



Province of the
EASTERN CAPE
EDUCATION

Iphondo leMpuma Kapa: Isebe leMfundo
Provinsie van die Oos Kaap: Departement van Onderwys
Porafensie Ya Kapa Botjhabela: Lefapha la Thuto

NATIONAL SENIOR CERTIFICATE

GRADE 12

JUNE 2025

ECONOMICS P2

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. Number the answers correctly according to the numbering system used in this question paper.
3. Write the number of the question above each answer.
4. Read the questions carefully.
5. Start EACH question on a NEW page.
6. Leave 2–3 lines between subsections of questions.
7. 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.
8. Use only black or blue ink.
9. You may use a non-programmable pocket calculator.
10. 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, for example 1.1.9 B.

1.1.1 The timeframe where any of the factors are flexible is called ...

- A short run.
- B free range.
- C medium term.
- D long run.

1.1.2 Two competing companies that share the market is known as ...

- A duopoly.
- B dual market.
- C symbiotic market.
- D competing market.

1.1.3 When the business does not produce at the lowest possible cost, it is ... inefficient.

- A allocative
- B productive
- C market
- D collusion

1.1.4 When average revenue is greater than average cost, the firm makes an/a ...

- A economic loss.
- B normal profit.
- C total loss.
- D economic profit.

1.1.5 Competition is not based on prices but rather on factors relating to product uniqueness.

- A Non-price competition
- B Hybrid structure
- C Incomplete
- D Pareto



1.1.6 Markets that are incomplete because they cannot meet the demand for certain goods.

- A Black markets
- B Missing markets
- C Imperfect markets
- D Perfect markets

1.1.7 Goods that are socially harmful to consumers are called ...

- A non-rival goods.
- B merit goods.
- C demerit goods.
- D non-excludability.

1.1.8 The actual cost paid by consumers when a good is purchased.

- A Private benefits
- B Social cost
- C Private cost
- D Social benefit

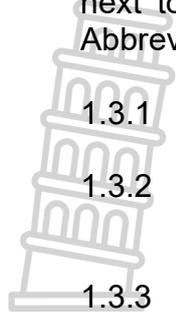
(8 x 2) (16)

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, for example 1.2.9 J.

COLUMN A	COLUMN B
1.2.1 Implicit cost	A a cash allowance given to a producer to lower the cost of production
1.2.2 Market structure	B the barriers to entry are not economic in nature
1.2.3 Producer subsidies	C analysis done by the government for a project to determine whether it should be carried out
1.2.4 Short-run	D benefit gained by a third party which are not included in the market price
1.2.5 Collusion	E value of inputs owned by an entrepreneur and used in the production process
1.2.6 Positive externalities	F the period of production where only the variable factors of production can change
1.2.7 Cost Benefit Analysis	G arrangement between business with the aim of limiting competition
1.2.8 Artificial Monopoly	H how a market is organised
	I a supply side policy to smooth fluctuations in the economy

(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 A business that is unable to influence the market price on its own

1.3.2 Goods and services that are different in some way from one another

1.3.3 The benefit gained by society from the use of a good or service

1.3.4 A group of producers whose goal is to form a collection monopoly

1.3.5 A situation where one firm fixes a price and others accept it as market price

1.3.6 The benefit gained by a third party which is not included in the market price

(6 x 1) (6)

TOTAL SECTION A: 30



SECTION B

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

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

2.1 Answer the following questions.

2.1.1 Name TWO types of costs that are used to calculate the total cost of a firm. (2 x 1) (2)

2.1.2 How can the government reduce the oversupply of demerit goods? (1 x 2) (2)

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

MONOPOLISTIC COMPETITION

Fast Food



Unlike perfect competition, monopolistic competitive firms have products that are not perfect businesses. Consumers can buy the goods preferred from any competitors. They offer various meals which are unique to them, such as different menus, theme meals for kids and different combos.

[Source: Google images]

2.2.1 Name any ONE way how the above-mentioned restaurants can differentiate their meals. (1)

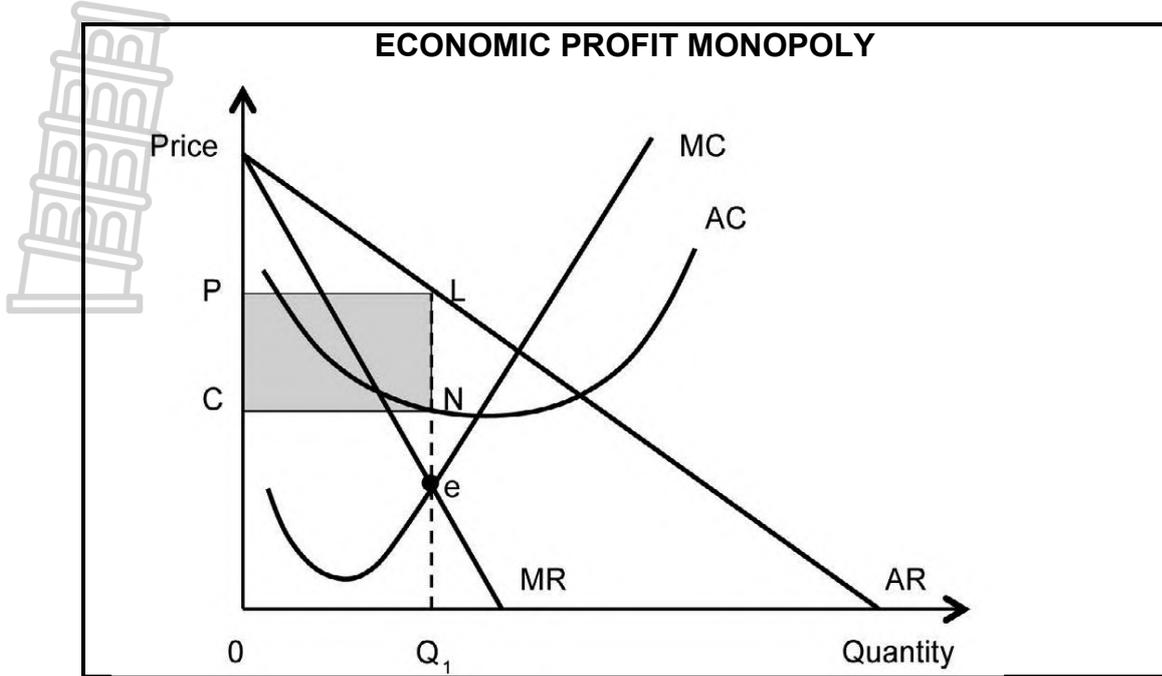
2.2.2 Name the profit that is made by a monopolistic competitor in the long run. (1)

