



KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

Stanmorephysics.com

ECONOMICS P2

COMMON TEST

JUNE 2023

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MARKS: 150

TIME: 2 hours

This paper consists of 12 pages.

INSTRUCTIONS AND INFORMATION

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

SECTION A: COMPULSORY

SECTION B: Answer TWO of the three questions.

SECTION C: Answer ONE of the two questions.

2. Answer only the required number of questions. Answers in excess of the required number will NOT be marked.
3. Number the answers correctly according to the numbering system used in this question paper.
4. Write the question number above each answer.
5. Read the questions carefully.
6. Start EACH question on a NEW page.
7. Leave 2–3 lines between subsections of questions.
8. Answer the questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
9. Use only black or blue ink.
10. You may use a non-programmable pocket calculator.
11. Write neatly and legibly.

SECTION A (COMPULSORY)**QUESTION 1**

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 numbers (1.1.1 to 1.1.8) in the ANSWER BOOK, e.g. 1.1.9 D.

1.1.1 Price determined by market forces of demand and supply is known as the... price

- A absolute
- B market
- C cost
- D nominal



1.1.2 A firm that has no control over the price is called...

- A price-maker.
- B price-taker.
- C price leader.
- D price fixer.

1.1.3 The sum of private and external costs is referred to as ...

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

1.1.4 The use of branding to make products unique from others is called ... differentiation.

- A market
- B business
- C product
- D customer

1.1.5 A formal agreement whereby a group of producers fix prices and limit competition is called...

- A tacit.
- B merger.
- C collusion.
- D cartel.



1.1.6 The cost that changes with the level of output is known as ... cost.

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



1.1.7 A market structure that is dominated by two producers is called a...

- A duopoly.
- B monopoly.
- C monopolistic competition.
- D perfect market.



1.1.8 An income that is earned per unit of output sold is referred to as ... revenue.

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

(8 x 2) (16)

- 1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write the 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 Break – even point	A. Controlled by the government
1.2.2 Perfect market	B. Total revenue is equal to total cost
1.2.3 Price leadership	C. Large number of buyers and sellers
1.2.4 Minimum wages	D. Products that are similar but differentiated
1.2.5 Merit goods	E. An example of informal collusion with regards to pricing.
1.2.6 Implicit costs	F. When the private sector fails to provide certain goods and services
1.2.7 Missing markets	G. The value of inputs owned by the entrepreneur and used in the production process
1.2.8 Heterogenous	H. Set by the government above the market rate below which no employer may pay their workers
	I. Useful to the society yet available in limited quantities

(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. NO abbreviations or acronyms will be accepted.

- 1.3.1 Costs that the business incur and cannot be recovered.
- 1.3.2 Benefits or costs to the third party which are not included in the price.
- 1.3.3 An institution that investigates restrictive business practices to achieve equity in the South African economy.
- 1.3.4 A period of production where fixed factors can change.
- 1.3.5 Income earned by the firm for every single unit sold.
- 1.3.6 A market in which illegal goods are bought and sold.

(6 x 1) (6)

SECTION B

Answer any TWO of the three Questions in this section in the ANSWER BOOK.

QUESTION 2

2.1

2.1.1 Give any TWO examples of monopolistic competitive markets. (2 x 1) (2)

2.1.2 Why are public goods non-rival in their consumption? (2)

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

PERFECT COMPETITION

A perfect market is a market that is structured to have anomalies that would otherwise interfere with the best prices being obtained. No firm can influence the price of products since products are cannot be differentiated. Due to the freedom of entry into the market, the level of competition is very high.

Source: www.google.com

2.2.1 Identify a reason that leads many sellers into this market. (1)

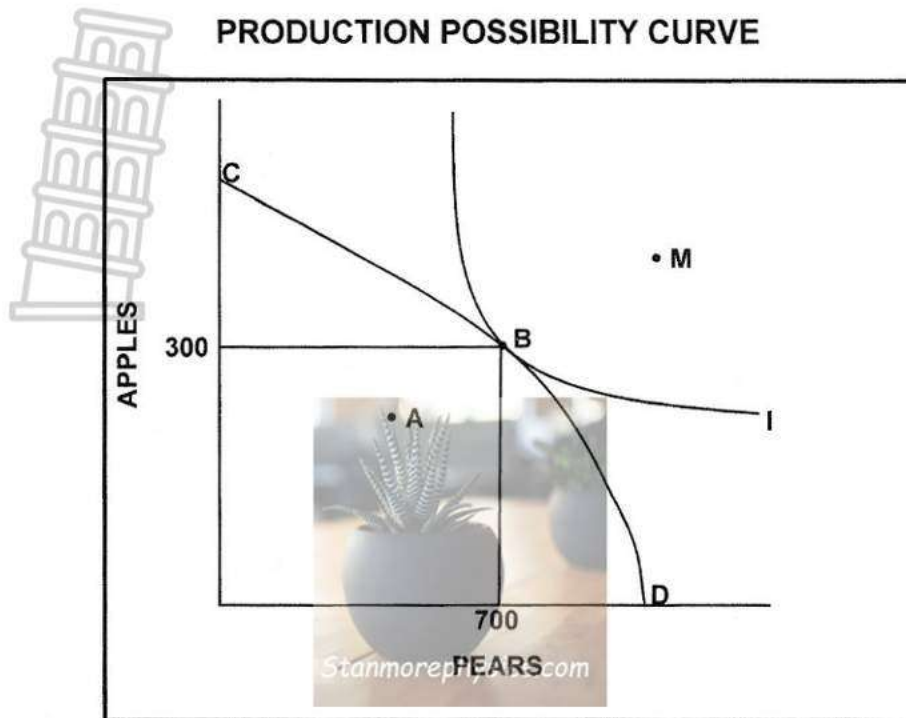
2.2.2 What is the nature of products that are sold in a perfect market? (1)

