



LIMPOPO
PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF
EDUCATION

MOPANI WEST DISTRICT

GRADE 12



MARKS: 150

DURATION: 2 HOURS

STARTING TIME: 14H00

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 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 question carefully and start EACH question on a new page.
- 5 Leave 2 - 3 lines between the 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 black or blue ink.
- 9 Non-programmable calculators may be used.
- 10 Write neatly and legibly.

SECTION A (COMPULSORY)**QUESTION 1**

1.1 Various options are provided as possible answers. Choose the correct answer and write only the letter (A-D) next to the question number. E.g. 1.1.9. E

1.1.1 Which market structure is highly dependent on loyalty branding?

- A Monopoly
- B Perfect market
- C Monopolistic competition
- D Individual

1.1.2 The supply curve of the perfect competitor is represented by that part of the MC that is above the ... curve.

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

1.1.3 The average revenue of a firm in a perfectly competitive market is equal to its ...

- A selling price.
- B marginal cost.
- C total cost.
- D economic profit.

1.1.4 In the long run, an individual business in perfect competition will be in equilibrium when marginal ...

- A revenue equals total cost.
- B revenue equals fixed cost.
- C cost equals marginal revenue.
- D cost equals total revenue.

1.1.5 An imperfect market where information is complete is ...

- A oligopoly.
- B monopolistic market.
- C duopoly.
- D monopoly.



1.1.6 Government can introduce ... to increase the mobility of labour.

- A training programmes
- B taxes
- C inflation
- D poverty

1.1.7 Goods which are non-excludable and non-rival are known as ...

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

1.1.8 When the business does NOT produce at the lowest possible cost, it relates to ... inefficiency.

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

(8x2) (16)



1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A–I) next to the question number (1.2.1–1.2.8) in the ANSWER BOOK. (e.g. 1.2.9. D).

COLUMN A	COLUMN B
1.2.1 Marginal revenue	A these are undersupplied by the market but beneficial to the society
1.2.2 Economies of scale	B exists because of barriers to entry which are not economic in nature
1.2.3 Duopoly	C extra income the seller earns if one more unit of a product is produced and sold
1.2.4 Price leadership	D spill-over effects of an economic activity on third parties
1.2.5 Artificial monopoly	E occurs in inputs are increased, outputs increased by less than the percentage increase in inputs
1.2.6 Cartel	F two firms that dominate the industry
1.2.7 Externality	G businesses in the same industry come to an agreement to determine prices and quantities
1.2.8 Merit goods	H occurs if inputs are increased and output is increased by more than the percentage increase in inputs I an example of tacit collusion with regard to pricing

(8x1) (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. Acronyms and abbreviations are not accepted.

1.3.1 Products that are identical and standardized

1.3.2 The cost that remains the same even if output changes

1.3.3 An imperfect market structure that makes normal profit in the long run.

1.3.4 Occurs when oligopolies openly collude and formally agree on prices and quantities to maximise profits

1.3.5 A situation where firms are allowed by law to charge prices above the market equilibrium price.

1.3.5 When it is impossible to increase the welfare of one individual without making things worse for another individual. (6x1) (6)

TOTAL SECTION A: 30



SECTION B

Answer any TWO of the three questions in this section in the ASWER BOOK

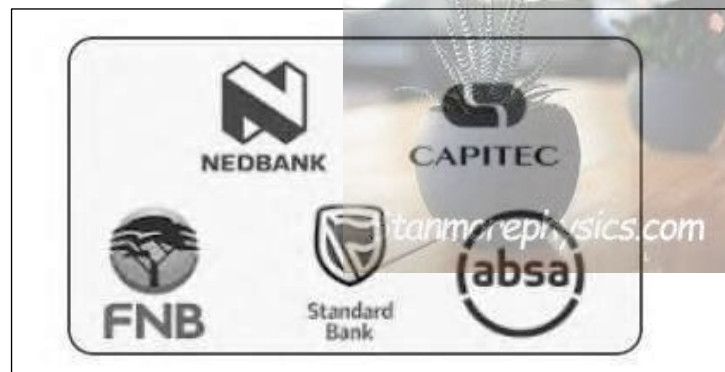
QUESTION 2

2.1 Answer the following questions

2.1.1 Name TWO types of inefficiencies that can exist in the imperfect market.

2.1.2 Why are implicit costs important to the entrepreneur?

2.2 Study the picture below and answer the questions that follow



2.2.1 Identify the market structure depicted in the above picture. (1)

2.2.2 What kind of demand curve is associated with this market structure? (1)

2.2.3 Briefly describe the concept tacit collusion. (2)

2.2.4 What does interdependency of businesses in this market structure imply? (2)

2.2.5 Why businesses in this industry will be reluctant to decrease the price of their product? (4)

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

The hybrid market structure

This market structure is the imperfect market with many sellers and buyers. Businesses in this market operate independently of each other; thus, they are not price takers. The quality of products, prices, and marketing determine a company's competitiveness. Rival companies can easily replicate the products, thus reducing profits in the long run.

Adapted from: study.com

- 2.3.1 Identify the market structure depicted in the above extract. (1)
- 2.3.2 Give any ONE example of the hybrid market structure. (1)
- 2.3.3 Describe the concept product differentiation. (2)
- 2.3.4 Briefly explain the benefits of product differentiation to producers of goods and services. (2)
- 2.3.5 Why are the prices of the monopolistic competitor lower than the prices of the monopolist? (4)
- 2.4 Briefly discuss the reasons for a cost-benefit analysis. (8)
- 2.5 Draw a fully labelled graph to illustrate the economic loss of the monopoly market structure. (8)

[40]



