



DEPARTMENT OF
EDUCATION

**NATIONAL SENIOR
CERTIFICATE**

GRADE 11

ECONOMICS P2
MAY/JUNE 2025

Stanmorephysics.com

MARKS: 150

TIME: 2 HOURS

This question paper consists of 14 pages

INSTRUCTIONS AND INFORMATION

1. Answer **FOUR** questions as follows in the **ANSWER BOOK**.
 - **SECTION A : COMPULSORY**
 - **SECTION B:** Answer any **TWO** of the three questions.
 - **SECTION C :** Answer any **ONE** of the two questions
2. Write the question number above each answer.
3. Answer only the required numbers of questions. Answers in excess of the required number will not be marked.
4. 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.
5. Number the answers correctly according to the numbering system used in this question paper.
6. Read the questions carefully.
7. Start each question on a new page.
8. Leave 2-3 lines between sub sections of questions.
9. Use only black or blue ink.
10. You may use a non- programmable pocket calculator.
11. Write legible and present your work neatly.

SECTION A: COMPULSARY

QUESTION 1

30 MARKS – 20 MINUTES

1.1 Various options are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A-D) next to the question number (1.1.1-1.1.5) in the ANSWER BOOK, for example 1.1.6. D.

1.1.1 A market structure that is known as a hybrid is a/an...market.

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

1.1.2 The type of price elasticity of supply wherein a percentage change in price results in the same percentage in the quantity supplied is called...

- A perfectly inelastic supply
- B unitary elastic supply
- C perfectly inelastic demand
- D inelastic supply

1.1.3 The point where marginal revenue is equal to marginal cost is known as ... maximisation point.

- A loss
- B marginal
- C average
- D Profit

1.1.4 The price of one product in terms of another product is called ... price

- A relative
- B absolute
- C actual
- D nominal

1.1.5 A business that has full control over price is regarded as a price...

- A taker.
- B negotiator.
- C researcher.
- D maker.

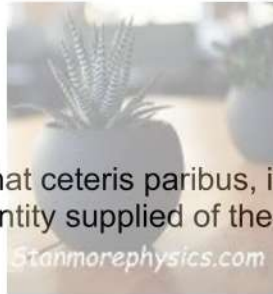


1.1.6 If the percentage change in quantity price is 25 and the percentage change in price is 25, the value of the price elasticity of supply is ...

- A 1
- B 25
- C 0
- D 100

1.1.7 A period of production where all factors of production are variable is known as...

- A short run
- B long run
- C fixed term
- D medium term



1.1.8 The law of supply states that ceteris paribus, if the price of a commodity or service increases, the quantity supplied of the commodity will ...

- A decrease
- B remain the same
- C increase
- D fluctuate

(8 x 2) (16)

1.2 Choose a description from COLUMN B that matches the 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.

COLUMN A		COLUMN B
1.2.1	Economies of Scale	A Products sold in a perfect market and pure Oligopoly
1.2.2	Marginal cost	B The cost per unit of production
1.2.3	Duopoly	C Cost reductions that occur when firms increase production
1.2.4	Market forces	D Additional cost of producing every additional unit of output.
1.2.5	Cost curves	E Market structure dominated by two firms
1.2.6	Accounting profit	F Factors that determine the allocation of scarce resources
1.2.7	Homogeneous	G The difference between total revenue and total costs
1.2.8	Average costs.	H The relationship between cost of production and total quantity produced
		I Actual cost of producing a good

(8 x 1) (8)

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

1.3.1 A period of time that the business is unable to increase at least one of its inputs.

1.3.2 The minimum level of profit that is needed to keep the entrepreneur from leaving the industry.

1.3.3 The quantity supplied of a commodity increases or decreases because of a change in the price of the commodity.

1.3.4 Measures the revenue for selling each additional unit of output.

1.3.5 A good that demanded in smaller quantities when the income levels of consumers rise.

1.3.6 The sum of fixed and variable costs incurred in the production of goods and services.



(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 examples of implicit costs (2 x 1) (2)

2.1.2 Why does the marginal revenue curve of a monopoly lie below its average revenue curve? (1 x 2) (2)

2.2 Study the data below and answer the questions that follow

SHORT RUN COSTS OF PRODUCTION					
Output	Fixed Costs	Variable Costs	Total Costs	Average Variable Costs	Marginal Costs
1	30	0	30	0	
2	30	5	35	2.5	
3	30	8	38	2.7	
4	30	10	40	2.5	
5	30	16	46	3.2	