2.2.3 Briefly describe the concept *monopolistic competition*. (2)

2.2.4 Briefly explain *non-price competition* as a characteristic of monopolistic competition. (2)

2.2.5 Why would the owners of restaurants be unable to make economic profit in the long run? (4)

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



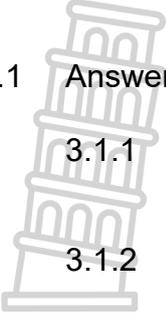
- 2.3.1 Identify the profit maximisation point in the graph above. (1)
- 2.3.2 Where is the market price determined? (1)
- 2.3.3 Briefly describe the concept *monopoly*. (2)
- 2.3.4 Explain how non-price competition act as a barrier to entry in a oligopoly. (2)
- 2.3.5 Why do oligopolist have considerable control over prices? (4)
- 2.4 With the aid of a graph, explain economic loss as a short-run equilibrium position under perfect market conditions. (8)
- 2.5 Why is the cost-benefit analysis necessary for public projects? (8)

[40]



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

3.1 Answer the following questions.

3.1.1 Name any TWO characteristics of a perfectly competitive firm. (1 x 2) (2)

3.1.2 Why is the demand curve of an individual business horizontal? (2)

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

COMPETITION COMMISSION

The Competition Commission is empowered by the Competition Act to investigate, control and evaluate restrictive business practices, abuse of dominant positions and mergers in order to achieve equity and efficiency in the South African economy.

To achieve its purpose, the Commission's core functions are the following: implement measures to increase market transparency, implement measures to develop public awareness of the provisions of the Act, investigate and evaluate alleged anticompetitive conduct.

[Source: nationalgovernment.co.za]

3.2.1 Identify an institution that investigate restrictive business practices in the extract above. (1)

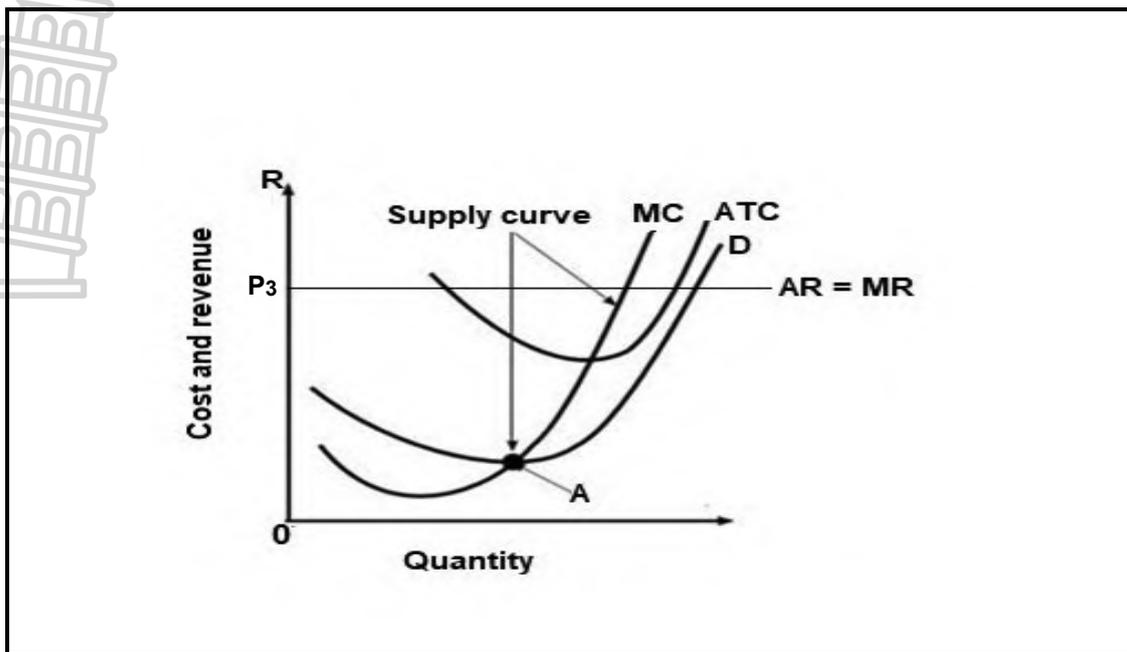
3.2.2 Name the national department that oversees competition in South Africa. (1)

3.2.3 Briefly describe the concept *Competition Appeal Court*. (2)

3.2.4 Why does the government set minimum prices? (2)

3.2.5 Why does the government carry on with a project even if the private costs are greater than the private benefits? (4)

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



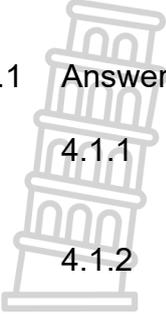
- 3.3.1 Provide a correct label for curve **D**. (1)
- 3.3.2 Identify a shut-down point in the graph above. (1)
- 3.3.3 Briefly describe the concept *marginal revenue*. (2)
- 3.3.4 Why is the perfect competitor making economic profit at P_3 ? (2)
- 3.3.5 Explain how the supply curve of a perfect competitor is determined. (4)
- 3.4 Briefly discuss the objectives of the competition policy. (8)
- 3.5 How can the existence of perfect markets impact on consumers and producers? (8)

[40]



QUESTION 4: MICROECONOMICS**40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

4.1.1 Name any TWO groups of workers that will benefit from minimum wages. (2)

4.1.2 How does homogenous products benefit consumers? (2)

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

MARKET A			MARKET B		
Quantity	Price	Total revenue	Quantity	Price	Total revenue
0	R20	-	0	R22	-
1	R20	R20	1	R20	R20
2	R20	R40	2	R18	R36
3	R20	R60	3	R16	R48
4	R20	R80	4	R14	R56
5	R20	R100	5	R12	R60

