



LIMPOPO

PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA



DEPARTMENT OF
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

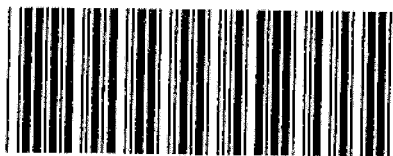
ECONOMICS PAPER 2

SEPTEMBER 2024

Stanmorephysics.com

MARKS: 150

TIME: 2 HOURS



EECONP2



This question paper consists of 14 pages

SECTION A (COMPULSORY)**QUESTION 1****30 MARKS – 20 MINUTES**

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

1.1.1 A measure used by government to discourage production and consumption of demerit goods is ...

- A excise duty.
- B ad valorem tariff.
- C custom tax.
- D progressive tax.

1.1.2 Brand loyalty takes place in a/an ... market.

- A monopoly
- B informal
- C oligopoly
- D monopolistically competitive

1.1.3 The point where the total revenue is equal to the total cost in a perfect market is known as ... point.

- A minimum
- B break even
- C maximum
- D zero

1.1.4 Social costs consist of the of private and... costs.

- A internal
- B public
- C external
- D variable

1.1.5 Complimenting generation capacity at Eskom with solar power is important for tourism as part of the ... infrastructure.

- A transport
- B energy
- C communication
- D basic services



A condition of low growth, high inflation and high unemployment is known as ...

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

1.1.7

One of the fiscal measures used to combat inflation is ...

- A taxation.
- B open market transactions.
- C interest rates.
- D moral suasion.

1.1.8

Methods that focus on the environmental impact to ensure environmental sustainability are called ... standards.

- A quantity
- B social impact
- C quality
- D personal

(8 x 2)

(16)



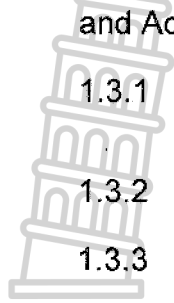
- 1.2 Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A - I) next to the question number (1.2.1–1.2.8) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.2.1	Long run	A	visiting a country to see sites of archaeological significance
1.2.2	Marginal cost	B	measures the cost of goods and services bought by a typical South African household
1.2.3	Environmental subsidy	C	period during which all factors of production are variable
1.2.4	Minimum prices	D	flow of residual emissions resulting from human activities exceed the natural environment's capacity to absorb them
1.2.5	Paleo tourism	E	additional amount payable when extra unit is produced
1.2.6	Pollution	F	it is given by government for activities that reduce environmental damage
1.2.7	Consumer price index	G	a good is sold at a price higher than the legally imposed price ceiling
1.2.8	Black market	H	production costs decrease as quantity produced increases
		I	it is set to encourage production of a good

(8 x 1) (8)



- 1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1–1.3.6) in the ANSWER BOOK. Abbreviations and Acronyms are not accepted.



- 1.3.1 When the business produces goods at lowest possible cost
- 1.3.2 The point where marginal cost is equal to the average variable cost
- 1.3.3 It is payable on output of a good whenever environmental costs are generated
- 1.3.4 Activities of people travelling outside their usual environment for not more than a year
- 1.3.5 Permanent destruction of indigenous forests and woodlands
- 1.3.6 Type of inflation where prices of goods and services are set by government

