education

Department:
Education
North West Provincial Government
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS P2

SEPTEMBER 2025

MARKS: 150

TIME: 2 hours

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

1.1.1 In any market the average revenue is the same as the …

A price.
B marginal revenue.
C supply.
D profit.

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

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

1.1.3 Advertising and branding play a key role in a ... market.

A monopoly
B formal
C perfect
D monopolistic competitive

1.1.4 The government can intervene to reduce the production and consumption of a demerit good ...

A by levying excise tax.
B through public-sector provisioning.
C by granting subsidies.
D by implementing a progressive system of taxation.

1.1.5 The implementation of inflation targets is the responsibility of the …

A South African Revenue Services.
B Department of Finance.
C South African Reserve Bank.
D Department of Trade and Industry.

1.1.6 The tourism industry is … intensive.

A capital
B labour
C technological
D money

1.1.7 A non-renewable energy resource is …

A wind.
B currents.
C coal.
D sunlight.

1.1.8 Which of the following is an example of an environmental world heritage site?

A Sterkfontein Caves
B Cape Fynbos Region
C Robben Island
D Vredefort Dome (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 numbers (1.2.1 to 1.2.8) in the ANSWER BOOK, e.g. 1.2.9 J.

COLUMN A	COLUMN B
1.2.1 Explicit costs	A an international agreement aimed at reducing greenhouse gases
1.2.2 Perfect market	B they have the same effect as imports on the balance of payments
1.2.3 Heterogeneous	C measures price changes at factory level
1.2.4 Maximum price	D products that are not similar
1.2.5 Producer price index	E to keep resources that are non-renewable intact, e.g. ecological systems, heritage sites
1.2.6 Outbound tourist	F actual expenditure of a business on the purchase or hire of inputs required for the production process
1.2.7 Preservation	G measures the price of a fixed basket of consumer goods and services
1.2.8 Kyoto Protocol	H set below the market price to enable the poor to afford certain goods
	I sells homogenous products

(8 x 1) (8)

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

1.3.1 Value of inputs own by an entrepreneur and used in the production process

1.3.2 A market structure which has many buyers and sellers with relatively easy entry to the market

1.3.3 When the market price is not a pure reflection of scarcity of that product

1.3.4 Visiting places of archaeological significance

1.3.5 Subsidies granted to businesses to reduce environmental damage

1.3.6 Tourism directed towards natural environments, intended to support conservation efforts and observe wildlife (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

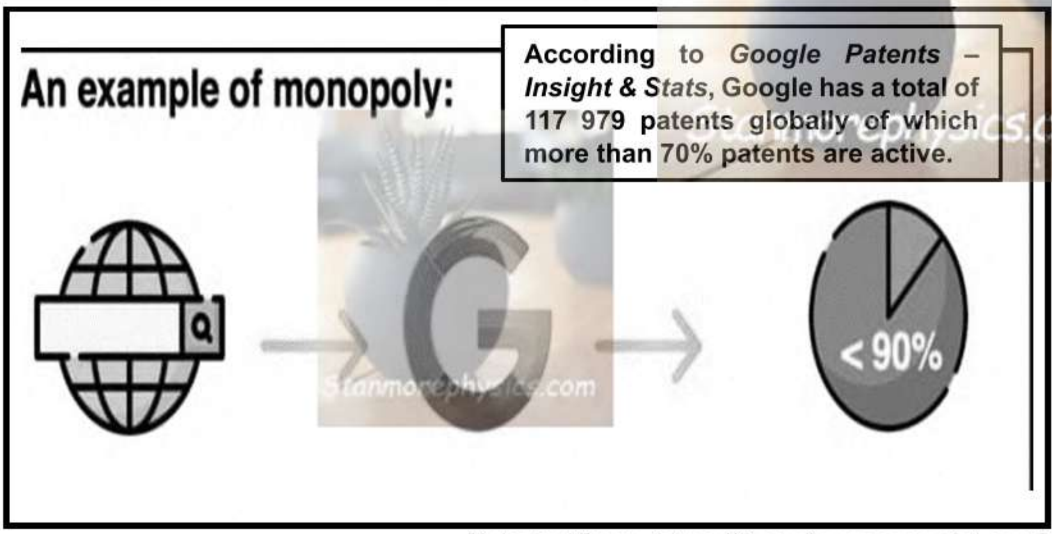
QUESTION 2: MICROECONOMICS **40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Name TWO methods of non-price competition. (2 x 1) (2)

2.1.2 Why is a perfect competitor unable to influence market prices? (1 x 2) (2)

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



[Adapted from: https://thecuriouseconomist.com]