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

2.2.4 Why is the demand curve of a firm in a perfect market horizontal? (2)

2.2.5 How will new entrants in the perfect competitive market impact on the profit's level (2 x 2) (4)

2.3 Study the graph below and answer questions that follow.



2.3.1 Identify the point which represents unattainable production. (1)

2.3.2 How many apples would be produced if 700 pears are produced? (1)

2.3.3 Briefly describe the term *productive inefficiency*. (2)

2.3.4 Why would production at point A be regarded inefficient? (2)

2.3.5 How can the government promote the use of merit goods? (2 x 2) (4)

2.4 Discuss *immobility of factors of production* as a cause of market failure. (8)

2.5 How has the competition policy promoted competition in the economy of South Africa? (8)

QUESTION 3

3.1

3.1.1 Give TWO types of public goods.

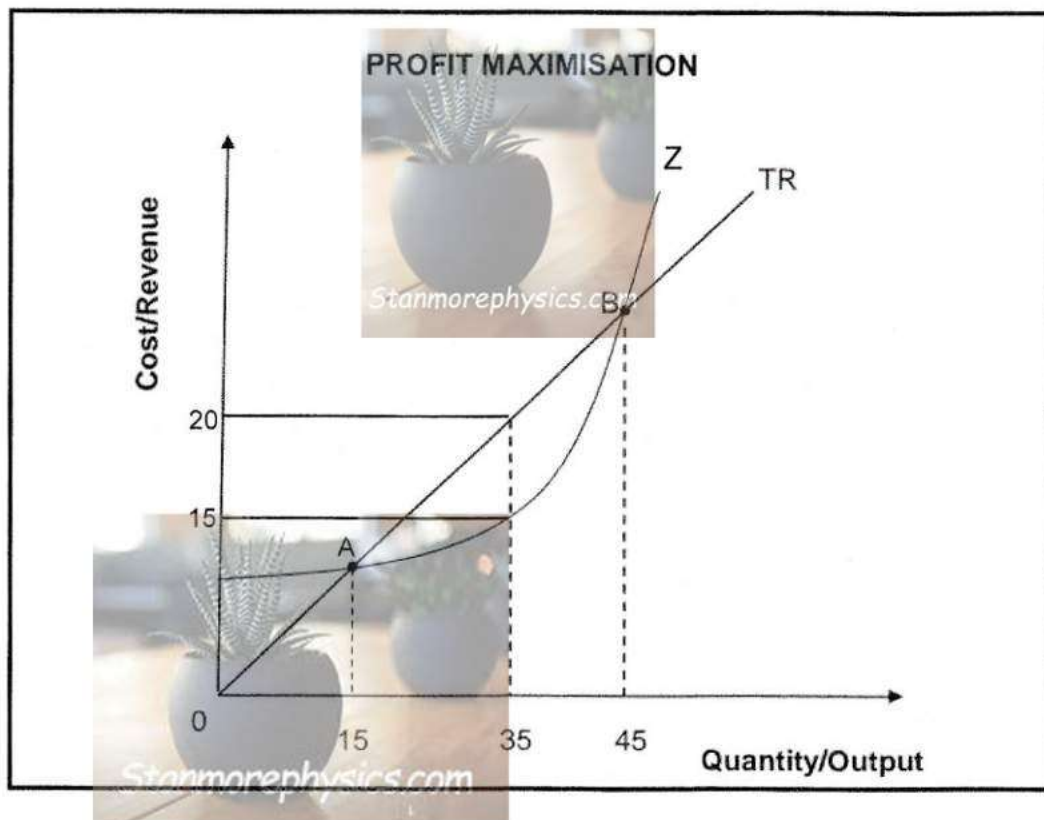
(2 x 1) (2)

3.1.2 Why is the level of competition high in the monopolistic competitive market?

(2)

3.2

Study the graph below and answer questions that follow.



3.2.1 Identify the total cost curve from the above graph.

(1)

3.2.2 What type of profit is made at point B?

(1)

3.2.3 Briefly describe the term *diseconomies of scale*.

(2)

3.2.4 Why does the curve TR start at zero?

(2)

3.2.5 Calculate the profit made in the graph above. Show all calculations.

(4)

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



SOUTH AFRICA BRAND REPORT

– CONSUMERS OF FRESH MILK–

The South African dairy products' market is flooded with large variety of goods. There are well established firms dominating the market, yet more still enter into this industry. This qualifies the monopolistic competition to be a hybrid market structure.

