



LIMPOPO

PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

ECONOMICS PAPER 2

JUNE 2023

Stanmorephysics.com

MARKS: 150

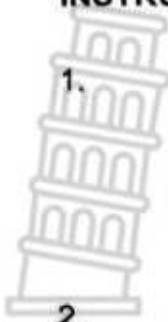
TIME: 2 HOURS



MEECONP2

This question paper consists of 13 pages

INSTRUCTIONS AND INFORMATION



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

SECTION A: COMPULSORY

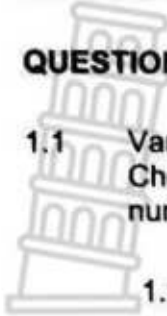
SECTION B: Answer TWO of the three questions.

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 – 15 MINUTES**

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



- 1.1.1 The revenue derived from the sale of one additional unit of a product is called ... revenue
- A average
 - B extra
 - C total
 - D marginal
- 1.1.2 An institution that investigates restrictive practices in the economy is called the Competition ...
- A Commission.
 - B Tribunal.
 - C Appeals Court.
 - D Policy.
- 1.1.3 Costs that change as output changes are known as ... costs.
- A marginal
 - B variable
 - C average
 - D fixed
- 1.1.4 Selling a good or service to different buyers at different prices is called price...
- A control.
 - B index.
 - C leadership.
 - D discrimination.
- 1.1.5 A situation where it is impossible to increase the welfare of one individual without making another worse off is called ... efficiency.
- A allocative
 - B technical
 - C pareto
 - D productive



1.1.6

The value of inputs owned by entrepreneur used in production are referred to as... costs

- A implicit
- B marginal
- C short term
- D average

1.1.7

An income enjoyed by producers of goods is known as ... benefit

- A external
- B private
- C social
- D public

1.1.8

Prices set above the market prices to encourage production of goods are known as ... prices.

- A equilibrium
- B cost
- C minimum
- D market

(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	Artificial monopoly	A	it shows different combinations of the production of two goods given available resources and technology
1.2.2	Perfectly elastic demand curve	B	they are provided free of charge
1.2.3	Missing markets	C	brings greater objectivity to decision making
1.2.4	Production Possibility Curve	D	the barrier to entry is not of an economic nature
1.2.5	Community goods	E	businesses reach agreements openly
1.2.6	Cost Benefit Analysis	F	quantities change without change in the price
1.2.7	Cartel	G	consumption by one individual excludes consumption by another
1.2.8	Rivalry	H	the private sector fails to provide certain goods and services
		I	it allows abuse of economic power

(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.



- 1.3.1 It occurs when production mix reflects tastes and preferences of consumers
- 1.3.2 An illegal trading arrangement in which a good is sold at price higher than the legally imposed price ceiling
- 1.3.3 The point where the price and quantity is such that the business maximises profit
- 1.3.4 The value of the next best alternative that is not chosen
- 1.3.5 An abstract time period used microeconomic theory during which all factor inputs are varied
- 1.3.6 It is used by government to recover external costs

TOTAL SECTION A: 30

SECTION B

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

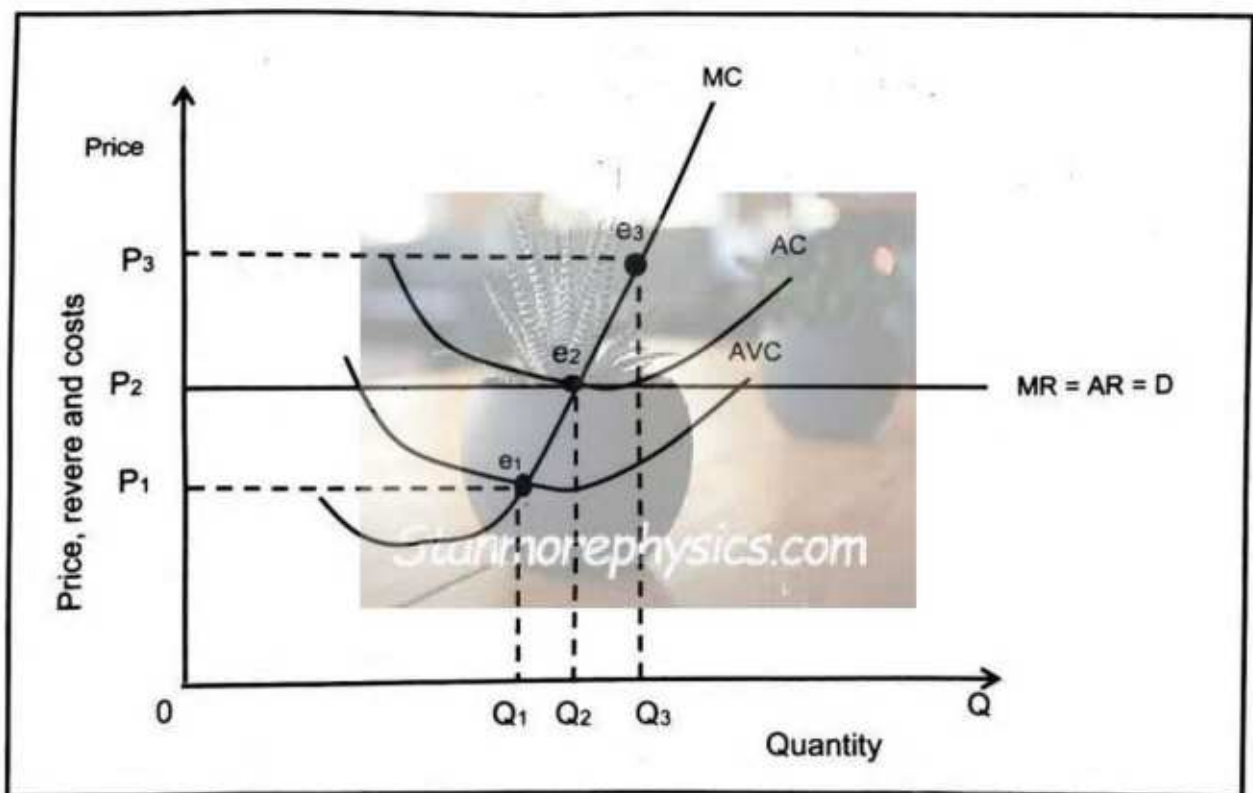
QUESTION 2: MICROECONOMICS**40 MARKS – 20 MINUTES**

