



education

Department:
Education
North West Provincial Government
REPUBLIC OF SOUTH AFRICA

PROVINCIAL ASSESSMENT

GRADE 10

**ECONOMICS P2
JUNE 2024**

MARKS: 100

TIME: 1½ hours



This question paper consists of 9 pages.

INSTRUCTIONS AND INFORMATION

1. Answer THREE questions as follows in the ANSWER BOOK:
SECTION A: COMPULSORY
SECTION B: Answer ONE of the two 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****20 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 numbers (1.1.1 to 1.1.5) in the ANSWER BOOK, e.g. 1.1.6 D.

1.1.1 The degree of satisfaction that a household or consumer derives from the consumption of a good or service is called ...

- A value.
- B utility.
- C price.
- D cost.

1.1.2 A market structure where there are no barriers to entry is called a/an ... market.

- A monopoly
- B oligopoly
- C monopolistic competition
- D perfect competition

1.1.3 A/an ... curve shows the alternative combination of any two goods or services that can be produced if all the available resources are fully and efficiently utilised.

- A indifference
- B supply
- C production possibility
- D demand

1.1.4 A sacrifice made in purchasing a school bag instead of a movie ticket indicates the economic phenomenon of ...

- A opportunity cost.
- B savings.
- C exchange.
- D scarcity.

1.1.5 Prices set by the government below the market price to make goods more affordable are called ...

- A minimum prices.
- B maximum prices.
- C price floor.
- D marginal.

(5 x 2) (10)

- 1.2 Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A–F) next to the question number (1.2.1–1.2.5) in the ANSWER BOOK, e.g. 1.2.6 G

COLUMN A	COLUMN B
1.2.1 Subsidy	A quantities of goods or services produced do not meet the consumers' tastes and preferences
1.2.2 Law of demand	B the quantity of a good or service that producers are willing to sell
1.2.3 Allocative inefficiencies	C a cash grant given to manufacturers to reduce the cost of production
1.2.4 Sin tax	D this is based on the assumption that all other determinants are constant.
1.2.5 Supply	E tax levied on goods that are harmful to society such as alcohol, tobacco, etc
	F as the price of a product increases the demand for the product decreases

(5 x 1) (5)

- 1.3 Give ONE term for each of the following descriptions. Write only the term next to the question numbers (1.3.1 to 1.3.5) in the ANSWER BOOK. Abbreviations, acronyms and examples will NOT be accepted.

1.3.1 Goods that are used in conjunction with other goods

1.3.2 A market in which illegal goods are bought and sold

1.3.3 Taxes whose incidence cannot be shifted or passed on to consumers

1.3.4 Goods that are provided by the government

1.3.5 An institution that collects taxes on behalf of the South African government

(5 x 1) (5)

TOTAL SECTION A: 20

SECTION B

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

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

2.1 Answer the following questions.

2.1.1 List any TWO examples of indirect taxes. (2 x 1) (2)

2.1.2 What is the effect of scarce resources on producers? (1 x 2) (2)

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



2.2.1 Identify a company that is responsible for supplying electricity in South Africa from the cartoon above. (1)

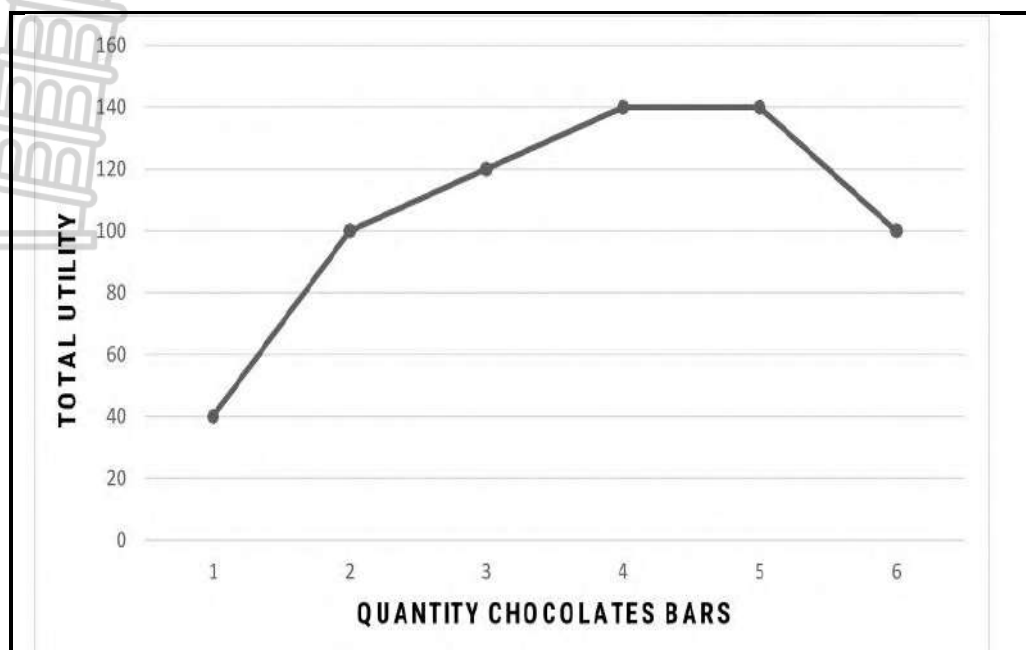
2.2.3 Name the institution that regulates energy in South Africa. (1)