2.2.1 Identify the type of monopoly depicted in the information above. (1)

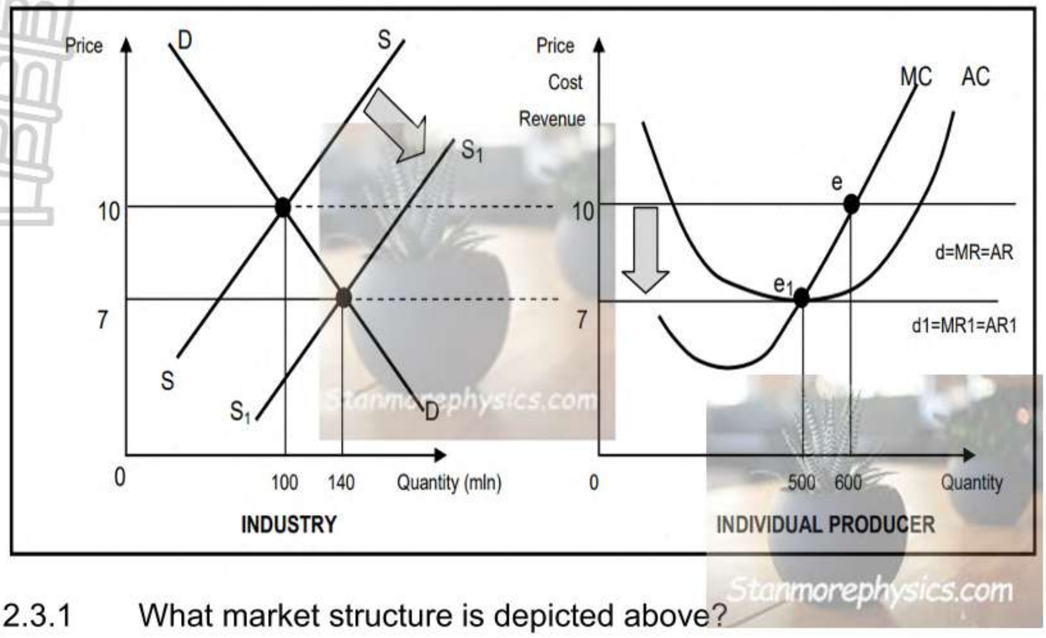
2.2.2 What is the nature of the product offered by monopolies? (1)

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

2.2.4 How does the slope of the monopolist's demand curve differ from that of a monopolistic competitor in the short run? (2)

2.2.5 What benefits does the monopolist enjoy compared to a perfect market structure in the long run? (2 x 2) (4)

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



2.3.1 What market structure is depicted above? (1)

2.3.2 Identify the price where the individual producer will make an economic profit. (1)

2.3.3 Briefly describe the term *marginal cost*. (2)

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

2.3.5 Explain the effect on the market in the long run if the businesses above make an economic profit. (2 x 2) (4)

2.4 With the aid of a correctly labelled graph, use total cost (TC) and total revenue (TR) to explain profit maximisation in a perfect market. (8)

2.5 How can differentiated products affect producers in a monopolistically competitive market? (4 x 2) (8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name TWO reasons why the market fails to ensure environmental sustainability. (2 x 1) (2)

3.1.2 How can the depreciation of the rand affect inbound tourism? (1 x 2) (2)

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

[Source: *SIGMAEARTH,* November 2023]

3.2.1 Identify an environmentally sustainable solution to South Africa's electricity crisis in the information above. (1)

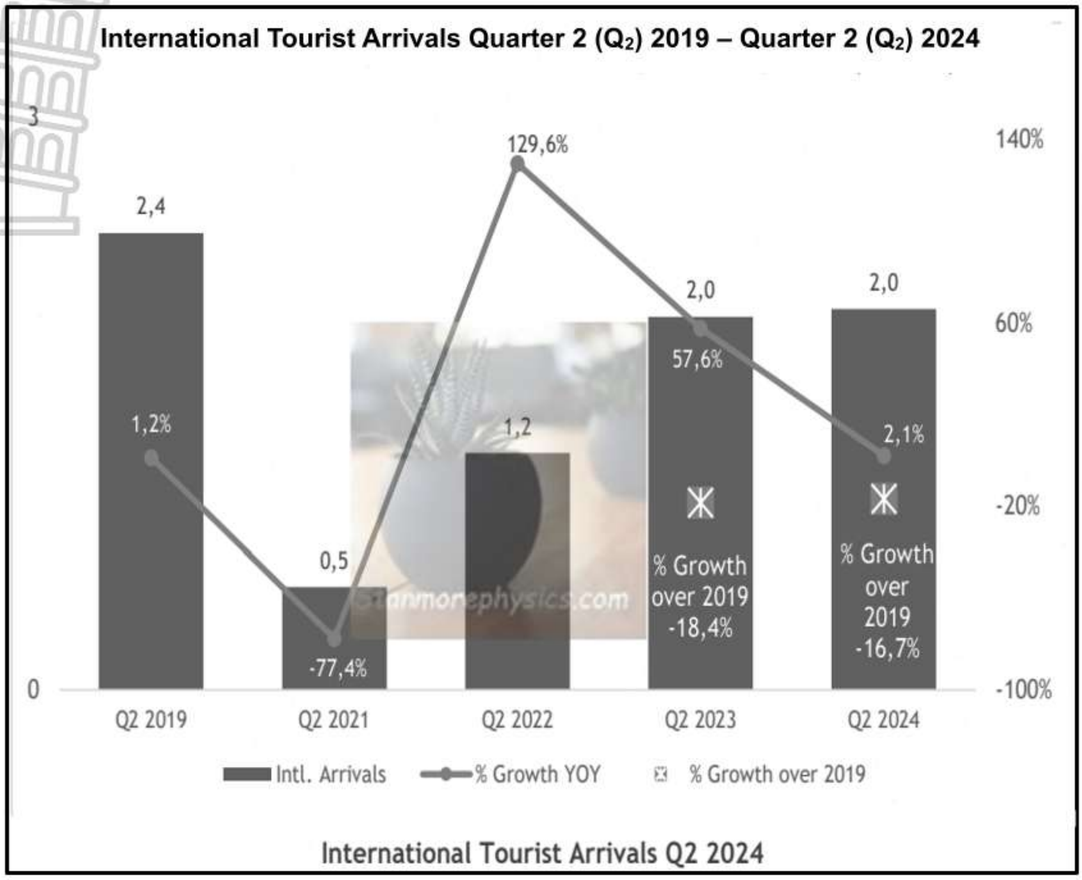
3.2.2 Name the international measure that deals with the control of chemical waste. (1)