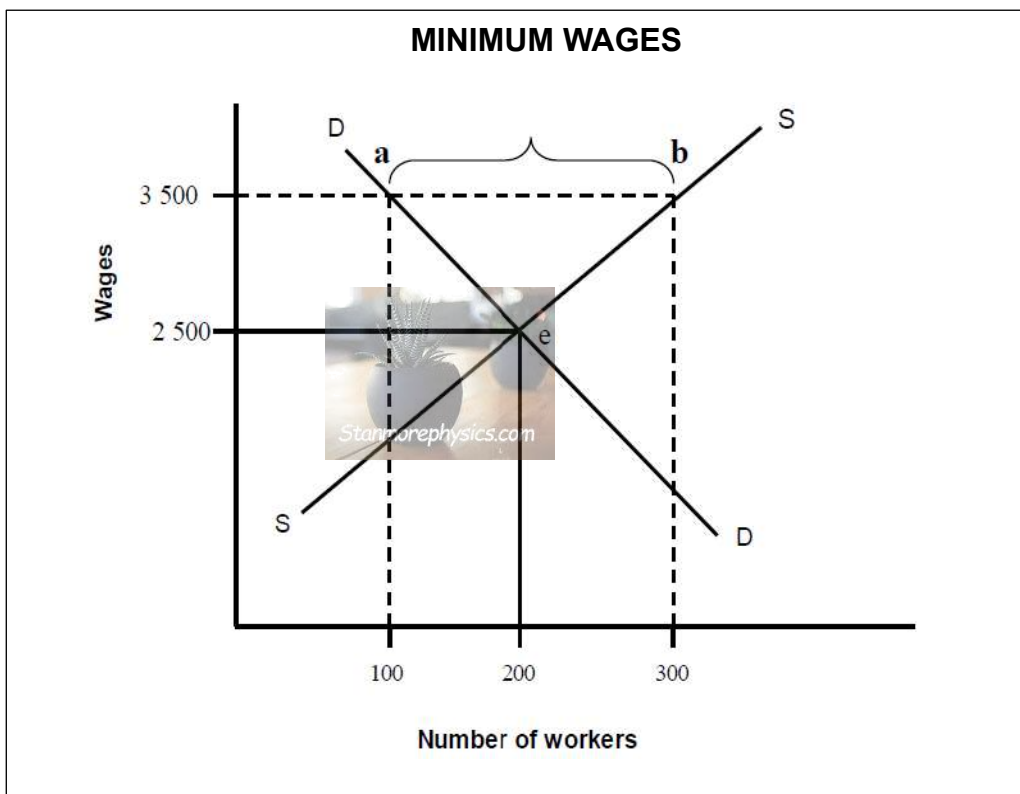
QUESTION 3

3.1 Answer the following questions

3.1.1 Name TWO methods of non-price competition (2x1) (2)

3.1.2 How effective has government spending been in addressing market failure? (2)

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



3.2.1 Identify the minimum wage to be implemented as per the graph above. (1)

3.2.2 Give any ONE example of sector in South Africa where minimum wages should be applied according to the above graph. (1)

3.2.3 Briefly describe the concept minimum wage. (2)

3.2.4 What is the advantage of having a national minimum wage instead of minimum wage per sector. (2)

3.2.5 Explain the implication of the R3 500 minimum wage imposed by the government. (2x2) (4)

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

MARKET A			MARKET B		
Quantity	Price	TR	Quantity	Price	TR
0	R10	-	0	R12	-
1	R10	R10	1	R10	R10
2	R10	R20	2	R8	R16
3	R10	R30	3	R6	R18
4	R10	R40	4	R4	R16
5	R10	R50	5	R2	R10

- 3.3.1 Identify the market in which the demand curve shows the downward slope. (1)
- 3.3.2 What is the nature of product sold in market B. (1)
- 3.3.3 Briefly describe the term marginal cost. (2)
- 3.3.4. Why is it difficult for other producers to supply the same product as the monopolist? (2)
- 3.3.5 Calculate the marginal revenue for market B at quantity 2. Show all the calculations. (4)

3.4 Examine briefly control over price and market information as characteristics of monopolistic competition (2x4) (8)

3.5 Why do oligopolies often collude though it is illegal in South Africa? (8)

[40]



QUESTION 4

4.1 Answer the following questions

4.1.1 Name TWO institutions responsible for regulating competition in South Africa. (2x1) (2)

4.1.2 Why does the government provide subsidies to producers? (1x2) (2)

4.2 Study the extract below and answer the questions that follow

The majority of industries in this market structure allow firms to easily enter and exit the industry. The arrival of new firms into an industry is referred to as market entry. Market entry is enabled by the absence of obstacles posed by government regulation or low start-up costs.

Adapted from: corporatefinanceinstitute.com

4.2.1 Identify the market structure referred to in the above extract. (1)

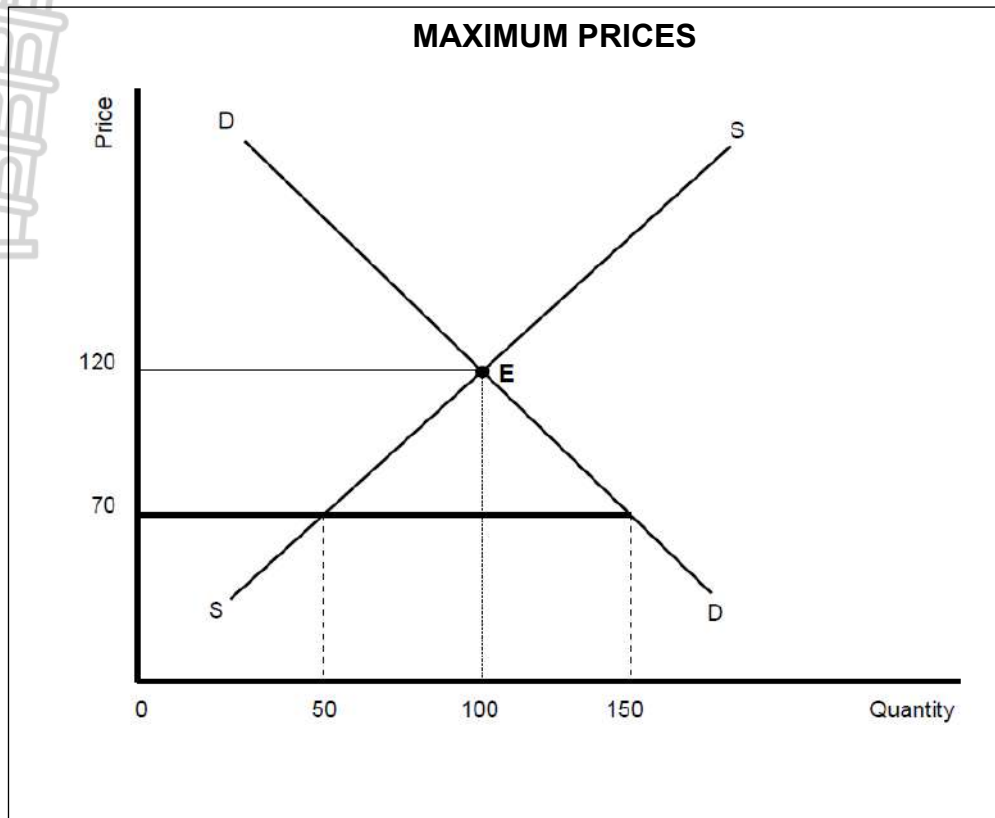
4.2.2 What is the nature of product sold in the above market structure? (1)