4.2.1 Identify the market in which the demand curve shows a downward slope. (1)

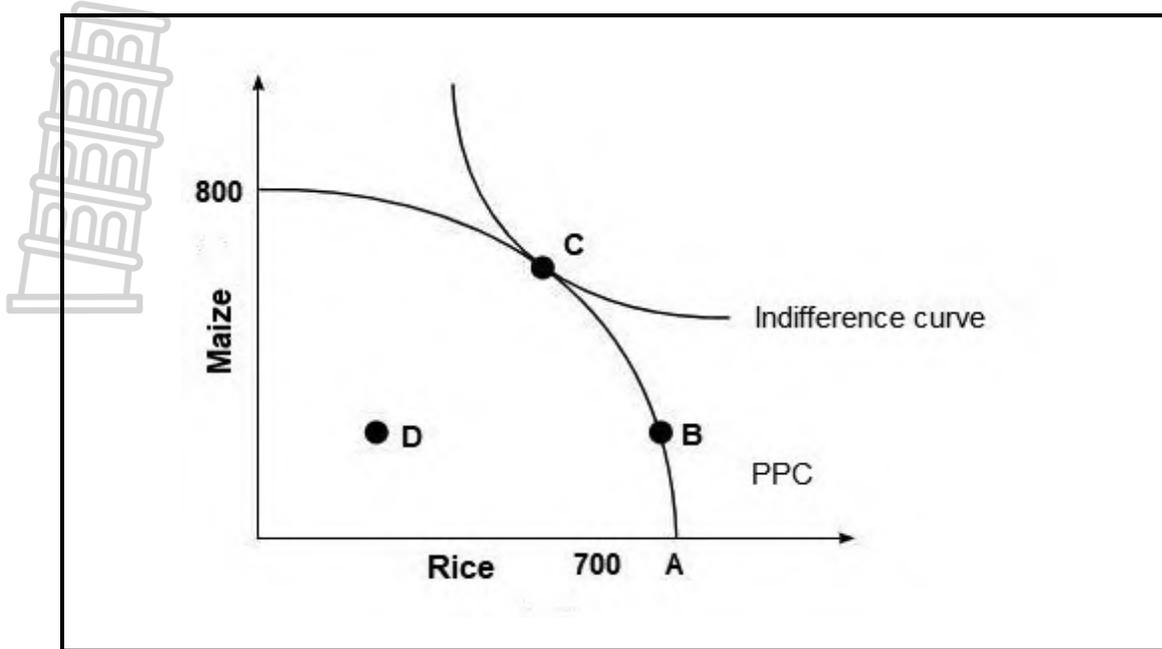
4.2.2 What is the nature of the product sold in a perfect market? (1)

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

4.2.4 Why do individual firms find it easy to enter a perfect market? (2)

4.2.5 Calculate the marginal revenue for **MARKET B** at quantity 2?
Show ALL calculations. (4)

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



- 4.3.1 Identify ONE curve that relates to allocative efficiency. (1)
- 4.3.2 What quantity of rice will be produced if 800 units of maize are produced? (1)
- 4.3.3 Briefly describe the concept *industry*. (2)
- 4.3.4 Why are oligopolist reluctant to compete on prices? (2)
- 4.3.5 Why is the production at point **D** regarded as inefficient? (4)
- 4.4 With the aid of a correctly labelled graph, explain economic profit made by a monopoly. (8)
- 4.5 How does collusion negatively impact the economy? (8)

[40]

TOTAL SECTION B: 80

SECTION C

Answer 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 <ul style="list-style-type: none"> A good starting point would be to define a concept or key word that appears in the question. Include other sentences to support the topic. Do NOT include in your introduction any part of the question. Do NOT repeat any part of the introduction in the 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 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	Max. 26 Max. 10
Conclusion Any relevant higher-order conclusion that should include: <ul style="list-style-type: none"> A brief summary of what has been discussed without repeating facts already mentioned in the body 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**

- Compare and contrast TWO types of market structures (monopoly and monopolistic competition) in detail. (26 marks)
- Why does government support monopolies? (10 marks)

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

- With the aid of relevant graphs discuss in detail state intervention as a consequence of market failures. (26 marks)
- How effective has government spending been in addressing market failure? (10 marks)

TOTAL SECTION C: 40
GRAND TOTAL: 150



NATIONAL SENIOR CERTIFICATE

GRADE 12

JUNE 2025

ECONOMICS P2 MARKING GUIDELINE

MARKS: 150



This marking guideline consists of 18 pages.

SECTION A (COMPULSORY)**QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

- 
- 1.1.1 D ✓✓ (long run)
1.1.2 A ✓✓ (duopoly)
1.1.3 B ✓✓ (productive)
1.1.4 D ✓✓ (economic profit)
1.1.5 A ✓✓ (Non-price competition)
1.1.6 B ✓✓ (Missing markets)
1.1.7 C ✓✓ (demerit goods)
1.1.8 C ✓✓ (Private cost) (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 E – Value of inputs owned by entrepreneurs and used in production process ✓
1.2.2 H – How a market is organised ✓
1.2.3 A – A cash allowance given to a producer to lower the cost of production ✓
1.2.4 F – The period of production where only the variables factors of production can change ✓
1.2.5 G – Arrangement between businesses with the aim of limiting competition ✓
1.2.6 D – Benefit gained by a third party which is not included in the market price ✓
1.2.7 C – Analysis done by the government for a project to determine whether it should be carried out ✓
1.2.8 B – The barriers to entry are not economic in nature ✓ (8 x 1) (8)

1.3 GIVE ONE TERM

- 1.3.1 Price-taker ✓
1.3.2 Heterogeneous ✓
1.3.3 Social benefit ✓
1.3.4 Cartel ✓
1.3.5 Price leadership ✓
1.3.6 Positive externalities/ External benefit ✓ (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

2.1 Answer the following questions.

2.1.1 **Name TWO types of costs that are used to calculate total cost of a firm.**

- Variable cost ✓
 - Fixed cost ✓
- (2 x 1) (2)

2.1.2 **How can the government reduce the oversupply of demerit goods?**

- The government can increase taxes on these products ✓✓
- Government can use education to reduce production of demerit goods ✓✓