2.1 Answer the following questions.

2.1.1 Name **TWO** examples of explicit costs (2 x 1) (2)

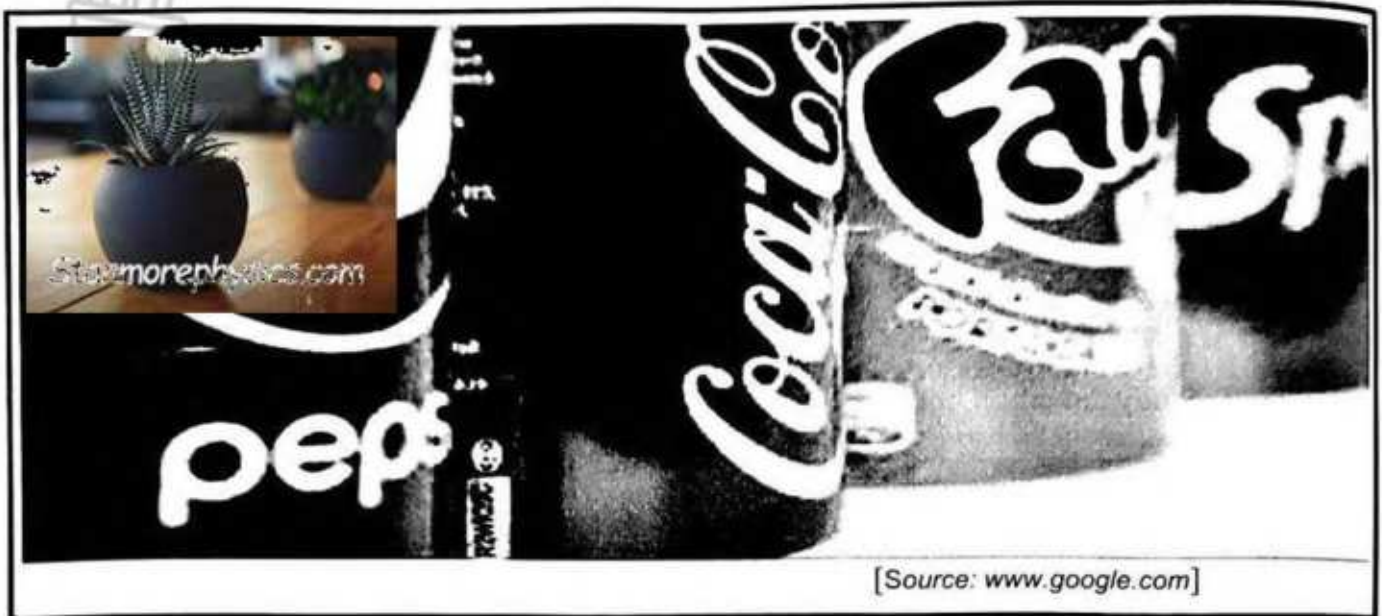
2.1.2 Why is the demand curve of a perfect competitor horizontal? (1 x 2) (2)

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



- 2.2.1 Identify the shutdown point on the graph above. (1)
- 2.2.2 Which points /part of the MC represents the supply curve for this business? (1)
- 2.2.3 Briefly describe the term *perfect competition*. (2)
- 2.2.4 What would be the impact to businesses if the market price drops below P_1 ? (2)
- 2.2.5 Why do businesses in perfect market only make normal profits in the long run? (4)

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



- 2.3.1 Which market structure is depicted by the picture above? (1)
- 2.3.2 What is the nature of the product sold in the above market structure? (1)
- 2.3.3 Briefly describe the term *hybrid structure*. (2)
- 2.3.4 How can brand loyalty influence profits for businesses in this market structure? (2)
- 2.3.5 How can imperfect markets make the demand for their products to be less price elastic? (4)
- 2.4 Differentiate between a *monopoly* and an *oligopoly*. (2 x 4) (8)
- 2.5 Evaluate the measures used by the government to promote competition in the economy. (4 x 2) (8)
- [40]**

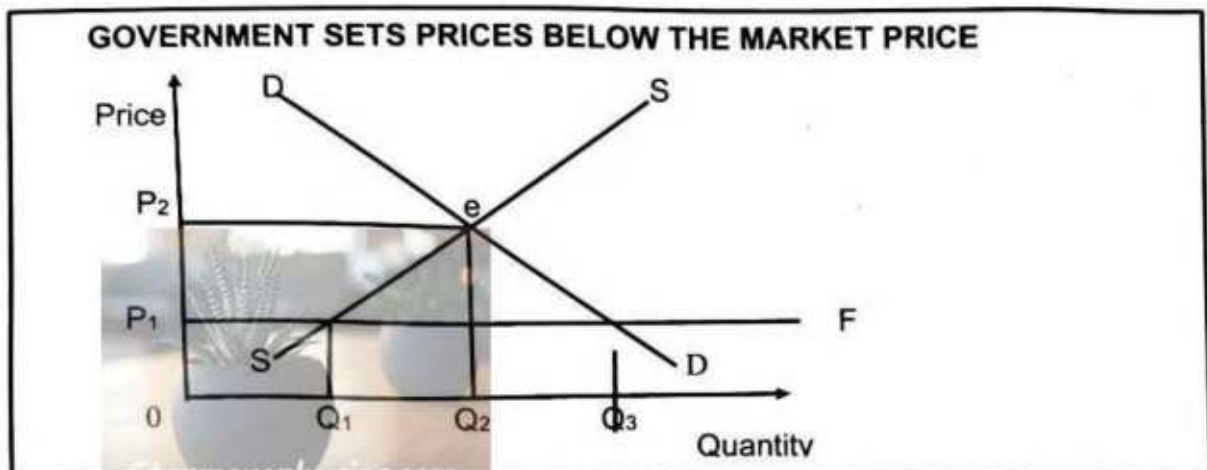
QUESTION 3: MICROECONOMICS**40 MARKS – 20 MINUTES**

