education

MPUMALANGA PROVINCE
REPUBLIC OF SOUTH AFRICA

FURTHER EDUCATION AND TRAINING

GRADE 11

ECONOMICS P2

JUNE EXAM 2024

MARKS: 150

TIME: 2 hours

This question paper consists of 13 pages

INSTRUCTIONS AND INFORMATION

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

SECTION A: COMPULSARY

QUESTION 1 **30 MARKS – 20 MINUTES**

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

1.1.1 A market structure that is known as a hybrid market structure.

A monopoly
B oligopoly
C monopolistic competition
D perfect market

1.1.2 The type of price elasticity of supply where by any change in price will have no effect at all in the quantity supplied.

A perfectly inelastic supply
B perfectly inelastic demand
C unitary elastic supply
D inelastic supply

1.1.3 … refers to the total remuneration paid to the factors of production used in the production process.

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

1.1.4 The price that is quoted for goods on the market and give signals to buyers is called .....Price.

A real
B absolute
C constant
D relative

1.1.5 Firms that determine their own prices are known as price.............

A taker
B negotiators
C researchers
D maker

1.1.6 Suppose the percentage change in quantity demanded is 25 and the percentage change in price is 25, determine the value of the PED

A 1
B 25
C 0
D 100

1.1.7 A period of production where all factors of production are variable.

A short run
B long run
C implicit costs
D fixed assets

1.1.8 … states, all other factors being equal, as the price of a good or service increases, consumer demand for the good or service will decrease, and vice versa

A demand
B law of supply
C law of demand
D supply

(8 x 2) (16)

1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A-I) next to the question numbers (1.2.1. to 1.2.8) in the ANSWER BOOK.

COLUMN A	COLUMN B
1.2.1 Market equilibrium	A The short run or long run process by which a firm may determine the price, input and output levels that will lead to the highest possible total profit.
1.2.2 Economic profit	B When the price of one brand of the product increases, consumers will buy another cheaper brand.
1.2.3 Availability of close substitutes	C Have an elastic demand because consumers for these goods cannot go without them
1.2.4 Marginal costs	D Aggregates demand is equals to aggregates supply.
1.2.5 Habit forming products	E Market where goods and services are bought or sold.
1.2.6 Oligopoly	F When total revenue is more than total costs.
1.2.7 Unitary elastic	G The amount by which total costs increases when one extra product is produced
1.2.8 Profit maximisation.	H Percentage change in price results in the same percentage change in quantity.
	I Market structure whereby few sellers dominate the market and each seller do not influence the others, but has to consider them.

(8x 1) (8)

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

1.3.1 The actual price of the individual item at a certain time.

1.3.2 Highly trained, educated, or experienced segments of the work force that can complete more complex mental or physical tasks on the job

1.3.3 The type of goods that consumers can live without them, e.g. expensive cars and entertainment.

1.3.4 The value of inputs owned by an entrepreneur and used in the production process.

1.3.5 The amount of money that a firm earns for every unit sold.

1.3.6 The mechanism that brings buyers and sellers together to facilitate the exchange or transaction of goods and services

(6 x 1) (6)

TOTAL SECTION A: [30]

SECTION B

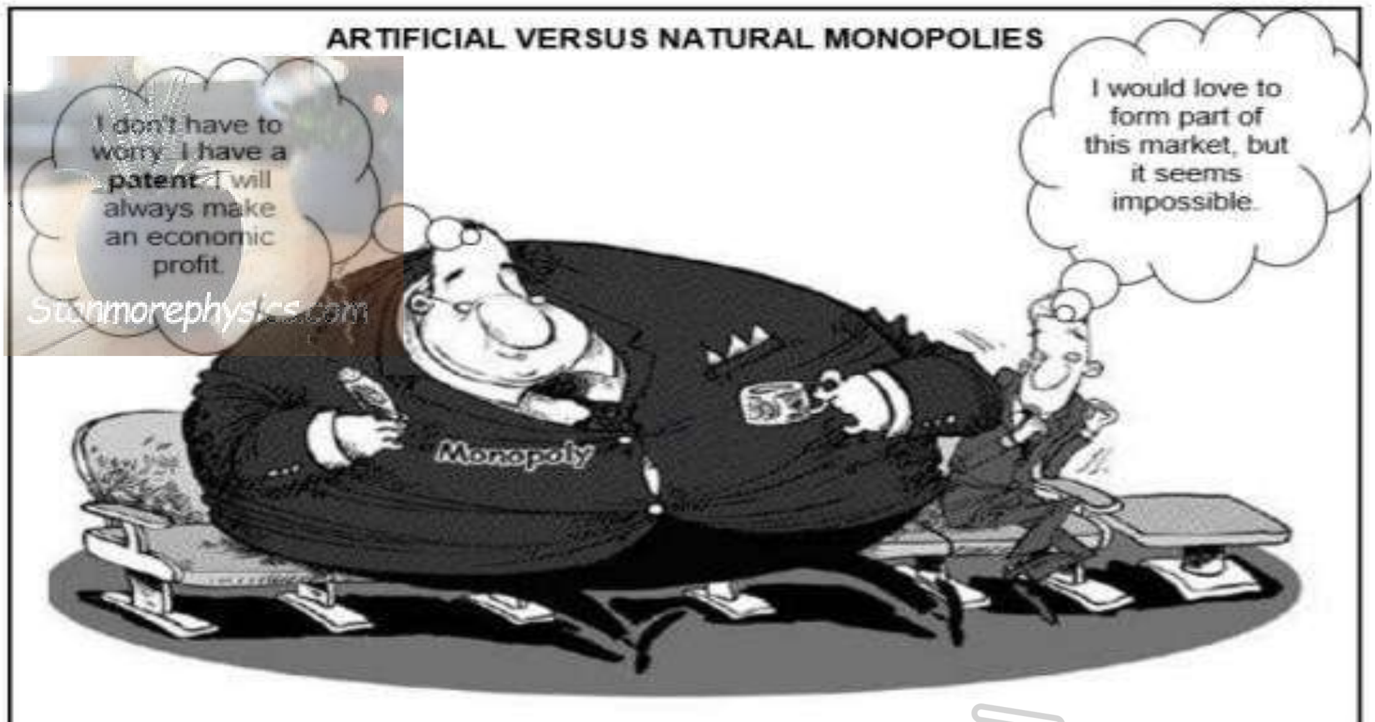
QUESTION 2: MICROECONOMICS **40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Name TWO examples of fixed costs. (2 x 1) (2)