Source: Own Source

2.2.1 Identify the variable costs of producing 2 units of output. (1)

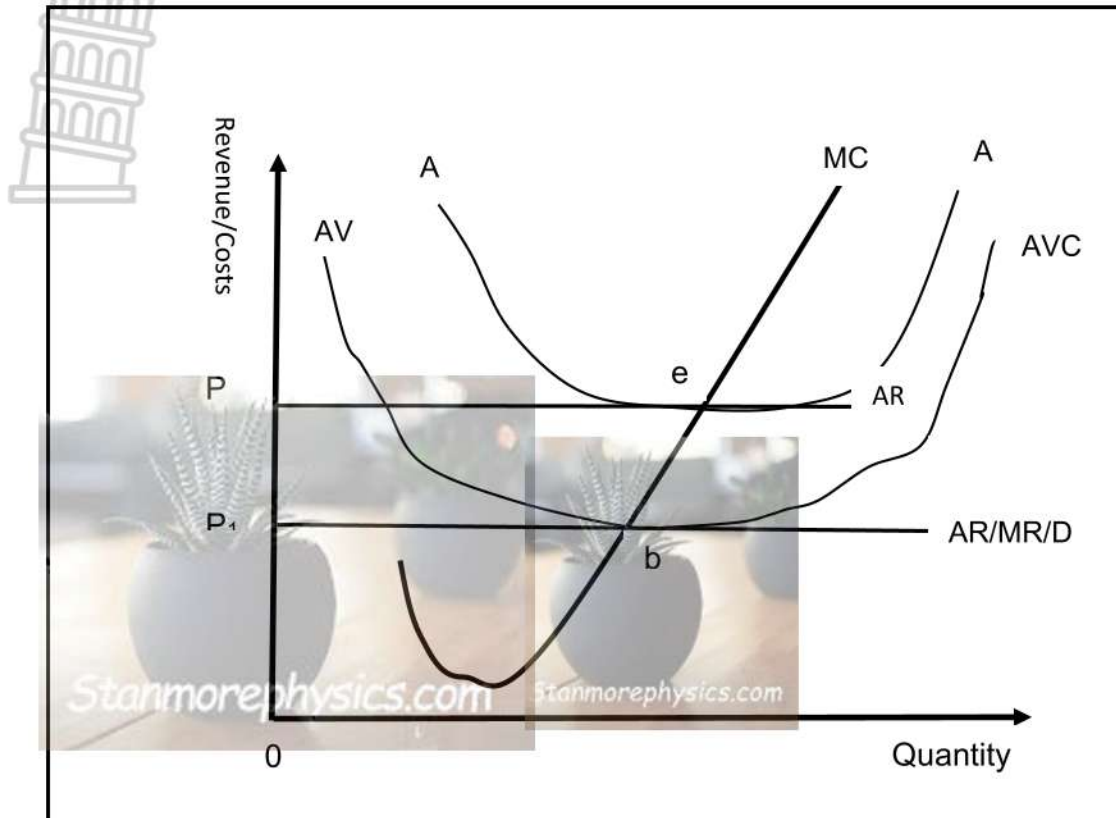
2.2.2 Name the cost of production that cannot be recovered. (1)

2.2.3 Briefly describe the term *production costs*. (2)

2.2.4 Explain the impact of producing the fifth unit of output on the average variable costs curve. (2)

2.2.5 Calculate the total cost of producing 4 units. Show ALL calculations. (4)

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



- 2.3.1 Identify the market structure depicted in the graph. (1)
- 2.3.2 Name the cost curve that represents supply in the business. (1)
- 2.3.3 Briefly describe the term *shut down point*. (2)
- 2.3.4 Why should marginal revenue be equal to marginal cost for profits to be maximised? (2)
- 2.3.5 How is the law of diminishing marginal returns related to the shape of the short-run marginal cost curve? (4)
- 2.4 Briefly discuss the relationship between *product* market and *factor* market. (8)
- 2.5 Analyse the SMART principle for setting the objectives of business. (8)

[40]

QUESTION 3: MICROECONOMICS

40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name TWO examples of explicit costs. (2 x 1) (2)

3.1.2 How do oligopolists compete for a share of the market? (1 x 2) (2)

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

	<p>State-owned logistics firm Transnet is currently a monopoly and has to find ways to engage with partners to improve operating efficiencies, logistics firm Imperial Logistics chief integration officer Cobus Rossouw said on Thursday, stating that it was one of the concerns the private sector had relating to Transnet.</p>
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Source: <https://www.bing.com/images>

3.2.1 Identify the type of monopoly depicted in the picture (1)

3.2.2 Name any ONE barrier to entry into a monopoly market (1)

3.2.3 Briefly describe the term market structure. (2)

3.2.4 Why is it difficult for producers to compete with a natural monopoly? (2)

3.2.5 Why does a monopoly usually make an economic profit in the long run (4)

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

REVENUE CALCULATIONS				
Quantities Sold	Price	TR	AR	MR
1	20	20	20	0
2	18	36	18	16
3	16	48	16	12
4	15	60	15	10
5	12	60	12	0
6	9	54	9	B

Source: Own source

- 3.3.1 Identify the concept that refers to income from the table above. (1)
- 3.3.2 Name any ONE example of variable resources? (1)
- 3.3.3 Briefly describe the term *diminishing returns*. (2)
- 3.3.4 Why will the firm not sell more than five units of output? (2)
- 3.3.5 Use the information in the table above to calculate marginal revenue **(B)**. Show ALL calculations. (4)
- 3.4 Compare monopolistic competition and oligopoly in terms of *number of sellers* and *market entry*. (8)
- 3.5 Analyse the impact on profits, if more businesses enter a perfectly competitive market. (8)

[40]