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

2.2.4 Why is Eskom regarded as a monopoly in South Africa? (2)

2.2.5 Why do state-owned monopolies in South Africa find it difficult to achieve economic profit? (2 x 2) (4)

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



2.3.1 Name any ONE form of utility. (1)

2.3.2 Identify the chocolate bar with a marginal utility of "0". (1)

2.3.3 Briefly describe the term *value*. (2)

2.3.4 What happens to total utility when the 6th chocolate bar is consumed? (2)

2.3.5 Explain the relationship between utility and the demand of a product? (2 X 2) (4)

2.4 Discuss in detail the functions of the markets. (2 X 4) (8)

2.5 How would a subsidy on petrol benefit the economy? (4 X 2) (8)

[40]

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

3.1 Answer the following questions.

3.1.1 Name TWO types of inefficiencies. (2 x 1) (2)

3.1.2 How do climatic conditions affect the supply of agricultural produce? (1 x 2) (2)

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

POSSIBILITY	CAPITAL GOODS	CONSUMER GOODS
A	15	0
B	14	1
C	12	2
D	9	3
E	5	4
F	0	5

3.2.1 What is the opportunity cost of increasing production of consumer goods from 1-2? (1)

3.2.2 If all the factors of production were spent in the production of capital goods, how many goods would be produced? (1)

3.2.3 Briefly describe the term *production*. (2)

3.2.4 What is the effect of an outward shift of the production possibility curve on the economy? (2)

3.2.5 Use the information from the table above to construct a fully labelled production possibility curve. (4)

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



Price of sneakers	Quantity Demanded	Quantity Supplied
R1 000	25	65
R800	35	55
R600	45	45
R400	55	35
R200	65	25

3.3.1 Identify the market price in the table above. (1)

3.3.2 Name ONE factor that influences the demand for goods and services. (1)

3.3.3 Briefly describe the term *utility*. (2)

3.3.4 Why would the quantity supplied increase when the price of sneakers increases? (2)

3.3.5 Use the above table to draw the original demand and supply curves on the same set of axes. (4)

3.4 Discuss the external reasons why a Production Possibility Curve (PPC) will move to the right. (2 X 4) (8)

3.5 Analyse the impact of the Covid-19 outbreak on the hand sanitizer market. (4 X 2) (8)
[40]

TOTAL SECTION B: 40



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 ESSAY	MARK ALLOCATION
Introduction The introduction is a lower-order response. • A good starting point will be to define the main concept related to the question topic. • DO NOT include any part of the question in your 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
Body Main part: Discuss in detail/In depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain/Assess/Debate A maximum of 8 marks may be allocated for headings/examples. Additional part: Critically discuss/Evaluate/Critically evaluate/Deduce/Compare/Distinguish/Suggest/Interpret/Debate/How A maximum of 2 marks may be allocated for mere listing of facts.	Max. 26 Max. 10
Conclusion Any higher-order conclusion should include: • A brief summary of what has been discussed without repeating facts already mentioned. • Any opinion or value judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations	Max. 2
TOTAL	40

QUESTION 4: MICROECONOMICS

40 MARKS - 40 MINUTES

- Compare and contrast *perfect market* and *imperfect markets*. (26)
- How can the government protect consumers against exploitation by imperfect markets? (10)

QUESTION 5: MICROECONOMICS

40 MARKS - 40 MINUTES

- Discuss in detail the methods that the government uses to intervene in the economy. (26)
- Why does the government need to intervene in the economy? (10)

TOTAL SECTION C:	40
GRAND TOTAL:	100



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PROVINCIAL ASSESSMENT

GRADE 10

**ECONOMICS P2
MARKING GUIDELINES
JUNE 2024**

MARKS: 100

These marking guidelines consist of 14 pages.