3.1 Answer the following questions.

3.1.1 List any **TWO** examples of variable costs. (2 x 1) (2)

3.1.2 How are businesses benefitting from large-scale production? (1 x 2) (2)

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



3.2.1 Identify the type of market in the cartoon above. (1)

3.2.2 What is represented by "F" on the graph above? (1)

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

3.2.4 Why does the government set prices for certain goods/products above the market prices? (2)

3.2.5 How negatively do prices set below the market prices affect the economy? (4)

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



- 3.3.1 Identify the market structure illustrated by the graph above. (1)
- 3.3.2 Name the type of service provided in the industry above. (1)
- 3.3.3 Briefly describe the term *duopoly*. (2)
- 3.3.4 How do businesses reduce or eliminate uncertainties in the market? (2)
- 3.3.5 How can businesses in the industry avoid destructive price wars? (4)
- 3.4 Differentiate between *overt* and *tacit collusions* (2 x 4) (8)
- 3.5 Analyse the impact of the Competition Act of South Africa on businesses? (8)
(4 x 2) [40]

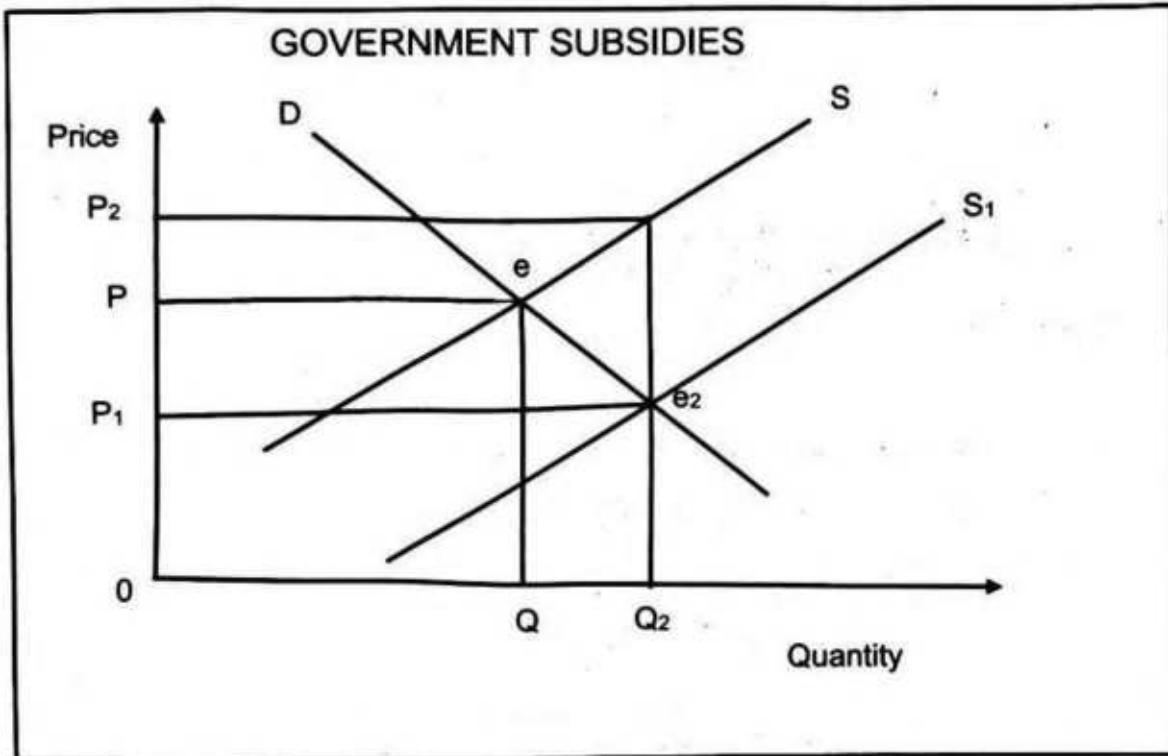
QUESTION 4: MICROECONOMICS**40 MARKS – 20 MINUTES**

4.1 Answer the following questions.

4.1.1 Mention **TWO** features of public goods. (2 x 1) (2)

4.1.2 How do new entrants affect economic profits in the perfect market? (1 x 2) (2)

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



4.2.1 Identify the equilibrium price before the introduction of subsidies in the market. (1)

4.2.2 What will the equilibrium quantity be after the introduction of subsidy from the graph above? (1)

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

4.2.4 How are producers benefitting from the granting of subsidies by government? (2)

4.2.5 How can subsidies be used to redistribute income and wealth? (4)

- 4.3 Study the information below and answer the questions that follow.

A BOOST FOR THE SA ECONOMY IS ON THE CARDS

South African fruits and vegetables are anticipated to take the world by storm. The industry is projected to register growth of above 6% in 2023. Initially the market faced a supply crunch due to restrictions on trade movements.

The growing demand for fruit juices and the increasing consumer awareness of healthy lifestyles are some of the factors driving the market's growth. The industry is projected to increase its share of the market.