QUESTION 4

MICROECONOMICS

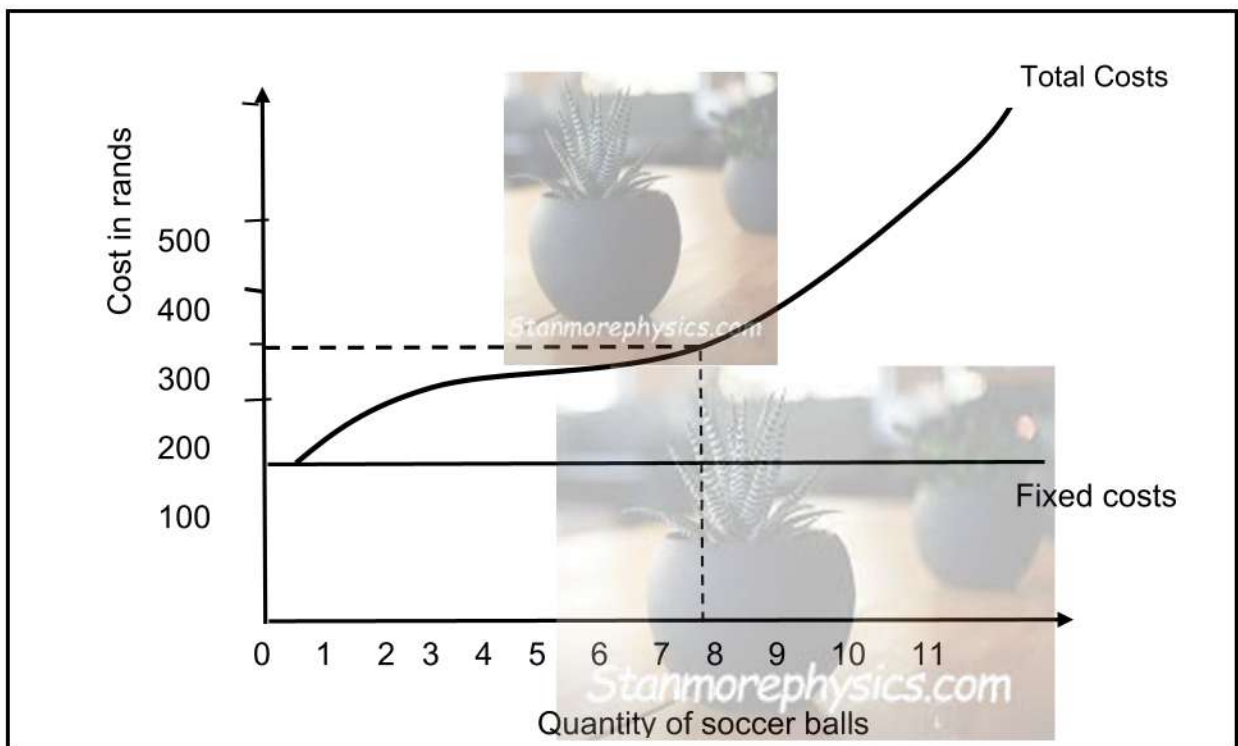
40 MARKS – 30 MINUTES

4.1 Answer the following questions

4.1.1 Name any TWO commodities with a perfectly inelastic supply. (2 x 1) (2)

4.1.2 Why is it important for businesses to study price elasticity of supply? (1 x 2) (2)

4.2 Read the extract below and answer the following questions



Source: Own source

4.2.1 Identify the cost that does not change with a change in output. (1)

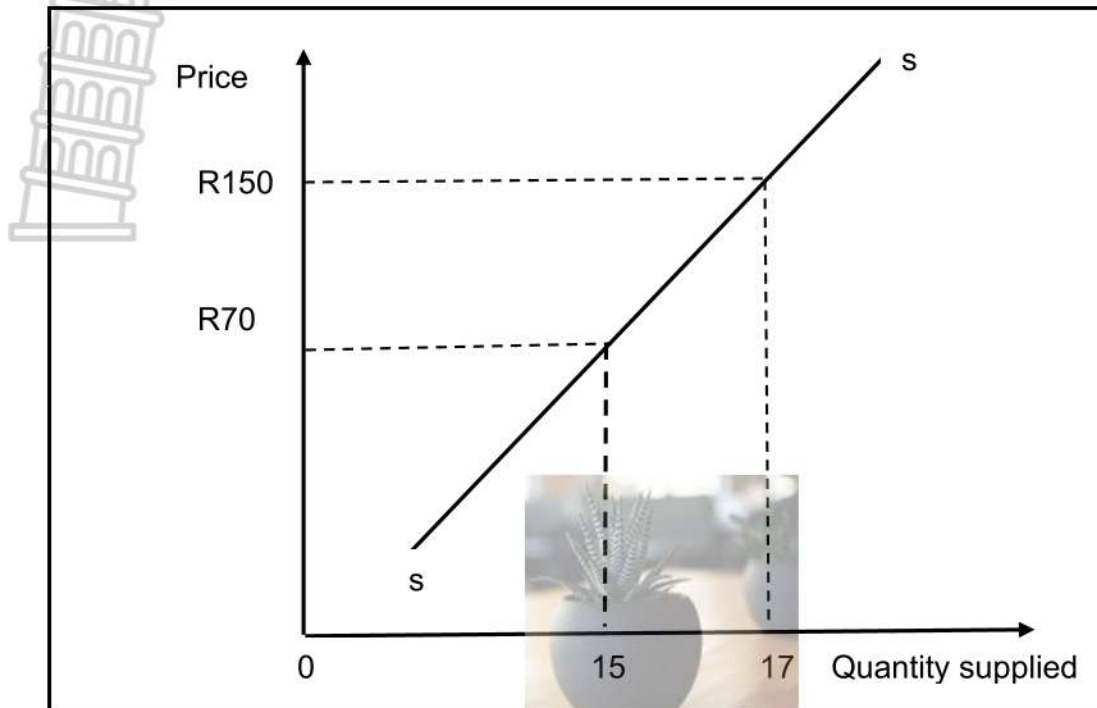
4.2.2 Name another component of total costs of production in a business. (1)

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

4.2.4 Why does the total cost curve continue to rise with an increase in output? (2)

4.2.5 If the price of soccer balls sold in the above firm is R100 each, calculate the profit/loss of producing 8 units. Show ALL calculations (4)