2.1.2 What is the impact of market share on profit? (1 x 2) (2)

2.2 Study the data item below and answer the questions that follow.



[Adapted from http://us.wow.com/image]

2.2.1 Identify the type of monopoly whereby the barriers to entry are not economic in nature (1)

2.2.2 Give ONE example of a monopoly (1)

2.2.3 Briefly describe the term *patent*. (2)

2.2.4 How are natural monopolies created? (2)

2.2.5 Why will this monopolist make economic profit in the long run? (2 x 2) (4)

2.3 Study table below and answer the questions that follow.

REVENUE CALCULATIONS

Quantities Sold	Price	TR	AV	MR
1	20	20	20	-
2	18	36	18	16
3	16	48	16	12
4	15	60	15	10
5	12	60	12	0
6	9	54	9	A

2.3.1 Identify the concept that refers to income from the table above. (1)

2.3.2 What does the abbreviation AR stand for? (1)

2.3.3 Briefly describe the term *normal profit*. (2)

2.3.4 Explain the importance of the 5th unit sold. (2)

2.3.5 Use the information in the table above to calculate marginal revenue (A). Show all calculations. (4)

2.4 Distinguish between *Monopolistic Competition* and *Oligopoly* as market structures under Imperfect markets (4 x 2) (8)

2.5 Why would government support or license monopolies? (8)

[40]

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

3.1 Answer the following questions.

3.1.1 List any TWO examples of complementary goods. (2 x1) (2)

3.1.2 How does an increase in demand affect the price of goods and services? (1 x 2) (2)

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

PRODUCT MARKET
Demand for product markets comes primarily from households. The main sellers of goods are different kinds of firms. Demand for goods is a direct demand by household. The good is bought for its intrinsic use. The market facilitates the exchange of goods and services in the economy. It is based on a voluntary transaction across a wide range of places.
Source:cars.co.za