4.2.3 Briefly describe the concept market. (2)

4.2.4 What would the impact on the market be if many firms leave this industry? (2)

4.2.5 Why is it not possible for a single business to adjust its selling price in this market structure? (4)

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



- 4.3.1 What is the equilibrium price from the above graph? (1)
- 4.3.2 Identify the quantity of goods above that will be supplied if a maximum price of R70 is implemented. (1)
- 4.3.3 Briefly describe the term *market failure*. (2)
- 4.3.4 Why will a government implement maximum prices of certain goods? (2)
- 4.3.4 Explain the impact of maximum prices on the market with reference to the above graph. (4)
- 4.4 How effective is competition policy in regulating mergers and takeovers in South Africa? (8)
- 4.5 Describe negative externality with the aid of the well labelled graph. (8)

[40]

TOTAL SECTION B: 80

SECTION C

Answer any ONE of the TWO questions in this section in the ANSWER BOOK. Your answer will be assessed as follows:

STRUCTURE OF AN ESSAY	MARK ALLOCATION
Introduction <ul style="list-style-type: none"> The introduction is a lower-order response. A good starting point would be to define the main concept. 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 <ul style="list-style-type: none"> Any higher-order conclusion should include: 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 MARKS

QUESTION 5

With the aid of graphs, discuss the various short-run equilibrium positions in a perfect market. (26)

How is perfect competition beneficial as a market structure? (10)

QUESTION 6

Discuss the causes of market failure in detail (26)

Analyse productive inefficiency with the aid of the production possibility curve graph (10)

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

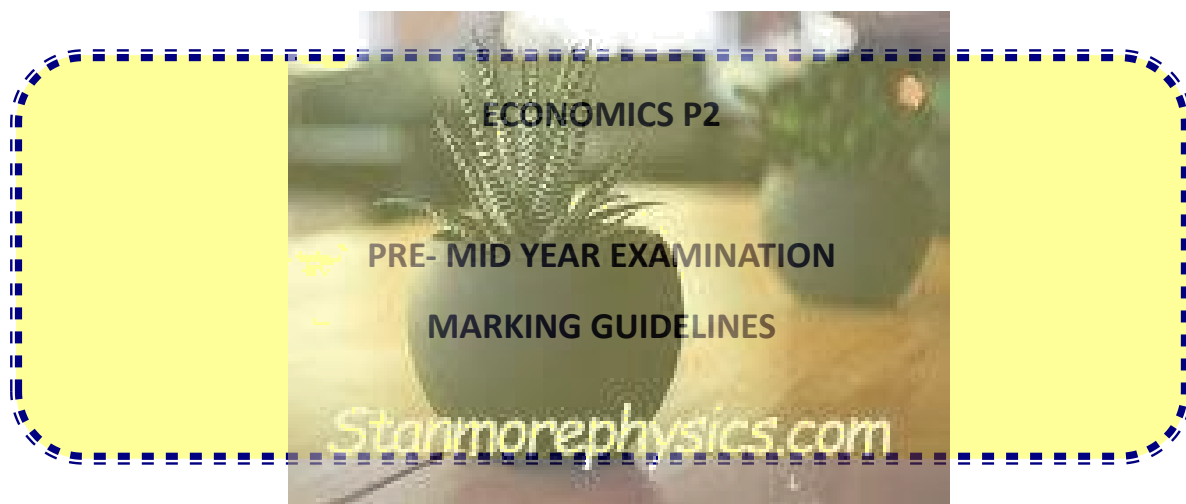


LIMPOPO
PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF
EDUCATION

MOPANI WEST DISTRICT

GRADE 12



MARKS: 150

This marking guidelines consist of 22 pages



SECTION A

QUESTION 1

1.1 MULTIPLE CHOICE

1.1.1 C (Monopolistic competition)

1.1.2 B (average variable cost)

1.1.3 A (selling price)

1.1.4 C (cost equals marginal revenue)

1.1.5 D (monopoly)

1.1.6 A (training programmes)

1.1.7 B (community)

1.1.8 D (productive)

1.2 MATCHING ITEMS

1.2.1 C (extra income the seller earns if one more unit of a product is produced and sold)

1.2.2 H (occurs if inputs are increased and output is increased by more than the percentage increase in inputs)

1.2.3 F (two firms that dominate the industry)

1.2.4 I (an example of tacit collusion with regard to pricing)

1.2.5 B (exists because of barriers to entry which are not economic in nature)

1.2.6 G (businesses in the same industry come to an agreement to determine prices and quantities)

1.2.7 D (spill-over effects of an economic activity on third parties)

1.2.8 A (these are undersupplied by the market but beneficial to the society)

1.3 ONE TERM /CONCEPTS

1.3.1 Homogeneous

1.3.2 Fixed

1.3.3 Monopolistic competition

1.3.4 Overt/ explicit/ formal collusion

1.3.5 Minimum price

1.3.6 Pareto efficiency

TOTAL SECTION A: 30



SECTION B

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

QUESTION 2

2.1 Answer the following questions

2.1.1 Name TWO types of inefficiencies that can exist in the imperfect market.

- Allocative inefficiency✓
 - Productive inefficiency✓
- (2)

2.1.2 Why are implicit costs important to the entrepreneur?

- They show the entrepreneur the interest that he could have earned if the capital was invested elsewhere rather than in his business✓✓
- (2)

2.2 DATA RESPONSE

2.2.1 Identify the market structure depicted in the above picture.

- Oligopoly✓
- (1)

2.2.2 What kind of demand curve is associated with this market structure?

- Kinked demand curve✓
- (2)

2.2.3 Briefly describe the concept tacit collusion.

- Tacit collusion occurs when oligopolies collude silently and informally amongst themselves on prices and quantities in order to maximise profits✓✓
Accept any correct response
- (2)

2.2.4 What does interdependency of businesses in this market structure imply?

- Only few sellers dominate the market, therefore each seller is influenced by the actions of other sellers✓✓
- (2)

2.2.5 Why businesses in this industry will be reluctant to decrease the price of their product?

- Decreasing the price might lead to price war which will drive prices down✓✓
- Decreased price can result in lower profits✓✓

- Due to kinked nature of the demand curve, they will lose more revenue than they would gain via increased sales✓✓

(Max: 4)

2.3 DATA RESPONSE

2.3.1 Identify the market structure depicted in the above extract

- Monopolistic competition✓ (1)

2.3.2 Give any ONE example of the hybrid market structure.

- Supermarkets✓
 - Fast-food restaurants
 - Clothing shops
 - Furniture shops
 - Medical doctors
 - Hair dressers
 - Car dealers✓ (1)
- Accept any correct response