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

2.2 DATA RESPONSE

2.2.1 **Name any ONE way how the above-mentioned restaurants can differentiate their meals.**

- Offer different menu ✓
- Theme meals for kids ✓

(Accept any other correct relevant response.) (1)

2.2.2 **Name the profit that is made by a monopolistic competitor in the long run.**

Normal profit ✓ (1)

2.2.3 **Briefly describe the concept *monopolistic competition*.**

Refers to a market structure with many buyers and sellers where entry is relatively easy but the product is differentiated. ✓✓

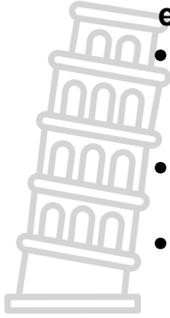
(Accept any other relevant correct response.) (2)

2.2.4 **Explain briefly *non-price competition* as a characteristic of monopolistic competition.**

Competition is not based on prices, but rather on factors relating to the products uniqueness. ✓✓

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

2.2.5 **Why would the owners of the restaurants be unable to make economic profit in the long run?**



- In the short run, when there are a few restaurants, they manage to make economic profits, economic profits attract more businesses to enter the market ✓✓
- Businesses will compete with one another and this will lead to an increase in competition and economic profits ✓✓
- Restaurants can start marketing and branding their products differently and to hold on their normal profits to prevent them from leaving the market ✓✓

(Accept any other correct and relevant response.)

(4)

2.3 **DATA RESPONSE**

2.3.1 **Identify the profit maximisation point in the above graph.**

- Point e ✓

(1)

2.3.2 **Where is the market price determined?**

- P ✓

(1)

2.3.3 **Briefly describe the concept *monopoly*.**

Monopoly refers to one seller of a good or service for which there is no close substitutes. ✓✓

(Accept any other correct relevant responses.)

(2)

2.3.4 **Explain how non-price competition act as a barrier to entry in a oligopoly.**

- Non-price competition increases the cost of production and this makes it more expensive for new firms to enter the industry. ✓✓

(Accept any other correct relevant response.)

(2)

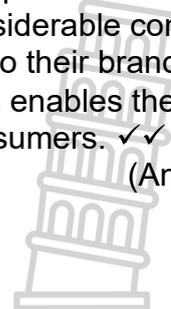
2.3.5 **Why do oligopolists have considerable control over prices?**

- Oligopolists use their economic profits to improve and develop new products and they are able to differentiate their products. ✓✓
- Branding also enables oligopolists to have considerable control over prices because consumers become loyal to their brands. ✓✓
- Oligopolists sell differentiated products and this enables them to advertise their products and also influence consumers. ✓✓

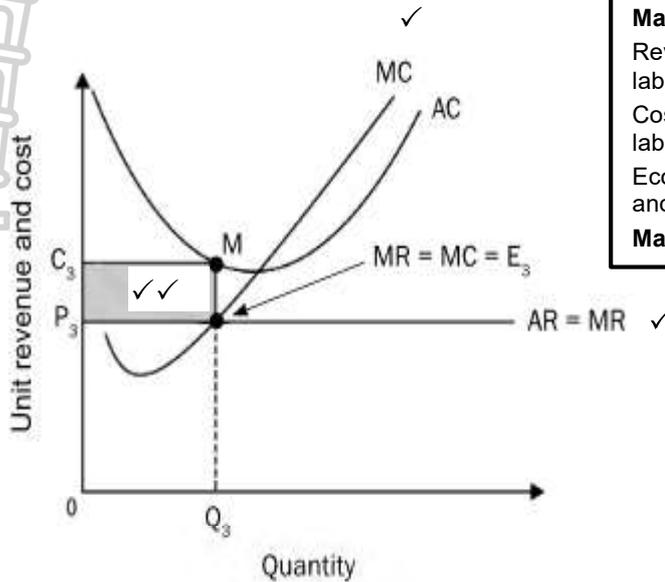
(Accept any other correct relevant response.)

(Any 2 x 2)

(4)



2.4 With the aid of a graph, explain economic loss as a short run equilibrium position under perfect market conditions.



Mark allocation	
Revenue curves correctly position and labelled	= 1
Cost curves correctly positioned and labelled	= 1
Economic loss are correctly positioned and labelled	= 2
Maximum 4 marks	

Max. 4

- Given the market price of P_3 , loss is minimised where $MR = MC$ at point E_3 .
- This occurs at a quantity of Q_3 . ✓✓
- At Q_3 the firm's average revenue (AR) per unit of production is P_3 . ✓✓
- The average cost per unit is C_3 which is higher than the price of P_3 . ✓✓
- The firm is making an economic loss per unit of production which is equal to the difference between C_3 and P_3 . ✓✓

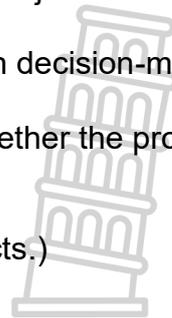
Max. 4

2.5 Why is the cost-benefit analysis necessary for public projects?

- CBA is applied to these projects where it is expected that there will be a significant difference between social costs and social benefits. ✓✓
- CBA leads to objective decision-making by weighing up costs and benefits ✓✓
- It is used to make final decisions about whether the project should proceed or not. ✓✓
- It includes the wider social impact and externalities in decision-making process. ✓✓
- There is an absence of market signals to support whether the project can go ahead or not.

(Accept any other correct relevant response.)

(Allocate a maximum of 2 marks for a mere listing of facts.)



(8)
[40]

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

3.1 Answer the following questions.

3.1.1 **Name any TWO characteristics of a perfectly competitive firm.**

- Products are homogenous ✓
- Large numbers of sellers ✓
- Free competition ✓
- No preferential treatment ✓
- Efficient transportation ✓

(Accept any other correct relevant response.)

(Any 1 x 2) (2)

3.1.2 **Why is the demand curve of an individual business horizontal?**

- It is because the individual business is a price-taker and it has to sell its products at market price ✓✓
- An individual firm can sell any quantity at the price determined by the market forces ✓✓

(Accept any other correct relevant response.)