[Source: www.google.com]

- 4.3.1 Identify the industry that will boost the South African economy from the extract above. (1)
- 4.3.2 Give **ONE** factor that will positively influence the industry in the market in 2023. (1)
- 4.3.3 Briefly describe the term *normal profit*. (2)
- 4.3.4 What will the impact of complete information be in a perfect market? (2)
- 4.3.5 How does productive efficiency benefit businesses? (4)
- 4.4 Differentiate between *product differentiation* and *control over prices* in monopolistic competition. (8)
- 4.5 Analyse the impact of minimum wages on the economy. (8)

[40]

TOTAL SECTION B: 80

SECTION C

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

STRUCTURE OF THE ESSAY:	MARK ALLOCATION:
Introduction	Max. 2
Body: Main part: Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain/Assess/Debate	Max. 26
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	Max. 10
Conclusion	Max. 2
TOTAL	40

QUESTION 5: MICROECONOMICS**40 MARKS – 30 MINUTES**

- Discuss in detail various equilibrium positions of a monopoly in the short-term. (26)
 - Analyse the challenges faced by State-Owned Enterprises in South Africa. (10)
- [40]**

QUESTION 6: MICROECONOMICS**40 MARKS- 30MINUTES**

- Discuss the causes of market failures in detail. (26)
 - Evaluate the impact of collusion in the economy. (10)
- [40]**

TOTAL SECTION C:
GRAND TOTAL: 150



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MARKS: 150



SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE CHOICE QUESTIONS

1.1.1 D - marginal ✓✓

1.1.2 A - Commission ✓✓

1.1.3 B - variable ✓✓

1.1.4 B - discrimination ✓✓

1.1.5 C - Pareto ✓✓

1.1.6 A - implicit ✓✓

1.1.7 B - private ✓✓

1.1.8 C - minimum ✓✓

(8 x 2)

(16)

1.2 MATCHING ITEMS

1.2.1 D - the barrier to entry is not of an economic nature ✓

1.2.2 F - quantities change without change in the price ✓

1.2.3 H - the private sector fails to provide certain goods and service ✓

1.2.4 A - it shows different combinations of the production of two goods given available resources and technology ✓

1.2.5 B - they are provided free of charge ✓

1.2.6 C - brings greater objectivity to decision making ✓

1.2.7 E - businesses reach agreements openly ✓

1.2.8

G - consumption by one individual excludes consumption by another ✓

(8 x 1)

(8)



1.3 GIVE ONE TERM

1.3.1 Allocative efficiency ✓

1.3.2 Black market ✓

1.3.3 Equilibrium ✓

1.3.4 Opportunity cost ✓

1.3.5 Long run ✓

1.3.6 Tax ✓

(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

Name TWO examples of explicit costs.

- Wages ✓
- Interest ✓
- Leasing of land ✓
- Expenditure on raw materials ✓

(Accept any other correct relevant response)

(2 x 1) (2)

2.1.2

Why is the demand curve of a perfect competitor horizontal?

A perfect competitor sells every unit of a good or service in the business at the prevailing market price ✓✓

(Accept any other correct relevant response)

(2)

2.2 DATA RESPONSE

2.2.1

Identify the shutdown point on the graph above.

e_1 ✓

(1)

2.2.2

Which points /part of the MC represents the supply curve for this business?

e_1 to e_3 ✓ OR

Ascending part of the MC

(1)

2.2.3

Briefly describe the term *perfect competition*.

It is a market structure consisting of many buyers and many sellers ✓✓

(Accept any other correct relevant response)

(2)

2.2.4

What would be the impact to businesses if the market price drops below P_1 ?

The businesses would not be able to cover their variable costs ✓✓

(Accept any other correct relevant response)

(2)

2.2.5.

Why do businesses in perfect market only make normal profits in the long run?

- The economic profits made in the short term will attract new entrants in the market ✓✓
- The quantity of goods available in the market will increase leading to decrease in prices and profits ✓✓

(Accept any other correct relevant response)

(4)

2.3 DATA RESPONSE



2.3.1 Which market structure is depicted by the graph above?
 Monopolistic competition ✓ (1)

2.3.2 What is the nature of the product sold in the above market structure?
 The products/goods are differentiated ✓ (1)

2.3.3 Briefly describe the term *hybrid structure*.
 It refers to a market structure that has both the characteristics of a monopoly and perfect market ✓✓
 (Accept any other correct relevant response) (2)

2.3.4 How can brand loyalty influence profits for businesses in this market structure?
 Brand loyalty maintains and increases the demand for certain products which creates an opportunity for little or small monopolistic profits ✓✓
 (Accept any other correct relevant response) (2)

2.3.5 How can imperfect markets make the demand for their products to be less price elastic?
 • Most of the fleet of Eskom power stations is very old ✓✓
 • Eskom has experienced an exodus of skilled managers and engineers in the past ✓✓
 • There has been too much corruption at Eskom ✓✓
 (Accept any correct relevant response) (4)

2.4 Differentiate between a *monopoly* and an *oligopoly*.

Monopoly	Oligopoly
<ul style="list-style-type: none"> • There is only one seller ✓✓ • The product is unique with no close substitutes ✓✓ • Information is complete ✓✓ • Entry is blocked ✓✓ 	<ul style="list-style-type: none"> • There are few sellers ✓✓ • The product is differentiated ✓✓ • Information is incomplete ✓✓ • Entry is free but not easy ✓✓

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

(8)

2.5 **Evaluate the measures used by the government to promote competition in the economy.**



- The government is providing infrastructure to enable businesses to operate ✓✓
- Taxes are decreased to attract more entrepreneurs ✓✓
- It provides subsidies to upcoming entrepreneurs to encourage production ✓✓
- It invites foreign direct investment in the economy ✓✓
- There is competition commission, tribunal and appeal court to deal with uncompetitive behaviour ✓✓
- Import restrictions have been removed ✓✓

(Accept any other correct relevant response)

(4 x 2)

(8)
[40]

QUESTION 3: MICROECONOMICS

3.1 Answer the following questions.



3.1.1 List any **TWO** examples of variable costs.

- Water ✓
- Electricity ✓
- Telephone ✓
- Raw materials ✓

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

3.1.2 How are businesses benefitting from large-scale production?

They achieve their economies of scale in the reduction of unit costs of production and as a result increase their profits ✓✓

(Accept any other correct relevant response) (2)

3.2 DATA RESPONSE

3.2.1 Identify the market price on the graph above.

P_2 ✓ (1)

3.2.2 What is represented by point "F" on the graph above?

Maximum prices ✓ (1)

3.2.3 Briefly describe the term *minimum price*.

Prices set by the government above the market price ✓✓

(Accept any other correct relevant response) (2)