(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

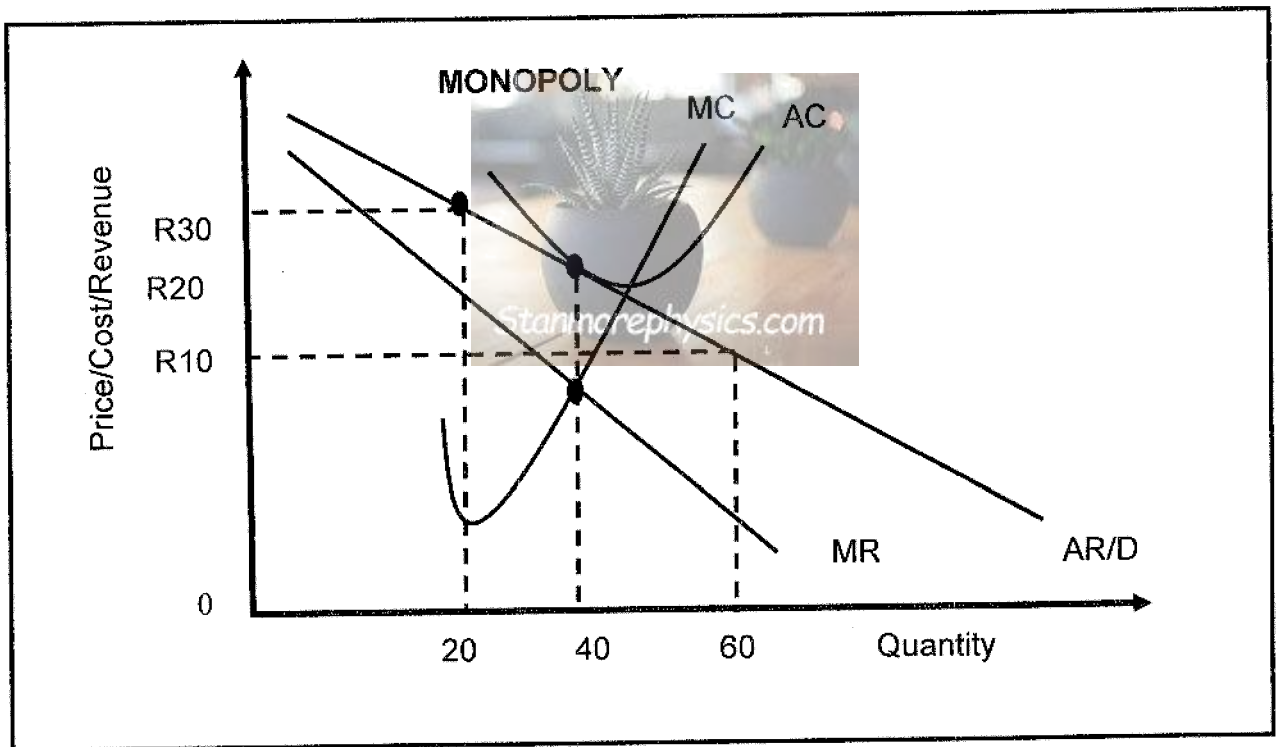
40 MARKS – 30 MINUTES

2.1 Answer the following questions.

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

2.1.2 Why do oligopolists collude? (2)

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



2.2.1 Identify the quantity where the business will maximise profits. (1)

2.2.2 Which type of profit is made by the monopoly above? (1)

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

2.2.4 Why is the demand curve of a monopoly downward sloping? (2)

2.2.5 Calculate the total revenue that will be made by the business above. Show **ALL** your calculations (4)



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

MONOPOLISTIC COMPETITION - NON-PRICE COMPETITION

[Adjusted from google images]

- 2.3.1 Identify the nature of product sold in the market structure above. (1)
- 2.3.2 What type of profit is made by monopolistic competition in the long run? (1)
- 2.3.3 Briefly describe the term *non-price competition*. (2)
- 2.3.4 Why does a monopolistic competitor fail to achieve productive efficiency? (2)
- 2.3.4 How would the exit of firms impact the market in the long run? (4)
- 2.4 Without drawing graphs, compare the demand curve of perfect competitor with that of oligopoly. (2 x 4) (8)
- 2.5 Analyse the challenges that the competition policy in South Africa faces in achieving its goals. (4 x 2) [40]

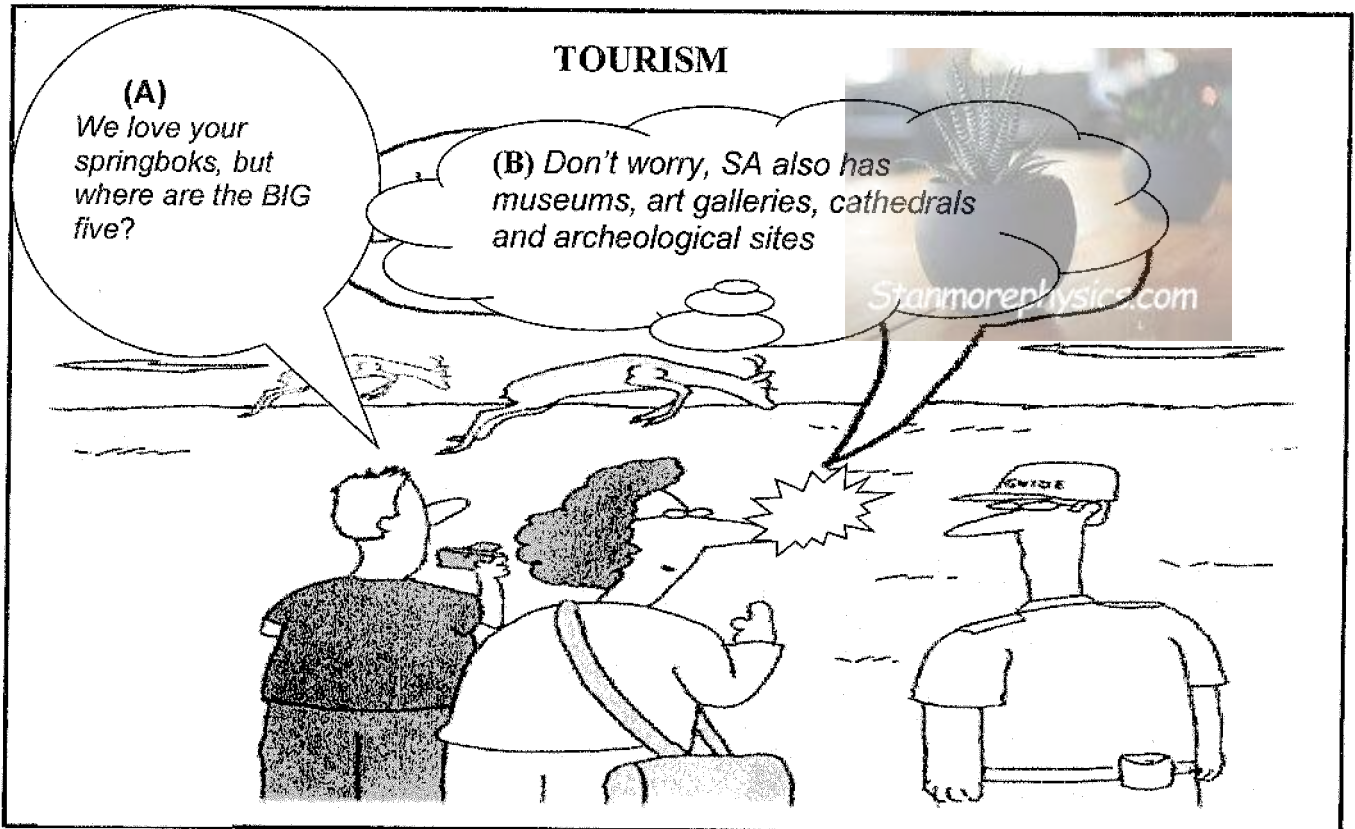
QUESTION 3: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Give TWO international agreements on disposal of chemical waste. (2 x 1) (2)