SECTION A

QUESTION 1 (COMPULSORY)

1.1 MULTIPLE-CHOICE

1.1.1 B/ utility ✓✓

1.1.2 D/ perfect competition ✓✓

1.1.3 C/ production possibility curve ✓✓

1.1.4 A/ opportunity cost ✓✓

1.1.5 B/ maximum prices ✓✓ (5 x 2) (10)

1.2 MATCHING ITEMS

1.2.1 C/ a cash grant given to manufacturers to reduce the cost of production ✓

1.2.2 F/ as the price of a product increases the demand for the product decreases ✓

1.2.3 A/ quantities of goods or services produced do not meet the consumers' tastes and preferences ✓

1.2.4 E/ tax levied on goods that are harmful to society such as alcohol, tobacco, etc. ✓

1.2.5 B/ the quantity of a good or service that producers are willing to sell ✓ (5 x 1) (5)

1.3 GIVE THE TERM

1.3.1 Complementary goods ✓

1.3.2 Black market ✓

1.3.3 direct taxes ✓

1.3.4 Public goods ✓

1.3.5 South African Revenue Services ✓ (5 x 1) (5)



TOTAL SECTION A: 20

SECTION B

QUESTION 2: MICROECONOMICS

2.1 Answer the following questions.

2.1.1 List any **TWO** examples of indirect taxes.

Excise duty/sin tax ✓

VAT ✓

Import duty/custom duty ✓

Stamp duty ✓

Transfer duty ✓

(Accept any other correct and relevant answer)

(2 x 1) (2)

2.1.2 What is the effect of scarce resources on producers?

Producers have to make a choice on how to best use their limited resources. ✓✓

(Accept any other correct and relevant response)

(1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 Identify a company that is responsible for supplying electricity in South Africa from the cartoon above.

Eskom ✓

(1)

2.2.2 Name the institution that regulates energy in South Africa.

National Energy Regulator of South Africa/NERSA ✓

(1)

2.2.3 Briefly describe the term *monopoly*.

A market structure that consists of only seller. ✓✓

(Accept any other correct and relevant response)

(2)

2.2.4 Why is Eskom regarded as a monopoly in South Africa?

Eskom is a near monopoly as it is the single producer of electricity in South Africa/ It supplies the entire country with electricity. ✓✓

(Accept any other correct and relevant response)

(2)

2.2.5 Why do state-owned monopolies in South Africa find it difficult to achieve an economic profit?

- There is a lack of accountability and no measures to counter corruption and mismanagement. ✓✓

- Most SOEs rely on government bailouts to stay afloat. ✓✓

(Accept any other correct and relevant response)

(2 x 2) (4)

2.3 DATA RESPONSE



2.3.1 Name any ONE form of utility.

- Utility of form ✓
- Utility of place ✓
- Utility of time ✓
- Utility of possession ✓ (1)

2.3.2 Identify the chocolate bar with a marginal utility of “0”.

- 5th chocolate bar ✓ (1)

2.3.3 Briefly describe the term *value*.

- Value is the maximum amount of money a person is willing and able to pay for goods or services. ✓ ✓
(Accept any other correct and relevant response) (2)

2.3.4 What happens to total utility when the 6th chocolate bar is consumed?

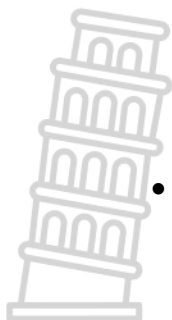
- Total utility starts to decrease and the 6th chocolate bar gives negative utility/disutility. ✓ ✓ (2)

2.3.5 Explain the relationship between utility and the demand of a product?

- The greater the satisfaction gained from consuming a product, the greater the demand of a product. ✓ ✓
- Consumers demand more of the product that matches their expectation with the satisfaction. ✓ ✓
(Accept any other correct and relevant response) (4)

2.4 Discuss in detail the functions of the markets.

- **Markets bring supply and demand together** ✓
 - Markets are the interaction of consumers and producers to negotiate prices and exchange goods and services. ✓ ✓
 - Because markets create contact between consumers and producers, it is in markets that supply and demand comes together. ✓ ✓
 - Through the interaction of demand and supply, prices are determined. ✓ ✓
 - Markets therefore serve a price-forming function. ✓ ✓
- **Markets lead to an efficient allocation of resources** ✓
 - Market prices direct the economic decisions of both consumers and producers. ✓ ✓
 - Producers will consider the relative prices of goods and services before they decide what, how and for whom to produce. ✓ ✓
 - Producers make these decisions so as to maximize their profits. ✓ ✓
 - Consumers, in contrast, will consider the relative prices of goods and services before they decide how to spend their money. ✓ ✓