Source: www.prnewswire.com

- 3.3.1 Identify the term which suggest that the monopolistic competitive market is a combination of two markets. (1)
- 3.3.2 Name the non-price strategy used by monopolistic competitor from the above picture. (1)
- 3.3.3 Briefly describe the term *economic profit*. (2)
- 3.3.4 Explain the reason for monopolistic competitive market to be preferred over other imperfect market structures. (2)
- 3.3.5 Why would economic profits made by a monopolistic competitor disappear in the long run? (2 x 2) (4)

3.4 Using a correctly labelled graph, discuss why it is advisable for an oligopolist firm to charge the market price. (8)

3.5 How is the Cost Benefit Analysis used to evaluate project feasibility? (8)

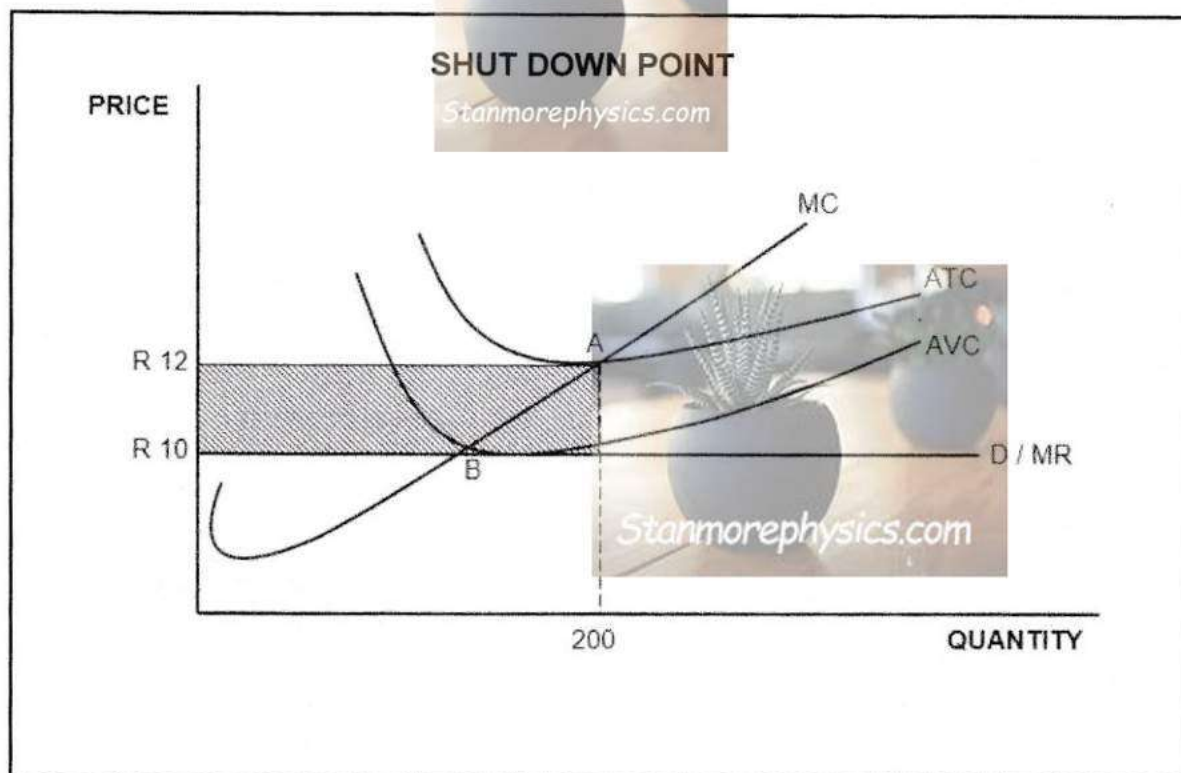
QUESTION 4

4.1

4.1.1 Give TWO examples of fixed costs. (2)

4.1.2 Why is the marginal revenue (MR) curve in the perfect market the same as the demand curve? (2)

4.2 Study the graph below and answer questions that follow.



4.2.1 Identify the shutdown point from the graph above. (1)

4.2.2 What is the cost of producing one unit according to the graph above? (1)

4.2.3 Briefly describe the term *private cost*. (2)

4.2.4 Explain the conditions that exist for a firm to shut down. (2)

4.2.5 Calculate the economic loss made by this firm. Show ALL calculations. (4)

4.3

BLACK BUSINESS COUNCIL SLAMS SPECTRUM

For a decade, the South African government has dragged its feet in bringing into force policy that reserves a share of the radio frequency spectrum.

The wireless Open Access Network (WOAN) was policy driven to create a central radio spectrum entity. Entrepreneurs would need to source huge capital amounts upfront to build necessary infrastructure from scratch, causing this industry to be a pure oligopoly market structure.