4.3 Study the graph below and answer questions that follow.



Source: Own source

- 4.3.1 Identify the type of elasticity depicted in the graph. (1)
- 4.3.2 Name any ONE example of a commodity with perfectly elastic supply? (1)
- 4.3.3 Briefly describe the term *price elasticity of supply*. (2)
- 4.3.4 How would the number of suppliers in a market influence the quantity of a commodity supplied? (2)
- 4.3.5 Use the information in the graph to calculate the price elasticity of supply. Show ALL your calculations. (4)
- 4.4 Briefly discuss the *industrial nature of a product* as factor that determine price elasticity of supply. (8)
- 4.5 How does government protect consumers from oligopolies? (8)

[40]

TOTAL SECTION B: [80]


SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK. Ensure that your answer follows the structure indicated below in order to obtain maximum marks:

STRUCTURE OF ESSAY	MARK ALLOCATION
<p>Introduction The introduction is a lower order-response</p> <ul style="list-style-type: none"> • A good starting point would be to define the main concept related to the question topic. • Do not include any part of the question in your introduction. • Do not include any part of the introduction in your body. • Avoid saying in the introduction what you are going to discuss in the body. 	<p>Max. 2</p>
<p>Body</p> <p>Main part: Discuss in detail/ In depth discussion/ Examine/ Critically discuss/ Analyse/ Compare/ Evaluate/ Distinguish/Differentiate/ Explain.</p> <p>Additional part: Give own opinion/ Critically discuss/ Evaluate/ Critically evaluate/ Draw a graph and explain/ Use the graph given and explain/ Complete the given graph/ Calculate/ Deduce/ Compare/ Explain/ Distinguish/ Interpret/ Briefly debate/ How/ Suggest.</p>	<p>Max. 26</p> <p>Max. 10</p>
<p>Conclusion</p> <p>Any high-order conclusion should include:</p> <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned. • Any opinion or value judgment on the facts discussed. • Additional support information to strengthen the discussion/ analysis. • A contradictory viewpoint with motivation, if required. • Recommendations. 	<p>Max. 2</p>
<p>TOTAL</p>	<p>40</p>

QUESTION 5: MICROECONOMICS

40 MARKS – 40 MINUTES

- 
- Discuss, in detail, the demand and supply relationship with the aid of graphs (substitutes and complements). (26)
 - Examine the importance of complementary goods in the economy. (10)

[40]

QUESTION 6: MICROECONOMICS

40 MARKS – 40 MINUTES

- 
- Discuss in detail the price elasticity of demand (PED) without the aid of graphs. (26)
 - Evaluate the reasons for consumer responses to changes in prices. (10)

[40]

TOTAL SECTION C: [40]

GRAND TOTAL: [150]



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GRADE 11

**ECONOMICS P2
MAY/JUNE 2025
MARKING GUIDELINES**

MARKS: 150

This marking guidelines consists of 18 pages

SECTION A: COMPULSARY

QUESTION 1

30 MARKS – 20 MINUTES

1.1 MULTIPLE CHOICE QUESTIONS

1.1.1 C monopolistic competition ✓✓

1.1.2 B unitary elastic supply. ✓✓

1.1.3 D profit ✓✓

1.1.4 A relative ✓✓

1.1.5 D maker. ✓✓

1.1.6 A ✓✓

1.1.7 B long run ✓✓

1.1.8 C increase ✓✓

(8 x 2) (16)

MATCHING COLUMNS

1.2.1 C Cost reductions that occur when firms increase production. ✓

1.2.2 D Additional cost of producing every additional unit of output. ✓

1.2.3 E Market structure dominated by two firms. ✓

1.2.4 F Determine prices at which goods are bought and sold in a perfectly competitive market. ✓

1.2.5 H The relationship between cost of production and total quantity produced. ✓

1.2.6 G The difference between total revenue and total costs. ✓

1.2.7 A Products sold in a perfect market and pure oligopoly. ✓

1.2.8 B Shows the total cost of production per unit at each level of output. ✓

(8 x 1) (8)

1.3 GIVE ONE TERM

1.3.1 Short run. ✓

1.3.2 Normal profit. ✓

1.3.3 Elastic supply ✓

1.3.4 Marginal revenue ✓

1.3.5 Inferior goods ✓

1.3.6 Total costs ✓

(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** examples of implicit costs

- Forgone interest revenue from investments✓
 - Owner's time✓
 - Limited access to capital✓
 - Loss of goodwill or reputation✓
- (Accept any correct relevant response)

(2x1) (2)

2.1.2 Why does the marginal revenue curve of a monopoly lie below its average revenue curve?

- The monopolist has to reduce the price in order to sell more units, leading to an additional revenue that is smaller than the average revenue✓✓
- (Accept any correct relevant answer)

(1x2) (2)

2.2 DATA RESPONSE

2.2.1 Identify the variable costs of producing 2 units of output.

- R 5✓

(1)

2.2.2 Name the cost of production that cannot be recovered.

- Sunk costs✓

(1)

2.2.3 Briefly describe the term *production costs*.

- All of the direct and indirect costs businesses incur from manufacturing a product or providing a service.✓✓

(2)

2.2.4 Explain the impact of producing the fifth unit of output on the average variable costs curve of the firm.

- Producing the fifth unit causes an increase in the average variable costs, which is represented by a rise in the average variable cost curve.✓✓

(2)

2.2.5 Calculate the total cost of producing 4 units. Show ALL calculations.

- $TC = \text{Fixed costs} + \text{Variable costs} \checkmark$
- $= R30 \checkmark + R10 = R40 \checkmark$
- $A = R40 \checkmark \checkmark$