3.2.3 Briefly describe the term *environmental sustainability.* (2)

3.2.4 Explain the role of education in maintaining a sustainable environment. (2)

3.2.5 What are the benefits of using technology in sustaining the environment? (2 x 2) (4)

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



[Source: *International Tourism, 2nd Quarter Performance Report,* April – June 2024]

3.3.1 Identify the year that showed the most decline in international tourist arrivals. (1)

3.3.2 Give ONE industry that depends on tourism. (1)

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

3.3.4 Explain the basic guidelines for effective levying of tourism tax. (2)

3.3.5 How does an increase in tourism activities impact on rural communities? (2 x 2) (4)

3.4 Briefly discuss *biodiversity loss* and *climate change* as environmental problems affecting countries worldwide. (2 x 4) (8)

3.5 Analyse the benefits that the tourism industry brings to South African businesses. (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 Name TWO examples of variable costs. (2 x 1) (2)

4.1.2 How can countries stop the global warming trend? (1 x 2) (2)

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

SA's BANKING OLIGOPOLY AND THE FOREX CARTEL

The issue of banking misconduct that continues to reverberate through South Africa's financial sector is one in which the Competition Commission has dragged a select group of international banks.

The Competition Commission referred a number of banks – including Investec, Standard Bank, and Absa – to the Competition Tribunal for price fixing involving the rand. The commission's investigation ultimately encompassed 28 banks, including Nedbank and FirstRand, in what is being referred to as the "Forex Cartel" case.

[Adapted from: https://www.iol.co.za/sundayindependent, Oct 19, 2023]

4.2.1 Name the institution that authorise or prohibit large mergers and adjudicate if any misconduct takes place. (1)

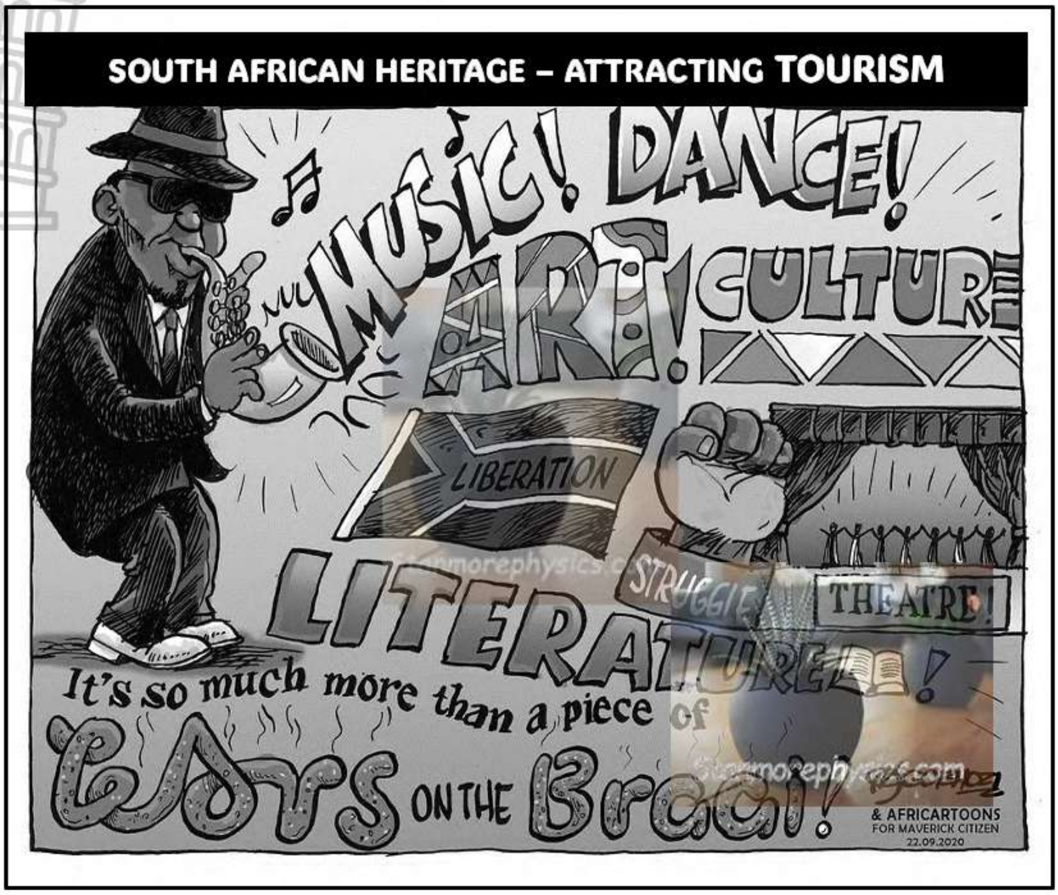
4.2.2 Name the type of collusion referred to in the extract above. (1)