4.3.1 Identify the barrier to enter the market from the extract. (1)

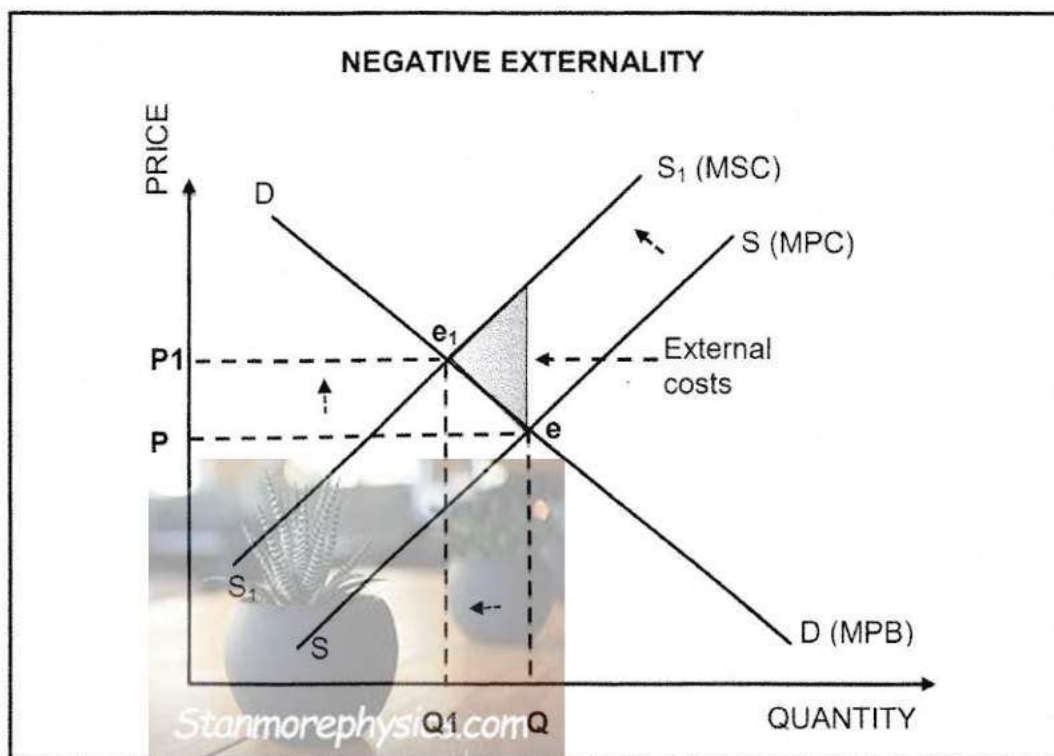
4.3.2 Name ONE example of an oligopoly market. (1)

4.3.3 Briefly describe the term *pure oligopoly*. (2)

4.3.4 Explain mutual dependence as a characteristic of an oligopoly as a market structure. (2)

4.3.5 How does price fixing negatively affect consumers? (2 x 2) (4)

4.4 Use the graph below to explain the effect of negative externality on the market. (8)



4.5 Evaluate the impact of non-price competition on the profitability of imperfect market. (8)

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:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower order-response <ul style="list-style-type: none"> • 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 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.	Max. 26
Additional part: Give own opinion/ Critically discuss/ Evaluate/ Critically evaluate/ Draw a graph and explain/ Use the graph given and explain/ Complete the given graph/ Calculate/ Deduce/ Compare/ Explain/ Distinguish/ Interpret/ Briefly debate/ How/ Suggest	Max. 10
Conclusion Any high-order conclusion should include: <ul style="list-style-type: none"> • 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

- Discuss the monopoly in detail without the use of graphs. (26)
- Why does the performance of South African monopolies contradict the long-run equilibrium position of a monopoly? (10)

QUESTION 6

- Discuss in detail state intervention as a consequence of market failures (26)
- Analyse the negative impact of administered prices on the economy. (10)

TOTAL MARKS: 150

FINAL



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ECONOMICS P2

COMMON TEST

JUNE 2023

MARKING GUIDELINES

MARKS: 150

This marking guidelines consists of 16 pages.

SECTION A: COMPULSORY**1.1 MULTIPLE CHOICE****30 MARKS – 20 MINUTES**

- 1.1.1 B ✓✓ (market)
- 1.1.2 B ✓✓ (price-taker)
- 1.1.3 C ✓✓ (external)
- 1.1.4 C ✓✓ (product)
- 1.1.5 D ✓✓ (cartel)
- 1.1.6 D ✓✓ (variable)
- 1.1.7 A ✓✓ (duopoly)
- 1.1.8 A ✓✓ (average)

(8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 B ✓ total revenue is equal to total cost
- 1.2.2 C ✓ large number of buyers and sellers
- 1.2.3 E ✓ an example of informal collusion with regards to pricing.
- 1.2.4 H ✓ set by the government above the market rate below which no employer may pay their workers.
- 1.2.5 I ✓ Useful to the society yet available in limited quantities
- 1.2.6 G ✓ the value of inputs owned by the entrepreneur and used in the production process.
- 1.2.7 F ✓ when the private sector fails to provide certain goods and services.
- 1.2.8 D ✓ product that are similar but differentiated.

(8 x 1) (8)

1.3 CONCEPTS

- 1.3.1 Sunk costs. ✓
- 1.3.2 Externalities. ✓
- 1.3.3 Competition Commission. ✓
- 1.3.4 Long run ✓
- 1.3.5 Average revenue ✓
- 1.3.6 Black market. ✓

(6 x 1) (6)

SECTION B

Answer any TWO of the three Questions in this section in the ANSWER BOOK.