4

2.3. DATA RESPONSE

2.3.1 Identify the market structure depicted in the graph.

- Perfect market/Perfectly competitive market. \checkmark

(1)

2.3.2 Name the cost curve that represents supply in the business.

- The Marginal cost curve (rising part of MC) \checkmark

(1)

2.3.3 Briefly describe the term *shut down point*.

- A point where a business cannot cover its average variable costs leaves the market. $\checkmark \checkmark$

(2)

2.3.4 Why should marginal revenue be equal to marginal cost for profits to be maximised?

- This point represents the optimal output level where the additional revenue gained from producing one more unit is precisely equal to the additional cost incurred. $\checkmark \checkmark$
 (Accept any other correct relevant response)

(2)

2.3.5 How is the law of diminishing marginal returns related to the shape of the short-run marginal cost curve?

- Beyond some point, the marginal product decreases as more of a variable factor is added to a fixed factor of production. $\checkmark \checkmark$
- As production increases, diminishing marginal returns for the variable production factors mean that each additional unit of output will require more of the variable factors, so marginal costs go up when diminishing returns set in. $\checkmark \checkmark$
 (Accept any other correct relevant response.)

(2x2)

(4)

2.4 Briefly discuss the relationship between *product* market and *factor* market.

- Factors of production are sold on the factor market, whilst products are sold on the goods market. $\checkmark \checkmark$
- Without the factors of production, goods and services cannot be produced. $\checkmark \checkmark$
- As the cost of the factors of production increase, so too will the price of products. $\checkmark \checkmark$
- Shortages in the factor market will result in shortages in the goods market. $\checkmark \checkmark$
- The product market is highly dependent on the factor market.



- Any changes in the factor market will result in an influence in the goods market. ✓✓
(Accept any other correct relevant response.)
(Max 4 marks for discussion of product and/or factor markets.)

(Any 4x2) (8)

2.5 Analyse the SMART principle for setting the objectives of business

Specific: ✓

- The idea must be identified and understood, e.g. the business must become the most profitable in the country ✓✓

Measurable: ✓

- It must be possible to test or measure whether the goal has been reached. e.g. in order for a business to reach its goal it must make a profit of R5 000 a month ✓✓



Attainable: ✓

- All stakeholders must agree to the set goal ✓✓

Realistic: ✓

- The goal must be within reach for the business e.g. the business must be capable of reaching the required profit ✓✓

Time specific: ✓

- There must be a time limit on achieving a goal. e.g. the business must be the most profitable within a period of five years ✓✓

(Accept any other relevant response)

(4 x 2) (8)

QUESTION 3: MICROECONOMICS

40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name TWO examples of explicit costs.

- Salaries and wages✓
- Rent✓
- Material costs ✓
- Taxes✓
- Marketing and advertising costs✓

(2x1) (2)

3.1.2 How do oligopoly firms compete for a share of the market?

- Making their goods look different from goods sold by their competitors – product differentiation.✓✓

(1x2) (2)

3.2 DATA RESPONSE

3.2.1 Identify the type of monopoly depicted in the picture

- Natural monopoly.✓

(1)

3.2.2 Name any ONE legal barrier to entry into a monopoly market

- Copyrights✓
- Trademarks✓
- Intellectual property/intellectualization✓

(1)

3.2.3 Briefly describe the term market structure.

- Market structure refers to the manner in which a market is organised. ✓✓

(2)

3.2.4 Why is it difficult for other businesses to enter a natural monopoly market?

- Because of the huge capital outlay required as well as economies of scale by the existing monopoly firm.✓✓

(2)

3.2.5 Why does a monopoly usually make an economic profit in the long run?

- The monopoly may be able to increase its capacity/size of factory to increase production.✓✓
- It may continue to innovate and improve its products or services to maintain its market power and pricing advantage.✓✓

(Accept any other correct relevant answer)

(2x2) 4

3.3 DATA RESPONSE



3.3.1 Identify the concept that refers to income from the table above.

- Revenue✓

(1)

3.3.2 Name any ONE example of variable resources?

- Labour✓
- Raw materials✓
- Electricity✓

(1)

3.3.3 Briefly describe the term *diminishing returns*.

- A decline in the output arising from continuous increase in one input (variable) while keeping others constant (fixed).✓✓

(2)

3.3.4 How does selling more than five units of output affect the firm's revenues?

- The firm maximises its revenue at an output 5 where MC is zero, after which total revenue starts to decline.✓✓

(2)

3.3.5 Use the information in the table above to calculate marginal revenue (B). Show ALL calculations.

Marginal revenue=Change in total revenue/ change in quantity✓

$$= (R54 - R60) / (6-5)✓✓$$

$$= -6/1✓$$

$$MR = 6✓✓$$

(4)

3.4 Compare monopolistic competition and oligopoly in terms of *number of sellers and market entry*.

Criteria	Monopolistic competition.	Oligopoly.
Number of sellers	<ul style="list-style-type: none"> • There are many sellers selling heterogeneous goods.✓✓ 	<ul style="list-style-type: none"> • Few sellers dominating the market.✓✓
Market entry	<ul style="list-style-type: none"> • Entry into the market is relatively easy.✓✓ 	<ul style="list-style-type: none"> • Entry is difficult but not restricted due to considerable barriers. ✓✓
	(2x2)(4)	(2x2)(4)

(8)