3.2.4 Why does the government set prices for certain goods/products above the market prices?

- In order to make those goods / products affordable and to increase the state of actual enjoyment/welfare of the people ✓✓

- To improve the standard of living of the people ✓✓ (1 x 2) (2)

(Accept any other correct relevant response)

3.2.5 How negatively do prices set below the market prices affect the economy?

- Profits of businesses are reduced and thus limit extended investment and expansion opportunities in the businesses ✓✓

- Lead to market shortages as supply falls and demand rises and leave the market or decrease their supplies ✓✓ (2 x 2) (4)

(Accept any other correct relevant response)

3.3 DATA RESPONSE

3.3.1 Identify the market structure illustrated by the graph above.

Oligopoly ✓

(1)

3.3.2 Name the type of service provided in the industry above.

Transportation ✓

(Accept any other correct relevant response)

(1)

3.3.3 Briefly describe the term *duopoly*.

A market structure consisting of two sellers ✓✓

(Accept any other correct relevant response)

(2)

3.3.4 How do businesses reduce or eliminate uncertainties in the market?

They collude with each other to influence both in the quantities of goods supplied and the prices of their products ✓✓

(Accept any other correct relevant response)

(2)

3.3.5 How can businesses in the industry avoid destructive price wars?

- They use production differentiation as a way to attract their and become visible compared to other suppliers/sellers ✓✓

- They can introduce extended shopping hours to appear different as compared to others ✓✓

- They can launch after sales services to patronise their customers ✓✓

(Accept any other correct relevant response)

(4)

3.4 Differentiate between *overt* and *tacit collusions*.

Overt collusion	Tacit collusion
It is usually in the form of cartels ✓✓	It is in the form of price leadership ✓✓
It takes place openly ✓✓	It takes place secretly ✓✓
Businesses formally agree to fix prices ✓✓	The dominant firm changes the price and others follow ✓✓

(4 x 2)

(Accept any other correct relevant response)

(8)

3.5 Analyse the impact of the Competition Act on businesses in South Africa on businesses.

It curbs economic power of big businesses through the application of the Act and other supporting legal instruments ✓✓

- No businesses can merge without approval of the Competition Commission

- Emphasis is on removal of all barriers to entry in any industry ✓✓

- Businesses found guilty of uncompetitive are prosecuted and fine imposed ✓✓

- The Competition Tribunal may accept or reject recommendations of the Commission ✓✓

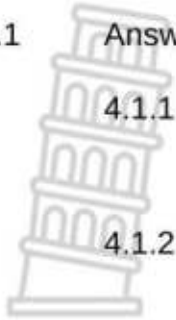
- The Act makes it possible for businesses to appeal penalties ✓✓ (4 x 2)

(Accept any other correct relevant response)

(8)
 [40]

QUESTION 4: MICROECONOMICS

4.1 Answer the following questions.



4.1.1 **Mention TWO features of public goods.**

- Non – rivalry ✓
 - Non – excludability ✓
- (2 x 1) (2)

4.1.2 **How do new entrants affect economic profits in perfect market?**

An increase in the number of entrants or businesses in the market environment will decrease the economic profits in the perfect market ✓✓ (2)

(Accept any other correct relevant response)

4.2 DATA RESPONSE

4.2.1 **Identify the equilibrium price before the introduction of subsidies in the market.**

P ✓ (1)

4.2.2 **What will the equilibrium quantity be after the introduction of subsidy from the graph above?**

Q₂ ✓ (1)

4.2.3 **Briefly describe the term *subsidy*.**

It is a financial benefit or a grant to support the production of a good or service ✓✓ (2)

(Accept any other correct relevant response)

4.2.4 **How are producers benefitting from the granting of subsidies by government?**

Subsidies help producers in the reduction of their production costs in their businesses ✓✓ (2)

(Accept any other correct relevant response)

4.2.5 **How can subsidies be used to redistribute income and wealth?**

- Government can provide free house to the poor who cannot afford to build houses themselves ✓✓
- They can provide free education and make it compulsory for everyone to attend without choice ✓✓
- They can subsidise the poor on electricity ✓✓

(Accept any other correct relevant response) (4)

4.3 DATA RESPONSE



4.3.1 **Identify the industry that will boost the South African economy from the extract above.**
Primary sector / Fruit and vegetable market ✓ (1)

4.3.2 **Give ONE factor that will positively influence the industry in the market in 2023.**
The growing demand for fruit juices / the increasing consumer awareness of healthy lifestyles ✓ (1)

4.3.3 **Briefly describe the term *normal profit*.**
Minimum profits needed to prevent the entrepreneur from moving his resources elsewhere ✓✓
(Accept any other correct relevant response) (2)

4.3.4 **What will the impact of complete information be in the perfect market?**
Both the sellers and buyers would know where and what to obtain their goods and services that they require ✓✓
(Accept any other correct relevant response) (2)

4.3.5 **How does productive efficiency benefit businesses?**
• Businesses will be able to reduce their production costs ✓✓
• They will also produce quality goods ✓✓
• Their profits will increase ✓✓
(Accept any other correct relevant response) (2 x 2) (4)

4.4 **Differentiate between *product differentiation* and *control over prices* in monopolistic competition.**

Product differentiation

- Products satisfy same consumer needs but are not identical ✓✓
- The differentiation can be imaginary ✓✓ .e.g. medicines ✓
- The differentiation can also be from packaging ✓✓

Control over prices

- Businesses have little control over price ✓✓
- Businesses are price makers for their own brand of product ✓✓
- It is difficult to set a single price for different products ✓✓

(2 x 4) (8)
(Accept any other correct relevant response) (8)

4.5 **Analyse the impact of minimum wages on the economy.**



- Minimum wages will enable workers to afford basic needs ✓✓
- Minimum wages can also lead to decrease in demand for labour ✓✓
- There will be excess supply of labour ✓✓
- The profit margins of businesses may decrease ✓✓
- Employers will shift the cost to consumers leading to higher prices ✓✓
- Businesses that cannot afford the minimum wages may shutdown ✓✓
- Workers may lose their jobs ✓✓