QUESTION 2

2.1.1 Give any TWO examples of monopolistic competitive markets. (2 x 1)(2)

- supermarkets✓
- textile industry✓
- motor car manufacturers ✓

(Accept any other relevant and correct answer)

2.1.2 Why are public goods non-rival in their consumption? (2)

The consumption of public goods by one person does not reduce consumption by another person. ✓✓

(Accept any other relevant and correct answer)

2.2 DATA RESPONSE Stanmorephysics.com

2.2.1 Identify a reason that leads to many sellers into this market. (1)

freedom of entry ✓

2.2.2 What is the nature of products that are sold in a perfect market? (1)

Homogeneous / similar ✓

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

A group of businesses that produce homogenous products in the market. ✓✓

(Accept any other relevant and correct answer)

2.2.4 Why is the demand curve of a firm in a perfect market horizontal? (2)

The demand curve is horizontal because the firm is a price taker and has no control over price ✓✓

2.2.5 How will new entrants in the perfect competitive market impact on the profits level. (2 x 2) (4)

- New entrants would increase level of competition, which would decrease the profit levels. ✓✓
- The economic profit made would decrease due to increase in supply resulting in normal profit. ✓✓

(Accept any other relevant and correct answer)

2.3.1 Identify the point which represents unattainable production. (1)

Point M ✓

2.3.2 How many apples would be produced if 700 pears are produced? (1)

300. ✓

2.3.3 Briefly describe the term *productive inefficiency*. (2)

Productive inefficiency occurs when resources are not used appropriately to attain maximum production at the lowest cost and best quality. ✓✓

(Accept any other relevant and correct answer)

2.3.4 Why would production at point A be regarded inefficient? (2)

Point A means that resources are not being used optimally and as a result there are less apples and pears produced. ✓✓

(Accept any other relevant and correct answer)

2.3.5 How can the government promote the use of merit goods? (2 x 2) (4)

- Advertise them on media platforms to make consumers aware of their availability and importance. ✓✓
- Provide them for free or at low cost to consumers so that they can be easily accessible. ✓✓
- Offer consumer subsidies to lower their cost so they could be affordable. ✓✓

(Accept any other relevant and correct answer)

2.4 Discuss *immobility of factors of production* as a cause of market failure (8)

- Labour takes time to move from one place to another because of family commitment and responsibility. ✓✓
- Supply of skilled labour cannot be suddenly increased because it takes time to go through training and education. ✓✓
- Physical capital of a business is very expensive and difficult to relocate. ✓✓
- Structural changes in production require change in the labour skills, employment and work patterns. ✓✓

(Accept any correct and relevant answer)

(Maximum 4 marks for mere listing of facts)

2.5 How has the competition policy promoted competition in the economy of South Africa? (8)

- It successfully investigated and prosecuted unfair competition on a regular basis in the country. ✓✓
 - Made recommendations about penalties for businesses found guilty of abuse and endorsed fines. ✓✓
 - Implemented the Competition Tribunal recommendations and confirmations on penalties imposed. ✓✓
 - The Competition amendment Bill has improved the competition policy by holding directors of businesses accountable for uncompetitive behaviour. ✓✓
 - Curbed economic power of big conglomerates to arrive at a more equitable distribution of income and wealth. ✓✓
 - Regulated market power of mergers where conditions were imposed to prevent possible unemployment that may result. ✓✓
- (Accept any other relevant and correct answer)
(Maximum 2 marks for mere listing of facts)

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QUESTION 3

3.1

3.1.1 Give TWO types of public goods. (2 x 1) (2)

- Collective goods. ✓
- Community goods. ✓

3.1.2 Why is the level of competition high in the monopolistic competitive market? (2)

There are many businesses which sell differentiated products. ✓✓
(Accept any other relevant and correct answer)

3.2 DATA RESPONSE

3.2.1 Identify the total cost curve from the above graph. (1)

Z ✓

3.2.2 What type of profit is made at point B? (1)

Normal profit ✓

3.2.3 Briefly describe the term *diseconomies of scale*. (2)

Diseconomies of scale occurs when output increase at a lesser percentage than increase in inputs. ✓✓
(Accept any other relevant and correct answer)

3.2.4 Why does the curve TR start at zero?**(2)**

The firm does not receive any revenue when no production has taken place. ✓✓

(Accept any other relevant and correct answer)

3.2.5 Calculate the profit made in the graph above. Show all calculations.**(4)**

$$\text{Profit} = \text{TR} - \text{TC}$$

$$= (20 \times 35) \checkmark - (15 \times 35) \checkmark$$

$$= 700 - 525 \checkmark$$

$$= \text{R}175 \checkmark$$

OR

$$\text{profit} = (20 \checkmark - 15 \checkmark) \times 35 \checkmark$$

$$= 5 \times 35$$

$$= \text{R } 175 \checkmark$$

3.3 DATA RESPONSE**3.3.1 Identify the term which suggests that the monopolistic competition market is a combination of two markets.****(1)**

hybrid. ✓

3.3.2 Name the non- price strategy used by monopolistic competitor from the above picture.**(1)**

Branding. ✓

3.3.3 Briefly describe the term economic profit.**(2)**

Economic profit is the supernormal profit made by the business in addition to the normal profit. ✓✓

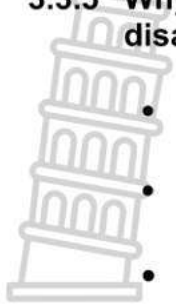
(Accept any other relevant and correct answer)

3.3.4 Explain the reason for monopolistic competitive market to be preferred over other imperfect market structures.**(2)**

- There are many businesses who sell similar products to the convenience of the consumers. ✓✓
- The entry into the monopolistic competition is free, allowing easy access into the market. ✓✓

(Accept any other relevant and correct answer)