3.5 Analyse the impact on profits, if more businesses enter a perfectly competitive market.

- More businesses will be encouraged to enter the market due to short run profit made by existing firms.✓✓
 - Many businesses will enter the market as there is absolute freedom of entry into the market thereby competing against existing firms.✓✓
 - Entry of new firms will lead to an increase in the output but also reduce a share of the market from existing firms.✓✓
 - In the long run firms will no more make economic profit because of perfect competition.✓✓
 - Firms that use efficient methods of production will make normal profits and stay in the market.✓✓
 - Firms that are inefficient and produce at higher costs will make losses and leave the market.✓✓
- (Accept any relevant impact on profits)

(Any 4x2) (8)

[40]

QUESTION 4

MICROECONOMICS

40 MARKS – 30 MINUTES

4.1 Answer the following questions

4.1.1 Name any TWO commodities with a perfectly inelastic supply.

- Oil✓
- Alcoholic products.✓
- Drugs✓
- Nicotine products✓

(2x1) (2)

4.1.2 Why is it important for businesses to study price elasticity of supply?

- They will know the degree to which their product will respond to changes in the price.✓✓

(1x2) (2)

4.2 DATA RESPONSE

4.2.1 Identify the cost that does not change with a change in output.

- Fixed costs.✓

(1)

4.2.2 Name another component of total costs of production in a business.

- Variable costs.✓ (1)

4.2.3 Briefly describe the term *opportunity costs*.

- The benefits that a business, an investor, or an individual consumer foregoes when choosing one alternative over another.✓✓ (2)
(Accept any other correct relevant answer)

4.2.4 Why does the total cost curve continue to rise with an increase in output?

- It is influenced by an increase in variable costs incurred for more raw materials and labour.✓✓ (2)

4.2.5 Calculate the profit/loss of producing 0 units of output if the unit price is R100. Show ALL calculations.

$$\text{Profit/Loss} = \text{total revenue} - \text{total cost}✓$$

OR

$$= (\text{Price} \times \text{Quantity}) - (\text{Total fixed cost} + \text{Total variable cost})✓$$

$$= (100 \times 0) - (200 + 0)✓$$

OR

$$= 0 - 200 ✓$$

$$= -R200 \text{ (loss)} ✓✓$$



(4)

4.3 DATA RESPONSE

4.3.1 Identify the type of elasticity depicted in the graph.

- Relatively inelastic supply.✓ (1)

4.3.2 Name any ONE example of a commodity with perfectly elastic supply?

- Designer clothing✓
- High-end electronics✓
- Gourmet foods✓
- Exotic vacations✓
- Luxury cars✓

(1)

4.3.3 Briefly describe the term *price elasticity of supply*.

- The responsiveness of producers to changes in the prices of goods or services.✓✓ (2)

4.3.4 How would the number of suppliers in a market influence the quantity of a commodity supplied?

- Where there are fewer suppliers of a product, price changes do not followed by large changes in quantity supplied.✓✓ (2)

4.3.5 Use the information in the graph to calculate the price elasticity of supply. Show ALL your calculations.

PES = % change in quantity supplied / % change in price. ✓

PES = 13% / 28% ✓

PES = 0.46 ✓✓

(4)

4.4 Briefly discuss the industrial nature of a product as factor that determine price elasticity of supply.

There are three kinds of industrial goods and services which respond differently to price changes.

Agricultural goods ✓

- Supply in the short run is inelastic as the quantity in one year depends on the size of the land cultivated. ✓✓
- Some products such as natural rubber, coffee and cocoa are inelastic in supply because it takes some time for newly planted trees to mature. ✓✓
- The supply of beef and milk is also inelastic as it takes long to increase the herds of cattle ✓✓

Mining commodities ✓

- The supply is inelastic as it takes long to increase the capacity of mines to produce more. ✓✓

Manufactured goods. ✓

- The supply of manufactured goods is elastic since the production process is shorter, though it varies. ✓✓

(Any 4x2) (8)

4.5 How does government protect consumers from oligopolies?

- Through the enforcement of competition laws ensuring a fair and competitive business environment. ✓✓
- By incentivising new companies, by providing tax relief, special grants etc. ✓✓
- Quality standards ensure that firms maintain a certain level of quality in their products or services ✓✓.
- Regulate the information that firms provide to consumers, preventing dominant firms from misleading consumers or withholding important information about their products or services. ✓✓
- Price ceilings can be implemented to limit how high prices in an oligopoly are set. ✓✓



- Imposing strict penalties for the breaching of antitrust laws can deter firms from excessive price manipulation. ✓✓
(Accept any other correct relevant response.)

(Any 4x2) (8)

[40]

TOTAL SECTION B: [80]

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, the demand and supply relationship with the aid of graphs (substitutes and complements). (26)
- Examine the importance of complementary goods in the economy. (10)

[40]

INTRODUCTION

- A demand relationship occurs when two or more goods and services are demanded at the same time, due to the fact that they can be used together. ✓✓(2)
(Accept any other correct relevant introduction.)