(Any 1 x 2) (2)

3.2 **DATA RESPONSE**3.2.1 **Identify an institution that investigates restrictive business practice in the extract above.**

- Competition Commission ✓

(1)

3.2.2 **Name the national department that oversees competition in South Africa.**

Department of Trade, Industry and Competition (DTIC) ✓

(1)

3.2.3 **Briefly describe the concept *Competition Appeal Court*.**

An institution whose main function is to review orders made by the Competition Tribunal and amend or confirm these orders ✓✓

(Accept any other correct relevant response.)

(2)

3.2.4 **Why does the government set minimum prices?**

- The government set minimum prices below the market price to make goods more affordable ✓✓
- To allow the poor greater access to certain goods and services ✓✓

(Accept any other correct relevant response.)

(2)

3.2.5 **Why does the government carry on with the project even if the private costs are greater than the private benefits?**

- A service is vital to the existence of the community and adds value to the community. ✓✓
- When a need for infrastructure is necessary, but might not have any benefits in terms of profits, e.g building of a dam. ✓✓
- Funding of these projects are mainly financed through tax revenue and does not impoverish any individual as such. ✓✓
- The public goods are non-excludable and free riders cannot be excluded from using community goods. ✓✓

(Accept any other correct relevant response.)

(2 x 2) (4)

3.3 DATA RESPONSE

3.3.1 Provide a correct label for curve D.

Average Variable Cost ✓/ (AVC) ✓ (1)

3.3.2 Identify a shut-down point in the graph above.

Point A ✓ (1)

3.3.3 Briefly describe the concept *marginal revenue*.

Marginal revenue is the additional revenue received from selling an additional unit. ✓✓
(Accept any other correct relevant response.) (2)

3.3.4 Why is the perfect competitor making economic profit at P₃?

- Economic profit is made because average revenue is greater than average cost ✓✓

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

3.3.5 Explain how the supply curve of a perfect competitor is determined.

- The supply curve of the perfect competitor in the graph starts from point A and slopes upwards from left to right ✓✓
- The supply curve of a perfect competitor is determined by the rising part of the business's marginal cost curve above the minimum point of its average variable cost curve ✓✓
- The reason for the upward slope is because the marginal cost increases as output increases ✓✓
- The producer starts producing or supply from the shutdown point and on the rising part of the MC curve ✓✓

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

3.4 Briefly discuss the objectives of the competition policy.

- Promote the efficiency of the economy by preventing the formation of large businesses ✓✓
- Provide consumers with competitive prices and a variety of products ✓✓
- To promote employment and socio-economic welfare ✓✓
- Enable SSMEs to participate in the economy e.g. contracts to small businesses ✓✓
- Encourage South Africans to participate in world markets and accept foreign competition in South Africa ✓✓
- Allow the previously disadvantaged to increase their ownership of business ✓✓

(Accept any other correct relevant response.) (8)

3.5 **How can the existence of perfect markets impact on consumers and producers?**

Consumers

Positive

- Consumers can benefit from perfect competition because they will be paying low prices for high quality goods and services ✓✓
- Consumers will have a variety of products to choose from ✓✓

Negative

- Consumers may not be happy with identical products, because the quality of one product may differ from another ✓✓
- There will be no choice of products to consume because of homogenous products ✓✓ (Max. 4)

Producers

Positive

- Profit is maximised at the lowest point of the AC curve which means lower production costs for producers ✓✓
- No discrimination among firms since the products are homogenous and prices are the same ✓✓

Negatives

- Firms are price-takers and cannot choose where they can place their prices along the demand curve ✓✓
- Firms are unable to make economic profit in the long run because there are no barriers that restrict entry and new firms enter the market in the long run ✓✓ (Max. 4)

(Accept any other correct relevant response.)

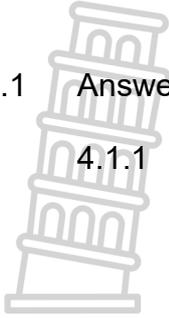
(8)

[40]



QUESTION 4: MICROECONOMICS**40 MARKS – 30 MINUTES**

4.1 Answer the following questions.



4.1.1 **Name any TWO groups of workers that will benefit from minimum wages.**

- Domestic worker ✓
- Farm worker ✓
- Community Works Program (CWP) ✓
- Learnership ✓
- Expanded Public Works Program (EPWP) (Any 2 x 1) (2)

4.1.2 **How do homogenous products benefit consumers?**

- Consumers are guaranteed standardised products because it allows them to buy from any seller ✓✓
- (Accept any other correct relevant response.) (2)

4.2 **DATA RESPONSE**

4.2.1 **Identify the market in which the demand curve shows a downward slope.**

Market B ✓ (1)

4.2.2 **What is the nature of the product sold in a perfect market?**

Homogenous/Identical ✓ (1)

4.2.3 **Briefly describe the concept *average revenue*.**

The income received for selling one unit of a product ✓✓
(Accept any other correct relevant response.) (2)

4.2.4 **Why do individual firms find it easy to enter a perfect market?**

- There are no regulations or restrictions to enter the market ✓✓
- Sunk cost such as advertising are kept low since products are already known in the market ✓✓
- Less capital is required to enter the market ✓✓
- There are no barriers that restrict entry into the market ✓✓
- (Accept any other correct relevant response.) (Any 1 x 2) (2)

4.2.5 **Calculate the marginal revenue for MARKET B at quantity 2. Show ALL calculations.**

$$\begin{aligned}
 MR &= \frac{\Delta TR}{\Delta Q} \checkmark \\
 &= \frac{(36-20)}{(2-1)} \checkmark \\
 &= \frac{16}{1} \checkmark \\
 &= 16 \checkmark
 \end{aligned}
 \quad (4)$$

4.3 DATA RESPONSE



4.3.1 Identify ONE curve that relates to allocative efficiency.

Indifference curve (IC) ✓

(1)

4.3.2 What quantity of rice will be supplied if 800 units of maize are produced?

- 0 ✓

(1)

4.3.3 Briefly describe the concept *industry*.

All of the businesses that supply the same product in the market. ✓✓
(Accept any other correct relevant response.)

(2)

4.3.4 Why are oligopolists reluctant to compete on prices?

- The oligopolist will not benefit by changing their prices because of the kinked demand curve ✓✓
- When they increase their prices demand is sensitive to a price change ✓✓
- When they decrease their prices demand is not sensitive to price changes ✓✓

(Accept any other correct relevant response.)