(4 x 2)

(8)
[40]

(Accept any other correct relevant response)

TOTAL SECTION B: [80]

SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK

QUESTION 5: MICROECONOMICS

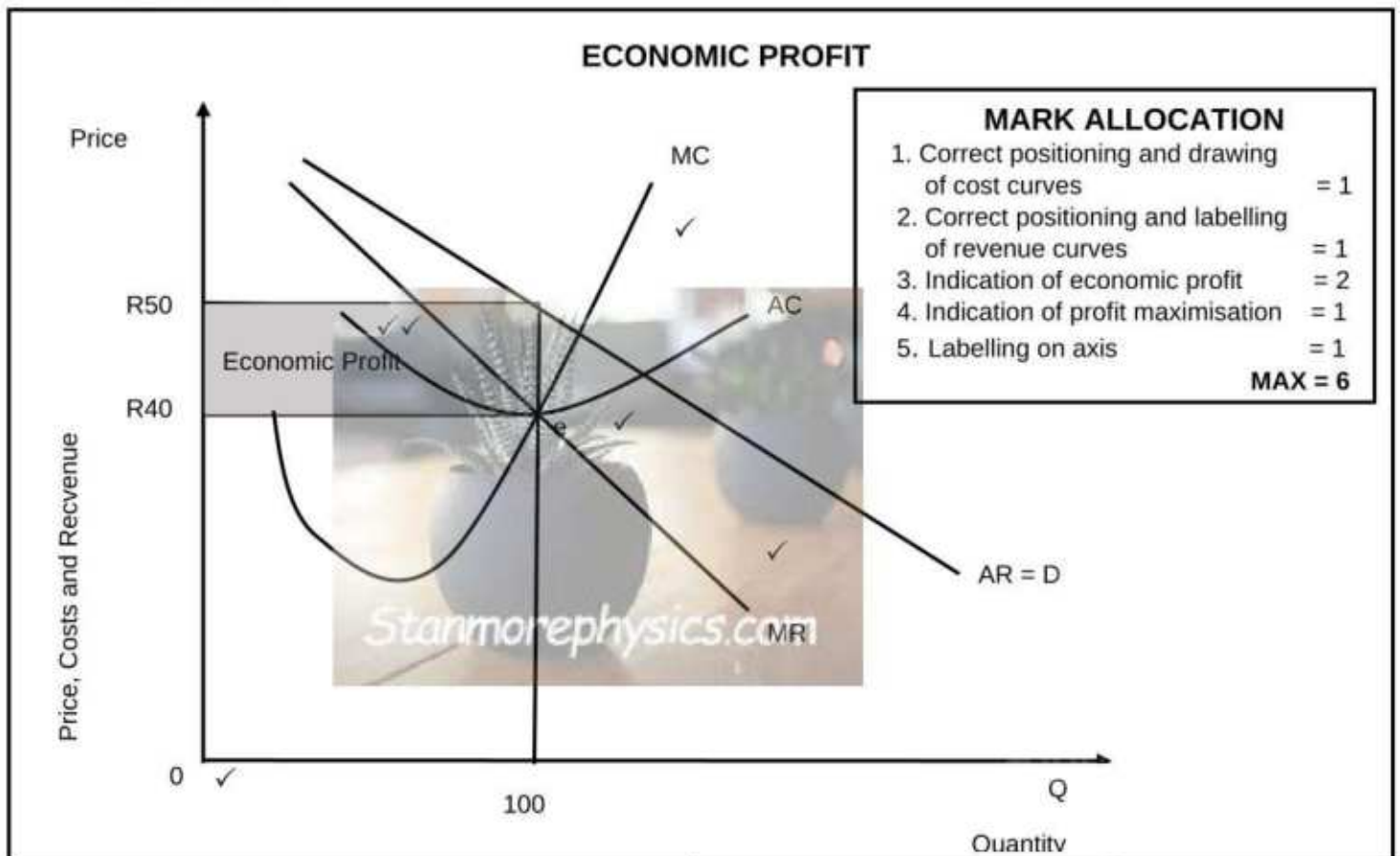
- Discuss in detail various equilibrium positions of a monopoly in the short-term. (26)
- Analyse the challenges faced by State-Owned Enterprises (SOE's) in South Africa. (10)

INTRODUCTION

A monopoly is a market structure that consists of only one seller of a unique good with no close substitutes ✓✓ (Max.2)

