe the term *profit maximisation*. (2)
- 4.3.4 Describe the behaviour of firms between the area A and B. (2)
- 4.3.5 Why is a single business in a competitive market structure a price taker? (4)
- 4.4 Explain the *nature of a product* and *market entry* as characteristics of perfect markets. (2 x 4) (8)
- 4.5 How would a monopolistic competitor compete with other enterprises to increase its market share? (4 x 2) (8)

**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 THE ESSAY	MARK ALLOCATION
<b>Introduction</b>	Max. 2
<b>Body:</b> <b>Main part:</b> Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain/Assess/Debate	Max. 26
<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	Max. 10
<b>Conclusion:</b> Give a brief summary of what has been discussed It can be an opinion on the facts discussed It can be additional information It can be a contradictory viewpoint It can be a recommendation	Max. 2
<b>TOTAL</b>	<b>40</b>

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

- Discuss the characteristics of an Oligopoly in detail. (26)
- How effective is the competition policy in regulating mergers and takeovers. (10) **[40]**

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

- Discuss in detail the various equilibrium positions in a perfect market with the aid of graphs. (26)
- How can the government assist in the control and management of negative impacts of monopolies in the economy? (10) **[40]**

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



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**GRADE 12**

**ECONOMICS PAPER 2**

**JUNE 2022**

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**MARKING GUIDELINE**

**MARKS: 150**

**This marking guideline consists of 19 pages**

**QUESTION 1**

**1.1 MULTIPLE CHOICE**

1.1.1 A - average variable ✓✓

1.1.2 C - community ✓✓

1.1.3 D - productive ✓✓

1.1.4 B - differentiated ✓✓

1.1.5 C - sunk ✓✓

1.1.6 A - external ✓✓

1.1.7 A - negatively ✓✓

1.1.8 D - price ✓✓

(8 x 2) (16)

**1.2 MATCHING ITEMS**

1.2.1 D - The actual expenditure that business incurs ✓

12.2 F - Businesses in the same industry come to an agreement to determine quantities and prices for their goods and services ✓

1.2.3 A - Businesses selling or producing similar products ✓

1.2.4 E - It is incomplete because it cannot meet the demand for certain goods ✓

1.2.5 C - Situation where it is impossible to increase welfare of one individual without making another worse off ✓

1.2.6 G - Products have different varieties, qualities and brand names ✓

1.2.7 B - Requires huge development costs ✓

1.2.8 H - Exclusive right to manufacture a product ✓

(8 x 1) (8)

1.3

**GIVE THE TERM**



1.3.1 Price leadership ✓

1.3.2 External costs ✓

1.3.3 Short run/ Short term ✓

1.3.4 Maximum prices ✓

1.3.5 Fixed costs ✓

1.3.6 Perfect competition ✓

(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**

2.1 Answer the following questions.

2.1.1 **Give TWO examples of natural monopolies.**  
 Eskom ✓  
 De Beers Diamonds ✓  
 Rand water ✓  
 Anglo American Golds ✓  
 (Accept any other correct relevant response) (2 x 1) (2)

2.1.2 **Why are of markets so important in the economy?**  
 Markets bring buyers and sellers together/ to determine price/  
 regulate production of goods and services/ allocate resources/  
 mechanism to exchange goods and services ✓✓ (1 x 2) (2)

**2.2 DATA RESPONSE**

2.2.1 **Which Act, establishes the Competition Commission of South Africa?**  
 Competition Act of 1998 ✓ (1)

2.2.2 **What is the role of the Competition Appeal Court?**  
 Amend or confirm decisions of the competition tribunal ✓  
 (Accept any other correct relevant response) (1)

2.2.3 **Briefly describe the term *price discrimination*.**  
 Selling a good or service to different buyers at different prices ✓✓  
 (Accept any other correct relevant response) (2)

2.2.4 **How does competition in the market benefit the consumer?**  
**The consumer can benefit from:**  
 • large variety of goods to choose from ✓✓  
 • lower prices paid for same products ✓✓  
 • better quality goods and services ✓✓  
 • equal opportunities to participate in the economy ✓✓ (1 x 2) (2)  
 (Accept any other correct relevant response)



2.2.5

**Why is the competition policy of South Africa important to small businesses or entrepreneurs in the economy?**

**Small businesses or entrepreneurs benefit by:**

- Many small businesses receive recognition for doing business as compared to well established ones on the basis of their compliance ✓✓
- Promotion of a competitive spirit between the small and well established businesses ✓✓
- They receive tax rebates from the government in promotion for their capital development and growth ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