3.1.2 Why is it important to have price stability in the economy? (2)

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



[Adjusted from google]

- 3.2.1 Identify the attractions associated with ecotourism from the picture above. (1)
- 3.2.2 Mention any world environmental heritage site that people can visit in South Africa. (1)
- 3.2.3 Briefly describe the term *domestic tourism*. (2)
- 3.2.4 Why is tourism important in the South African economy? (2)
- 3.2.5 How does tourism impact the environment? (2 x 2) (4)

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

THE GAS EMISSIONS REPORT

Various gases contribute to South Africa's emissions. These gases include Methane, Carbon dioxide and Nitrous oxide. These gases are also known as greenhouse gases. They contribute 9,7%, 84,5% and 5,8% respectively.

The gases have a negative impact on biodiversity. The energy sector is the greatest contributor to gas emissions in the economy.

[Adjusted from google]

- 3.3.1 Identify the gas that contributes the most to emissions in South Africa from the extract above. (1)
- 3.3.2 Give an example of biodiversity. (1)
- 3.3.3 Briefly describe the term *greenhouse gases*. (2)
- 3.3.4 How can Eskom reduce its greenhouse emissions? (2)
- 3.3.5 Explain the positive impact of emission tax on the environment. (4)
- 3.4 Discuss the negative effects of soil erosion on the environment. (2 x 4) (8)
- 3.5 Analyse the marketing strategies used to promote tourism in South Africa. (4 x 2) (8)
- [40]**



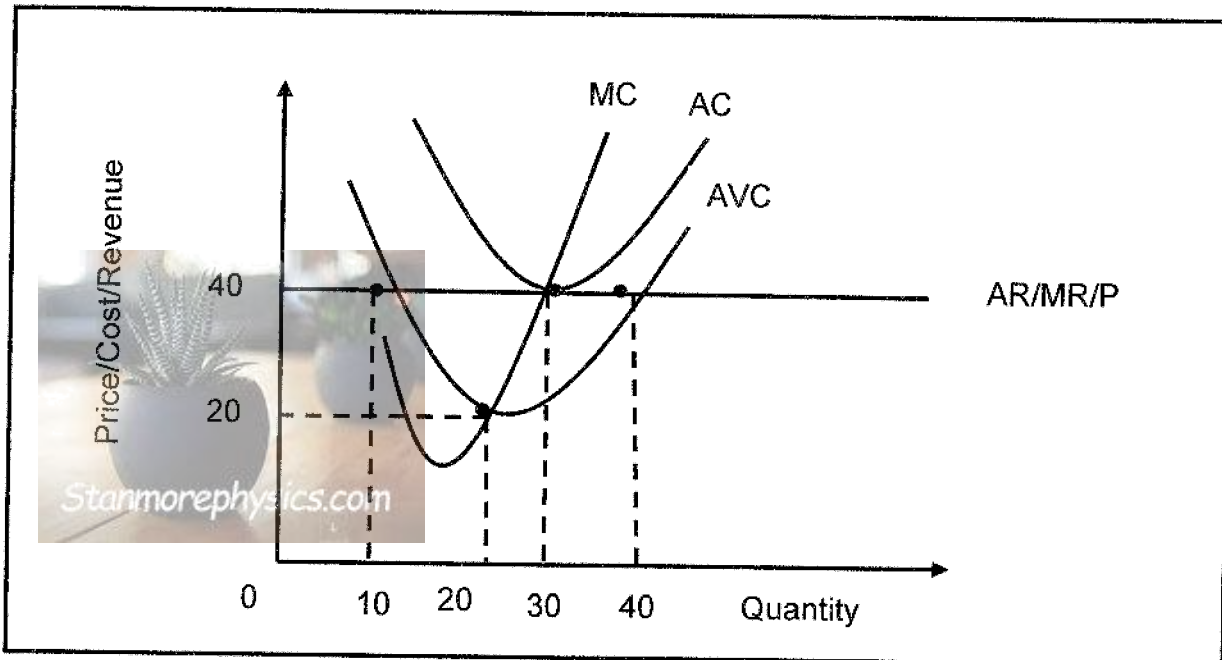
QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES
40 MARKS – 30 MINUTES

4.1 Answer the following questions.

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

4.1.2 Why is a cost benefit analysis (CBA) important in the public sector? (2)

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



4.2.1 Which market structure is represented above? (1)

4.2.2 Identify the profit maximising quantity. (1)

4.2.3 Briefly describe the term *average revenue*. (2)

4.2.4 When will a firm in this market shut down its operations? (2)

4.2.5 Use the graph above to determine the type of profit made by this firm. Show **ALL** the calculations. (4)

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

CONTRIBUTION OF INDIGENOUS KNOWLEDGE SYSTEM (IKS) TO THE ECONOMY

It is sometimes argued that Indigenous Knowledge System (IKS) cannot produce much macro-economic growth and is relatively static. However, despite the lack of organised incentives, particularly concerning traditional medicine and traditional agriculture, which represent significant economic activity in South Africa, IKS still plays an important role in sustainable development to a significant proportion of South Africa's population.