2.3.3 Describe the concept product differentiation.

- Method used by suppliers to distinguish their goods or service from competitors and thereby drawing customers to them✓✓ (2)

2.3.4 Briefly explain the benefits of product differentiation to producers of goods and services.

- Producers will benefit because their products will be easily recognisable from similar products of other businesses✓✓
- When consumers are able to identify with the product, brand loyalty is developed which will benefit the producer✓✓
- Producers will earn more revenue/profit from goods that show a relatively inelastic demand✓✓
- Producers can easily penetrate the market and gain more market share through product differentiation✓✓ (2)

2.3.5 Why are the prices of the monopolistic competitor lower than the prices of the monopolist?

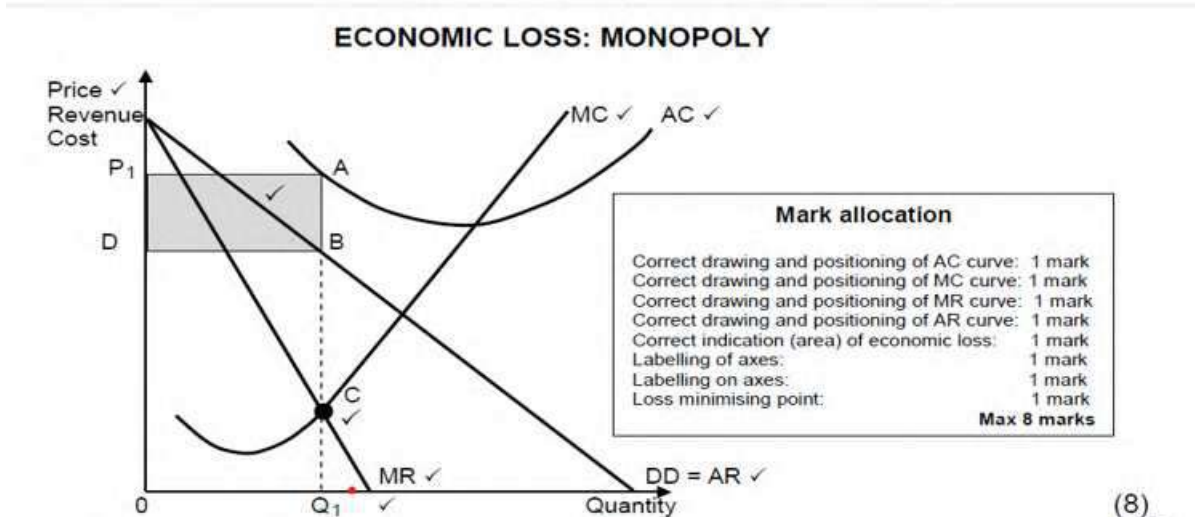
- Monopolistic competitor has greater competition because there are many sellers✓✓
- Monopoly market has a higher price because it's the single supplier of a good or service✓✓
- The monopolist sells unique products with no close substitutes✓✓ (4)

2.4 Briefly discuss the reasons for a cost-benefit analysis.



- CBA helps to make better decisions on how scarce resources are allocated to satisfy wants ✓✓
 - Involves making decisions based on comparing economic benefits with economic costs of a project ✓✓
 - The feasibility of the project is determined by subtracting costs from benefits, if the difference is positive (benefits > costs) then the project could be undertaken ✓✓
 - Greater objectivity in decision making ✓✓
 - There are no market signals like supply and demand to guide efficient resource allocation (leads to subjectivity in decision making) ✓✓ (8)
- (Accept any other correct relevant response)

2.5 Draw a fully labelled graph to illustrate the economic loss of the monopoly market structure



[40]



QUESTION 3

3.1 Answer the following questions.

3.1.1 Name TWO methods of non-price competition

- Advertising ✓
- Loyalty point
- Door-door sales
- After hours sales services
- Packaging
- Branding ✓

Accept any correct response

(2)

3.1.2 How effective has government spending been in addressing market failure?

- Transferring income directly to the poor such as child support grants, unemployment benefits and thereby reducing income inequalities ✓✓
- Providing goods free of charge ✓✓ e.g., community goods, education etc. ✓ and allowing access to basic needs to all citizens ✓✓
- Implementing employment creation programmes, which will create jobs and improve skills for all types of labour ✓✓ e.g., public works programme, subsidising producers to encourage production of merit goods as they are beneficial to the society ✓
- Spending on campaigns that will inform public about policies and legislation that protects them against exploitation ✓✓
- Investing on infrastructure development such as roads, railways and communication networks as private sector find these unprofitable or difficult to finance ✓✓

Accept any correct response

(2)

3.2 DATA RESPONSE**3.2.1 Identify the minimum wage to be implemented as per the graph above.**

- 3 500 ✓

(1)

3.2.2 Give any ONE example of sector in South Africa where minimum wages should be applied according to the above graph.

- Contract Cleaning services ✓
- Domestic Workers ✓
- Farm Workers ✓
- Forestry ✓
- Hospitality ✓



- Private Security✓
 - Wholesale and Retail✓
 - Taxi✓
- Accept any correct response (1)

3.2.3 Briefly describe the concept minimum wage

- Minimum wage is the least amount of money that can be paid to employees✓✓
- Accept any correct response

3.2.4 What is the advantage of having a national minimum wage instead of minimum wage per sector.

- Prevent discrimination among workers in the different sectors ✓✓
 - That national minimum wage could be higher_which will improve the standard of living✓✓
- (2)

3.2.5 Explain the implication of the R3 500 minimum wage imposed by the government

- The wage rate will be higher than the market rate of R2 500✓✓
 - At this rate more people will avail themselves, therefore the supply of labour will increase from 200 to 300 ✓✓
 - On the other side, the demand for labour will decrease from 200 to 100 ✓✓
 - This will create an oversupply of workers as supply exceeds demand / unemployment will increase ✓✓
- (4)

3.3 DATA RESPONSE

3.3.1 Identify the market in which the demand curve shows the downward slope.

- Market B✓
- (1)

3.3.2 What is the nature of product sold in market B

- Unique✓
 - Differentiated✓
- (1)

3.3.3 Briefly describe the term marginal cost

- The additional cost incurred when an additional unit is produced✓✓
- Accept any correct response (2)



3.3.4. Why is it difficult for other producers to supply the same product as the monopolist?

- There are barriers that prevent them to enter the product market due to high development costs✓✓
- There are obstacles which are not of economic nature like patents, copyrights, licensing, exclusive ownership etc. which makes it difficult to enter the market✓✓ (2)