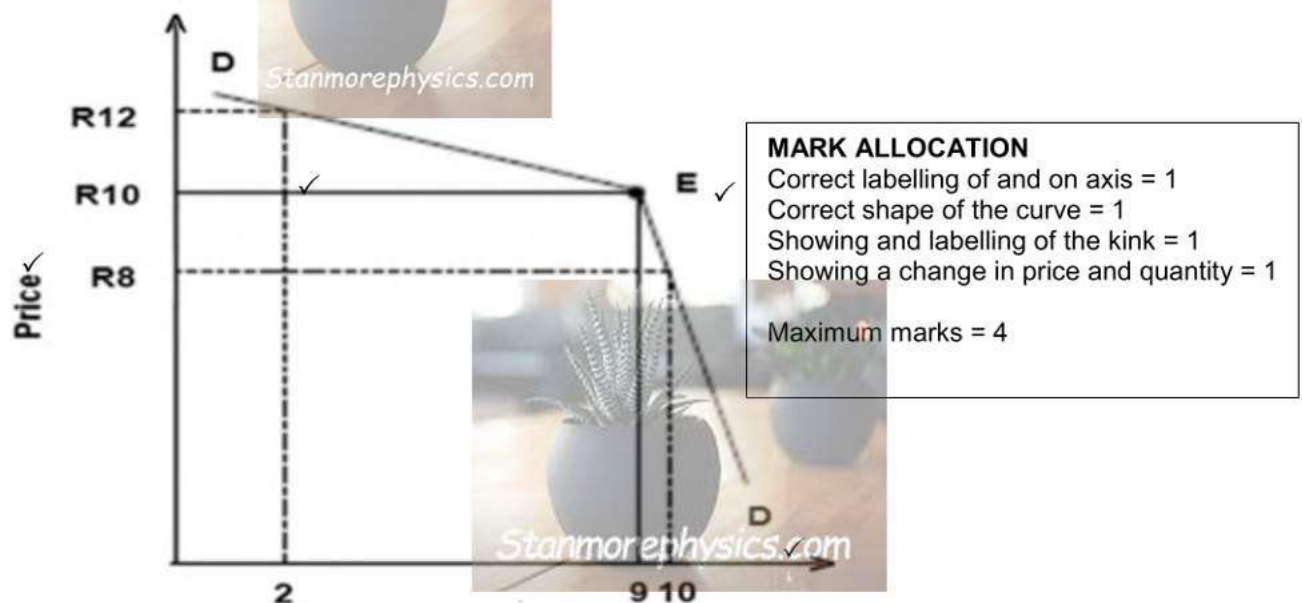
3.3.5 Why would economic profits made by a monopolistic competitor disappear in the long run? (2 x 2) (4)



- Absence of entry barriers attracts new entrance which increases competition for profit. ✓✓
- The market price decreases because of competition in such a way that average revenue is equal to average cost resulting in normal profit is free. ✓✓
- Firms are price makers and have a limited influence on the market price. ✓✓

(Accept any other relevant and correct answer)

3.4 Using a correctly labelled graph, discuss why it is advisable for an oligopolist firm to charge the market price.



Explanation

- For a firm to make maximum profit, it will have to charge the market price R 10, which will give a revenue of R 90 (R10 x 9). ✓✓
- If the firm increases the price to R 12, it will make a revenue of R24 (R12 x 2). Customers would opt for goods of competitors, decreasing demand drastically from 9 to 2 units. ✓✓
- Trying to attract more customers, a firm might decrease the price to R8, demand increases to only 10 units, receiving revenue of R 80 (R8 x 10). This will still be below the revenue received at the market price. ✓✓

(Max 4)

(Accept any correct and relevant answer)

(Maximum 4 marks for mere listing of facts)

3.5 How is the Cost Benefit Analysis used to evaluate project feasibility? (8)

- Project managers consider social costs and social benefits before they make a decision. ✓✓
- Shadow prices are used to calculate costs and benefits. ✓✓
- The rule that should be followed is that when $CBR = 0$, the project should not be continued as it has no benefits to society ✓✓ / if $CBR = 1$, the government should consider other projects that can offer more benefits ✓✓ / if $CBR > 1$, the project should continue as it offers enough benefits. ✓✓
- When a need for infrastructure is necessary but might not have benefits in terms of profit e.g., building a community centre, bridge etc. the project should be considered ✓✓
- Funding of these projects are mainly financed through tax revenue and does not impoverish any individuals as such. ✓✓
(Accept any other relevant and correct answer)
(Maximum 2 marks for mere listing of facts)

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QUESTION 4**4.1****4.1.1 Give TWO examples of fixed costs. (2 x 1) (2)**

- Rent ✓
 - Furniture ✓
 - Insurance ✓
- (Accept any other relevant and correct answer)

4.1.2 Why is the marginal revenue (MR) curve in the perfect market the same as the demand curve? (2)

Each additional unit will be sold at the same price which is the same as the demand curve. ✓✓
(Accept any other relevant and correct answer)

4.2 DATA RESPONSE**4.2.1 Identify the shutdown point from the graph above. (1)**

B ✓

4.2.2 What is the cost of producing one unit according to the graph above? (1)

R 12 ✓

4.2.3 Briefly describe the term *private costs*. (2)

Private costs are the actual costs paid by a consumer when a product is purchased. ✓✓
(Accept any other relevant and correct answer)

4.2.4 Explain the condition that exists for a firm to shut down.**(2)**

Shutdown occurs when the firm cannot cover its variable costs. ✓✓

(Accept any other relevant and correct answer)