[Adopted from google]

- 4.3.1 Identify the sector in which indigenous knowledge is mostly used. (1)
- 4.3.2 Name ONE element/facet of the Indigenous Knowledge Systems (IKS). (1)
- 4.3.3 Briefly describe the term *sustainable development*. (2)
- 4.3.4 Why is Indigenous Knowledge Systems (IKS) relatively static generation to generation? (2)
- 4.3.5 How can Indigenous knowledge contribute to sustainable development? (2 x 2) (4)
- 4.4 Briefly explain the differences between *conservation* and *preservation*. (8)
- 4.5 Discuss the failures of international measures in reducing effects of climate change. (4 x 2) [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 THE ESSAY	MARK ALLOCATION
<p>Introduction The introduction is a lower order response</p> <ul style="list-style-type: none"> • A good starting point would be to define the main concept related to the question • Do NOT include any part of the question in the introduction • Do NOT repeat any part of the introduction in the body • Avoid mentioning in the introduction what you are going to discuss in the body 	Max. 2
<p>Body: Main part:</p> <ul style="list-style-type: none"> • Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Draw a graph and explain/Use the given graph and explain/Differentiate/ Explain/Assess/Debate • A maximum of 8 marks is allocated for headings <p>Additional part:</p> <ul style="list-style-type: none"> • Give own opinion/Critically discuss/Evaluate/ Critically evaluate/ Calculate/Deduce/ Compare /Explain /Distinguish /Interpret / Briefly debate <p>A maximum of 2 marks will be allocated for mere listing of facts</p> <p>Additional part:</p> <ul style="list-style-type: none"> • 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 <p>A maximum of 2 marks will be allocated for mere listing of facts</p>	Max. 26
<p>Conclusion</p> <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned • An opinion or value judgement on the facts discussed • Additional support information to strengthen the discussion • A contradictory viewpoint with motivation • Recommendations 	Max. 10
TOTAL	40

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

- Discuss in detail, without drawing graphs, state intervention as a consequence of market failures. (26)
- How effective has government spending been in addressing market failure? (10) **[40]**

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 40 MINUTES

- Discuss in detail the consequences of inflation. (26)
- How can foreign direct investment influence inflation in the economy? (10) **[40]**

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





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SEPTEMBER 2024

MARKING GUIDELINES

Stanmorephysics.com

MARKS: 150

TIME: 2 HOURS



This marking guidelines consists of 18 pages

SECTION A (COMPULSORY)

QUESTION 1

30 MARKS – 20 MINUTES

1.1 MULTIPLE CHOICE



1.1.1 A - excise duty ✓✓

1.1.2 D - monopolistically competitive ✓✓

1.1.3 B - break even ✓✓

1.1.4 C - external ✓✓

1.1.5 B - energy ✓✓

1.1.6 C - stagflation ✓✓

1.1.7 A - taxation ✓✓

1.1.8 C - quality standards ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 C - period during which all factors of production are variable ✓

1.2.2 E - additional amount payable when extra unit is produced ✓

1.2.3 F - it is given by government for activities that reduce environmental damage ✓

1.2.4 I - it is set to encourage production of a good ✓

1.2.5 A - visiting a country to see sites of archaeological significance ✓

1.2.6 D - flow of residual emissions resulting from human activities exceed the natural environment's capacity to absorb them ✓

1.2.7 B - measures the cost of goods and services bought by a typical South African household ✓

1.2.8 G - a good is sold at a price higher than the legally imposed price ceiling ✓ (8 x 1) (8)



1.3 **ONE TERM**



- 1.3.1 Productive efficiency ✓
- 1.3.2 Shutdown ✓
- 1.3.3 Green tax ✓
- 1.3.4 Tourism ✓
- 1.3.5 Deforestation ✓
- 1.3.6 Administered price inflation ✓

(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

40 MARKS – 30 MINUTES

2.1 Answer the following questions.

2.1.1

Give TWO examples of explicit costs.

- Rent ✓
- Interest ✓
- Wages ✓

(Accept any other correct relevant response)

(2 x 1)

(2)

2.1.2

Why do oligopolists collude?

The behaviour of businesses in an oligopoly market cannot be predicted and as a result function in an extremely uncertain environment ✓✓

(Accept any other correct relevant response)

(2)

2.2

DATA RESPONSE

2.2.1

Identify the quantity where the business will maximise profits.

40 ✓

(1)

2.2.2

Which type of profit is made by monopoly above?

Normal profit ✓

(1)

2.2.3

Briefly describe the term *monopoly*.

A market structure consisting of one seller of a unique product with no close substitute ✓✓

(Accept any other correct relevant response)

(2)

2.2.4

Why is the demand curve of a monopoly downward sloping?

The monopoly sells different quantities at different prices. ✓✓

(Accept any other correct response)

(2)

2.2.5.