3.2.1 Identify the participant of the economy that deals with the production of goods and services. (1)

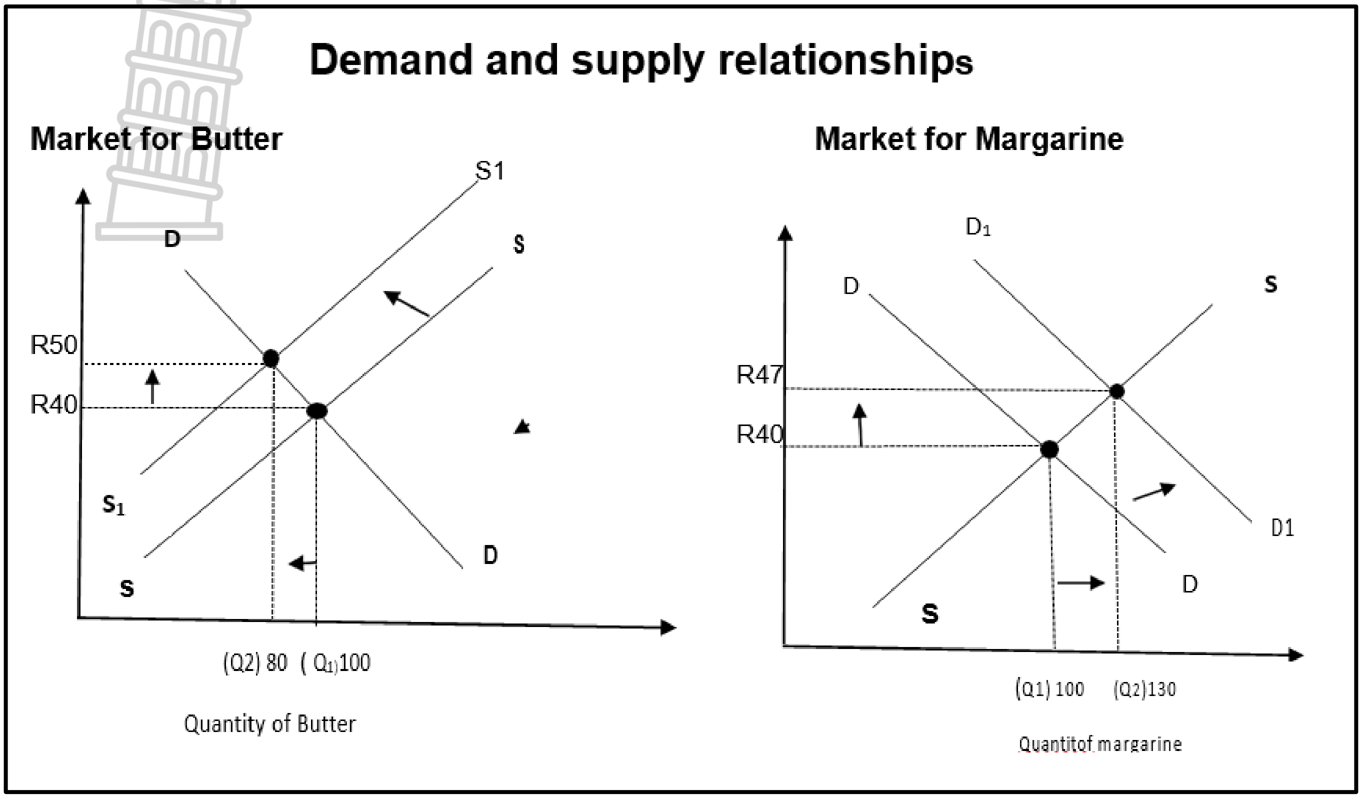
3.2.2 Name the factor of production that is remunerated with salaries and wages? (1)

3.2.3 Briefly describe the term *factor market*. (2)

3.2.4 What is the relationship between the factor market and the product market? (2)

3.2.5 Analyse the importance of skilled labour on production (2 x 2) (4)

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



3.3.1	Identify the original equilibrium quantity for butter.	(1)
3.3.2	In the substitute relationship which one changes first between price and supply?	(1)
3.3.3	Briefly describe the term *substitute good*.	(2)
3.3.4	Explain the reason for the increase in the price of butter	(2)
3.3.5	Calculate the percentage decrease in the quantity supply if the quantity supply decreases from 100 to 80.	(4)

3.4 Discuss the economies of scale and diseconomies of scale. (8)

3.5 How does price influence demand and supply of a product? (8)

[40]

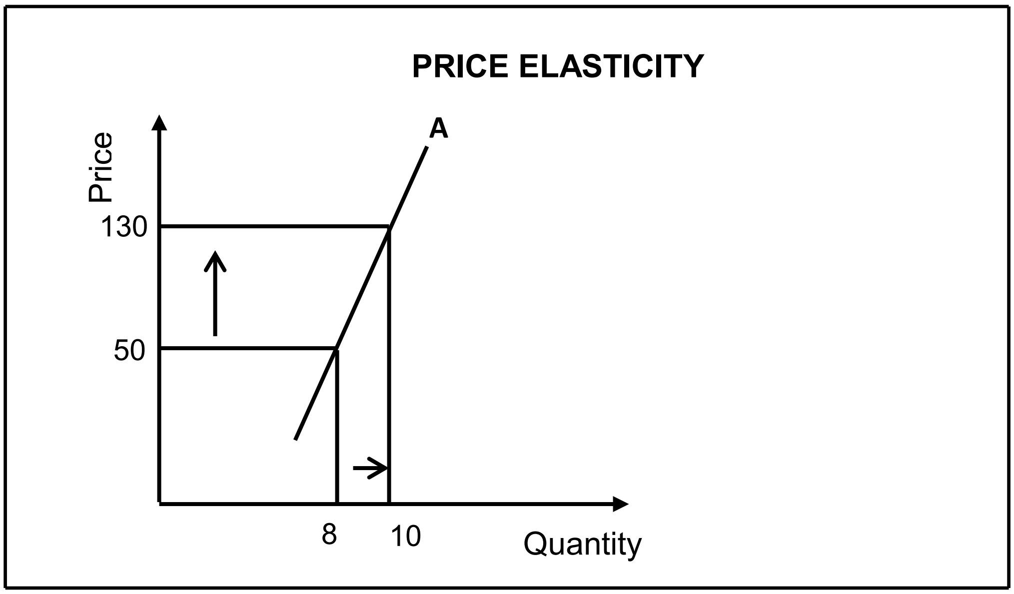
QUESTION 4 MICROECONOMICS 40 MARKS – 30 MINUTES

4.1. Answer the following questions.

4.1.1 Name TWO imperfect markets. (2 x 1) (2)

4.1.2 How does load shedding by ESKOM impact on production of goods? (1 x 2) (2)

Study the graph below and answer the questions that follow.