3.3.5 Calculate the marginal revenue for market B at quantity 2. Show all the calculations

$$\begin{aligned}
 MR &= \Delta TR / \Delta Q \checkmark \\
 &= (16 - 10) / (2 - 1) \checkmark \\
 &= 6 / 1 \checkmark \\
 &= 6 \checkmark
 \end{aligned}
 \quad (4)$$

3.4 Examine briefly control over price and market information as characteristics of monopolistic competition

Control over prices

- Monopolistic competition has some degree of control over the price but not to the same extent as oligopoly and monopoly✓✓
- Monopolistic competitor has limited control over price due to product differentiation✓✓
- Monopolistic competitor is regarded as a price maker as the demand of goods and services is not perfectly elastic✓✓

Market information

- There is incomplete information available to buyers and amongst sellers✓✓
- Due to many suppliers in a monopolistic competitive market, the monopolistic competitor might decide to withhold pertinent market information in order to gain a competitive advantage over other supplier✓✓

3.5 Why do oligopolies often collude though it is illegal in South Africa?

Because:

- It is an effort to try reduce uncertainty✓✓
- They will like to enjoy the advantage of high profit and limit other businesses to enter the market✓✓
- They want to control the market and form collective monopoly✓✓
- The cost of doing business in oligopoly is very high, and requires a large amount of money✓✓
- Firms are mutually interdependent and large amount of money is required to monitor each other's actions and this increases the firm's



total cost of doing business ✓✓

- Collusion makes firms to engage in cooperation with one another instead of competing ✓✓

(8)

[40]



QUESTION 4

4.1 Answer the following questions

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

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

4.1.2 Why does the government provide subsidies to producers?

- Subsidies reduce the cost of production which will encourage producers to increase production of certain goods✓✓ (2)
Accept any correct response

4.2 DATA RESPONSE

4.2.1 Identify the market structure referred to in the above extract.

- Perfect competition/ perfect market✓ (1)

4.2.2 What is the nature of product sold in the above market structure?

- Homogeneous✓ (1)

4.2.3 Briefly describe the concept market.

- The mechanism that brings together buyers (demand) and sellers (supply)✓✓ (2)

Accept any correct response

4.2.4 What would the impact on the market be if many firms leave this industry?

- The supply curve in the market will shift to the left / decrease in supply✓✓
- Market price will increase✓✓ (2)

4.2.5 Why is it not possible for a single business to adjust its selling price in this market structure?

- There are many sellers in the market and a single business is very small to influence the market price ✓✓



- They are price takers, if they increase prices, they won't sell anything / If they decrease prices, they will make a loss ✓✓ (4)
Accept any correct response

4.3 DATA RESPONSE

4.3.1 What is the equilibrium price from the above graph?

- 120 ✓ (1)

4.3.2 Identify the quantity of goods above that will be supplied if a maximum price of R70 is implemented.

- 50 ✓ (1)

4.3.3 Briefly describe the term *market failure*.

- Market failure occurs when the best available (optimal) production has not been achieved / when there is allocative and/or productive inefficiency ✓✓ (2)

4.3.4 Why will a government implement maximum prices of certain goods?

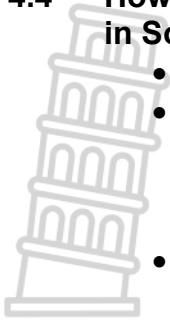
- To make goods more affordable / give the poor greater access to certain goods and services / safeguard the interest of the consumer ✓✓ (2)
Accept any correct response

4.3.4 Explain the impact of maximum prices on the market with reference to the above graph.

- At the maximum price at R70 suppliers will reduce the supply 50 ✓ while consumers will increase their demand to 150 ✓
- The demand will exceed the supply by 100, therefore creating a shortage on the market ✓✓ (4)
Accept any correct response



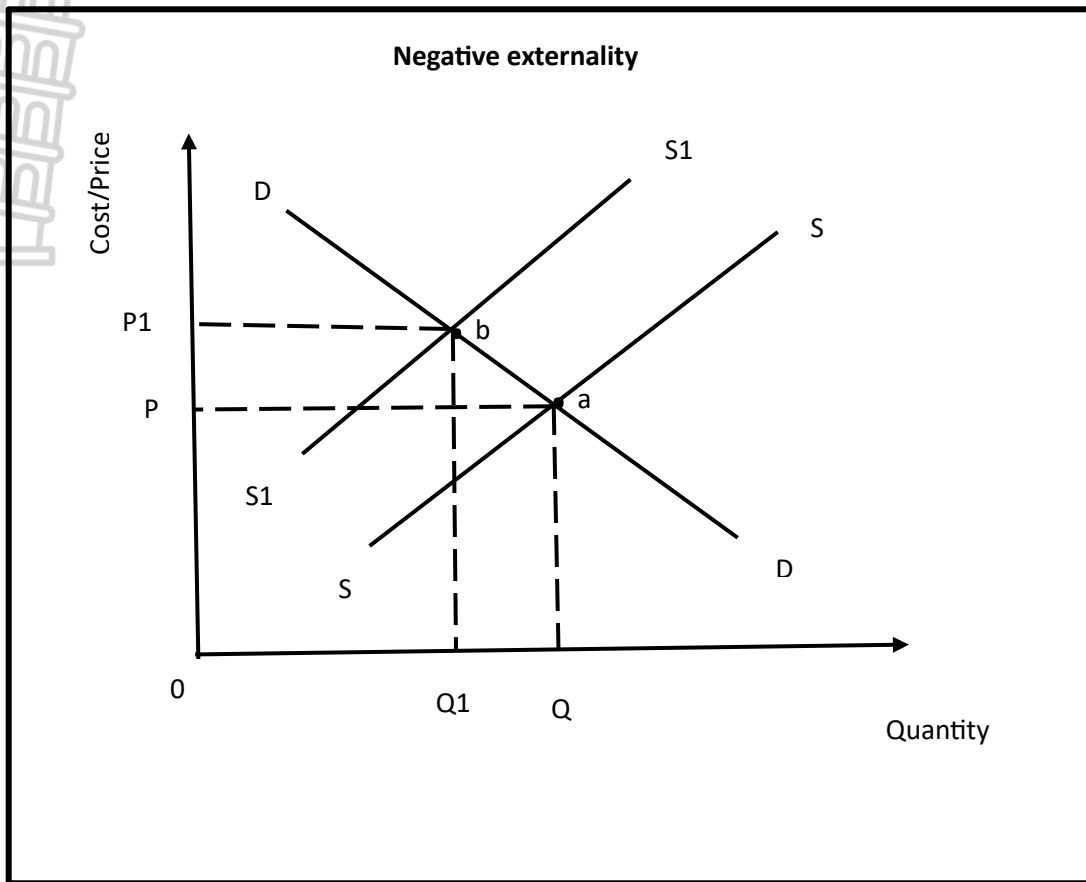
4.4 How effective is competition policy in regulating mergers and takeovers in South Africa?