Calculate the total revenue that will be made by the business above. Show ALL your calculations

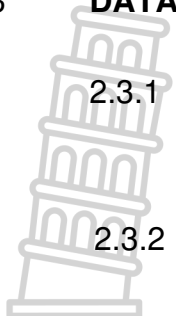
$$TR = \text{Price} \times \text{Quantity} \quad \checkmark$$

$$= R20 \times 40 \quad \checkmark$$

$$= R80 \quad \checkmark \checkmark$$

(4)

2.3 DATA RESPONSE

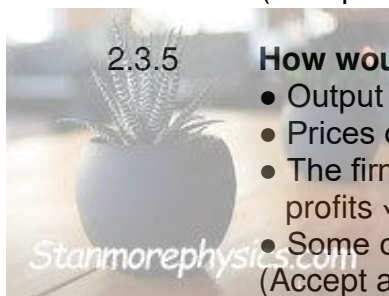


2.3.1 Identify the nature of product sold in the market structure above.
Differentiated ✓ (1)

2.3.2 What type of profit is made by monopolistic competition in the long run?
Normal profit ✓ (1)

2.3.3 Briefly describe the term *non-price competition*.
It is competing on the basis of product differentiation, efficient service and by using advertisements, rather than on the basis of prices ✓✓
(Accept any other correct relevant response) (2)

2.3.4 Why does monopolistic competitor fail to achieve productive efficiency?
The monopolistic competitor produces output that is less than the required output ✓✓
(Accept any other correct response) (2)



2.3.5 How would the exit of firms impact the market in the long run?

- Output of the industry will decrease ✓✓
- Prices of goods will increase ✓✓
- The firms that were making losses will now make normal profits ✓✓
- Some consumers may not afford the goods ✓✓

 (Accept any other correct relevant response) (4)

2.4 Without drawing graphs, compare the demand curve of perfect competitor with that of oligopoly.

PERFECT COMPETITOR	OLIGOPOLY
<ul style="list-style-type: none"> • The demand curve is horizontal ✓✓ • All units are sold at same price ✓✓ • The demand is the same as the Price, Marginal revenue (MR) and the Average revenue curves (AR) ✓✓ The business is the price taker ✓✓	<ul style="list-style-type: none"> • The demand curve is kinked ✓✓ • All units are sold at different prices ✓✓ • The demand curve lies above the marginal revenue curve ✓✓ The business is the price maker ✓✓

(2 x 4)

(A maximum of 4 marks will be allocated for mere listing of facts/examples)
(Accept any other correct relevant response) (8)

2.5 **Analyse the challenges that the competition policy in South Africa face in achieving its goals.**

- Fines charged are too lenient and do not cover the costs suffered by consumers ✓✓
- Lack of resources results in some acts of collusion going undetected ✓✓
- The fines imposed do not deter businesses as they continue colluding ✓✓
- Some mergers usually lead to retrenchments in the long run ✓✓
- Corruption prevents some acts of collusion from being investigated properly ✓✓
- Monitoring and enforcement of competition policy is difficult due to vastness of areas ✓✓
- Competition policy fails to create opportunities for new entrants which makes monopolies to continue abusing their power ✓✓
- Some cases take long time to finalise and lose merit in the process ✓✓

(Accept any other correct relevant response)

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

(8)
[40]



QUESTION 3: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 30 MINUTES3.1 **Answer the following questions.**3.1.1 **Give TWO international agreements on disposal of chemical waste.**

- The Stockholm Protocol ✓
 - The Rotterdam Convention ✓
- (2 x 1) (2)

3.1.2 **Why is it important to have price stability in the economy?**
Prices should remain stable in order to achieve sustainable growth, employment and development. ✓✓

(Accept any other correct relevant response) (2)

3.2 **DATA RESPONSE**3.2.1 **Identify the attractions associated with ecotourism from the picture above.** (1)

A Springboks ✓ / Big five ✓

3.2.2 **Mention any world environmental heritage site that people can visit in South Africa.**

- ISimangaliso Wetland Park ✓
 - The Cape Fynbos Region ✓
 - uKhahlamba Drakensberg Park ✓
- (Accept any other correct relevant response) (1)

3.2.3 **Briefly describe the term *domestic tourism*.**When people travel within the borders of their country ✓✓
(Accept any other correct relevant response) (2)3.2.4 **Why is tourism important in the South African economy?**

- Households can earn income by rendering services to tourists ✓✓
 - Tourists pay taxes to government which contribute to state revenue ✓✓
- (Accept any other correct response) (2)

3.2.5 **How does tourism impact the environment?**

- Tourism activities can lead to permanent environmental restructuring when roads and roads and airports are built ✓✓
 - Biological and non-biological waste generated by tourism activities kill fish and creates health hazards ✓✓
 - Tourism can cause migration and increased urban densities which affect population dynamics ✓✓
 - There could be destruction of coral reefs and vegetations ✓✓
- (Accept any other correct response response) (2 x 2) (4)

3.3 DATA RESPONSE

3.3.1 **Identify the gas that contributes the most to emissions in South Africa from the extract above.**

Carbon Dioxide ✓

(1)

3.3.2 **Give an example of biodiversity.**

- Blue whales ✓
- White – tailed deer ✓
- White pine trees ✓
- Sunflowers ✓
- Microscopic bacteria ✓

(Accept any other correct response)

(1)

3.3.3 **Briefly describe the term *greenhouse gases*.**

Gases in the earth's atmosphere that trap heat ✓✓

(2)

3.3.4 **How can Eskom reduce its greenhouse emissions?**

They can invest in renewable energy sources like solar ✓✓

(Accept any other correct response)

(2)

3.3.5 **Explain the positive impact of emission tax on the environment**

Emission tax will impact positively on the environment by:

- requiring polluters to carry the external cost of their pollution ✓✓
- encouraging businesses to explore renewable sources of energy which are environmentally friendly ✓✓
- reducing the amount of damage to the ozone layer and eventually reduce global warming ✓✓

(Accept any other correct relevant response)

(4)