4.2.1 Provide the name for the curve labelled 'A' in the graph above. (1)

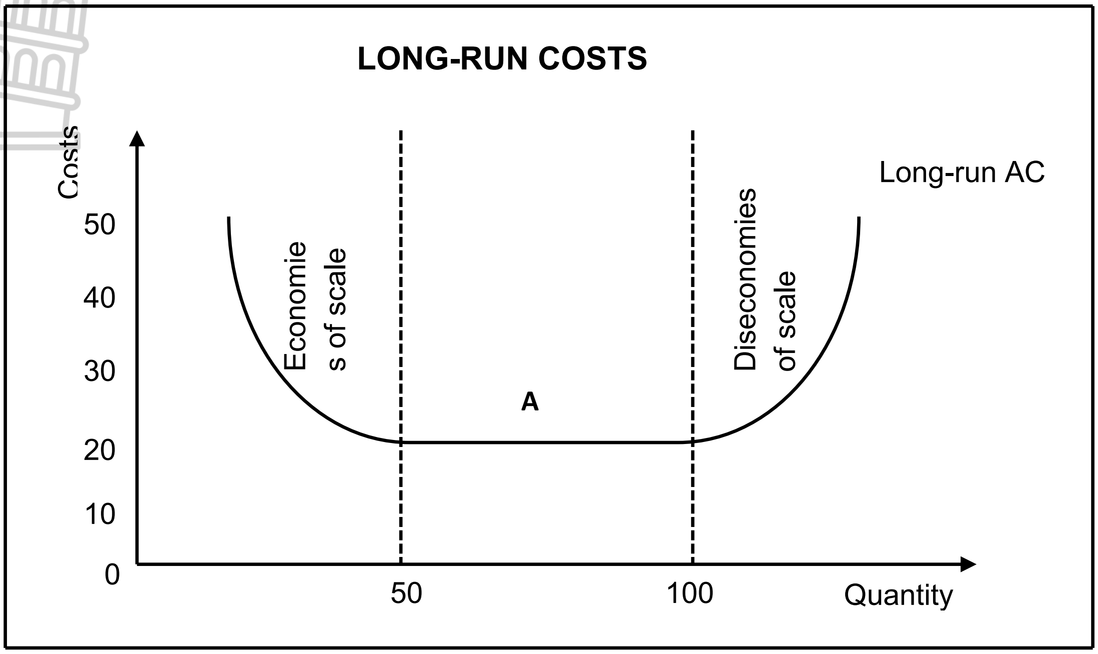
4.2.2 What type of price elasticity is shown by the source? (1)

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

4.2.4 Why would a rise in the price of a product have little effect on the quantity of goods offered in the market? (2)

4.2.5 Calculate the percentage change in price using the information given above. Show all your calculations. (4)

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



4.3.1 Provide the name for the horizontal part of ATC labelled 'A' in the graph above. (1)

4.3.2 How much is the increase in quantity produced above? (1)

4.3.3 Briefly describe the term *long-run* (2)

4.3.4 What is the impact of producing more than 100 quantities on the business? (2)

4.3.5 How can a business achieve economies of scale? (4)

4.4 With the use of a graph, explain profit maximization through TR and TC. (8)

4.5 Analyse the barriers that form monopoly markets (8)

[40]

TOTAL SECTION B: [80]

SECTION C

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

STRUCTUTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower order-response • A good starting point would be to define the main concept related to the question topic. • Do not include any part of the question in your introduction. • Do not include any part of the introduction in your body. • Avoid mentioning 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:** Critically discuss/ Evaluate/ Critically evaluate/ Calculate/ Deduce/ Compare/ Explain/ Distinguish/ Interpret/ Briefly debate/ How/ Suggest.	Max. 26 Max. 10
Conclusion Any high-order conclusion should include: • A brief summary of what has been discussed without repeating facts already mentioned. • Any opinion or value judgment on the facts discussed. • Additional support information to strengthen the discussion/ analysis. • A contradictory viewpoint with motivation, if required. • Recommendations.	Max. 2
TOTAL	**40**

QUESTION 5: MICROECONOMICS 40 MARKS – 40 MINUTES

- Discuss in detail characteristics of perfect markets and monopoly. (26)
- Evaluate the functioning of markets in South African economy. (10) **[40]**

QUESTION 6: MICROECONOMICS 40 MARKS – 40 MINUTES

- Discuss in detail price elasticity of demand (PED) without the aid of graphs. (26)
- Evaluate the reasons for consumer reactions to changes in prices. (10) **[40]**

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

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FURTHER EDUCATION AND TRAINING

GRADE 11

ECONOMICS P2

JUNE EXAM 2024

MARKING GUIDELINE

MARKS: 150

This marking guideline consists of 16 pages

SECTION A: COMPULSORY

QUESTION 1 **30 MARKS**

1.1. MULTIPLE CHOICE

1.1.1 C monopolistic competition ✓✓
1.1.2 A perfectly inelastic supply ✓✓
1.1.3 D total costs ✓✓
1.1.4 B absolute ✓✓
1.1.5 D maker ✓✓
1.1.6 A 1 ✓✓
1.1.7 B long run. ✓✓
1.1.8 C law of demand ✓✓