- Consumers make these decisions so as to maximize their utility. ✓✓
 - Profit maximization and utility maximization lead to an efficient allocation of resources. ✓✓
 - **Markets are self-regulatory** ✓
 - Prices are determined by the forces of supply and demand. ✓✓
 - Markets do not require any direct intervention or control from outside forces. ✓✓
 - They are said to be guided by "an invisible hand", which ensures that prices are set in such a way that resources are allocated efficiently. ✓✓
 - In the absence of markets, some regulating body would have to decide what goods would be produced, in what quantities, and for what price. ✓✓
 - Within markets, these decisions are made automatically. ✓✓
- (Accept any other correct relevant response) (8)
(Allocate a maximum of 4 marks for mere listing of facts)

2.5 How would a subsidy on petrol benefit the economy?

- More cars/vehicles will be demanded and produced. ✓✓
 - The price of petrol will decrease and petrol will be affordable ✓✓
 - Transport and travelling costs will decrease due to a drop in the price of petrol ✓✓
 - Production capacity of the country will increase/Real GDP will increase ✓✓
 - The general price level of goods and services will decrease/inflation rate will decrease ✓✓
- (Accept any other correct relevant response) (8)
(Allocate a maximum of 2 marks for mere listing of facts/examples)

[40]

QUESTION 3: MICROECONOMICS

3.1 Answer the following questions.

3.1.1 Name TWO types of inefficiencies.

Allocative ✓

Productive / technical/ Pareto ✓

(2 x 1) (2)

3.1.2 How do climatic conditions affect the supply of agricultural produce?

- During cold conditions, suppliers will produce and supply more of products which will keep consumers warm e.g. jackets, boots, heaters, soup etc. ✓✓
- During hot conditions, suppliers will produce and supply more of products which will keep consumers cool e.g. umbrellas, ice cream, cold drinks etc. ✓✓
- Farmers will supply less during unfavourable climatic conditions e.g. droughts, floods etc. ✓✓

(Accept any other correct and relevant response)

(1 x 2) (2)

3.2 DATA RESPONSE

3.2.1 What is the opportunity cost of increasing the production of consumer goods from 1 - 2?

It is a decrease of 2 units of capital goods (14-12) ✓ (1)

3.2.2 If all the factors of production were spent in the production of capital goods, how many goods would be produced?

15 ✓ (1)

3.2.3 Briefly describe the term *production*.

Production refers to the transformation of raw materials into finished goods. ✓✓

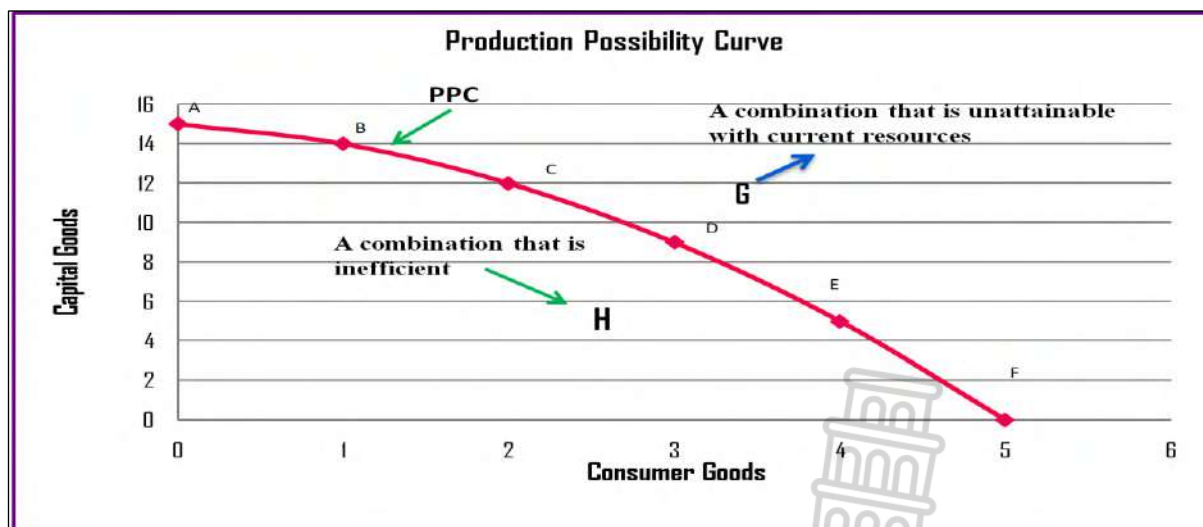
(Accept any other correct and relevant response) (2)

3.2.4 What is the effect of an outward shift of the production possibility curve on the economy?

It indicates increased production and possibly higher profits. ✓✓

(Accept any other correct and relevant response) (2)