3.4 **Discuss the negative effects of soil erosion on the environment.**

- Soil erosion occurs when the topsoil is removed by wind and water ✓✓
- It leads to increased pollution in streams and rivers ✓✓
- It is a major threat to sustainability as it affects soil fertility ✓✓
- It degrades the land and often makes it less productive ✓✓
- It may result in destruction of water sources such as dams ✓✓
- Soil erosion destroys the grazing land for animals ✓✓

(Accept any other correct relevant response)

(4 x 2)

(A maximum of 4 marks will be given for mere listing of facts/examples)

(8)

3.5 **Analyse the marketing strategies used to promote tourism in South Africa.**

South Africa:

- launched the Sho't Left campaign aimed at making travel more accessible and affordable to encourage South Africans to travel in their own country ✓✓
- has build strong partnership between South African Tourism and tourism businesses to offer locals special deals on accommodation and flights ✓✓
- showcases a wide variety of the best tourism products and attracts visitors from across the world through the annual Tourism Indaba ✓✓

- established the Tourism Enterprise Partnership to improve the sustainability of small tourism enterprises to create jobs ✓✓
- uses social media platforms like Facebook to promote tourism ✓✓
- has introduced E-visas which will make it convenient for foreign tourists to come to South Africa ✓✓

(Accept any other correct relevant response)

(4 x 2)

(8)

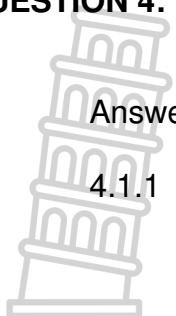
(A maximum of 2 marks will be allocated for mere listing of facts/examples)

[40]



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

4.1 Answer the following questions.



4.1.1

Give TWO examples of negative externalities.

- Pollution ✓
- Cigarettes ✓
- Drugs ✓
- Alcohol ✓

(2 x 1)

(Accept any other correct relevant response)

(2)

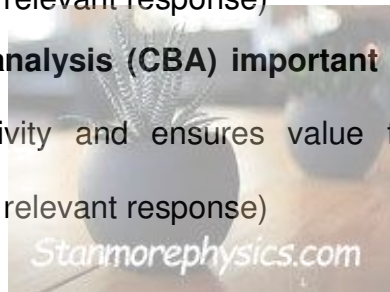
4.1.2

Why is a cost benefit analysis (CBA) important in the public sector?

It brings greater objectivity and ensures value for money in decision making ✓✓

(Accept any other correct relevant response)

(2)



4.2

DATA RESPONSE

4.2.1

Which market structure is represented above?

Perfect Competition ✓

(1)

4.2.2

Identify the profit maximising quantity.

30 ✓

(1)

4.2.3

Briefly describe the term *average revenue*.

It is the total revenue divided by the total output ✓✓

(Accept any other correct response)

(2)

4.2.4

When will a firm in this market shut down its operations?

When the firm can no longer cover its variable costs ✓✓

(Accept any other correct response)

(2)

4.2.5

Use the graph above to determine the type of profit made by this firm. Show ALL the calculations.

$$TR = \text{Price} \times \text{Quantity}$$

$$= R40 \times 30$$

$$TR = R120$$

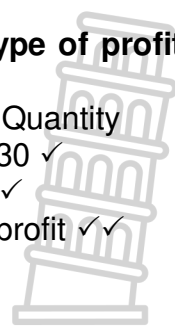
$$TR = TC \text{ therefore the firm makes normal profit } \checkmark \checkmark$$

$$TC = \text{Cost} \times \text{Quantity}$$

$$= R40 \times 30 \checkmark$$

$$TC = R120 \checkmark$$

(4)



4.3 DATA RESPONSE



4.3.1 Identify the sector in which indigenous knowledge is mostly used.
Agriculture ✓ (1)

4.3.2 Name ONE element/facet of Indigenous Knowledge Systems (IKS).
Economic element ✓
Social /Cultural element ✓
Governance /Political element ✓ (1)

4.3.3 Briefly describe the term *sustainable development*.
Meeting the needs of the present generation without compromising the needs of future generations ✓✓ (2)

4.3.4 Why is Indigenous Knowledge Systems (IKS) relatively static generation to generation?
There are no mechanisms and incentives for sharing the knowledge and protection ✓✓ (2)
(Accept any other correct response)

4.3.5 How can Indigenous Knowledge Systems (IKS) contribute to sustainable development?
• It is passed from generation to generation by word of mouth and cultural rituals ✓✓
• It provides problem solving strategies for local communities, especially the poor ✓✓
• It represents an important contribution to global development knowledge ✓✓
• It contributes to development of water management practices that are sustainable and based on the principles of conservation and equity ✓✓
(Accept any other correct relevant response) (2 x 2) (4)

4.4 Briefly explain the differences between conservation and preservation.

Conservation:

- Conservation deals with sustainable use and management of natural resources to ensure that they are available for future generations ✓✓
- It aims to create continuity of the environment while ensuring that changes are sympathetic to the quality of life ✓✓
- Human activities affect the environment not only because they cause pollution but also because they over utilise it ✓✓

(2 x 2)

Preservation

- Preservation concerns elements of the environment that are threatened by extinction ✓✓
- It aims to protect and maintain these elements in their present condition ✓✓
- The weaknesses in market solutions require government to intervene to preserve environmental assets through buying or expropriation ✓✓

- It also helps preserve biodiversity ✓✓ (2 x 2)
- (Accept any other correct relevant responses) (8)
- (A maximum of 4 marks will be allocated for mere listing of facts/examples)

4.5 **Analyse the failures of international measures in reducing effects of climate change.**