**2.3 DATA RESPONSE**

2.3.1 **What is the selling price of the above business?**

R150 ✓

(1)

2.3.2 **Identify the letter in the graph that represents loss minimising point.**

C ✓

(1)

2.3.3 **Briefly describe the term *perfect competition*.**

A market structure consisting of many sellers who are selling homogenous products ✓✓

(2)

2.3.4 **Why is the equilibrium position for the business above typical of the short run?**

Perfect competitors can only make economic losses in the short run ✓✓

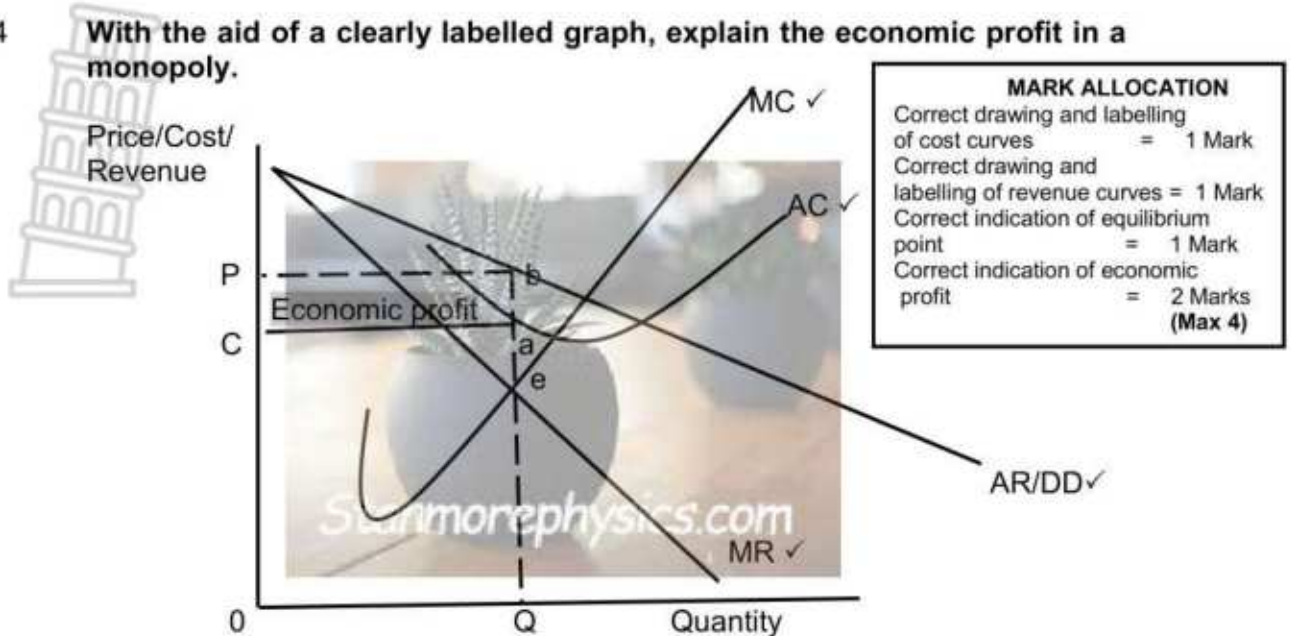
(2)

2.3.5 **Determine the loss for this business. Show all calculations.**

Loss = Total Revenue – Total Cost ✓  
= (R150 x 100) – (R200 x 100) ✓  
= R15 000 - R20 000  
- R5 000 ✓✓ **OR** R5 000 Loss ✓✓

(4)

2.4 With the aid of a clearly labelled graph, explain the economic profit in a monopoly.



MARK ALLOCATION	
Correct drawing and labelling of cost curves	= 1 Mark
Correct drawing and labelling of revenue curves	= 1 Mark
Correct indication of equilibrium point	= 1 Mark
Correct indication of economic profit	= 2 Marks
<b>(Max 4)</b>	

- Profits are determined by the location of the minimum turning point of the AC in relation to the market price/AR ✓✓
- If the AC is lower than the market price the business will make economic profit ✓✓
- This is indicated by area PBAC in the graph ✓✓

**Max 4**

(8)

2.5 Evaluate the impact of collusion on the economy.

**Collusion will impact the economy by:**

- reducing competitiveness in the long run by decreasing GDP and employment ✓✓
- allowing price fixing, market sharing and output control by cartels and price leadership ✓✓
- creating scarcity in order to increase prices while also protecting inefficient suppliers ✓✓
- forcing community, consumers, businesses and even governments to pay higher prices for goods and services ✓✓
- benefit suppliers by fixing prices ✓✓
- benefiting the government through increased revenue via indirect taxes on inflationary process ✓✓