(2)

4.3.5 Why is the production at point D regarded as inefficient?

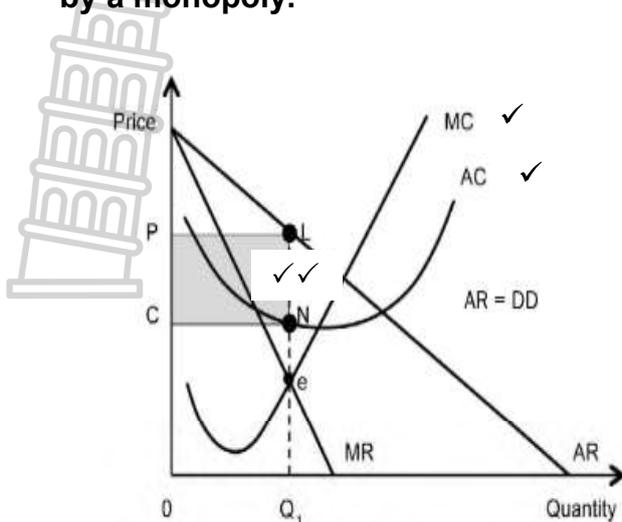
- Fewer goods and services will be produced because of inefficient use of resources ✓✓
- Goods and services are not produced at an optimum level ✓✓
- Due to inefficient use of resources, cost of production will increase ✓✓
- Few job opportunities will be created resulting in lower standard of living ✓✓

(Accept any other correct relevant response.)

(2 x 2) (4)



4.4 With the aid of a correctly labelled graph, explain economic profit made by a monopoly.



Mark allocation	
Cost curves	= 1
Revenue curves	= 1
Economic profit	= 2
Max. 4 marks	

- Economic profit is profit made in addition to normal profit ✓✓
- At point C, MC = MR and this is where profits are maximized because the production cost of the last unit is equal to the revenue earned for the last unit ✓✓
- Optimum quantity is Q₁ on the horizontal axis ✓✓
- The market price is P while the cost of producing each unit is C on the vertical axis ✓✓
- Economic profit area is area PCLN, and this is represented by the shaded area ✓✓

(Max. 4)

(Accept any other correct relevant response.)

(8)

4.5 How does collusion negatively impact the economy?

Collusion will impact the economy negatively by:

- Reducing competitiveness in the long run by decreasing the GDP and employment ✓✓
- Allowing the 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 communities, consumers, businesses and even governments to pay higher prices for goods and services ✓✓
- Distorting economic markets and slowing down innovations because there is little incentive to spend money on research and development

(Max 2 marks for mere listing and examples.)

(Accept any other correct relevant response.)

(8)

[40]

TOTAL SECTION B: 80

SECTION C

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

QUESTION 5

- Compare and contrast **TWO** types of market structures (monopoly and monopolistic competition) in detail. **(26 marks)**
- Why does government support monopolies? **(10 marks)**

INTRODUCTION

Any market that does not meet all the characteristics of perfect markets is called an imperfect market. This is also the case with monopolies and monopolistic markets. ✓✓
 (Accept any other correct relevant introduction.) **(Max. 2 marks) (2)**

BODY: MAIN PART

Freedom of entry

Characteristics	Monopoly	Monopolistic
Number of firms in an industry ✓	A single supplier of a firm e.g. Eskom. ✓ There is no competition, one business in the market controls the supply of the goods and services. ✓	A large number of firms or suppliers ✓ e.g. Nandos, KFC and Steers. ✓ There is an element of competition. ✓
Nature of the product ✓	A unique product is produced. ✓ There are no close substitutes. ✓ The product cannot be easily replaced. ✓ Consumers have no choice in price and quality of the product. ✓	Differentiated products. ✓ Products are similar but not identical. ✓ They are similar in that they satisfy the same need of the consumer. ✓ There may be differences in packaging but the product is the same. ✓
Freedom to enter and exit the market ✓	There are barriers to entry . ✓ Entry into the market is completely blocked. ✓ The barriers are caused by patents and other forms of intellectual property rights. ✓	Easy entry into the market . ✓ There is complete freedom of entry and exit into the market. ✓
Slope of the demand curve ✓	Downward sloping demand curve for the firm ✓ and the same curve for the industry ✓ it is also inelastic. ✓	Downward sloping demand curve for the industry ✓ and is elastic. ✓
Control over price ✓	The firm is a price-maker . ✓ The monopolist is able to influence the market through changing the quantities it supplies to the market. ✓	Firms have little control over the price . ✓ Each business sells at its own price ✓ since a single price cannot be determined for the differentiated product. ✓

Relative market Share. ✓	Total market belongs to one firm. ✓	Relatively small share of the total market. ✓
Information. ✓	There is perfect knowledge information is complete. ✓	Information is incomplete. ✓
Technical efficiently. ✓	Possible. ✓	Close. ✓
Economic loss/ profit. ✓	They can make economic profits in the short run and long run. ✓	Makes normal profit in the long run. ✓ Economic profit in the short run. ✓
Collusion ✓	Not relevant. ✓	Not possible. ✓
Decision-making ✓	Independent. ✓	It is influenced by other competitors. ✓
Examples ✓	Eskom. ✓	Restaurants (Steers, Wimpy) etc. ✓
Allocative efficiency ✓	There is no allocative efficiency. ✓	Close. There is some level of allocating resources according to taste and preferences of the consumer. ✓

(Allocate a maximum of 8 marks for subheadings)

- Responses that are in the form of a table:
 - Maximum 8 marks for sub-headings
 - 1 mark each for the discussion on each side of the table and a maximum of 2 marks if on both sides the responses are correct
- Responses where an essay is written in paragraph form:
 - Maximum 8 marks for sub-headings
 - 1 mark for each explanation (Learners may use a table in presenting their responses)

(Accept any other correct relevant response.)

ADDITIONAL PART

Why does government support monopolies?

- To protect the intellectual skill and right of the producer ✓✓
- Some products are very dangerous for many companies producing or providing the product or service, and there needs to be some level of accountability ✓✓
- To motivate the producer to continue with the skill, grow the company and employ more people ✓✓
- From the economic profits made, government can get more revenue in terms of tax ✓✓
- To keep prices low so that consumers can benefit from low prices ✓✓
- To be able to monitor the company especially if it provides an essential service like electricity ✓✓

(Accept any other relevant and correct higher order responses.)