- There is lack of commitment from governments to meet targets set by agreements or monitoring policies ✓✓
- Emission targets are not met, and the effects of climate change are more visible, leading to a loss in GDP and jobs ✓✓
- It is difficult to identify organizations responsible for holding these countries accountable for their actions ✓✓
- There is lack of strict law enforcement where penalties imposed on those who did not meet targets ✓✓
- Conflicting interests exists between the goal of achieving sustainable development and increased economic development ✓✓
- Big polluters like United States (US) fails to meet targets set by Kyoto protocol and still contribute to global warming ✓✓
- Some countries are still less interested in solving the crisis due to expensive technology needed to reduce pollution ✓✓

(Accept any other correct relevant response)

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

(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:

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

- **Discuss in detail, without drawing graphs, state intervention as a consequence of market failures.** (26)
- **How effective has government spending been in addressing market failure?** (10)

INTRODUCTION

Market failures occur when the forces of demand and supply do not ensure the correct quantity of goods and services are produced to meet demand ✓✓ (Max 2)
(Accept any other correct relevant response)

BODY: MAIN PART**Direct control** ✓

- The state can pass laws or use existing legislative framework to control businesses and industries, individuals who generate externalities ✓✓
- In South Africa, emissions of potentially dangerous chemicals, air pollution, environmental preservation is controlled through various Acts and regulations ✓✓
- Advertising by the tobacco industry is prohibited and alcohol may not be sold to persons under the age of 18 years ✓✓

Imperfect markets ✓**The government can deal with imperfect competition by:**

- Formulating a competition policy to increase the level of competition ✓✓
- Using laws on competition to prevent exorbitant prices charged by firms, to ensure that entry to the market is free, prevent harmful collusion and encourage foreign competition which helps to keep prices low ✓✓
- Granting licences to more businesses in the case of state monopolies ✓✓
- Imposing price controls to decrease prices of goods and services ✓✓

Levying of taxes ✓

- The government intervene in the market by levying taxes to recover external costs ✓✓
- These taxes will increase the prices and result in decrease in production of the goods ✓✓
- Levying taxes could be used as a strategy to reduce production and consumption of demerit goods as well as generating revenue for the state ✓✓
- Firms and consumers will then allocate resources in a more efficient way ✓✓

Producer subsidies ✓

- The government provides subsidies to producers to encourage them to produce more goods and services ✓✓
- The subsidies increase supply of goods and services such as milk, wheat and maize ✓✓
- The subsidies lower the cost of production and thus the market price of these goods is lowered, increasing consumption ✓✓

Minimum wages ✓

- A minimum wage is the lowest remuneration that employers are required by law to pay their workers ✓✓
- Income of the workers will increase and as a result their standard of living will improve ✓✓
- If a minimum wage is set above the equilibrium market wage, supply of labour will exceed demand for labour ✓✓
- This will increase the cost of labour, resulting in higher cost of production for some businesses ✓✓
- Some workers may be retrenched and increase unemployment while production decreases ✓✓
- Minimum wages lead to more bargaining power for workers ✓✓

Minimum prices ✓

- The government is obliged to intervene to ensure sufficient supplies of staple food in the market ✓✓
- The approach of setting minimum prices will be used so that it will be worthwhile for producers to produce essential goods in desired quantities (make profits) ✓✓
- These prices are set above market price by government ✓✓
- Minimum prices have unwanted side effects as they cause a surplus in the market ✓✓
- Surplus products become a challenge to dispose as they should rather be sold at lower costs, dumped to other countries which is prohibited by World Trade Organisation (WTO) ✓✓

Maximum prices ✓

- The government will set maximum price if the price is deemed to be too high for essential goods ✓✓
- The maximum price that is set by the government below the market price is known as a price ceiling ✓✓
- The government will intervene in the market by passing law that suppliers may not charge more than a maximum price ✓✓
- The immediate effect of maximum prices is that the quantity supplied drops thus causing shortages ✓✓
- Shortages in supply for certain goods in the market will result in establishment of black markets ✓✓

Redistribution of wealth ✓

- The government uses progressive income tax system to redistribute income and wealth ✓✓
- Traditional methods such as levying taxes, provision of free services, benefits in kind and cash benefits reduce the income gap ✓✓
- The government can also implement redress methods such as BBBEE, land restitution, land redistribution and property subsidies to redistribute wealth ✓✓

Government involvement in production ✓

The government can:

- subsidise merit goods to increase their production ✓✓
- impose taxes on demerit goods to reduce their consumption ✓✓
- levy income taxes, indirect taxes and wealth taxes to provide community goods free of charge ✓✓
- provide collective goods such as refuse removal, waste disposal and sewage drainage for a user fee ✓✓

(Accept any other correct relevant response)

(Max 26)

(A maximum of 8 marks will be allocated for mere listing of headings/examples)

ADDITIONAL PART

How effective has government spending been in addressing market failures?