(4 x 2)

(8)

**(Accept any other correct relevant response)**

**(A maximum of 2 marks may be allocated for mere listing facts/examples) [40]**

**QUESTION 3: MICROECONOMICS**

3.1 Answer the following questions.



3.1.1 **Name TWO causes of market failures.**  
• Externalities ✓  
• Missing markets ✓  
• Imperfect competition ✓  
• Lack of information ✓  
• Immobility of factors of production (2 x 1) (2)

3.1.2 **What impact do cartels have on the economy?**  
Output will be restricted and prices will be increased ✓✓ (1 x 2) (2)

3.2 **DATA RESPONSE**

3.2.1 **Which type of workers are affected by this kind of government intervention in the country?**  
Domestic workers / Farm workers ✓ (1)

3.2.2 **Identify the market price in the diagram above.**  
P ✓ (1)

3.2.3 **Briefly describe the term *minimum prices*.**  
Prices set by government above the market price ✓✓ (2)  
(Accept any other correct relevant response)

3.2.4 **What is the effect of minimum prices on the products?**  
Minimum prices increase the price of the product and encourages producers to produce such goods and services in greater quantities ✓✓ (2)  
(Accept any other correct relevant response)

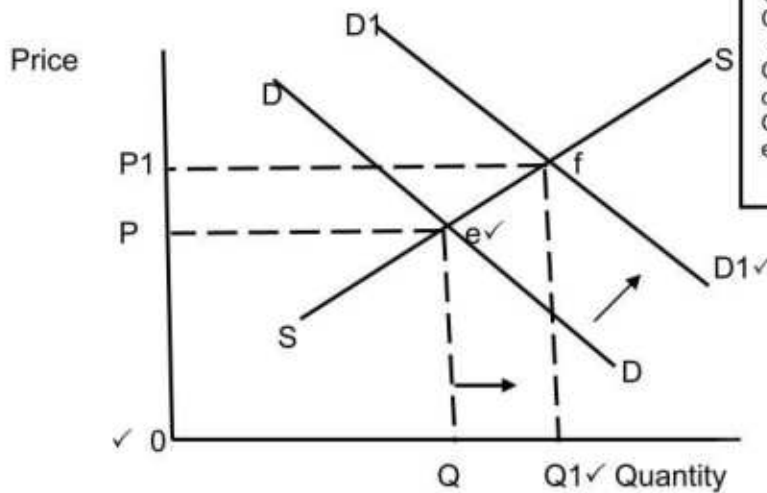
3.2.5 **Why would the government impose minimum prices on certain products?**  
The government want to enable producers to make sustainable profits ✓✓  
The government also want to encourage production of essential goods and services ✓✓ (2 x 2) (4)  
(Accept any other correct relevant response)

3.3 DATA RESPONSE



- 3.3.1 Which market structure is represented by the picture above?  
 Monopolistic competition ✓ (1)
- 3.3.2 Identify the industry shown by the picture above.  
 Toothpaste industry ✓ (1)
- 3.3.3 Briefly describe the term *hybrid structure*.  
 It refers to a market structure that consists of both characteristics of monopoly and perfect competition ✓✓ (2)
- 3.3.4 Why do businesses in this market structure only make normal profits in the long run?  
 The economic profits made in the short run are offset by the new businesses that enter the market in the long run ✓✓  
 (Accept any other correct relevant response) (2)
- 3.3.5 Why would there be no collusion in this industry among businesses?  
 • Prices for their products are determined by market forces ✓✓  
 • Each seller's share in the market is so small that (s)he cannot manipulate the price ✓✓  
 (Accept any other correct relevant response) (2 x 2) (4)

3.4 With the aid of a graph, explain why a freely operating market would fail to produce enough goods with positive externalities.