4.2.3 Briefly describe the term *price leadership*. (2)

4.2.4 What is implied by the mutual dependence of businesses in this market structure? (2)

4.2.5 What is the negative impact of collusion on the economy? (2 x 2) (4)

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



[Adapted: Africartoons/Daily Maverick]

4.3.1 Identify the type of tourism depicted in the cartoon above. (1)

4.3.2 Name a campaign used by the department of tourism to promote domestic tourism. (1)

4.3.3 Briefly describe the term *indigenous knowledge systems*. (2)

4.3.4 How can the tourism industry benefit the poor rural communities of South Africa? (2)

4.3.5 What is the impact of indigenous knowledge within the South African context on tourism? (2 x 2) (4)

4.4 With the aid of a correctly labelled graph, explain *shutdown-point* in a perfect market. (8)

4.5 How can public sector intervention achieve social efficiency and a sustainable environment? (4 x 2) (8)

[40]

SECTION C

Answer only ONE of the two questions from 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 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 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/Discuss in detail with the aid of graphs/Indepth discussions/Examine/Critically discuss /Analyse /Compare /Evaluate/ Distinguish/Differentiate/Explain/Assess/Debate **A maximum of 8 marks may be allocated for heading/examples.**	Max 26
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 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 5: MICROECONOMICS **40 MARKS – 40 MINUTES**

- Discuss, in detail, without the use of graphs, state intervention as a consequence of market failures. (26)

- How can market inefficiencies be reduced by global markets? (10)
[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES
40 MARKS – 40 MINUTES

- Discuss in detail the consequences of inflation. (26)

- How does foreign direct investment influence inflation in the economy? (10)
[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150

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GRADE 12

ECONOMICS P2
MARKING GUIDELINES
SEPTEMBER 2025

MARKS: 150

These marking guidelines consist of 19 pages.

SECTION A (COMPULSORY)

QUESTION 1

1.1 **MULTIPLE CHOICE QUESTIONS** **30 MARKS – 20 MINUTES**

1.1.1 A - price ✓✓
1.1.2 D - average variable cost ✓✓
1.1.3 D - monopolistic competitive ✓✓
1.1.4 A - by levying excise tax ✓✓
1.1.5 C - South African Reserve Bank ✓✓
1.1.6 B - labour ✓✓
1.1.7 C - coal ✓✓
1.1.8 B - Cape Fynbos Region ✓✓ (8 x 2) (16)

1.2 **MATCH ITEMS**

1.2.1 F - actual expenditure of a business on the purchase or hire of inputs required for the production process ✓
1.2.2 I - sells homogenous products ✓
1.2.3 D - products that are not similar ✓
1.2.4 H - set below the market price to enable the poor to afford certain goods ✓
1.2.5 G - measures the price of a fixed basket of consumer goods and services ✓
1.2.6 B - they have the same effect as imports on the balance of payments ✓
1.2.7 E - to keep resources that are non-renewable intact, e.g. ecological systems, heritage sites ✓
1.2.8 A - an international agreement aimed at reducing greenhouse gases ✓ (8 x 1) (8)

1.3 **GIVE THE TERM**

1.3.1 Implicit cost ✓
1.3.2 Monopolistic competitive market ✓
1.3.3 Imperfect market ✓
1.3.4 Paleo tourism ✓
1.3.5 Environmental subsidies ✓
1.3.6 Eco tourism ✓ (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 **Name TWO methods of non-price competition.**

- Doing business over the internet ✓
- After-sales service ✓
- Loyalty offers to customers/clients ✓
- Door-to-door sales ✓

  (Accept any other correct relevant response) (2 x 1) (2)

2.1.2 **Why is a perfect competitor unable to influence market prices?**

There are many sellers selling homogeneous products at a market price determined by the market forces, so all participants must accept that they are price takers in the market. ✓✓
(Accept any other correct relevant response) (1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **Identify the type of monopoly depicted in the above cartoon.**

Artificial/legal/statutory ✓ (1)

2.2.2 **What is the nature of the product offered by monopolies?**

Unique with no close substitutes ✓ (1)

2.2.3 **Briefly describe the term *patent*.**

The exclusive right to manufacture a product. ✓✓ (2)

2.2.4 **How does the slope of the monopolist's demand curve differ from that of a monopolistic competitor in the short run?**

The slope of the monopolist demand curve is relative inelastic (steeper) compared to that of a monopolistic competitor where it is relative elastic (flatter) ✓✓ (2)

2.2.5 **What benefits does the monopolist enjoy compared to perfect market structure in the long run?**

In the long run:

- a monopoly produces less output than a perfect competitor. ✓✓
- a monopoly charges a higher price for products. ✓✓
- a monopoly does not produce at the lowest possible cost (lowest point of the AC curve). ✓✓
- a monopoly makes economic profit. ✓✓ (2 x 2) (4)

2.3 **DATA RESPONSE**

2.3.1 **What market structure is depicted above?**

Perfect market ✓ (1)

2.3.2 **Identify the price where the individual producer will make an economic profit.**

10 ✓ (1)