3.2.5 Use the information from the table above to construct a fully labelled production possibility curve.



Mark allocation

Correct shape of PPC	= 1 mark
Labelling of axis	= 1 mark
Labelling on axis	= 1 mark
Indication of inefficient point	= 1 mark
Indication of unattainable point	= 1 mark
Max 4 marks	

3.3 DATA RESPONSE

3.3.1 Identify the market price in the table above.

R600 ✓

(1)

3.3.2 Name ONE factor that influences the demand for goods and services.

The price of the product ✓

The price of related products ✓

The income of the consumer ✓

Tastes and preferences of the consumer ✓

The size of households ✓

The weather conditions ✓

(1)

3.3.3 Briefly describe the term *utility*.

The degree of satisfaction that a household or consumer derives or expects to derive from the consumption of a good or service. ✓✓

(Accept any other correct and relevant response)

(2)

3.3.4 Why would the quantity supplied increase when the price of sneakers increases?

- The supply of sneakers increase when the price increase because suppliers receive enough money to produce more products. ✓✓

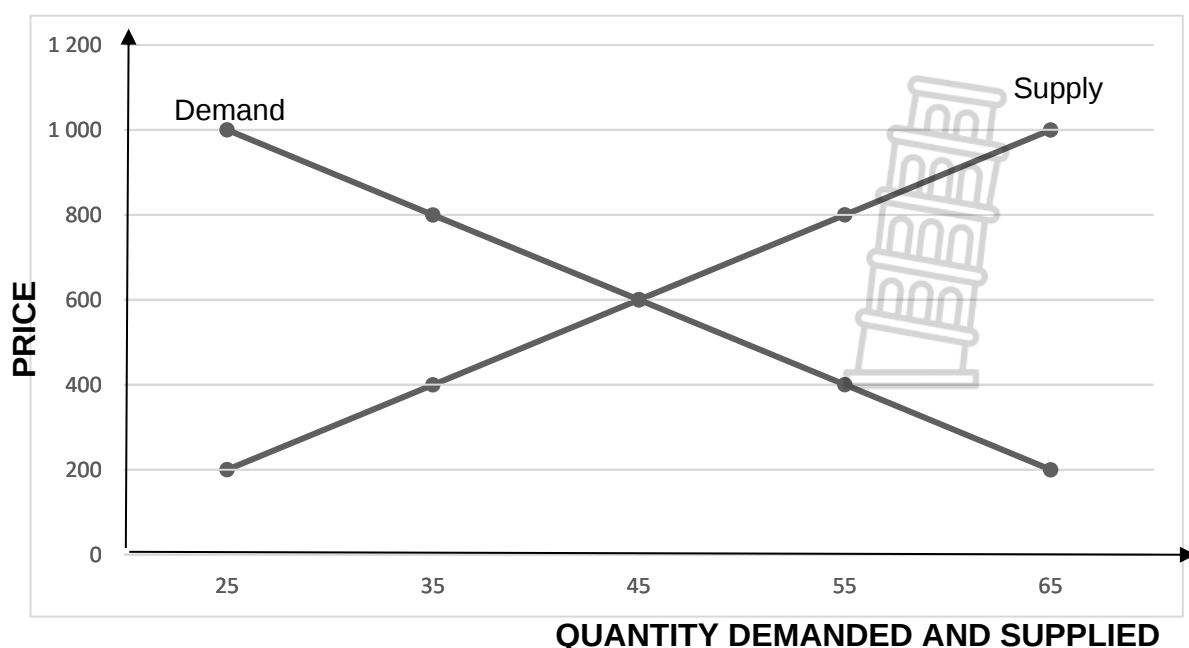
- The price increase encourages more businesses to enter into the market of sneakers. ✓✓

(Accept any other correct and relevant response)

(2)

3.3.5 Use the above table to draw the original demand and supply curves on the same set of axes.

DEMAND AND SUPPLY CURVES





Mark allocation

Heading = 1 mark

Labelling on and of axes = 1 mark

Labelling of demand curve = 1 mark

Labelling of supply curve = 1 mark

Max 4 marks

3.4 Discuss external reasons why a Production Possibility Curve (PPC) will move to the right.

- The quality of factors of production ✓✓
 - Efficient transport services ✓✓
 - Efficient communication systems ✓✓
 - Health care which leads to healthier workers ✓✓
- (Accept any other correct and relevant response)

(Allocate a maximum of 4 marks for mere listing of facts) (8)