MARK ALLOCATION	
Correct labelling of axis	= 1 mark
Correct indication of origin of axis	= 1 mark
Correct drawing of new demand curve	= 1 mark
Correct indication of initial equilibrium point	= 1 mark
<b>Max 4</b>	



- The equilibrium point is given at  $e$  with price  $P$  and quantity  $Q$  ✓✓
- If it was possible to quantify the external benefits associated with the provision of this good or service, the social benefit accruing to society will be represented by  $D_1D_1$  ✓✓
- If the external benefits are taken into account, the equilibrium will be at  $f$  with quantity  $Q_1$  and selling price  $P_1$  ✓✓
- This means more should be produced ✓✓
- Markets under-supply positive externalities ✓✓

**Max 4 Marks**

(8)  
**[40]**

3.5 **Why is it important for government departments to undertake a cost-benefit process before deciding on government projects?**

- In a market economy resources are allocated through the interaction of supply and demand ✓✓
- Prices are the signals that calibrate the wishes of consumers with the cost supplying the goods ✓✓
- Without firm market signals the decisions on desirability of a project may be based on subjective views ✓✓
- CBA brings greater objectivity to decision making ✓✓

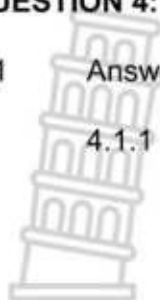
(4 x 2)

(8)

(Accept any other correct relevant response)  
(A maximum of 4 marks may be allocated for mere listing of facts/examples)

**QUESTION 4: MICROECONOMICS**

4.1 Answer the following questions.



4.1.1 **Give TWO examples of positive externalities.**  
 Education ✓  
 Healthcare ✓  
 Infrastructure development ✓  
 Skills training ✓  
 Provision of clean water ✓  
 (Accept any other correct relevant response) (2 x 1) (2)

4.1.2 **Why do people in rural areas sometimes pay higher prices for goods than those living in urban areas?**  
 The costs of transporting goods from points or areas of production are being included leading to higher prices to offset the costs borne by businesses. ✓✓  
 (Accept any other correct relevant response) (2)

**4.2 DATA RESPONSE**

4.2.1 **Give ONE factor that can influences the prices of goods and services in a monopoly.**  
 • Higher revenue level ✓  
 • Demand for the product ✓ (1)

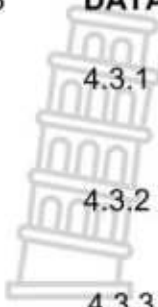
4.2.2 **At what price must the monopolist sell to obtain maximum revenue?**  
 R50 ✓ (1)

4.2.3 **Briefly describe the term *monopoly*.**  
 A market structure consisting of a single seller of a unique product ✓✓ (2)

4.2.4 **Which curves are required to determine how much profit the monopolist will make?**  
 Total cost curve and Total revenue curve/ ✓✓  
 Average cost curve and Average revenue curve/ ✓✓  
 Marginal cost curve and Marginal revenue curve ✓✓ (2)

4.2.5 **Why would the monopolist be discouraged from drastically increasing the prices of his/her product?**  
 • consumers will buy alternative goods due to budget constraints ✓✓  
 • total revenue will decline due to decreased demand ✓✓  
 (Accept any other correct relevant response) (2 x 2) (4)

4.3 DATA RESPONSE



4.3.1 **At what point is the firm making a profit?**  
Normal profit ✓ (1)

4.3.2 **What is depicted by the area ACD?**  
Economic loss ✓ (1)

4.3.3 **Briefly describe the term profit maximisation.**  
It is where the business makes highest possible profit (MC=MR) /  
Where the vertical distance between TR and TC is the greatest ✓✓  
(Accept any other correct relevant response) (2)

4.3.4 **Describe the behaviour of firms between the area A and B.**

- Firms will increase supply and sell more products because TR is above TC ✓✓
- Competition will increase as more firms will enter the market ✓✓

(Accept any other correct relevant response) (2)

4.3.5 **Why is a single business in a competitive market structure a price taker?**

- Price is determined by the market ✓✓
- If the business sells at any price higher than the prevailing market price, it will lose its market share and its profitability ✓✓

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

4.4 **Explain the nature of a product and market entry as characteristics of perfect market.**

Nature of the product

- The product sold is homogenous ✓✓
- The products are identical in their appearance and quality ✓✓
- It makes no difference as to from which seller the customer buys ✓✓

Market entry

- There are no barriers to entry that can stop new businesses from entering the market ✓✓
  - There is complete freedom of entry and exit in the market ✓✓
  - Less capital is required to enter the market ✓✓
- (Accept any other correct relevant response) (4 x 2) (8)
- 
- (A maximum of 4 marks may be allocated for mere listing of facts/examples)



4.5

**How would a monopolistic competitor compete with other enterprises to increase its market share?**

- Monopolistic competitor can increase its market share by competing on non-price factors ✓✓
- Aggressive advertising can be launched by focusing on the use of billboards and social media ✓✓
- Extended shopping hours will be more convenient for customers in close vicinity ✓✓
- Provide more free deliveries within a certain range of the business will an edge over competitors ✓✓
- The monopolistic competitor can increase its market share by competing on promotional specials based on price ✓✓