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

Max. 10

CONCLUSION

Both market structures tend to be inefficient because imperfect markets fail to allocate resources efficiently ✓✓

(Accept any other relevant higher order conclusion.)

(2)
[40]

QUESTION 6: MICROECONOMICS

- Discuss in detail state intervention as a consequence of market failure with the relevant graphs. (26 marks)
- How effective has government spending been in addressing market failure? (10 marks)

INTRODUCTION

Market failure refers to a situation where that the best available resources or optimal outcomes has not been achieved. ✓✓

(Accept any correct relevant introduction.)

(2)

Direct control ✓

- Government can choose to pass laws in an attempt to control and constraints the behaviour of businesses and individuals, who generate negative externalities ✓✓
- Government often imposes taxes on the production of alcohol and tobacco ✓✓
- These are often called sin taxes ✓✓
- Advertising by the tobacco industry is prohibited and alcohol may not be sold to persons under the age of 18 years ✓✓
- The government could require firms to fit anti-pollution equipment that cleans poisonous products before they are dumped in rivers ✓✓

Imperfect markets ✓

- Businesses operating in non-competitive markets maximise their profits by supplying less than the optimal quantity of goods or services at a high price. ✓✓
- The government can deal with the effects of imperfect markets by: ✓✓
- Taxing the firm's economic profit ✓✓
- Imposing price controls (maximise prices), thus reducing the firm's economic profit ensuring that more people are able to consume the product ✓✓
- Introducing a competition policy to try to increase the level of competition between firms and to make it easier for new firm to enter the industry ✓✓
- In South Africa, the government established the Competition Commission, the Competition Tribunal and the Competition Appeal Court to ensure that the level of competition is not eroded but enhanced ✓✓
- Allowing competition from abroad, through the removal or reduction of tariffs, to restrain the harmful practices of local monopolies ✓✓

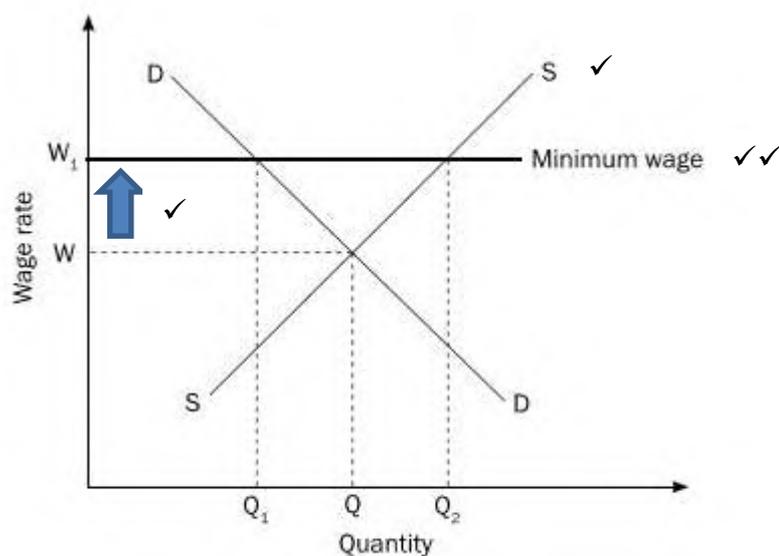
Government's involvement in production ✓

- Governments themselves are involved in producing goods and services ✓✓
- Governments approach to missing markets is to supply the desired goods directly ✓✓
- Taxes are raised to finance the provision of such goods ✓✓
- Community goods are provided free of charge, for example defence, police and street lighting ✓✓
- Some collective goods are provided for a user fee, such as refuse removal, waste disposal and sewerage drainage ✓✓

- The provision of some other collective goods is subsidised, for example public transport and clean water ✓✓
- If the macroeconomic objectives of the government are not achieved, that can be perceived as market failure and the government can intervene either on the demand side or supply side ✓✓
- On the demand side, the government can intervene with macroeconomic policies, that is, monetary and fiscal policies ✓✓
- The supply side approach focuses on the capability of the economy and policies that attempt to expand the stock of factors of production and infrastructure to improve the flexibility of factor markets ✓✓

Minimum wages ✓

- 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 wage rate is set at W , the corresponding demand and supply of labour will be Q ✓✓
- If the minimum wage is set at W_1 , the demand for labour will decrease from Q to Q_1 ✓✓
- More people will offer their labour because of the higher wage ✓✓



Mark allocation

Minimum wage = 2

Demand and Supply = 1

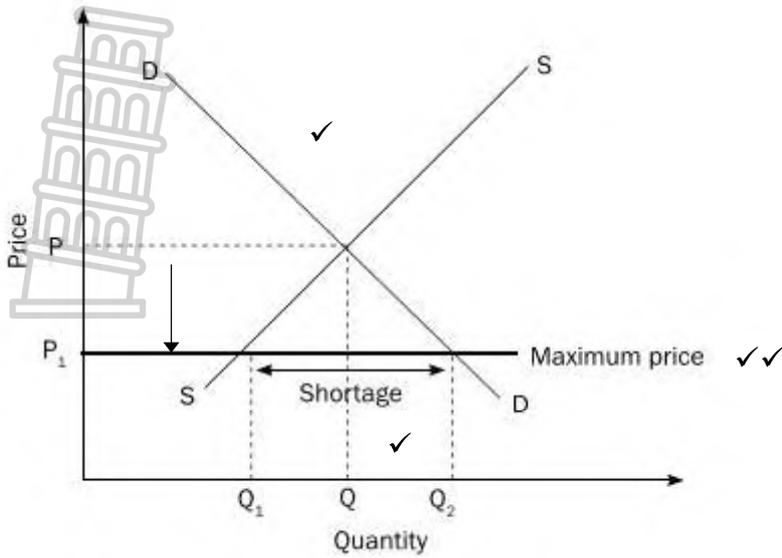
Wage rate increase = 1

Max. 4 marks

Maximum prices ✓

- The government sets a maximum price below the market price to make goods more affordable ✓✓
- Maximum prices allow the poor greater access to certain goods and services ✓✓
- A maximum price is set on goods such as basic food, housing and transport ✓✓