3.5 Analyse the impact of the Covid-19 outbreak had on the hand sanitizer market.

- The Covid-19 outbreak led to a huge uptick in the demand for hand sanitizers globally. ✓✓
- The demand for hand sanitizers was steady for the past few months since the outbreak of the virus in China, early in 2020. ✓✓
- A sudden spike in demand was observed as the cases surged in the U.S., Italy, UK and other countries. ✓✓
- As the virus began to spread widely across the globe, people started to 'panic-buy' hand sanitizers as a preventive measure. ✓✓
- The 'panic-buying' of hand sanitizers led to a serious shortage of hand sanitizers world- wide as the majority of retailers and chemist stores ran out of stock. ✓✓
- Manufacturers faced challenges to their normal supply chains from increasing demand for the raw ingredients needed to meet unprecedented and urgent demand during the Covid-19 outbreak. ✓✓
- To solve the problem, some of the retailers limited the number of purchase per customer in order to serve as many people as possible. ✓✓
- Black markets developed where hand sanitizers were sold illegally at higher prices due to the increased demand. ✓✓
- Due to shortages, consumers were encouraged to wash hands with soap and water regularly and thoroughly. ✓✓
- The increase in demand followed by less supply of hand sanitizers led to abnormal increase in the price of hand sanitizers. ✓✓

(Accept any other correct and relevant response) (8)
(Allocate a maximum of 2 marks for mere listing of facts/examples)

[40]

TOTAL SECTION B: 40

SECTION C

QUESTION 4: MICROECONOMICS

- Compare and contrast perfect market and imperfect markets. (26)
- How can the government protect consumers against exploitation by imperfect markets? (10)

INTRODUCTION

A market is a mechanism that brings together the buyers and sellers of goods and services/ market structure refers to how the market is organised. ✓✓
(Accept any other correct relevant introduction) (Max. 2)

BODY

MAIN PART

Number of businesses ✓

- A perfect market consists of a large number of firms ✓ whereas the number ranges from one (monopoly), few (oligopoly) and many (monopolistic competition) ✓

Nature of the product ✓

- Under a perfect market, firms produce homogeneous products which are identical in terms of the quality, appearance, packaging, ingredients ✓ whereas the nature of the product ranges from unique (monopoly) homogenous/differentiated (oligopoly) and differentiated (monopolistic competition) ✓

Control over the price ✓

- In a perfect market firms are price takers because the prices are determined by market forces of demand and supply ✓ whereas firms have some degree of control over price which range from little (monopolistic competition), considerable (oligopoly) to full control (monopoly), under imperfect market ✓

Demand curves ✓

- The demand curve for an individual seller in a perfect market is horizontal where $D = MR = AR$ whereas the demand curve for the firms under imperfect market is downward sloping from top left to bottom right ✓

Entry and exit ✓

- Entry and exit is completely free under perfect market ✓ whilst it ranges from relatively easy to completely blocked under imperfect markets. ✓

Information ✓

- Information is complete under perfect market and monopoly ✓ whereas it is incomplete under oligopoly and monopolistic competition ✓

Economic profit/loss ✓

- In the short run, perfect competition and monopolistic competition make either economic profit or economic loss and normal profit in the long run ✓ whereas the monopolist and oligopolist can make economic profit or economic loss in the short run and make economic profit in the long run ✓

Decision-making ✓

- Firms in perfect markets rely on market forces for decision-making ✓ whilst decisions are taken mostly by shareholders and board of directors under imperfect market ✓

Collusion ✓

- Collusion does not exist in a perfect market ✓ whereas it is only possible under oligopoly in an imperfect market ✓

Productive/technical efficiency ✓

- It only exists in a perfect market as firms in this market always produce at the lowest possible cost ✓ and it does not exist in an imperfect market as firms in this market do not produce at the lowest possible costs. ✓

Allocative efficiency ✓

- It only exists in a perfect market as firms in this market always sell at the price that is equal to the marginal cost and according to the tastes and preferences of consumers ✓ and it does not exist in an imperfect market as firms in this market always sell at a price that is higher than their marginal costs. ✓

(A maximum of 8 marks can be allocated for mere listing of facts/examples)
(Max. 26)

ADDITIONAL PART

- The government can investigate charging of abnormal prices and impose fines to firms affected. ✓✓
- The government can investigate price fixing by oligopolists and impose fines on them. ✓✓
- Laws can be passed that encourage competition and make goods to be affordable. ✓✓
- The government can provide information about prices of goods and services where information is incomplete/government can provide information services to businesses ✓✓ such as technical advice, information on markets etc. ✓
- Through the competition policies, the government can prevent illegal merging of large business undertakings. ✓✓

(Accept any other correct and relevant response)

(Max. 10)