2.3.3 **Briefly describe the term *marginal cost.***

It is the quantity at which total cost increases when one additional (extra or additional) unit is produced. ✓✓ (2)

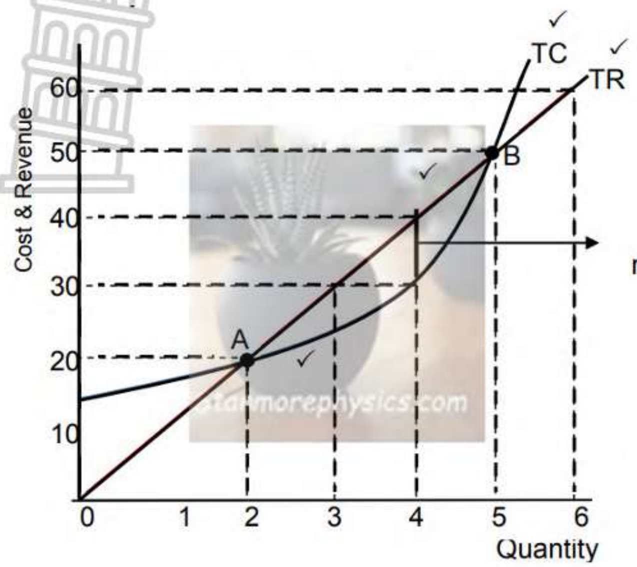
2.3.4 **Why is the marginal revenue curve (MR) in the perfect market the same as the demand curve?**

The marginal revenue that the firm receives is the change in total revenue from the sale of an extra unit, which is the constant market price. ✓✓ (2)

2.3.5 **Explain the effect on the market in the long run if the businesses above make an economic profit.**

- As businesses make economic profit more participants will enter the market. ✓✓
- The supply curve will shift to the right until economic profit disappears and long-term equilibrium is reached as soon as individual firms earn normal profits. ✓✓ (2 x 2) (4)

2.4 **With the aid of a correctly labelled graph, use total cost (TC) and total revenue (TR) to explain profit maximisation in a perfect market.** (8)



Allocation of marks:
- Correct positioning of TC curve = 1 mark
- Correct labelling of TC curve = 1 mark
- Correct positioning of TR curve = 1 mark
- Correct labelling of TR curve = 1 mark
- Correct indication of profit maximisation = 2 marks

(Max 4)

- The firm will make profits between points A and B where the total revenue exceeds the total cost. ✓✓
- Profit is maximised when the gap between TR and TC is the greatest/This occurs at 4 units of production at a cost of R40. ✓✓
  (Accept any other correct relevant response) (4)

2.5 **How can differentiated products affect producers in a monopolistically competitive market?**

- By differentiating its products, firms in a monopolistically competitive market ensure that their products are imperfect substitutes for each other. ✓✓
- As a result, a business working on its brand can raise its prices without jeopardizing its customer base. ✓✓
- When a monopolistic competitor raises its price, consumers may choose to buy a similar product from another firm. ✓✓
- However it will not lose as many customers as a perfectly competitive firm would, but it will lose more customers than a monopoly would. ✓✓ (4 x 2) (8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 **Name TWO reasons why the market fails to ensure environmental sustainability.**

- The market sees the environment as a common resource.✓
- Externalities such as pollution.✓
- Lack of knowledge.✓
- Carelessness. ✓
  (Accept any other correct relevant response) (2 x 1) (2)

3.1.2 **How can the depreciation of the rand affect inbound tourism?**

More foreign tourists will visit the country as it will be cheaper for them to buy goods and services in South Africa. ✓✓
(Accept any other correct relevant response) (1 x 2) (2)

3.2 **DATA RESPONSE**

3.2.1 **Identify an environmentally sustainable solution to South Africa's electricity crisis in the information above.**

Use of renewable energy sources ✓ (1)

3.2.2 **Name the international measure that deals with the control of chemical waste.**

Stockholm Protocol ✓ (1)

3.2.3 **Briefly describe the term *environmental sustainability.***

The ability of the environment to survive its use for economic activity/The environment is not an unlimited resource and it is important that we sustain the environment so that it can be used by future generations. ✓✓ (2)

3.2.4 **Explain the role of education in maintaining a sustainable environment.**

Innovative approaches have been tried in the developing countries to educate people and changing their attitudes towards the environment, e.g. setting up community wildlife reserves. ✓✓ (2)

3.2.5 **What are the benefits of using technology in sustaining the environment?**

- Technology can facilitate a solution to environmental problems by providing alternative production techniques. ✓✓
- The development of clean technology can have lower levels of toxic emissions and stop the existence of high-risk chemical waste in the environment. ✓✓
- This makes it possible for developing countries to meet emission targets/Substitution of products that are more environmentally friendly e.g. paper bags instead of plastic bags; unleaded petrol. ✓✓
- Technology facilitates the development of new techniques or equipment to save energy and replace coal and oil with greener energy sources such as wind or sun. ✓✓
- This enables the recycling of waste materials such as bottles, cans, cardboard to ensure a cleaner environment. ✓✓
- The on-site treatment and controlled disposal of waste can be achieved using technology. ✓✓ (2 x 2) (4)

3.3 **DATA RESPONSE**

3.3.1 **Identify the year that showed the most decline in international tourist arrivals.**