- 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 ✓✓
- Ascertaining the merger of Massmart and Wallmart where they ensured no job losses occurred for a certain period of time ✓
- 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 each case and come to a suitable decision ✓✓
- Declining the merger where Air Link wanted to acquire SAfair in 2018, to limit competition due to a few firms in that market ✓✓
- Approving mergers with conditions, e.g., between Regent and Hollard insurance companies in 2017 ✓✓ The condition was that no employees may be retrenched for a period of 3 years after the merger ✓✓
- Approving a successful merger with no conditions attached, in the Mondi acquiring Excelsior technologies in 2017 ✓✓ (Max: 8)
(Accept other correct relevant higher order response)



4.5 Describe negative externality with the aid of the well labelled graph. (8)



Marks allocation
 Correct labelling of axes: 1 mark
 Correct drawing and labelling of original demand and supply curves: 1 mark
 Correct labelling and shift of supply curve: 1 mark
 Correct indication of new equilibrium point: 1 mark
 Total 4 Marks

- At point a, the price charged for the good is P and Q is the quantity sold ✓✓
 - This represents private costs ✓✓
 - However, if it was possible to calculate the external costs, these could have been added to the private costs ✓✓
 - If consumers were required to pay the full cost (social cost), a different equilibrium would prevail at b, giving a higher price of P1 and a reduced output of Q1 ✓✓
- Accept any other correct relevant response

(4)
(8)

[40]

TOTAL SECTION B: 80

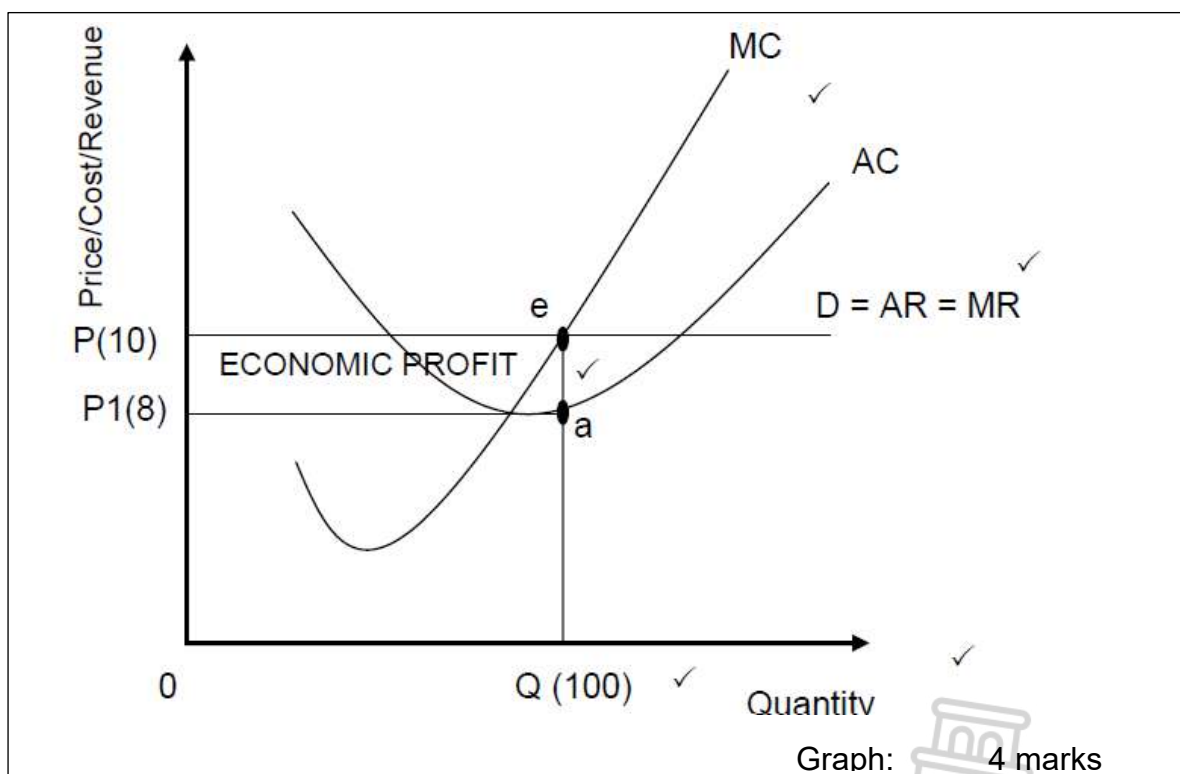
QUESTION 5

With the aid of graphs, discuss the various short-run equilibrium positions in a perfect market

How is perfect competition beneficial as a market structure?