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

CONCLUSION

- Markets play a vital role in the economy. Market failure will always occur in an economy but it can be solved through government intervention. ✓✓
(Accept any other correct relevant conclusion)

(Max. 2)

[40]

QUESTION 5: MICROECONOMICS

- Discuss in detail the methods that the government uses to intervene in the economy. (26)
- Why does the government need to intervene in the economy? (10)

INTRODUCTION

Government intervenes in the market to optimise production and the allocation of resources. ✓✓/The public sector or government includes all aspects of local, regional and national government. ✓✓

(Accept any other correct relevant introduction)

(Max. 2)

MAIN PART

Indirect tax ✓

- An indirect tax is paid indirectly by consumers through the purchase of goods and service ✓✓
- There are three kinds of indirect tax, e.g. VAT, excise duties –charged on locally produced goods and custom duties which are charged on imports ✓✓
- By imposing the tax, the government directly influences the price which increases the price the consumer pays ✓✓

Subsidies ✓

- The government provides subsidies to producers in order to encourage them to increase the production of goods. Supply increases ✓✓
- Producer subsidies are often given to suppliers of agricultural products such as milk, wheat and maize ✓
- Subsidies lower the cost of producing goods and thus the market price of these goods is lowered (products are sold cheaper) ✓✓
- In South Africa there are four types of subsidies:
 - production,
 - employment
 - export
 - income subsidies

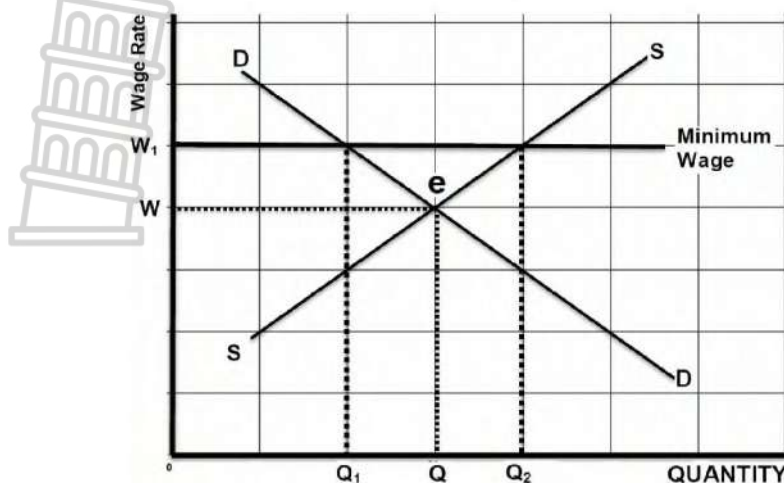
Welfare ✓

- Due to the uneven distribution of wealth, welfare grants are provided for people to meet their basic needs ✓✓
- The government provides merit goods and also supplements the income of poor people ✓✓
- Cash grants e.g. old-age pensions, disability and childcare grants are used ✓

Production ✓

- Government provides goods and services which are not provided by the private sector ✓✓
- These goods are non-rival and non-excludable, e.g. protection services, parks, streets, refuse removal ✓

Minimum wages ✓

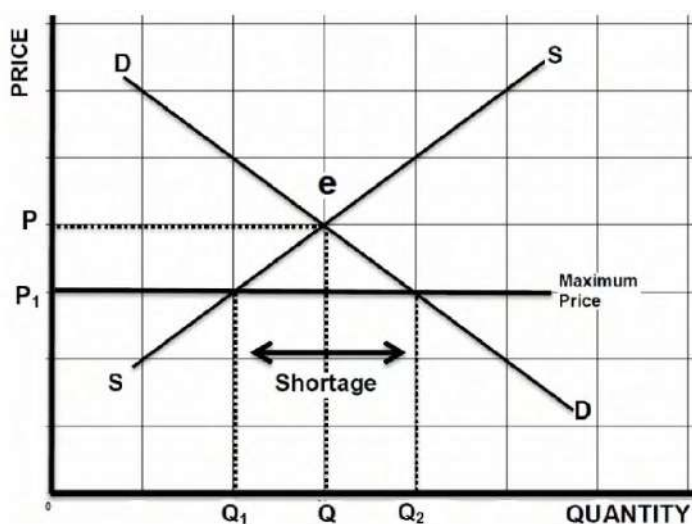


Mark allocation

Correct position and indication of minimum wage = 1 mark
Labelling of axis = 1 mark
Labelling on axis = 1 mark
Indication of equilibrium point – 1 mark

- When the government enforces a minimum wage, it means workers have to be paid a certain wage amount and not anything less than this ✓✓
- The reason for this is that workers should earn wages which is enough to cover the basic cost of living ✓✓
- This helps to protect workers and re-allocate resources ✓✓
- In 2002 minimum wages were introduced for domestic workers ✓✓
- This was also extended for farm workers and also to non-unionised industries ✓✓