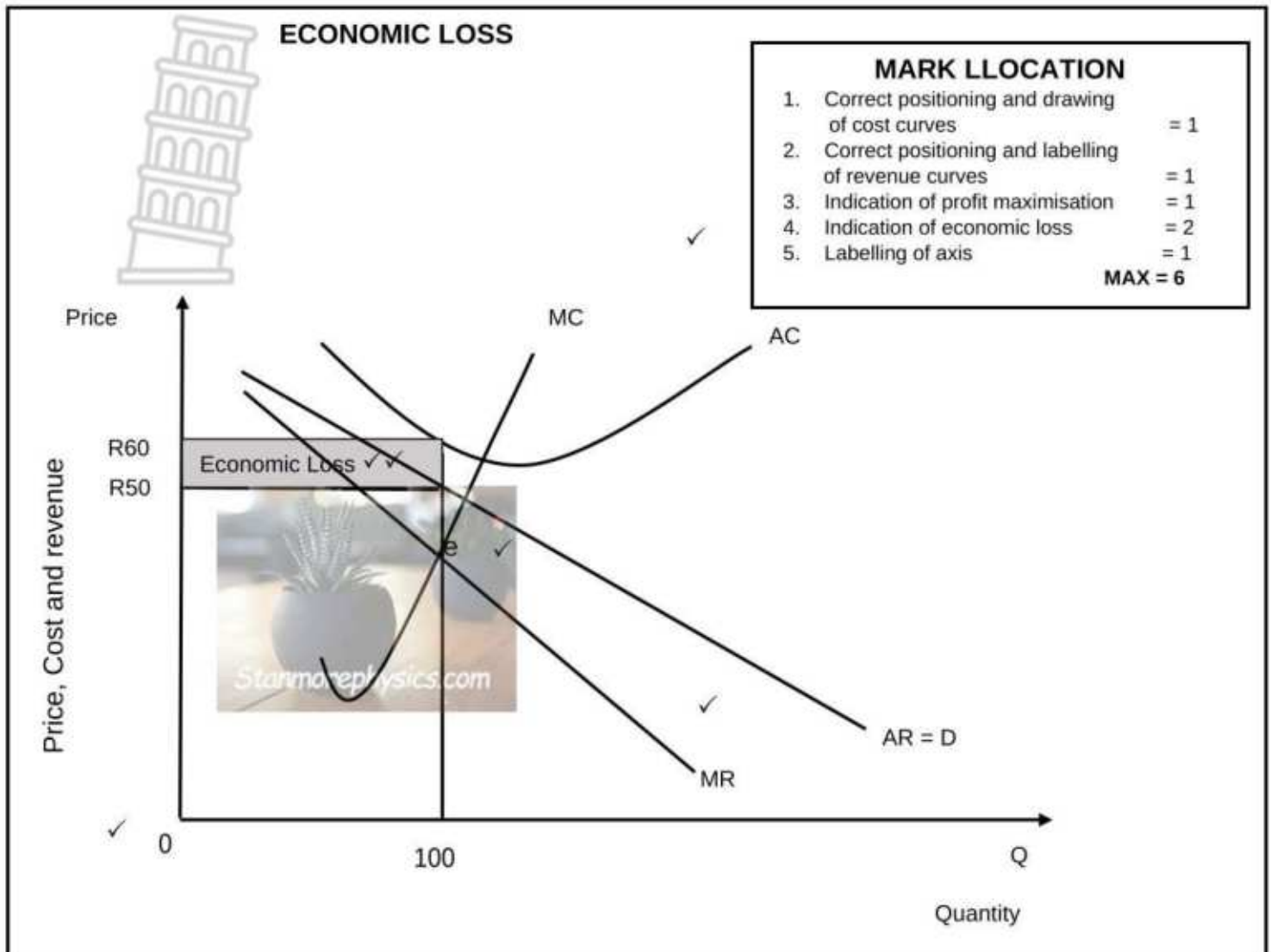
(Accept any other correct response)

MAIN BODY



- Economic profit is the extra profit made over and above the normal profit. ✓✓
- Profit is maximised where MC = MR at point e. ✓✓
- **Economic Profit = TR - TC**
 $= (R50 \times 100) - (R40 \times 100)$ ✓
 $= R5000 - R4000$ ✓
 $= R1000$ Economic profit ✓✓

Total revenue is greater than total cost/ Average revenue is more than average cost ✓✓



Economic loss is made when total revenue is less than total cost / $TR < TC$ / when average revenue is less than average costs / $AR < AC$ ✓✓

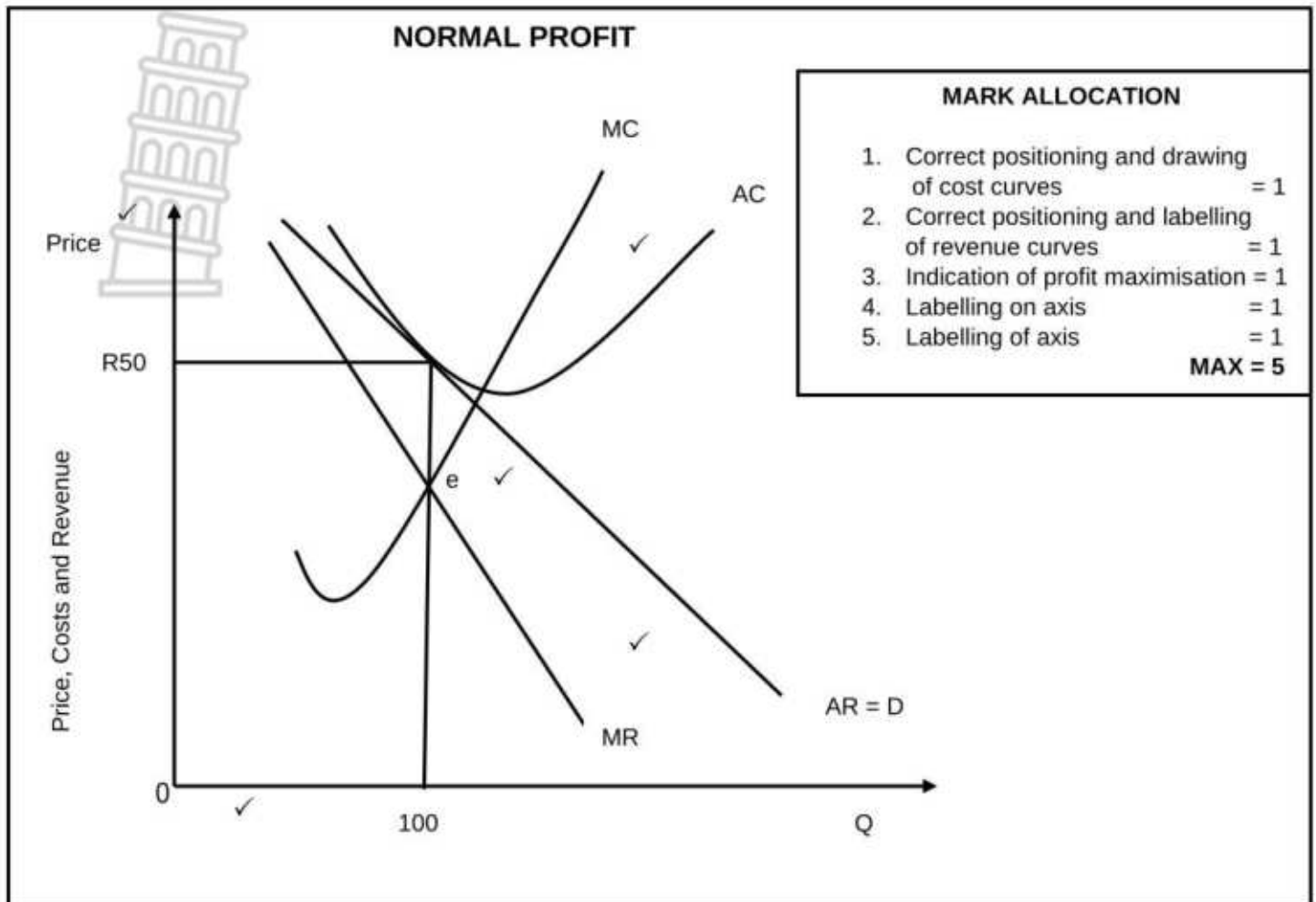
Loss is minimised at point e where $MC = MR$ ✓