(8x 2) (16)

1.2 MATCHING ITEM

1.2.1 D aggregate demand is equals to aggregate supply ✓
1.2.2 F when total revenue is more than total costs ✓
1.2.3 B when the price of one brand of the product increases, consumers will buy another cheaper brand ✓
1.2.4 G the amount by which total cost increases when one extra product is produced ✓
1.2.5 C have an elastic demand because consumers for these goods cannot go without them ✓
1.2.6 I market structure whereby few sellers dominate the market and each seller do not influence the others, but has to consider them ✓
1.2.7 H percentage change in price results in the same percentage change quantity ✓
1.2.8 A the short run or long run process by which a firm may determine the price, input and output levels that will lead to the highest possible total profit ✓

(8 x 1) (8)

1.3 ONE WORD

1.3.1 Nominal price ✓
1.3.2 Skilled labour ✓
1.3.3 Luxury goods ✓
1.3.4 Implicit costs ✓
1.3.5 Average revenue ✓
1.3.6 Market ✓

(6 x 1) (6)

TOTAL SECTION A: (30)

SECTION B

QUESTION 2

2.1. DATA RESPONSE

2.1.1 **Name TWO examples of fixed costs.**

- Rent ✓ (2x1) (2)
- Salary ✓

2.1.2 **What is the impact of market share on profit?**

- The larger the market share leads to a larger profit in a business ✓✓
  (Accept any other correct relevant response) (1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 **Identify the type of monopoly whereby the barriers to entry are not economic in nature**

(1)

- Artificial monopoly ✓

2.2.2 **Give any ONE example of monopoly**

- Eskom✓ (1)
- De Beers Consolidated Mines (diamonds) ✓
- Microsoft ✓

(Accept any other correct relevant response)

2.2.3 **Describe the term Monopoly.**

- Patent is the legal right whereby a patent holder obtains the exclusive right to manufacture a product. ✓✓ (2)

(Accept any other correct relevant response)

2.2.4 **How are natural monopolies created?**

- Natural monopolies are created because of high development costs of establishing such a business. ✓✓ (2)

(Accept any other correct relevant response)

2.2.5 **Why will this monopolist make economic profit in the long run?**

- The monopoly will continue to earn economic profit unless there is an increase in costs, a fall in demand or when a competitor enters the market.✓✓
- A monopoly can make economic profit in the short run as well as the long run. It blocks other businesses from entering the markets ✓✓
- It will thrive on the lack of competition due to high barriers to entry. ✓✓

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

2.3. DATA RESPONSE

2.3.1 **Identify the concept that refers to income from the table above.**
Revenue ✓ (1)

2.3.2 **What does the abbreviation AR stand for?**
Average Revenue ✓
(1)

2.3.3 **Briefly describe the term *normal profit*.**
Normal profit is the minimum earnings required to prevent the entrepreneur from closing the business and using his factors of production elsewhere. ✓✓
(Accept any other correct relevant response) (2)

2.3.4 **Explain the importance of the 5th unit sold.**
The 5th unit signals an end to an increase in total revenue as it produces marginal revenue of zero ✓✓ (2)

2.3.5 **Use the information in the table above to calculate marginal revenue (A). Show all calculations.**

$$MR = \frac{\Delta TR}{\Delta Q} \checkmark$$

$$= \frac{54-60}{6-5} \checkmark\checkmark$$

$$= \frac{-6}{1} \checkmark$$

$$= -6$$

(4)

2.4 **Distinguish between *Monopolistic Competition* and *Oligopoly* as market structures under Imperfect markets**

MONOPOLISTIC COMPETITION	OLIGOPOLY
• Monopolistic competition is a market structure that combines some characteristics of perfect competition and monopoly. ✓✓ • Product sold by each firm are slightly differentiated (Products are similar but are notthe same (identical) ✓✓ • Entry into the market is easy as there are no barriers such as large capital. ✓✓ **Max 4**	• The market is dominated by a few number of large firms. ✓✓ • The product manufactured may either be homogenous or heterogeneous. ✓✓ • The entry in to the market is difficult due to various barriers such the amount of money often needed. ✓✓ **Max 4**

(8)

2.5 **Why would government support or license monopolies?**

- To protect the intellectual skill and rights of the producer ✓✓
- Some products are very dangerous producing or providing the service; there needs to be a level of accountability. ✓✓
- To motivate the producer to continue with the skill, grow the company and employ more people ✓✓
- From the economic profits made, government can get more revenue in terms of tax. ✓✓
- To be able to monitor the company, especially if it provides an essential service like electricity, i.e. price, provision of electricity to all, e.g. in rural areas and the consistency in doing that. ✓✓

(Accept any other correct relevant response)
(Allocate a maximum of 2 marks for the mere listing of facts)