BODY: MAIN PART

- The main difference between a substitute and a complement is that substitute goods are consumed in place of each other, whereas complements are consumed together. ✓✓
- If the cross-price elasticity of demand of the two goods is positive, then the goods are substitutes. ✓✓
- On the other hand, if the cross-price elasticity of the two goods is negative, then the goods are complements. ✓✓

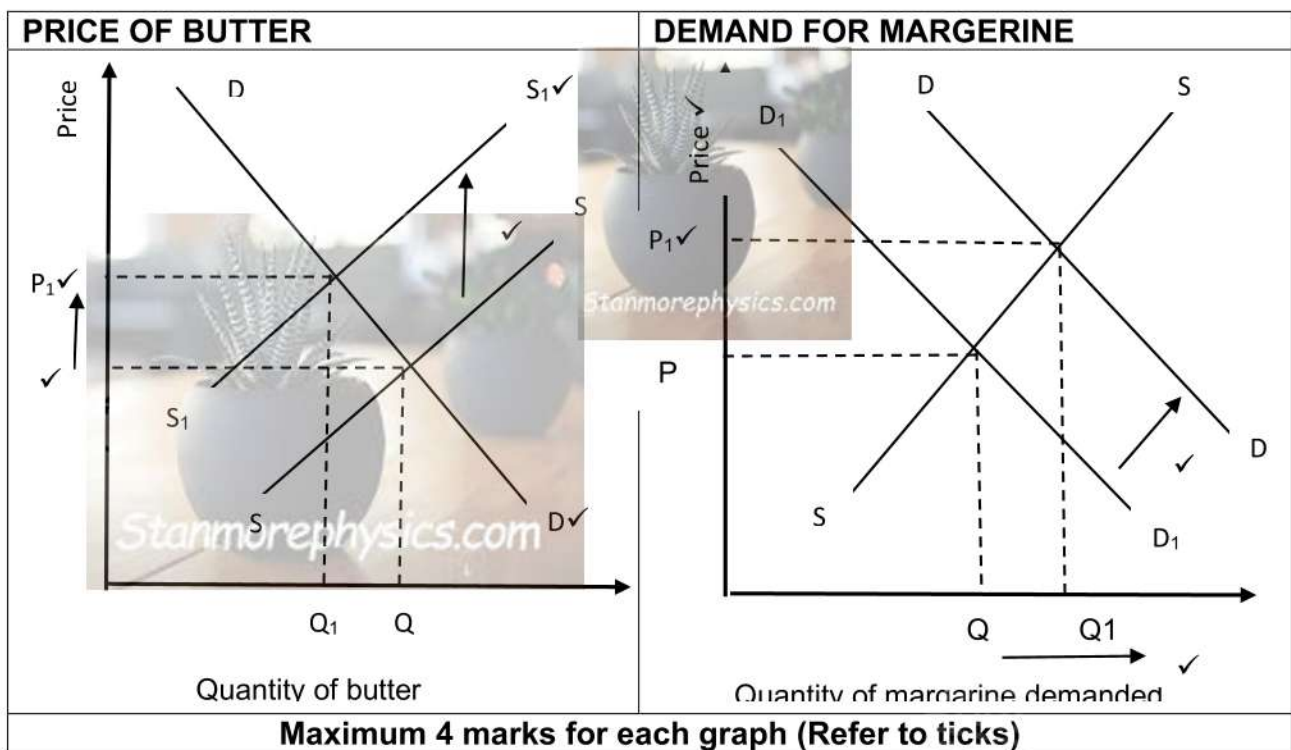
Substitute goods ✓

- A substitute product is a product that is used in place of another product. ✓✓
- Some products have specific relationships that will affect demand. ✓✓

- Example: If you want to buy beef but it is too expensive, you tend to buy a cheaper alternative, ✓✓ e.g. margarine. In this instance, margarine is the substitute product. ✓✓



PRICE OF BUTTER AND DEMAND FOR MARGERINE



EXPLANATION OF THE GRAPH

Price of butter

- The price of beef increases from P to P1 due to a decrease in supply (supply/curve) shifts from SS to S1S1). ✓✓
- Leads to a decrease in quantity demanded of beef from Q to Q1. ✓✓

Demand for margarine

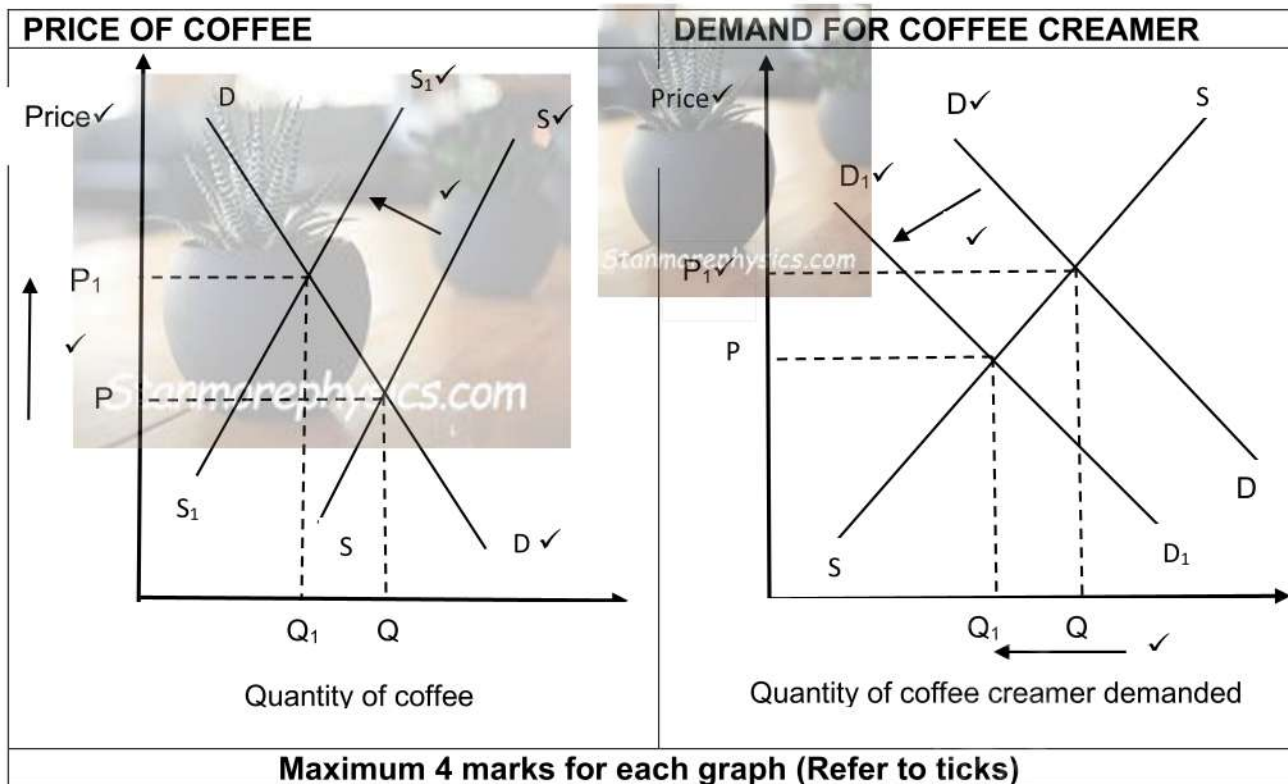
- The demand for the substitute good, which is chicken, increases from DD to D1D1. ✓✓