(Accept any other correct response)

(4 x 2)

(8)

(A maximum of 2 marks may be allocated for mere listing/examples)

**[40]**

**TOTAL SECTION B:**

**80**

## SECTION C

### QUESTION 5: MICROECONOMICS

- Discuss the characteristics of an Oligopoly in detail. (26)

- How effective is the competition policy in regulating mergers and take-overs? (10)

### INTRODUCTION

An oligopoly exists when a small number of large firms are able to influence the supply of a product or service to the market ✓✓

(Accept any other correct relevant response)

Max (2)

### MAIN PART

#### Number of businesses ✓

- The market consists of few firms that dominate the market ✓✓ e.g. banks ✓
- Each firm is aware of the actions of others in the market and this has an impact on decision making ✓✓
- This means each producer not only influences others but also has to consider them ✓✓
- If there are two firms in the market it is called a duopoly ✓✓

#### Nature of the product ✓

- Products sold may be homogenous or differentiated ✓✓
- When the products are homogenous, the market is called a pure oligopoly ✓✓  
e.g. petrol ✓
- When the products are different, the market is known as differentiated oligopoly ✓✓  
e.g. motor cars ✓

#### Entry into the market ✓

- It is difficult to enter the market due to various barriers ✓✓
- A large amount of capital is usually required to enter the market ✓✓
- It is often difficult to overcome barriers imposed by consumer preferences of brands ✓✓
- Firms usually spend a lot of money on advertising to create brand loyalty ✓✓
- The existing firms may often be enjoying economies of scale and this may be a further barrier ✓✓

#### Control over price ✓

- Oligopolies have considerable influence over price but not as much as the monopoly ✓✓
- Price wars is often a feature when the existing firms want to limit entrance in the market ✓✓

### **Demand curve ✓**

- An oligopoly faces a kinked demand curve. This demand curve has two sections ✓✓
- The top section that relates to high prices has a highly elastic slope (i.e. demand is very sensitive to price changes) ✓✓
- The bottom section that relates to lower prices is highly inelastic (i.e. demand is not sensitive to price change) ✓✓

### **Collusion ✓**

- Firms often cooperate instead of competing each other ✓✓
- This may be by forming cartels, which are formal agreements for firms to work Together ✓✓
- At times collusion can be in the form of price leadership, which is an unspoken agreement among firms ✓✓
- Price leadership involves one firm serving as a leader while others follow ✓✓
- When the price leader changes its price the others do the same ✓✓

### **Market information ✓**

- Buyers and sellers have incomplete information about market conditions ✓✓
- Even though the oligopolies monitor one another's actions, they do not always know how the competitor will react to their action ✓✓

### **Price and profits ✓**

- Prices are higher in general than under perfect competition ✓✓
- Oligopolies develop brand loyalty among consumers to generate economic profit ✓✓

### **Mutual dependence ✓**

- There are only a few businesses that sell a particular product- each business is influenced by the actions of others Max (26)
- (Accept any other correct relevant responses)

## **ADDITIONAL PART**

### **The competition policy is effective in:**

- putting in place the competition commission, competition tribunal and competition appeal court to investigate and approve mergers and takeovers, investigating whether it is going to substantially prevent or lessen competition ✓✓
- taking into account the public interest effects such as its impact on employment ✓✓
- considering the ability of small businesses owned by disadvantaged to become competitive ✓✓
- providing services to local businesses to ensure sustainability of local producers ✓✓
- ensuring that mergers are not for the sake of creating market power ✓✓
- looking into the details of case and come to suitable decision ✓✓
- declining the mergers which are seen as going to limit competition due to few firms in the market ✓✓

- approving the merger of Massmart and Walmart on condition that no job losses occur for a certain period ✓✓  
(Accept any other correct relevant higher response) Max (10)  
(A maximum of 2 marks may be allocated for mere listing of facts)

**CONCLUSION**

Collusive behaviour is illegal according to the South African law and is a punishable offence by both the law and the operational structure of the Competition Commission of South Africa ✓✓

(Accept any other correct relevant higher order response) (2)

**[40]**

**QUESTION 6: MICROECONOMICS**

**40 MARKS – 40 MINUTES**

- Discuss in detail the various equilibrium positions in a perfect market with the aid of three separate graphs. (26)
- How can the government assist in the control and management of negative impacts of monopolies in the economy? (10)