(Max. 4 marks)



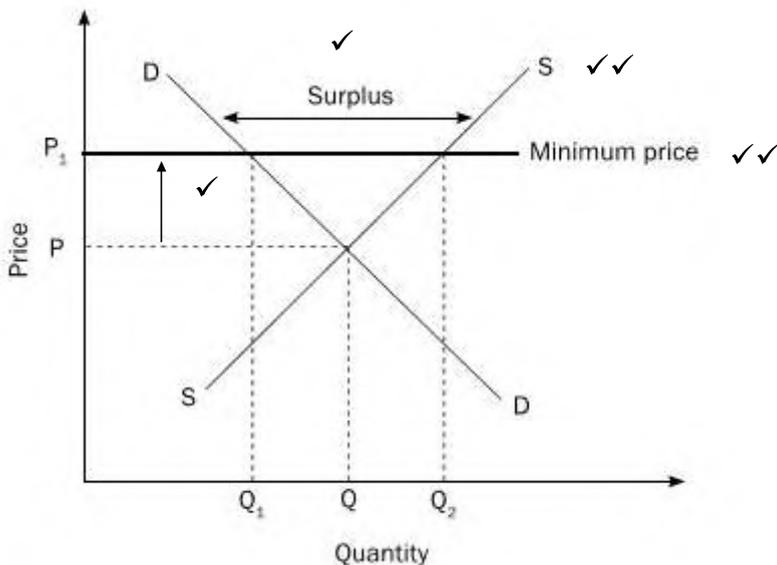
Mark allocation	
Maximum price	= 2
Shortage	= 1
Demand and Supply	= 1
Max. 4 marks	

(4)

- The market equilibrium price is P and the equilibrium quantity is Q ✓✓
- The government intervenes and passes a law that bread cannot be sold for more than P₁ ✓✓
- Maximum prices may cause a shortage of goods but they do improve the welfare of some consumers since goods are at a lower price ✓✓ (Max. 4 marks)

Minimum prices ✓

- The government sets a minimum price at some point above the market price ✓✓
- This enables producers to make a comfortable profit and encourages them to supply important essential goods ✓



Mark allocation	
Minimum price	= 2
Surplus	= 1
Price increase	= 1
Max. 4 marks	

- The market equilibrium price is P and the equilibrium quantity is Q ✓✓
- If the government sets a minimum price at P₁, farmers will earn greater profits and supply more corn ✓✓ (Max. 4 marks)
- A surplus will mean the government will have to buy the extra corn and dump it locally or abroad ✓✓

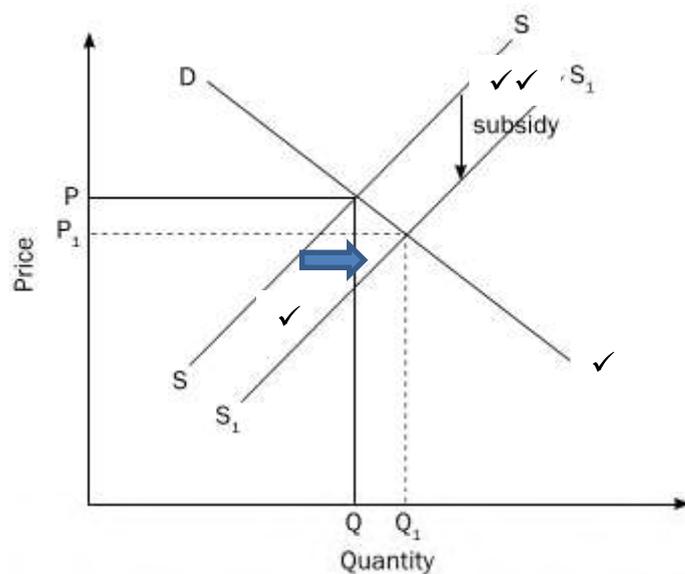
Taxes and subsidies ✓

Levying if taxes

- The government intervenes in the market by levying taxes to recover the external cost. ✓✓
- These taxes will increase the price and will result in a decrease in production. ✓✓

Providing Producer Subsidies

- The government provides subsidies to producers in order to encourage them to increase the production of goods ✓
- Producer subsidies are often given to suppliers of agricultural products such as wheat and maize ✓✓
- Subsidies lower the cost of producing goods and thus the market price of these goods is lowered ✓✓



Mark allocation	
Subsidy	= 2
Demand curve	= 1
Supply curve movement	= 1
Max. 4 marks	

- The market price of meat is P and the corresponding quantity is Q ✓✓
- If the government subsidises the production of meat, the market price will decrease to P₁ with corresponding quantity Q₁ ✓✓
- The lower price, P₁ allows the poor to purchase more meat ✓✓

(Max 4. marks)

Redistribution of wealth ✓

- The government uses different methods to distribute income through the provision of free services, services in kind and cash benefits to the poor ✓✓
- Government also uses laws to enforce redistribution for example BBBEE, affirmative action, land restitution, land redistribution and property subsidies (RDP housing) ✓✓

(Accept any correct relevant responses.)

(Maximum 8 marks for mere listing.)

(Max. 26) (26)

ADDITIONAL PART**How effective has government spending been in addressing market failure?**

Government spending is effective in addressing market failure by:

- Transferring income directly to the poor, such as child support grants, unemployment benefits and thereby reducing income inequalities ✓✓
- Providing goods free of charge e.g. community goods, education etc. and allowing access to basic needs to all citizens ✓✓
- Implementing employment creation programmes, which can create and improve skills for all types of labour ✓✓
- Spending on campaigns that will inform the public about policies and legislation that protects them against exploitation ✓✓
- Investing on infrastructure development such as roads, railways and communication networks as private sector finds these unprofitable or difficult to finance ✓✓
- Government intervention such as new laws, tariffs, subsidies and trade restrictions

(Accept any other correct relevant response.)

(Max. 10 marks)

(10)

CONCLUSION

Although the government cannot fulfil the supply of all community goods, there will always be a need to satisfy the aspirations of the entire society. ✓✓

(Accept any high order conclusion)

(2)

TOTAL SECTION C: 40
GRAND TOTAL: 150