(8)
[40]

QUESTION 3: ECONOMIC PURSUITS

3.1 Answer the following questions.

3.1.1 **List any examples of complementary goods.**
- Shoe and shoe lace. ✓
- DVD and DVD player ✓
- Printer and Ink cartridge ✓

(Accept any other correct relevant response)

(2 x1) (2)

3.1.2 **How does an increase in demand affect the price of goods and services?**
- Increase in demand influences the prices of goods to rise.✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

3.2 **DATA RESPONSE**

3.2.1 **Identify the participant of the economy that deals with the production of goods and services** (1)

Firms✓

3.2.2 **Name the factor of production that is remunerated with salaries and wages?** (1)

Labour ✓

3.2.3 **Briefly describe the term *factor market*.**
- Factor market refers to the market where factors of production are being traded ✓✓

(Accept any other correct relevant response) (2)

3.2.4 **What is the relationship between the factor market and the product market?** (2)
- Firms buy factors of production from the factor market in order to use these factors of production to produce goods and services in the product market ✓✓

(Accept any other correct relevant response)

3.2.5 **Analyse the importance of skilled labour on production**

- Skilled workers are the backbone of progress and innovation leading to increase in production. ✓✓
- Skilled labour play a vital role in driving efficiency, quality and safety in the production process thereby leading to less wastage. ✓✓

(Accept any other correct relevant response) (4)

(2 x 2)

3.3. **DATA RESPONSE**

3.3.1 **Identify the original equilibrium quantity for butter.** (1)

- Q1/100 ✓

3.3.2 **In the substitute relationship which one changes first between price and supply?** (1)

- Supply ✓

3.3.3 **Briefly describe the term *substitute goods*.**

- Substitute goods are products that can be used to replace each other during consumption. ✓✓

(Accept any other correct relevant response) (2)

3.3.4 **Explain the reason for the increase in the price of butter**

- The price of butter has increased due to a decrease in supply. ✓✓ (2)
- The supply curve shifted to the left to SS1, the price of butter has increased from P to P1.✓✓

(Accept any other correct relevant response)

3.3.5 **Calculate the percentage decrease in the quantity supply if the quantity supply decreases from 100 to 80.**

$\frac{20}{100}$ ✓ x100 ✓

= 20 ✓✓

(Accept any other correct relevant response) (4)

3.4 **Differentiate between economies of scale and diseconomies of scale.**

Economies of scale

- This is due to the costs decreasing as units produced increasing. ✓✓
- This means that as the company produce more the marginal costs will be lower than of the previous unit. Marginal cost is the cost for producing one extra unit. ✓✓
- This is because the fixed costs can then be divided among more units than beforeand in some instances buying in bulk can make the firm be given some discountswhen buying inputs. ✓✓

Max 4

Diseconomies of scale.

- Diseconomies of scale is when cost per unit increases while the quantity producedincrease. ✓✓
- This means the firm has become too big to manage effectively. ✓✓
- The firm may experience other problems such as machinery breakdowns, workersmay become inefficient due to their large numbers. ✓✓ Max 4

(8)

(Accept any other correct relevant response)
(Allocate a maximum of 4 marks for the mere listing of facts)

3.5 **How does price influence demand and supply product?**

- As the price of a product goes up, consumers demand less of the product and more supply enters the market.✓✓
- If the price is too high, the supply becomes greater than demand leading to producers having excess of goods.✓✓
- As the price of the product goes down, consumers demand more of that particular product and less supply enters the market .✓✓
- If the price is too low, demand will exceed supply of that particular product leading to a shortage in the market .✓✓

(Accept any other correct relevant response)
(Allocate a maximum of 2 marks for the mere listing of facts) (8)
[40]

QUESTION 4 MACROECONOMICS

4.1. SHORT QUESTIONS

4.1.1 **Name TWO imperfect markets.**

- Monopoly ✓
- Oligopolies ✓
- Monopolistic competition✓ (2 x 1) (2)

4.1.2 **How does load shedding by ESKOM impact on production of goods?**

- Due to time lost during load shedding, the total production of goods decrease✓✓ (1 x 2) (2)
  (Accept any other correct relevant response)

4.2 DATA RESPONSE

4.2.1 **Provide the name for the curve labelled 'A' in the graph above.**
Supply ✓

(1)

4.2.2 **What type of price elasticity is shown by the source?**
Relatively inelastic ✓ (1)

4.2.3 **Briefly describe the term *scarcity***
Scarcity refers to an economic problem of limited resources but unlimited human wants ✓✓ (2)

4.2.4 **Why would a rise in the price of a product have little effect on the quantity of goods offered in the market?**
There are products whose supply can't be increased in a short-run, such as agricultural products. ✓✓ (2)
(Accept any other correct and relevant response)

4.2.5 **Calculate the percentage change in price using the information given above. Show all your calculations.**

130–50✓
= 80
80 ÷ 50 ✓ x 100 ✓ (2 x 2) (4)
= 160% ✓

4.3 **DATA RESPONSE**

4.3.1 **Provide the name for the horizontal part of ATC labelled 'A' in the graph Above**