Government has been effective in addressing market failures by:

- transferring income directly to the poor such as child support grants, unemployment benefits which reduce inequality ✓✓
- providing goods free of charge like community goods and education ✓✓
- implementing employment creation programmes, which 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 society ✓✓
- spending on campaigns that will inform public about policies and legislation that protects them against exploitation ✓✓
- investing in infrastructure development such as roads, railways and communication networks as private sector find them unprofitable to finance ✓✓

(Max 10)

(Accept any other correct relevant response)

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

CONCLUSION

Market failures may also result in inefficiencies in the way resources are allocated and used in producing goods and services ✓✓

(Max 2)

(Accept any other correct relevant higher order response)



[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 40 MINUTES

- **Discuss in detail the consequences of inflation.** (26)
- **How can foreign direct investment influence inflation in the economy?** (10)

INTRODUCTION

Inflation is a sustained and significant increase in the general price level over a period of time ✓✓ (Max 2)

(Accept any other correct relevant response)

Creditors ✓

- Creditors suffer they have given money as loans with high purchasing power and get it back with lower purchasing power ✓✓
- As a result, creditors lose since inflation reduces the real value of their money ✓✓
- The losses can be offset by charging interest rate that is above inflation rate ✓✓

Debtors ✓

- Debtors receive money with high purchasing power and pay it back with lower purchasing power ✓✓
- As a result, borrowers benefit from price increases ✓✓
- This is because debtors have signed contract in advance before price increase and cannot be changed ✓✓

Salary and wage earners ✓

- Price increases affect people negatively because their incomes are relatively fixed ✓✓
- Real wages fall sharply during period of high inflation as a result of a decline in capital stock and a shift in relative prices ✓✓
- Inflation can impoverish large segments of the population by eroding the real wages ✓✓
- Relative wages are an important component of wealth as they constitute the main source of income for many households ✓✓
- The behaviour of real wages therefore has a direct bearing on the income distribution and the level of poverty ✓✓
- This group includes retired people and the poor who experience erosion of spending power and eventually earn too little to survive ✓✓
- Wage increases are usually lower than inflation increase hence workers become worse-off ✓✓

Investors and savers. ✓

- Assets with a fixed nominal value have a fixed return and lower purchasing power as prices increase ✓✓
- Purchasing power is reduced unless the interest rate is above inflation rate ✓✓
- People who invest in negotiable instruments such as shares often benefit from inflation because during periods of inflation, interest rates are increased to encourage saving ✓✓
- Investors in assets with flexible market value gain when prices increase because the market value of their assets increases in proportion to the rate of inflation ✓✓
- Often, the prices of these assets increase more rapidly than increase in inflation ✓✓
- People save money for long periods with the aim of using these funds to meet future,

these savings may be invested as fixed deposits, in money market, as life policies or in pension funds ✓✓

Tax payers ✓

- With inflation taxpayers' nominal income rise although their real income remains unchanged, because taxes are levied on the nominal income and not on real income, this affects the purchasing power of tax payers ✓✓
- If the income tax brackets remain unchanged, inflation increases the average rate of personal income tax ✓✓
- Individuals will have to pay higher taxes even if they are actually no better off than before (bracket creeping) ✓✓
- Bracket creeping leads to redistribution of income taxpayers to the government ✓✓

Industrial peace ✓

- Wage bargaining usually accompanied by strikes and mass action ✓✓
- The actions can sometimes spill over into violence which affects society at large ✓✓
- Inflation leads to demand for increased wages as trade unions put increasing pressure on employers to raise wages and salaries ✓✓
- In extreme situations, in the presence of exceptionally high inflation together with a government that is determined not to yield to wage increase demands (which can push inflation to even higher levels) widespread civil unrest would follow ✓✓

Balance of payments problems ✓

- If a country's rate of inflation is higher than that of its trading partners, the prices of exported goods increase while the prices of imported goods decrease ✓✓
- This leads to loss of competitiveness in the export market leading to decrease in Exports ✓✓
- The loss of competitiveness can result in increase in unemployment ✓✓

Unemployment/poverty ✓

- Inflation redistributes income from low-income groups to higher income groups ✓✓
- This is because people in the low-income groups do not have assets that can increase in value faster than the rate of inflation to help them to overcome effects of inflation ✓✓
- On the other hand, powerful groups like large companies and wealthy people are able to increase their share of national income at the expense of disadvantaged people such as pensioners and the unemployed ✓✓

Psychological influence ✓

- Low inflation expectations limit excessive wage demands by labour unions because workers do not expect increase in cost of living in the future ✓✓
- It also allows consumers to postpone consumption expenditure thereby reducing pressure on price increases ✓✓
- It also reduces panic buying by consumers if they expect prices to remain stable in the future ✓✓
- High inflation expectations lead to excessive wage demands by trade unions because workers anticipate increase in cost of living in the future ✓✓ (Max 26)

(Accept any other correct relevant response)

(A maximum of 8 marks may be allocated for mere listing of headings/examples)

BODY: ADDITIONAL PART**How can foreign direct investment influence inflation in the economy?****It can influence inflation by:**

- Increasing production of goods and services which will increase aggregate supply and as a result, stabilises prices ✓✓
- Bringing more efficient production techniques that will reduce production costs, slowing down cost push inflation ✓✓
- Increasing competition in the local markets which will keep local prices low ✓✓
- Strengthening the rand through higher export volumes which helps to reduce the cost of importing production inputs such as crude oil ✓✓
- Improving technology in production which increases productivity thereby reducing cost push inflation ✓✓
- Creating more employment opportunities thereby stimulating consumer spending which contributes to demand pull inflation ✓✓
- Increasing expenditure on capital goods such as machinery and equipment resulting in increased aggregate demand ✓✓
- Increasing real wages more than domestic investment which may lead to cost push Inflation ✓✓ (Max 10)

(Accept any other correct relevant response)

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

[40]**CONCLUSION**

Government applies a mixture of policies to curb inflation within the target range of 3% and 6% in order to achieve sustainable growth and employment ✓✓ (Max 2)

(Accept any other correct higher order response)

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