Economic loss = $TR - TC$

$$= (R50 \times 100) - (R60 \times 100) \quad \checkmark$$

$$= R5000 - R6000 \quad \checkmark$$

$$= - R1000 \text{ (Economic loss)} \quad \checkmark\checkmark$$



- Normal profit is the minimum earnings needed by entrepreneur to prevent him from taking his factors of production elsewhere ✓✓
- It occurs where total revenue equals to total cost / where average revenue equals to average cost ✓✓
- **Normal profit = TR – TC**
 - = (R50 x 100) – (R50 x 100) ✓
 - = R5000 – R5000 ✓
 - = 0 ✓✓

(Max 26)

NB Maximum allocation for explanations is 14 marks

ADDITIONAL PART

Analyse the challenges faced by state-owned monopolies in South Africa.

- There is corruption in most state-owned monopolies that contribute to their dysfunctionalities ✓✓
 - Due to high maintenance costs, revenue is not enough to cover expenses ✓✓
 - A significant number of municipalities are unable to pay their debts owed to state-owned enterprises and thus contribute to financial difficulties ✓✓
 - Regulatory bodies limit high price increases in bail-outs of these state-owned entities ✓✓
 - There is widespread vandalism and corruption tendencies at Eskom and PRASA with regard infrastructure ✓✓
 - Most State Owned Enterprises survive on continuous bail-outs which leads to inefficiencies and misappropriation of government resources to deal with other critical service delivery issues ✓✓
 - Some State Owned Enterprises are bloated with poor management and incorrect appointments not befitting the job requirements ✓✓
 - Most state-owned monopolies have lost skilled and experienced personnel due to these corrupt and favouritism tendencies that bedevil their existence and practice ✓✓
- (Max 10)**

(Accept any other correct relevant response)

CONCLUSION

Unlike a perfect competitor, a monopoly can also make economic profit in the long run ✓✓ **(Max.2)**

(Accept any other correct relevant response)

[40]

[40]

QUESTION 6: MICROECONOMICS

Discuss in detail QUESTION 6: MICROECONOMICS

- Discuss the causes of market failures in detail. (26)
- Evaluate the impact of collusion in the economy. (10)

INTRODUCTION

Market failures occur when optimal production outcome has not been achieved ✓✓
(Accept any other correct relevant response) (Max.2)

MAIN PART

Causes of market failures

Externalities ✓

- These occur when producing or consuming a good that affect third parties not directly related to the transaction ✓✓
- Market under supply positive externalities and over supply negative externalities ✓✓
- Negative externalities are costs to third parties that are not included in the market price ✓✓
- These costs are not paid by the producers ✓✓
- Positive externalities are benefits to third parties who were not part of the decision ✓✓

Missing markets ✓

- Some goods are not provided by markets because producers cannot withhold the goods for non-payment ✓✓
- Markets can only form under certain conditions, and when these conditions are absent markets may struggle to exist ✓✓
- The most extreme case of a missing market is a pure public good ✓✓ e.g. defence, police ✓
- Due to the fact that markets for these goods are not likely to form they are called missing markets ✓✓
- These public goods are non-excludable and non-rivalry ✓✓

Imperfect competition ✓

- Imperfect markets fail to achieve both technical and allocative efficiencies ✓✓
- In market economies competition is often impaired by power ✓✓
- Power often lies with producers than with consumers ✓✓
- Most businesses are able to restrict output ✓✓ e.g. monopoly ✓
- They raise prices and produce where price exceed marginal cost ✓✓
- Advertising is often used to promote producer sovereignty ✓✓

Lack of information ✓

- Consumers, workers and entrepreneurs do not always have the necessary information to make rational decisions ✓✓
- Producers might not know all the different technologies and production techniques that are available and the different resources that can best be used to produce the good or service ✓✓
- The consumer might not know that the price of a good lower somewhere ✓✓
- Workers may be unaware of job opportunities outside their current employment ✓✓

Immobility of factors of production ✓

- Labour takes time to move to new occupations ✓✓
- Physical capital like buildings cannot be moved ✓✓
- It takes time for most industries to adapt to new technological changes ✓✓
- It take time for workers to upskill and be able to change employment ✓✓

Imperfect distribution of income and wealth ✓

- There is unequal distribution of income and wealth because the market is only interested in distributing goods and services for those who can afford it ✓✓
- This is also cause by unequal access to markets and educational opportunities ✓✓

(Max 26)

ADDITIONAL PART

Evaluate the impact of collusion in the economy

- Firms that collude may end up charging higher prices to consumers ✓✓
- There will be a decline in consumer surplus because the basic reason for the existence of collusion is to manage the supply and thus production ✓✓
- The resources may be misallocated due manipulation of the market by colluding businesses ✓✓
- The prices of goods will be pushed above their marginal costs ✓✓
- New firms may be discouraged/prevented from entering the market ✓✓
- Deadweight loss may result in the economy because what is supposed to be produced differs with what they intentionally agreed to produce ✓✓

(Max 10)

(Accept any other correct relevant response)

[40]

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