Maximum prices ✓



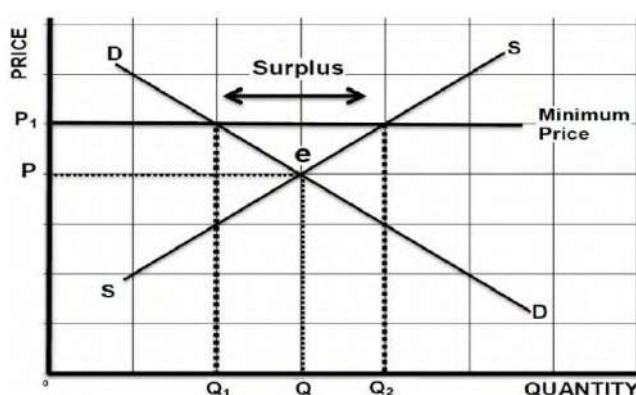
Mark allocation

Correct position and indication of maximum price = 1 mark
Correct indication and labelling of shortage = 1 mark
Labelling of and on axis = 1 mark
Indication of equilibrium point – 1 mark

- A maximum price is set on goods such as basic foods, housing and transport. ✓✓
- In South Africa the price of petrol, diesel fuel and paraffin are controlled at their maximum prices. ✓✓
- Initially the market equilibrium price is P and equilibrium quantity is Q . ✓✓
- The government intervenes and passes a law that a certain product such as milk cannot be sold for more than P_1 . ✓✓

- The effect of this maximum price is that quantity supplied decreases to Q_1 and quantity demanded increases to Q_2 . ✓✓
- There is a shortage of the product (milk) equal to the difference between Q_1 and Q_2 . ✓✓
- A shortage creates a problem of how to allocate the product (milk) to consumers. ✓✓
- Black markets often develop where people can obtain the product (milk). (A black market is an illegal market in which either illegal goods are bought and sold or illegal prices are charged.) ✓✓
- Maximum prices may cause a shortage of goods but they do improve the welfare of some consumers since goods can be purchased at lower prices. ✓✓

Minimum prices ✓



Mark allocation

Correct position and indication of minimum price = 1 mark
Correct indication and labelling of surplus = 1 mark
Labelling of and on axis = 1 mark
Indication of equilibrium point = 1 mark

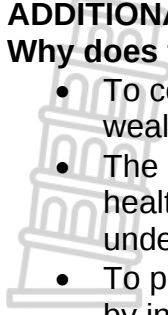
- The government sets a minimum price at some point above the market price. ✓✓
- This is done to enable producers to make a comfortable profit and thus encourages them to supply important essential goods. ✓✓
- The market equilibrium price is P and the equilibrium quantity is Q . ✓✓
- If the government sets a minimum price at P_1 , suppliers will be able to earn greater profits and supply more of the product. ✓✓
- Quantity supplied will therefore increase to Q_2 , however, quantity demanded will decrease to Q_1 . ✓✓
- There would be a surplus of the product equal to the difference between Q_2 and Q_1 . ✓✓
- A surplus means the government will have to buy the extra wheat and dump it locally or abroad. ✓✓
- Although minimum prices may cause a surplus they do encourage the supply of important food stuffs. ✓✓

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

(26 marks)

ADDITIONAL PART

Why does the government need to intervene in the economy?

- 
- To correct inefficiencies in the economy such as monopolies, distribution of wealth. ✓✓
 - The market is not able to provide goods and services for the people e.g. health services and infrastructure/to supply essential services which are undersupplied by the market such as health, education. ✓✓
 - To prevent unequal opportunities in the marketplace/ to create fair competition by investigating collusion, excessive prices, merging of large business undertakings. ✓✓
 - To guard against market prices that may be detrimental to the economy's economic health. ✓✓
 - To improve the level of welfare by financing a system of grants payable to the poorest members of the society. ✓✓
 - To manage strategic industries in the country such as power generation, water supplies and transport infrastructure. ✓✓
 - To correct market failures which result in insufficient supply of essential goods and services to promote fair treatment of workers and prevent exploitation, so it sets minimum wages and maximum working hours. ✓✓

(Accept any other correct and relevant response)

(Max. 10)

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

CONCLUSION

- The intervention of government ensures that inefficiencies is eliminated and that the market is operating effectively. ✓✓
(Accept any other correct relevant conclusion)

(Max. 2)

[40]

TOTAL SECTION C: 40

GRAND TOTAL: 100