2021 ✓ (1)

3.3.2 **Give ONE industry that depends on tourism.**

transportation✓,accommodation✓,entertainment and attractions✓, food services✓,and trade associations and regulators✓.
(Accept any other correct relevant response) (1)

3.3.3 **Briefly describe the term *tourism*.**

Tourism can be defined as activities of people travelling to places outside their usual environment for less than one year for business, leisure or other purposes without any remuneration. ✓✓ (2)

3.3.4 **Explain the basic guidelines for effective levying of tourism tax.**

Guidelines for levying taxes are:

- Equity: Taxes must be fair, e.g. taxes on air tickets. ✓✓
- Efficiency: Nature and game reserves charge entry taxes to regulate tourist flows. ✓✓
- Simplicity: A flat tax rate is used to ensure taxes are easy to pay and administer. ✓✓ (2)

3.3.5 **How does an increase in tourism activities impact on rural communities?**

- People in rural areas will have more job opportunities thereby decreasing poverty levels ✓✓
- People in surrounding areas may be forced to migrate to rural areas in search for jobs leading to an increase in the population density ✓✓
- Investment in tourism-related activities (restaurants, hotels) will increase due to increased demand for goods and services ✓✓

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

3.4 **Briefly discuss *biodiversity loss* and *climate change* as environmental problems affecting countries worldwide.**

Biodiversity loss:

- If species become extinct (die out completely), this cannot be reversed. ✓✓
- Modern techniques such as gene transplants can limit the loss of species. ✓✓
- The Convention on International Trade in Endangered Species (CITES) sets many policies to deal with species loss. ✓✓

Climate change:

- Global warming primarily causes climate change. ✓✓
- Climate change can be reversed through widespread international co-operation, e.g. sharing weather information and weather patterns; agreeing to limit pollution; and banning chemical products such as greenhouse gases that damage the ozone layer. ✓✓
- The Kyoto Protocol of 1997 is an international agreement to limit the production of greenhouse gases, because voluntary reductions of carbon dioxide levels did not succeed. ✓✓ (2 x 4) (8)

[40]

3.5 **Analyse the benefits that the tourism industry brings to South African businesses.**

Tourism has many benefits for the business sector:

- The economic and basic services infrastructure required for tourism is provided by the public sector. ✓✓
- Tourism needs superstructure, which consists of businesses that provide accommodation, transport, built attractions, retailing and recreation services. ✓✓
- Superstructure is normally supplied by the private sector, and the building and running of the superstructure make profits. ✓✓
- Public and private sector partnerships (PPPs) are used to develop tourist destinations. ✓✓
- Other work opportunities become available for the previously disadvantaged.

These include:
- Employment opportunities in entertainment, laundry and transportation. ✓✓
- Business opportunities in car rental, arts, craft and curio sales.✓✓

(Accept any other correct relevant response) (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 **Name TWO examples of variable costs.**

- electricity ✓
- telephone ✓

(Accept any other correct relevant response) (2 x 1) (2)

4.1.2 **How can countries stop the global warming trend?**

Reduce the emission of greenhouse gases into the atmosphere by using environmentally friendly technology such as solar energy. ✓✓
Planting of trees that produces oxygen which is important for cleaner air. ✓✓
(Accept any other correct relevant response) (1 x 2) (2)

4.2 **DATA RESPONSE**

4.2.1 **Name the institution that authorise or prohibit large mergers and adjudicate if any misconduct takes place.**

The Competition Tribunal ✓ (1)

4.2.2 **Name the type of collusion referred to in the extract above.**

Tacit collusion. ✓ (1)

4.2.3 **Briefly describe the term *price leadership*.**

In an oligopoly market, a dominant firm will increase the price of a product in the hope that its rivals will see this as a signal to do the same. ✓✓ (2)

4.2.4 **What is implied by the mutual dependence of businesses in this market structure?**

That the decision of one firm will influence and will be influenced by the decisions of the other firms and that there may be possible collusion in determining prices. ✓✓ (2)

4.2.5 **What is the negative impact of collusion on the economy.**

Collusion will impact the economy negatively by:

- reducing competitiveness in the long run by decreasing GDP and employment. ✓✓
- allowing price fixing, market sharing and output control by cartels and price leadership. ✓✓
- creating scarcity in order to increase prices while also protecting inefficient suppliers.
- forcing community, consumers, businesses and even governments to pay higher prices for goods and services. ✓✓
- distorting economic markets and slowing down innovation because there is little incentive to spend money on research and development. ✓✓

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

4.3 DATA RESPONSE

4.3.1 **Identify the type of tourism depicted by the cartoon.**

Culture tourism ✓ (1)

4.3.2 **Name a campaign used by the department of tourism to promote domestic tourism.**

Shot left ✓ (1)

4.3.3 **Briefly describe the term *indigenous knowledge systems*.**

Refers to understandings, skills, and philosophies developed by local communities with long histories and experiences of interaction with their natural surroundings.✓✓
(Accept any other correct relevant response) (2)

4.3.4 **How can the tourism industry benefit the poor rural communities of South Africa?**

- Tourism is a fast and effective mechanism for distributing resources to rural areas to develop them as tourist sites as many prime tourist attractions are located in rural areas.✓✓
- Tourist developments in rural areas increase the number of available jobs in areas where there aren't many jobs.✓✓
- People are able to earn a living in their home areas, resulting in a reduction in urbanisation and a more balanced population distribution.✓✓