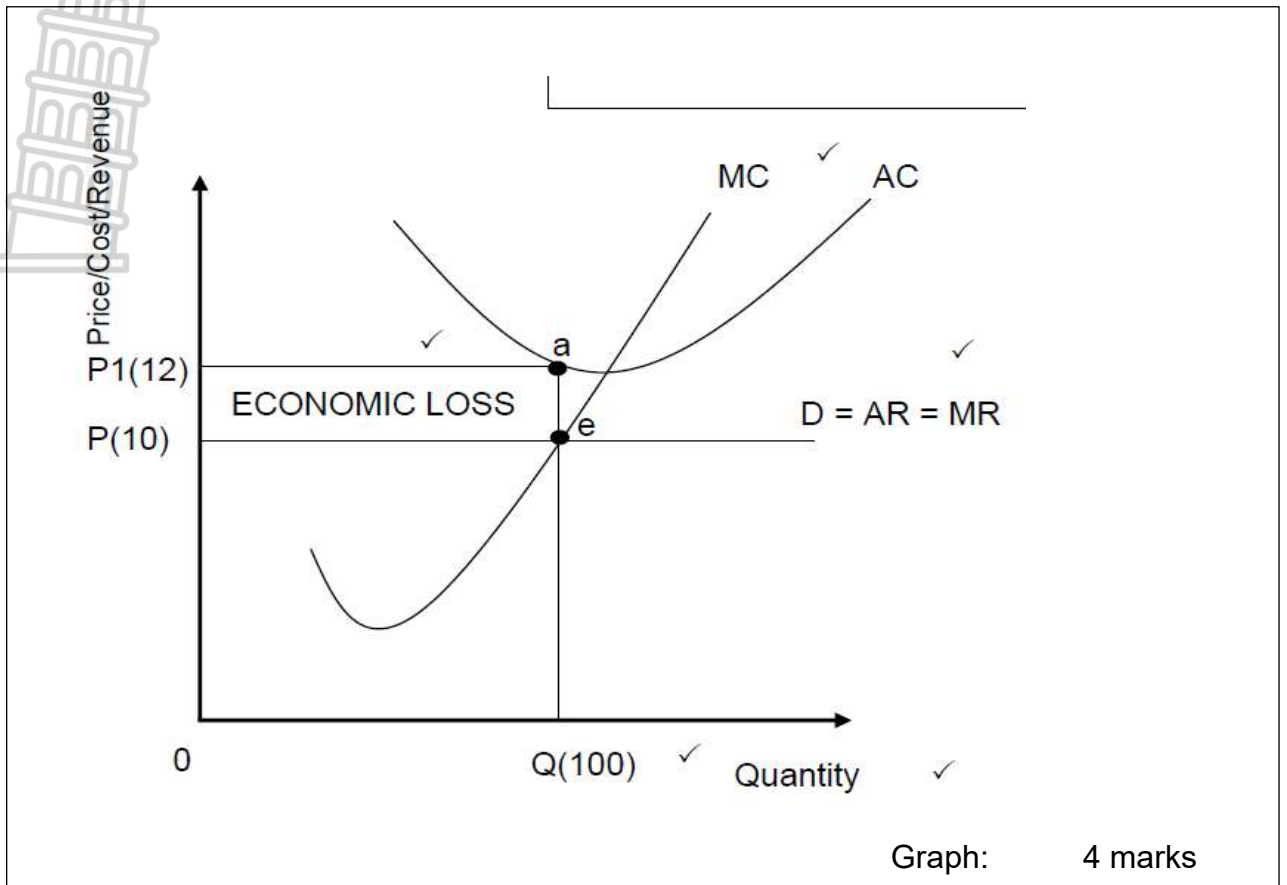
INTRODUCTION

A perfect market/ competition is a market structure with a large number of buyers and sellers. ✓✓ (2)

BODY/MAIN PART**ECONOMIC PROFIT**

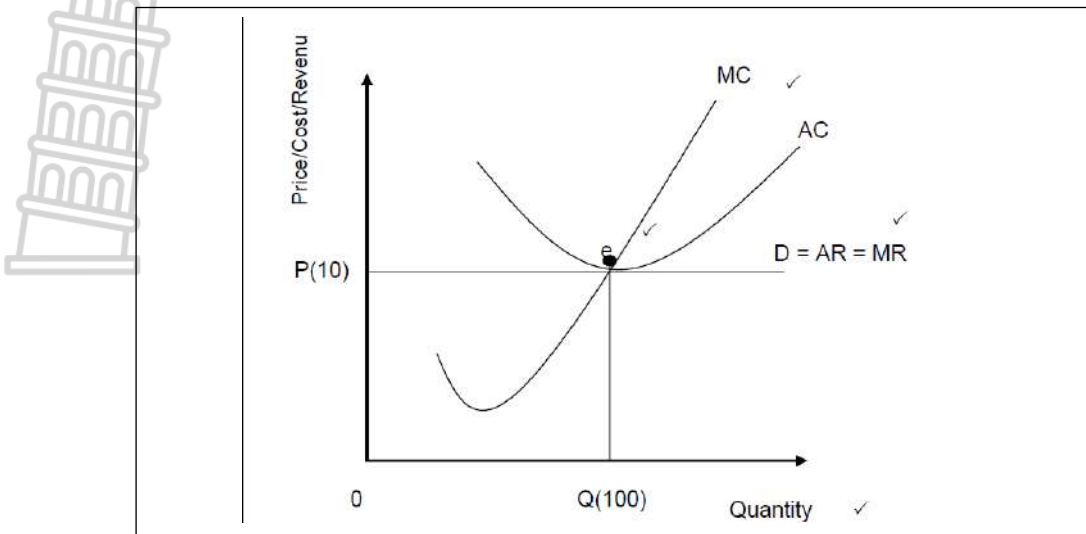
- Economic profit is the profit that is made in addition to the normal profit/When average revenue is greater than average cost the firm makes economic profit. ✓✓
- The firm produces at point e where $MR=MC$ ✓✓
- At e, Q/100 units are produced at P/R10. ✓✓
- At point e, AR (P/R10) is greater than AC (P1/R8). ✓✓
- The firm makes an economic profit of $PeaP1 / TR - TC$ ($R1000 - R800 = R200$) / $R2 \times 100 = R200$. ✓✓

ECONOMIC LOSS



- Economic loss occurs when total costs are greater than the total revenue/when average revenue is lower than the average cost. ✓✓
- The firm produces at point e where MR=MC. ✓✓
- At e, Q/100 units are produced at P/R10. ✓✓
- At point e, AR (P/R10) is less than AC (P1/R12). ✓✓
- The firm makes an economic loss of $\frac{PP1ae}{TR - TC} = \frac{R1000 - R1200 = -R200}{R10 - R12 = -R2}$. ✓✓



NORMAL PROFIT

- Normal profit is the minimum earnings required to prevent the entrepreneur from leaving the industry. ✓✓
- Normal profit occurs when total revenue equals total cost/ when average revenue equals average cost. ✓✓
- The firm produces at point e where $MR=MC$. ✓✓
- At e, $Q/100$ units are produced at $P/R10$. ✓✓
- At point e, AR ($P/R10$) is equal to AC ($P/R10$). ✓✓
- The firm makes normal profit of $P \times Q - AC \times Q / R1000 - R1000 = R0 / R10 - R10 = R0$. ✓✓

(26)

Accept any correct response and correct values given and corresponding with the explanation

ADDITIONAL PART

- The costs of production are lower due to allocative efficiency. ✓✓
- There are no barriers to entry in the market, aspiring businesses can easily enter the market. ✓✓
- Perfect market increases competition which lowers the prices for the consumer. ✓✓
- A perfect competitor produces large quantities and sell at lower prices which benefits the consumers. ✓✓
- The products are already known in the market therefore producers save on advertising costs. ✓✓
- Consumers are not exploited since perfect competitors are price takers and sell at a market price. ✓✓
- The costs of production are lower as the firms produce at the lowest point of the average cost curve. ✓✓

(Max: 10)

CONCLUSION

Businesses under perfect competition can only realise normal profits in the long-run. This is due to the number of businesses entering in the market to share in the profits being made in the short-run. ✓✓

(2)