Constant returns to scale ✓ (1)

4.3.2 **How much is the increase in quantity produced above?**

50 quantities ✓

(1)

4.3.3 **Briefly describe the term *long-run***

Long-run refers to a period of production that is long enough for both fixed and variable costs to change. ✓✓ (2)
(Accept any other correct and relevant response)

4.3.4 **What is the impact of producing more than 100 quantities on the business?**

The firm would start making a loss as it would produce less output than the inputs it uses in the production. ✓✓

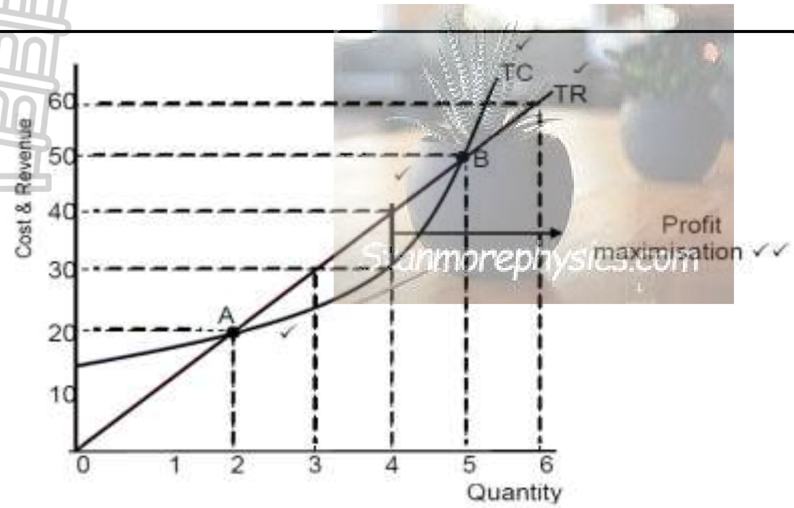
(2)

4.3.5 **How can a business achieve economies of scale?**

- By buying raw materials in bulk in order to lower the costs of production. ✓✓
- The firm can start using modern technology so that it can improve efficiency and produce large quantities in a short period of time. ✓✓
- Building or buying a larger production plant. ✓✓

(2 x 2) (4)

4.4 **With the use of a graph, explain profit maximization through TR and TC.**



Marking grid
1. Correct positioning of TC curve = 1 mark
2. Correct labelling of TC curve = 1 mark
3. Correct positioning of TR curve = 1 mark
4. Correct labelling of TR curve = 1 mark
5. Correct indication of profit maximization = 2 marks

(8)

- From point A to point B, TR is above TC, the firm is making a profit. ✓✓
- Before point A and point B, TC is above TR, the firm is making a loss. ✓✓
- The gap between TR and TC represents profit. ✓✓
- Profit is maximised when the gap between TR and TC is the greatest at 400
  quantities and at a market price of R25. ✓✓ (Max 4 Marks)

4.5 **Analyse the barriers that form monopoly markets**

- High development costs prevent new firms from entering the market. ✓✓
- Government may grant a firm a patent which makes the business to have an exclusive right to manufacture a product. ✓✓
- A business many have an advantage over the control of resources that other businesses need. ✓✓
- Government regulations may prevent other firms from entering the market. ✓✓ (Accept any other correct and relevant response)

(8)

[40]

TOTAL SECTION B: [80]

SECTION C

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

- **Discuss in detail perfect markets and monopoly** **(26)**
- **Evaluate the importance of the Product markets in the South African economy** **(10) [40]**

INTRODUCTION

- Market is any place or contact between buyers and sellers of goods and services. ✓✓
- Markets coordinate economic activities and determine prices for goods and services ✓✓

(Accept any other relevant introduction) Max (2)

MAIN PART

Perfect competition and Monopoly characteristics .

Number of businesses ✓

- There is large number of buyers and sellers that an individual participant is small inrelation to the market. ✓✓
- This means no individual buyer or seller cannot affect the market price. ✓✓
- Monopoly market has only one seller of a product. Therefore, the firm faces nocompetition. ✓✓
- The seller is also responsible for the industry output. ✓✓

Nature of the product ✓

- The product sold is homogeneous, meaning they are identical in regard to quality, sizeor shape. ✓✓
- It therefore does not matter from whom the consumer buys the product as they are notdifferent. ✓✓
- Monopolist product is unique with no close substitutes, therefore there is no competition. ✓✓
- The consumer can only buy the monopolist' product or go without it. ✓✓

Market entry ✓

- There is freedom to enter into and exit from the market. ✓✓
- There are no legal, financial, technological or any other barriers. ✓✓
- In monopoly market there barriers prevent other businesses from entering the market. ✓✓
- Natural barriers such as exclusive ownership of scarce natural resource provide abarrier to enter the market. ✓✓

Information ✓

- Participants have full information (perfect knowledge) about the market conditions. ✓✓
- Buyers have complete knowledge about price, quality and availability of

products in themarket. ✓✓
- There is incomplete information about market conditions to consumers. ✓✓
- The monopolist withholds information or provides insufficient information to consumers and this prevents them to make informed decisions. ✓✓