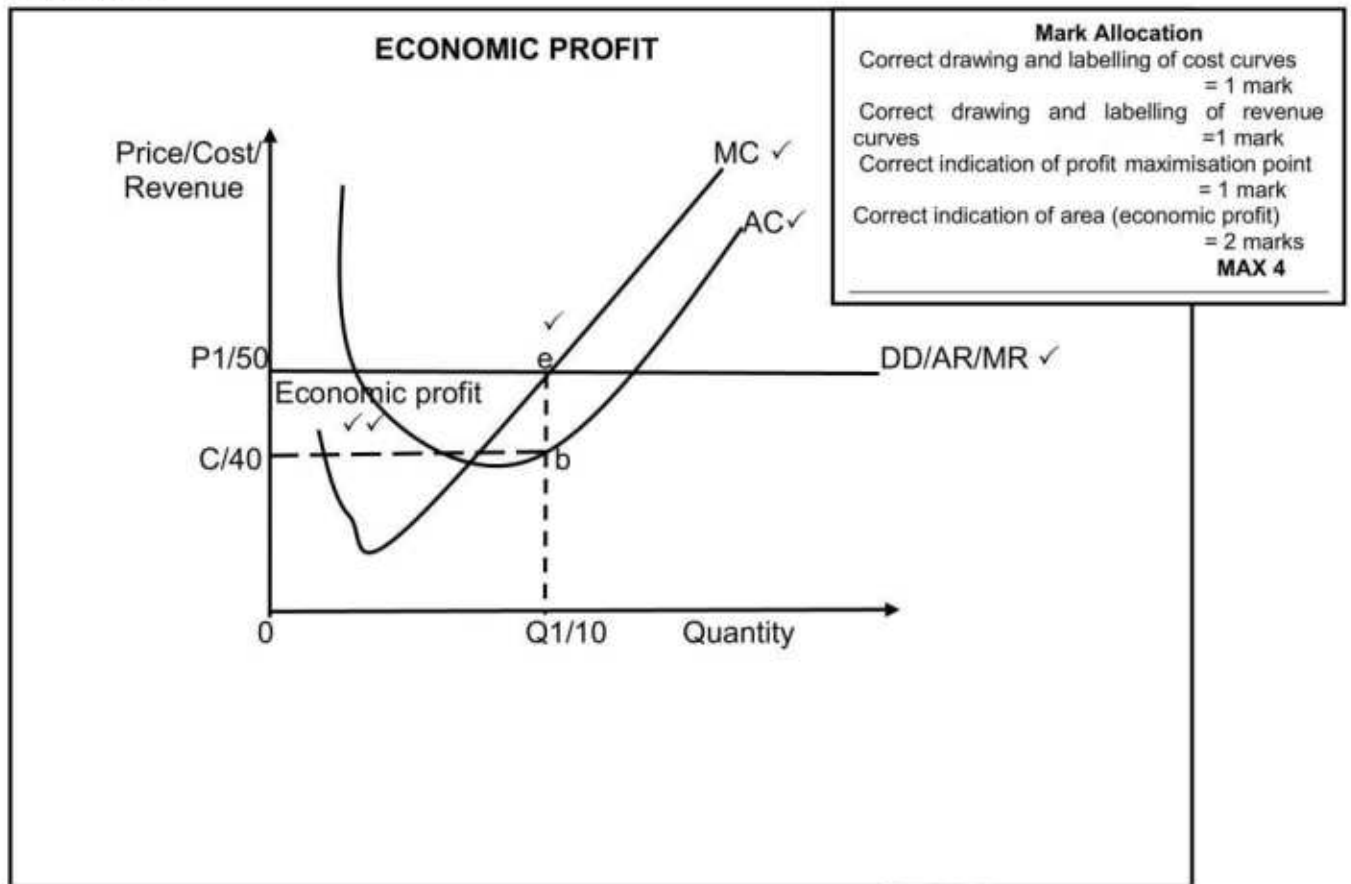
**INTRODUCTION**

A perfect market is a market structure with a large number of buyers and sellers who are selling identical products ✓✓