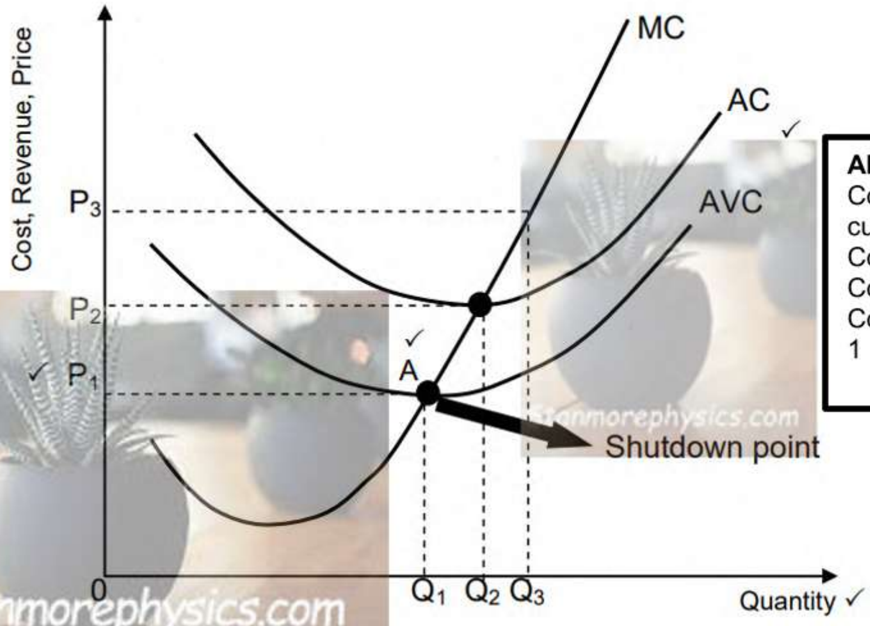
(Accept any other correct relevant response) (2)

4.3.5 **What is the impact of indigenous knowledge within the South African context on tourism?**

- Indigenous knowledge systems of tourism promote sustainable development by incorporating traditional ecological knowledge and indigenous practices into tourism activities. ✓✓
- By incorporating traditional knowledge and practices, communities can generate income through cultural tourism experiences and the sale of traditional crafts and products.✓✓
- Indigenous knowledge systems of tourism offer tourists authentic and immersive cultural experiences that allows tourists to gain a deeper understanding of South Africa's indigenous cultures and fosters cross-cultural exchange and understanding. ✓✓

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

4.4 **With the aid of a correctly labelled graph, explain *shutdown-point* in a perfect market.**



Allocation of marks:
Correct drawing and labelling of cost curves = 1 mark
Correct labelling of axes = 1 mark
Correct labelling on axes = 1 mark
Correctly indicating shutdown point = 1 mark
(Max 4)

- Above Q1, the firm will continue to produce because the price is greater than AVC, which means the business can pay for all its variable costs ✓✓
- Below Q1, the firm will stop to produce because the price is less than AVC, which means the firm is no longer able to pay all variable costs ✓✓
- Therefore, point A where price (AR) is equal to AVC, is the shutdown point ✓✓

  (Accept any other correct relevant response) (Max 4) (8)

4.5 **How can public sector intervention achieve social efficiency and a sustainable environment?**

- **By granting property rights/The conservationist effect:** People care for things that belong to them. ✓✓
  To prevent fauna and flora species from becoming extinct, people are granted property rights if they agree to preserve the flora and fauna. ✓✓
- **By charging for the use of the environment / Price the environment:** The government levies fees for waste produced and dumped in the environment. ✓✓
- **By imposing environmental taxes** on the output of goods that generate external environmental costs (pollution). These are called green taxes. ✓✓
- **By granting environmental subsidies** to businesses to reduce environmental damage, e.g. the government subsidises new technology that saves energy, such as energy-saving light bulbs or solar geysers. ✓✓
- **Marketable permits:** The government gives each business a licence to pollute to a certain degree. ✓✓
  (Accept any other correct relevant response) (4 x 2) (8)

[40]

SECTION C

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

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

- **Discuss, in detail, without drawing graphs, state intervention as a consequence of market failures.** **(26 marks)**
- **How can market inefficiency be reduced by global markets?** **(10 marks)**

INTRODUCTION

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

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 carious 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 ✓✓

(Accept any other correct relevant response) (Max 26)
(A maximum of 8 marks may be allocated for mere listing of facts/examples)

MAIN PART: ADDITIONAL PART

How can market inefficiency be reduced by global markets (globalization)?