Accept any correct response

[40]

QUESTION 6**Discuss the causes of market failure in detail****Analyse productive inefficiency with the aid of the production possibility curve graph****INTRODUCTION**

Market failure occurs when market forces of demand and supply do not ensure the correct quantity of goods and services are produced to meet demand at the right price. ✓✓ (Max 2)

(Accept any other correct relevant response)

BODY/MAIN PART**Externalities**

- These are known as spill-over effects to third party which is not directly involved in the production process ✓✓
- As externalities in production and consumption often exist and output is usually based on private costs and benefits, this is a significant cause of market failure. ✓✓

Negative externalities ✓

- Negative externalities are costs to third parties 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. ✓✓
- Harmful these good are often over produced in the economy which is not socially desirable. ✓✓

Positive Externalities ✓

- A positive externality occurs when a benefit to a third party from the action or decision of another party. ✓✓ e.g., Education ✓
- These goods are often under-produced by the market and government steps in to provide for the short fall. ✓✓

(A maximum of 4 marks will be allocated for graphical illustration)

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. ✓✓

- Markets measuring how much a person consumes, there is no basis for establishing a market price
- lightning, flood control, storm water drainage and lighthouses.

Collective goods: these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals. ✓✓

- **Community goods:** these are goods such as defence, police services, prison services, streetlights: these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals. ✓✓

Merit goods and demerit goods:

- **Merit goods:** Some goods are highly desirable for the general welfare of the people of the country and are often not highly rated by the market. ✓✓
- If people have to pay market prices for them, relatively little would be consumed. ✓✓
- **Demerit goods:** Items such as cigarettes, alcohol, and non-prescriptive drugs are example of demerit goods. ✓
- In a free market economy, these goods are over-consumed. ✓✓
- 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. ✓✓

Imperfect competition ✓

- In market economies, competition is often impaired by power. ✓✓
- Power often lies to a greater extent with producers than with consumers. ✓✓
- Most businesses operate under conditions of imperfect competition that allow producers to restrict output, raise prices and produce where price exceeds marginal cost. ✓✓

Lack of information ✓

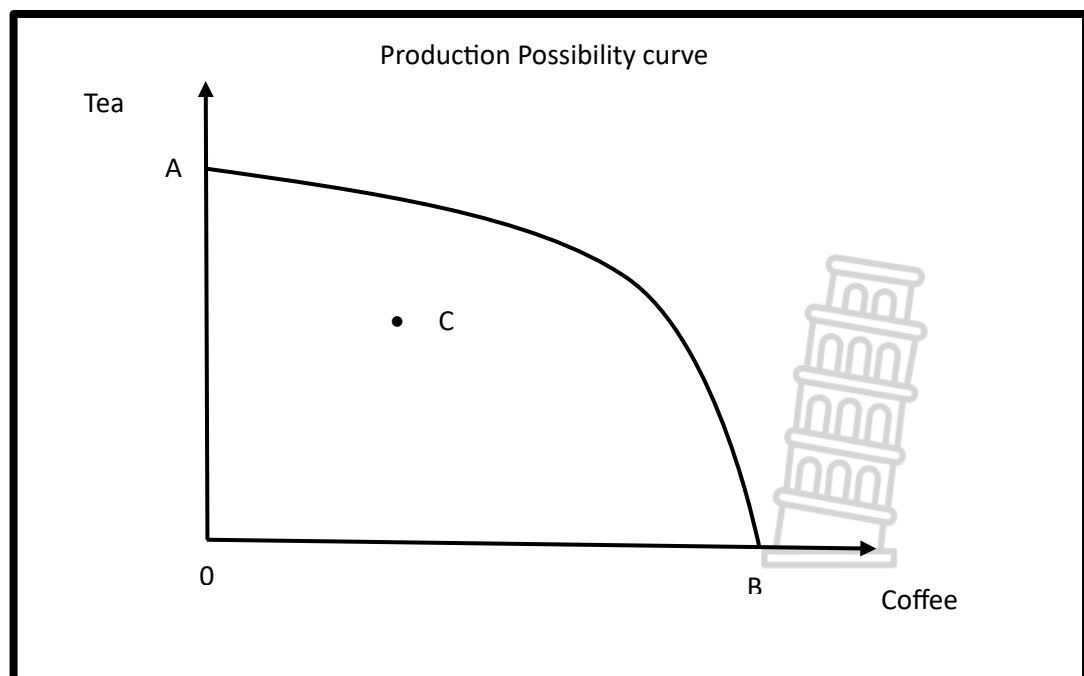
- Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make rational decisions. ✓✓
- **Consumers:** Although advances in technology increase the amount of information to which people have access, they obviously do not have perfect information. ✓✓
- **Workers:** They may be unaware of job opportunities outside their current employment. ✓✓
- **Entrepreneurs:** They may lack information about the costs, availability and productivity of some factors of production, and may be operating on the basis of incorrect information. ✓✓

Immobility of the factors of production: ✓

- Most markets do not adjust rapidly to changes in supply and demand. ✓✓
- **Labour:** may take time to move into new occupations and geographically to meet the changes in consumer demand. ✓✓
- **Physical capital:** Factory buildings and infrastructure such as telephone lines, bridges, rail links and airports are not moveable at will. ✓✓
- This capital last for many years but cannot be moved to fit change in demand. ✓✓
- **Technological applications change production methods:** Technology used in the production may change such as the use of robots rather than labour in mines. ✓✓
- It takes time for most industries to adapt - with greater technological changes ✓✓
- Workers need to be flexible, upskilled and be able to change employment, as well as work patterns. ✓✓

Imperfect distribution of income and wealth: ✓

- The most important shortcoming of market systems is that it is neutral in the issue of income distribution. ✓✓
- If the initial distribution is unequal, the final distribution will be too
- For this reason, it is often argued that the market fails. ✓✓

ADDITIONAL PART

Heading: 1 mark
 PPC: 1 mark
 Axes: 1 mark
 Inefficient point: 1 mark
 Total: 4 marks

- All points on the PPC AB illustrate combinations of tea and coffee produced when resources have been efficiently utilised ✓✓
- Any point on the PPC illustrate productive efficiency. ✓✓
- At point A the business is allocating all of its resources to produce tea
- At point B all available resources are used to produce coffee ✓✓
- Any point to the left of PPC indicates that resources are not fully utilised and this is point C on the PPC and is known as inefficient point ✓✓

(6)
(10)

CONCLUSION

Market failures can have devastating effects on the economy which requires government to intervene to reduce their consequences. ✓✓

[40]

TOTAL SECTION C: 40

GRAND TOTAL: 150