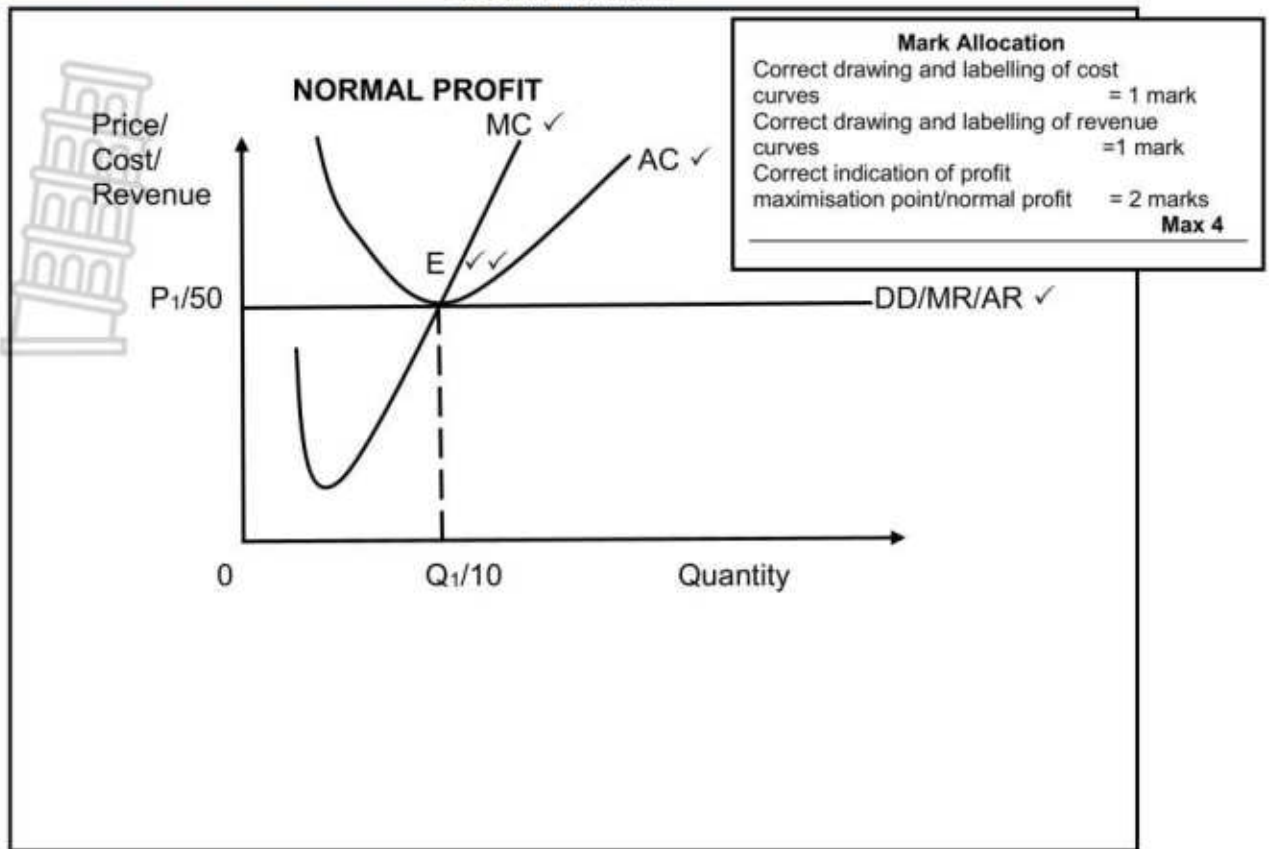
(Accept any other correct response)

Max(2)