- allowing foreign direct investment in the economy to increase supply of goods and services. ✓✓
- increasing competition in local market and reducing the existence of monopolies ✓✓
- increasing the accessibility of information to both consumers and producers for them to make rational or informed decision. ✓✓
- ensuring efficiency allocation of resources by allowing countries to specialize in production of goods that they have comparative advantage in.✓✓
- increasing mobility of factors of production between different countries. ✓✓
- encouraging businesses to be innovative and produce goods and services of better quality for consumers. ✓✓
- increasing consumers' choice on goods and services ✓✓

(Accept any other relevant and correct higher order response) (Max 10)
(A maximum of 2 marks will be allocated for mere listing of facts)

CONCLUSION

Market failure may also result in inefficiencies in the way resources are allocated and used in producing goods and services. ✓✓
(Accept any other correct relevant higher order conclusion) (Max 2) **[40]**

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 40 MINUTES

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

[40]

INTRODUCTION

Inflation refers to a sustained and significant increase in the general level of prices over a period of time ✓✓
(Accept any other correct relevant response) (Max. 2)

BODY: MAIN PART

Creditors ✓
- Creditors (lenders) suffer due to price increases because they get money back which has a lower purchasing power, especially if the interest rate has been below the inflation rate / inflation harm creditors as they lose due to a fall in the real value of money ✓✓
- Changes in price levels affect debtors and creditors differently at different time periods ✓✓

Debtors ✓
- Debtors (borrowers) receive money with a high buying power and pay back with money with a lower buying power ✓✓
- Borrowers benefit from price increases ✓✓
- During periods of rising prices, debtors gain in real terms because the contract was signed in advance and cannot be changed ✓✓
- Debtors receive the money with a relatively high purchasing power and repay their loans with low purchasing power, unless interest rates are sufficient to prevent the situation ✓✓

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 the important component of wealth; they constitute the main source of income for many households, especially for the less well-off ✓✓
- The behaviour of real wages therefore has a direct bearing on income distribution and the level of poverty ✓✓
- This group includes retired people, pensioners and the poor, that will experience the erosion of spending power and eventually earn too little to survive ✓✓
- Wage increases are lower than the inflation rate increase ✓✓

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 the 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 savings ✓✓
- Investors in assets with flexible market value gain when prices increase, because their assets with a flexible market value increase at least proportionately to the rate of inflation ✓✓
- Often, the prices of these assets increase more rapidly than increases in the general price level ✓✓
- People save money for long periods with the aim of using these funds to meet future expectations, these savings may be invested as fixed deposits, in the money market, as life policies or in pension funds ✓✓

Tax payers ✓
- With inflation taxpayers' nominal income rise although their real income remain unchanged, because taxes are levied on the nominal income but not on real income, and this affects the purchasing power of tax payers ✓✓
- Taxes are levied on nominal income and not on real income ✓✓
- 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 creep leads to a redistribution of income from taxpayers to the government ✓✓

Industrial peace ✓
- Wage bargaining is accompanied by strikes and mass action ✓✓
- These actions can sometimes spill over into violence which affects society at large✓✓
- Inflation leads to demands 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 ✓✓

Inflation has an adverse effect on a country's balance of payments ✓
- If a country's rate of inflation is higher than that of its trading partner, 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 a decrease in exports ✓✓
- Cheaper imports have a negative effect on a country's balance of payments ✓✓
- The loss of competitiveness can be a result of increased unemployment ✓✓

Unemployment and poverty ✓
- The effects of inflation are uneven, because it does not benefit anyone and harms most – some less than others ✓✓
- Inflation also tends to redistribute income from low income groups to higher income groups ✓✓
- This is because people in the low income groups do not have assets than can rise in value faster than the rate of inflation to help them overcome the effects of inflation✓✓
- Powerful groups such as trade unions, large companies and the wealthy people, are able to increase their share of national income at the expense of disadvantaged people such as pensioners, the unemployed and the welfare recipients ✓✓

Psychological influence ✓

Low inflation expectations:
- limit excessive wage demands by different labour unions because workers do not expect increases in cost of living in the future ✓✓
- allow consumers to postpone consumption expenditure thereby reducing pressure on price increases. ✓✓
- give households confidence that inflation rate will be low in future and encourage them to save more from the income, thereby controlling excess demand ✓✓
- reduce panic buying by consumers when they expect that prices will be stable in the future ✓✓
- boost real interest rates which will encourage savings. ✓✓
- increase the burden on debtors which discourages them from borrowing money, due to the real interest rate ✓✓

High inflation expectations
- Excessive wage demands by different labour unions because workers anticipate increases in cost of living in the future will lead to producers increasing prices in order to recover extra costs of production ✓✓
- Prompts consumers to engage in panic buying when they expect prices to rise and thereby increasing pressure on price to rise.✓✓
- Make households to save less, thereby leading to excess demand for goods and services ✓✓
- Decreases real interest rates which will discourage savings. ✓✓
- Reduce the burden on creditors as they will receive their money at higher interest rates ✓✓

(Accept any other correct relevant response) (Max 26)
(A maximum of 8 marks may be allocated for headings/examples)

[40]

BODY: ADDITIONAL PART

Foreign direct investment influences inflation in the economy by:

- increasing the production of goods and services which will increase aggregate supply thus stabilizing prices ✓✓
- bringing more efficient production techniques that will reduce production costs, slowing down cost push inflation ✓✓
- increasing competition in 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, leading to cost push inflation ✓✓

(Accept any other correct relevant higher order response.) (Max 10)
(A maximum of 2 marks may be allocated for mere listing of facts)

CONCLUSION
Unacceptably high inflation rates cause hardships among the poor, the unemployed, low-income earners; proper measures to control it have to be put in place ✓✓
(Accept any other correct relevant higher order response) (Max 2)

TOTAL SECTION C: 40
GRAND TOTAL 150