4.2.5 Calculate the economic loss made by this firm. Show ALL calculations.**(4)**

$$\begin{aligned}
 &TR - TC \\
 &= (P \times Q) - (C \times Q) \\
 &= (10 \times 200) - (12 \times 200) \checkmark \\
 &= 2000 - 2400 \checkmark \\
 &= -R400 \checkmark
 \end{aligned}$$

OR

$$\begin{aligned}
 &= (10 - 12) \times 200 \checkmark \\
 &= -2 \times 200 \\
 &= -R400 \checkmark
 \end{aligned}$$

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4.3 DATA RESPONSE**4.3.1 Identify the barrier to enter the market from the extract.****(1)**

huge capital ✓

4.3.2 Name One example of an oligopoly market.**(1)**

- Banking Industry ✓
- Insurance Industry ✓
- Cellphone Industry ✓

(Accept any other relevant and correct answer)

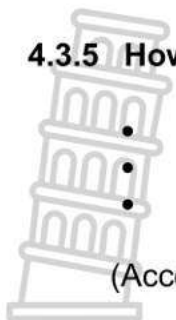
4.3.3 Briefly describe the term pure oligopoly.**(2)**

Pure oligopoly occurs when firms produce homogeneous products. ✓✓
(Accept any other relevant and correct answer)

4.3.4 Explain mutual dependence as a characteristic of an oligopoly as a market structure.**(2)**

- Actions of one firm regarding price and quality triggers the reaction of other firms. ✓✓
- Competing firms are forced to come up with strategies to counteract actions of the competitor. ✓✓

(Accept any other relevant and correct answer)

4.3.5 How does price fixing negatively affect consumers?**(2 x2(4))**

- Consumers are forced to pay high prices for goods and services. ✓✓
- Scarcity is created purposefully to qualify for increase in price. ✓✓
- Competitiveness is reduced which decreases GDP and employment levels. ✓✓

(Accept any other relevant and correct answer)

4.4 Use the graph below to explain the effect of negative externality on the market.

- When the market is left to its own devices, a quantity Q will be produced at price P. ✓✓
- Market equilibrium point e represents social inefficiency because MPC is equal to MPB. ✓✓
- When the external cost (negative externality) is taken into account the cost of production will increase and the supply curve will shift from SS (MPC) to S1S1 (MSC). ✓✓
- A higher price P1 will be charged for goods with negative externality and lower quantity Q1 will be produced. ✓✓
- At equilibrium point e1 the quantity produced represents social efficiency because MSC is equal to the price. ✓✓
- The shaded area represents the negative externality (welfare loss/ dead weight loss) to the society. ✓✓

(Accept any other correct relevant response)

4.5 Evaluate the impact of non-price competition on the profitability of imperfect market.**(8)**

- Offering differentiated product that makes goods less price elastic. ✓✓
- Competition is based on non-price factors, avoiding price wars. ✓✓
- Using branding to indicate differences when competing with other suppliers in the market, allows for product differentiation. ✓✓
- Aggressive advertising campaigns can be launched to attract customers, building customer loyalty. ✓✓
- Extending shopping hours will be more convenient for customers to make use of their services. e.g. 24-hour service. ✓✓
- Providing free deliveries within a certain range of business ensuring a hedge over other competition. ✓✓

(Accept any other relevant and correct answer)

(Maximum 2 marks for mere listing of facts)

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:

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

- **Discuss the monopoly in detail without the use of graphs.** (26)

INTRODUCTION

Monopoly exists when there is only one seller of a product, when the product has no close substitutes, and when barriers block entry into the market completely ✓✓
(Max. 2)

(Accept any other relevant and correct answer)

BODY**MAIN PART**

- **Number of producers** ✓
 - The monopolist has full control over the supply of a product, because it is the only seller ✓✓
 - The single supplier also represents the total industry e.g. De Beers, Eskom ✓✓
- **Nature of the product** ✓
 - The product is unique and has no close substitutes ✓✓
 - E.g. electricity and rail transport ✓
- **Economic profit** ✓
 - The monopoly can make a loss or profit in the short-term and an economic profit in the long run. ✓✓
- **Technical superiority** ✓
 - A monopoly has technical advantage over potential competitors and their access to resources and technical superiority make it difficult for others to compete ✓✓
- **Access to scarce resources** ✓
 - A single firm owns and controls a specific scarce resources and excludes other companies from entering the market ✓✓
- **Demand curve** ✓
 - Monopolists are also confronted with a demand curve for their product but because they are the only supplier of the product they can decide at what point on the demand curve they wish to be ✓✓
 - The monopolist is the only supplier of the product in the market - the demand curve that confronts the monopolist is that of the market as a whole ✓✓
 - The market demand curve which slopes downwards from left to right and is relatively inelastic. ✓✓

- **Production level** ✓
- Once the monopolist has decided on a price, the quantity sold is determined by market demand - by reducing the price, monopolists can sell more units of the product and vice versa ✓✓
- Monopolists influence the product-price combination of the product they sell without any reaction from other market participants ✓✓
- Other participants cannot act because a basic requirement for the existence of a monopoly is that entry to the market is blocked ✓✓

(Accept any other relevant and correct answer)

Max 26

ADDITIONAL PART

Why does the performance of South African monopolies contradict the long-run equilibrium position of a monopoly?