Control over price ✓
- Sellers have <u>no control over price</u> as such they are called price takers. ✓✓
- They take the price that is set by the market and charge it for their products ✓✓
- A monopoly firm has a <u>considerable (large)</u> control over price as such it is known as a price maker. ✓✓
- However, a monopoly does not have control over demand, so demand will influence the monopolists ‘price. This means the monopolist cannot charge too high prices as people will stop buying if they cannot afford the price. ✓✓

Max (26)

ADDITIONAL PART

<u>Evaluate the importance of the Product markets in the South African economy</u>

- It is a market in which goods and services are bought and sold. ✓✓
- Allowing consumers to purchase goods and services in the product Market. ✓✓
- Firms are sellers of goods and services while households, government, and the foreignsector are buyers. ✓✓
- Any change in demand for goods and services often influence the factor market to respond in line with the change in demand. ✓✓
- Product market also allows a space for price determination as consumers demand goods at a certain price and producers supply these goods for a certain price in the market. ✓✓

(Accept any other correct relevant higher order response)
Max (10)

CONCLUSION
- Markets are critically important institutions in our economic system, because they regulate supply and demand and safeguard price stability and general business confidence ✓✓

(Accept any other correct relevant higher order response) Max (2)
[40]

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

- **Discuss in detail price elasticity of demand (PED) without the aid of graphs.** (26)
- **Evaluate the reasons for consumer's reactions to changes in prices.** (10)

[40]

INTRODUCTION

- **Price elasticity of demand** is the extent to which a quantity demanded will change asa result of a change in price. ✓✓
- To calculate the PED, the change in quantity demanded should be calculated as a percentage, and the change in price should also be calculated as a percentage, thenthe percentage change in quantity demanded should be divided by the percentage change in price **(%∆ Qd ÷ %∆P).** ✓✓

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

BODY
MAIN PART

FORMS OF PRICE ELASTICICY OF DEMAND (PED)

1. **<u>Perfectly elastic demand</u>**✓

- The price increase will result in quantity demanded to drop to zero. ✓✓
- This means consumers will buy an infinite (unlimited) quantity of the product at the prevailing price. ✓✓The PED = ∞ (infinite) ✓✓
- If the seller can increase the price even by half a percentage the quantity demanded will decrease from 100 to 0. ✓✓

2. **<u>Elastic demand (relatively elastic demand)</u>** ✓
   - A small percentage change in price will result in a larger percentage in quantitydemanded. ✓✓
   - This means the change (decrease or increase) quantity demanded is always muchlarger than the price decrease or increase. ✓✓
   - The PED is larger than 1 (PED > 1). ✓✓
   - The price elasticity is more than 1 and this means the product's demand is elastic.✓✓By reducing the product by small amount, demand will increase more. ✓✓Also by increasing the price by small amount will result in larger decrease in quantity demanded. ✓✓
   - Example of goods with elastic demand is luxury good (or non - essential goods) ✓
3. **<u>Unitary elastic demand</u>**✓

- The percentage change in price is equal to the percentage in quantity demanded.✓✓This means the elasticity is equals to 1 (PED = 1). ✓✓

4. **Inelastic demand ✓**
- The percentage change in price will result is a relatively smaller percentage inquantity demanded. ✓✓
- The price elasticity is less than 1 (PED < 1). ✓✓
- Types of products with inelastic demand are basic (essential) goods such as basicfood stuffs. ✓✓
- The price elasticity is less than 1 (P< 1). ✓✓This indicates that even if the price canincrease, few consumers will stop buying it. ✓✓

5. **Perfectly inelastic demand ✓**
- It is when the increase or decrease in price of a product causes nochange in quantity demanded. ✓✓
- This means the increase in price has no impact (effect) on the quantity consumed. ✓✓
- This is usually the case with habit forming products such cigarettes and illegal drugs. ✓✓

Max (26)

ADDITIONAL PART
Evaluate the reasons for consumer reactions to changes in prices.
- Consumers will react to increase in price of a good with a closed or identical substitute good, by buying less of the original goods and more of the substitute goods. ✓✓
- Consumers will not react to a price increase of the essential goods such as food, medicines etc, as goods these are necessary for survival. ✓✓A decrease in the price of these goods can lead to more quantities of these goods being bought and stored for later used. ✓✓
- Consumers will continue to buy habit forming product such as alcohol, cigarettes etc regardless of price changes as these goods are addictive. ✓✓ However if there is a possibility of removal of these goods, consumers will buy large quantities of these goods before removal and after the products are reintroduced like in case of lockdowns. ✓✓
- Goods with limited utility (single function products) become too expensive; consumers will buy less of these goods as they have limited uses. ✓✓

(Accept any other correct relevant higher order response)

(Max 10)

CONCLUSION
It is important for producers to study the buying pattern of consumers so they can plan prices accordingly. ✓✓ (Max. 2)

(Accept any other correct relevant higher order response)

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