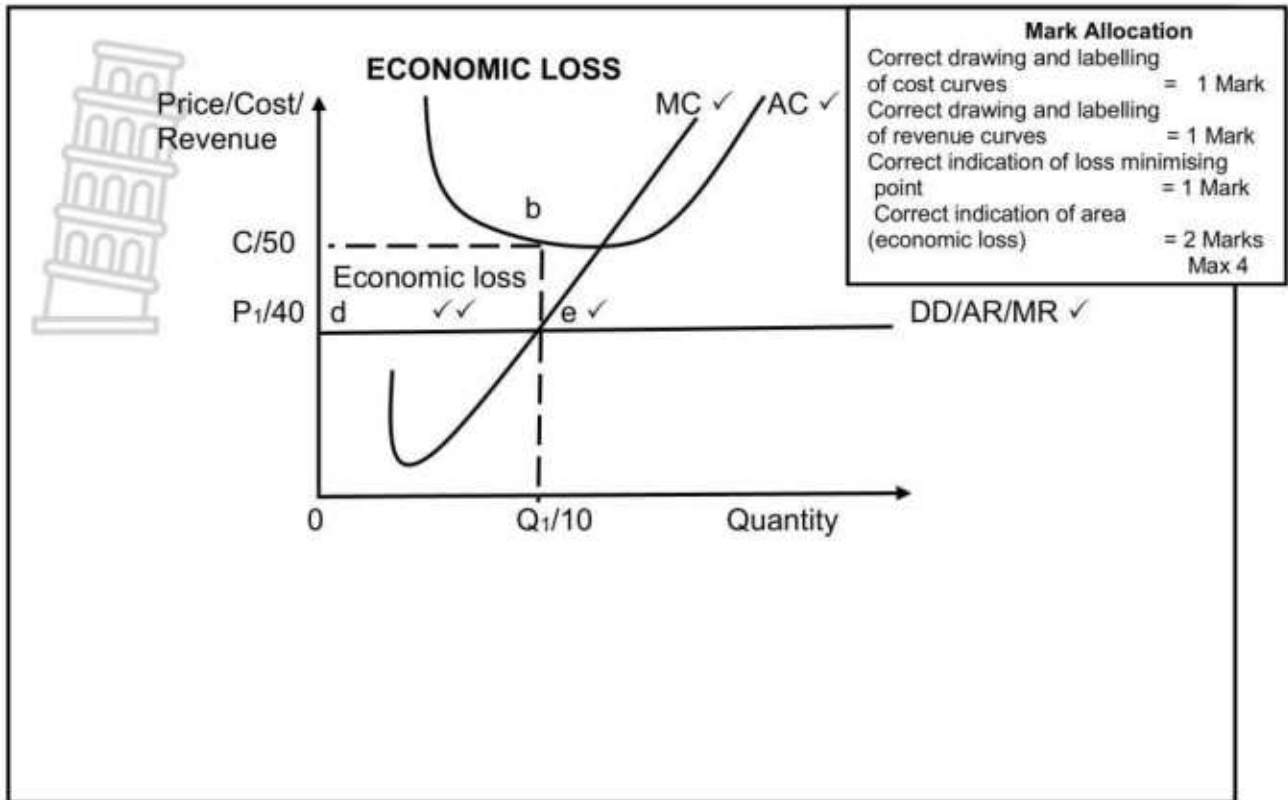
**MAIN PART**



- The minimum point of the short term average cost curve (AC) is lower than the market price ✓✓
- The business is in equilibrium (maximising profits) at point e where MR = MC ✓✓
- Total revenue is equal to  $0Q_1 \times 0P_1$  ( $50 \times 10$ ) and total cost is equal to  $0Q_1 \times 0C$  ( $40 \times 10$ ) ✓✓
- The economic profit is represented by area  $CP_1EB$  (R100) ✓✓



- At point e where  $MC = MR$  the business will produce  $Q_1$  and at market price  $P_1$  ✓✓
- The lowest point of  $AC$  is tangent to the  $AR/MR$  ✓✓
- This implies that  $AC = AR$  and total cost ( $50 \times 10$ ) = total revenue ( $50 \times 10$ ) ✓✓
- Normal profit is the minimum earnings required to prevent the entrepreneur from living the market ✓✓



- The minimum point of the short term average cost curve (AC) is above the market price (AR) ✓✓
  - The business is in equilibrium (minimising loss) at point e where MR = MC and the business will produce at quantity  $Q_1$  and market price P ✓✓
  - Total revenue is equal to  $0Q_1 \times 0P_1$  ( $10 \times 40$ ) and total cost is equal to  $0C \times 0Q_1$  ( $50 \times 10$ ) ✓✓
  - The loss is represented by the area  $P_1CBE$  (100) ✓✓
- Max (26)

**ADDITIONAL PART**

**The government can assist in the control and management of the negative impacts of monopolies by:**

- legislation to reduce absolute power of monopolies ✓✓
- allowing through legislation the establishment of other competitors for fair and good competition ✓✓
- managing and controlling any abnormal profits made through collusion and price fixing through the Competition Commission ✓✓
- legislating for the easy access of resources and support of the emerging competitors in the industry ✓✓
- supporting young and coming competitors in the areas where there is dominance of monopolies by offering financial support ✓✓
- promoting entrepreneurial capabilities in areas where it is difficult for young industries to venture into business ✓✓
- managing pricing by invoking minimum and maximum prices to avoid unethical exploitation of consumers and users of certain services ✓✓

(Accept any correct high order response)

Max (10)

(A maximum of 2 marks may be allocated for mere listing of facts)

### CONCLUSION

Perfect markets are an ideal phenomenon and do not exist in reality. However it takes government to create circumstances to enhance the smooth operations for markets to serve the needs of society in a more realistic and competitive manner possible ✓✓  
(Accept any other correct relevant higher response)

[40]

Max (2)

**TOTAL SECTION C:**  
**GRAND TOTAL:**

**40**  
**150**