(10)

- Compared to a typical monopoly where economic profit always prevails over the long-run, natural monopolies do not enjoy the benefits experienced by other monopolies such as high development costs. ✓✓
- Natural monopolies supply goods and services to the nation as a whole and therefore it is difficult to set very high prices. ✓✓
- Eskom is subjected to National Energy Regulator in South Africa (NERSA) that determines the selling price of electricity in South Africa. ✓✓
- A natural monopoly has experienced high maintenance costs compared to artificial monopolies that compromises profits. ✓✓
- Natural monopolies cannot manipulate its quantities to increase prices. ✓✓
- Revenue seems to be less than costs due to corruption, nonpayment by a large number of electricity users. ✓✓
- Under normal circumstances a monopoly will shut down if average costs exceed average revenue in the long-run, but natural monopolies like SAA are often bailed out by the government due to its strategic position the country. ✓✓
- The internal (private costs) structure of natural monopolies have increased, but the private benefits (revenue of sales) stagnated due to poor maintenance of infrastructure. ✓✓

(Accept any relevant and correct response)

(Maximum 2 marks for mere listing)

CONCLUSION

Monopoly firms in a mixed economy such as in South Africa, lead to consumer exploitation, unfair competition and excessively high prices. ✓✓

(2)

(Accept any relevant and correct response)

[40]

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

- **Discuss in detail state intervention as a consequence of market failures** (26)
- **Analyse the negative impact of administered prices on the economy.** (10)

[40]**INTRODUCTION**

When market failure occurs, consequences such as inefficiencies, spill-over effects, imperfect competition and government intervention are likely to prevail ✓✓ (Max 2)
(Accept any other correct relevant introduction)

BODY/ MAIN PART**State intervention as a consequence of market failure****Direct control** ✓

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

Imperfect markets ✓

- The government can deal with imperfect competition by:
- Formulating or implementing 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 business in the case of state monopolies. ✓✓
- Imposing price controls to decrease prices of goods and services. ✓✓

Levying of taxes ✓

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

Providing producer subsidies ✓

- The government provides subsidies to producers to encourage them to produce more goods and services. ✓✓
- Subsidies increase supply of specific goods and services such as milk, wheat and maize. ✓✓
- Subsidies lower the cost of producing goods 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 for the workers will increase and as a result their standard of living will improve (improve welfare and ensure basic needs are met). ✓✓
- If a minimum wage is set above the equilibrium market wage, supply of labour will exceed the demand for labour. ✓✓
- This will increase the cost of labour, resulting in higher cost of production for Businesses. ✓✓
- Some workers may be retrenched and increase unemployment and while production decreases. ✓✓
- Minimum wages will lead to more bargaining power of 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 or price floors will be used so that it will be worthwhile for producers (to make a comfortable profit) to produce essential goods in desired quantities. ✓✓
- These are prices that are set above the market price by the government
- Minimum prices however 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 the WTO or be destroyed. ✓✓

Maximum prices ✓

- The government will set a maximum price if the price is deemed to be too high for essential goods (basic goods). ✓✓
- The maximum price that is set by the government below the market price is known as a price ceiling or maximum price. ✓✓
- 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 in the market is that the quantity supplied drops thus causing shortages. ✓✓
- Shortages in supply for certain goods in the market will result to the establishment of the 'black markets'. ✓✓

Redistribution of wealth ✓

- The South African government uses a progressive income tax system to redistribute income and wealth. ✓✓
- Traditional methods such as levying various taxes, provisioning of free services, benefits in kind and cash benefits, are used to reduce the income gap. ✓✓
- The government can also implement redress methods such as BBBEE, affirmative action, land restitution, land redistribution and property subsidies to redistribute wealth among the population. ✓✓

Government involvement in production ✓

- Subsidising merit goods to increase production. ✓✓
- Imposing taxes on demerit goods to reduce production. ✓✓
- Levying income taxes, indirect taxes and wealth taxes to provide community goods free of charge. ✓✓
- Providing collective goods such as refuse removal, waste disposal and sewerage drainage for a user fee. ✓✓ (Max 26)
(Accept any other correct relevant response)
(A maximum of 8 marks may be allocated for mere listing of facts/examples)
(Accept any relevant and correct response)

ADDITIONAL PART

Administered priced goods impact the economy negatively because:

- the government has not been able to keep administered prices within the inflation target range (above 10%). ✓✓
- a significant number of administered priced goods is used in the calculation of the CPI and puts pressure on prices that limits competitiveness. ✓✓
- sharp increases in the prices of electricity, water tariffs and municipal services has threatened the mining and manufacturing capacity causing foreign investors to withdraw their investments. ✓✓
- the government has limited control over fuel price increases which is determined by the exchange rate (the depreciation of the rand) and international oil prices. ✓✓
- the increases in fuel prices (above the inflation target of 6%) has increased the cost of production of all goods and services. ✓✓
- the cost of the CPI basket of goods will increase further due to increased transport costs. ✓✓
- the increased transport cost will limit the supply of goods, impacting negatively on the consumer through higher market prices. ✓✓
- the price of fuel in South Africa includes various levies for example the road accident fund, which has increased above the CPI. ✓✓
- the increased pressure on the CPI can lead to a situation of stagflation (high unemployment, low growth and high inflation). ✓✓

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

CONCLUSION

- Market failures can have devastating effects on the economy which requires government to intervene to reduce their consequences. ✓✓ (2)

(Accept any relevant and correct response)



TOTAL SECTION C: [40]

GRAND TOTAL: [150]