- Because of the increase in demand, price also increases from P to P1. ✓✓
- This implies that an increase in the price of one product will cause an increase in demand of the substitute product. ✓✓



Complementary goods

- Products are complementary products when they are used together to satisfy a need or a want e.g. coffee and coffee creamer. ✓✓



EXPLANATION OF THE GRAPH

Price of coffee

- The price of tea increases due to a decrease in supply. ✓✓
- Supply curve shifts from SS to S1S1 while the price of tea increases from P to P1. ✓✓
- Quantity demanded for tea decreases from Q to Q1. ✓✓

PRICE OF COFFEE AND DEMAND FOR COFFEE CREAMER

Demand for coffee creamer

- The increase in the price of tea will cause a decrease in the demand for milk
- People will buy less tea; therefore they will need less milk. ✓✓
- This causes the demand curve (DD) to shift leftwards to D1D1, and quantity demanded decreases from Q to Q1 and price will decrease from P to P1. ✓✓
- For complementary goods, when the price of one good increases, the demand for the complementary product will decrease. If the price of one product decreases, the demand for complementary products will increase ✓✓

(Accept any other correct relevant response.)

(Allocate a maximum of 8 marks for mere listing of facts/examples.)

(Max. 26)

ADDITIONAL PART

Examine the importance of complementary goods in the economy.

- The complementary product usually adds to the overall value of another product, thus sharing a beneficial relationship. ✓✓
- Complementary products are usually affected by the prices of the products they are used with. ✓✓
- If the price rises, consumers do not see the need to use the products, resulting in a drop in demand. ✓✓
- Complementary products increase sales as they are more lucrative to producers as compared to substitute goods since the demand for one results in a demand for the other. ✓✓
- Complementary products reduce product switch overs since it maximises brand image. ✓✓
- Complementary products help in reaching consumer expectations, and marketers do not need to spend a lot of time researching and analysing. ✓✓
- Companies producing the complementary products can predict the market demand and price fluctuation, thus controlling prices effectively. ✓✓
- Complementary products do not need a lot of advertising and there are few barriers in terms of entering and exiting a market. ✓✓

(Accept any other correct relevant response.) (Max. 10)

CONCLUSION

- Consumption patterns and price levels are all inter-related with each other. ✓✓(2)

(Accept any relevant conclusion)

QUESTION 6: MICROECONOMICS

40 MARKS – 40 MINUTES

- **Discuss in detail the price elasticity of demand (PED) without the aid of graphs. (26)**
- **Evaluate the reasons for consumer responses to changes in prices. (10)**

[40]

INTRODUCTION

- Price elasticity of demand is the extent to which a quantity demanded will change as a result of a change in price. ✓✓
- To calculate the PED, the change in quantity demanded should be calculated as a percentage, and the change in price should also be calculated as a percentage, then the percentage change in quantity demanded should be divided by the percentage change in price ($\% \Delta Q_d \div \% \Delta P$). ✓✓

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

BODY

MAIN PART

FORMS OF PRICE ELASTICITY OF DEMAND (PED)

1. Perfectly elastic demand ✓

- The price increase will result in quantity demanded to drop to zero. ✓✓
- This means consumers will buy an infinite (unlimited) quantity of the product at the prevailing price. ✓✓
- The $PED = \infty$ (infinite) ✓✓
- If the seller can increase the price even by half a percentage the quantity demanded will decrease from 100 to 0. ✓✓

2. Relatively elastic demand ✓

- A small percentage change in price will result in a larger percentage in quantity demanded. ✓✓
- This means the change (decrease or increase) quantity demanded is always much larger than the price decrease or increase. ✓✓
- The PED is larger than 1 ($PED > 1$). ✓✓
- The price elasticity is more than 1 and this means the product's demand is elastic. ✓✓
- By reducing the product by small amount, demand will increase

more. ✓✓

- Also by increasing the price by small amount will result in larger decrease in quantity demanded. ✓✓
- Example of goods with elastic demand is luxury good (or non - essential goods) ✓✓

3. Unitary elastic demand ✓

- The percentage change in price is equal to the percentage in quantity demanded. ✓✓
- This means the elasticity is equals to 1 ($PED = 1$). ✓✓

4. Relatively inelastic demand ✓

- The percentage change in price will result is a relatively smaller percentage in quantity demanded. ✓✓
- The price elasticity is less than 1 ($PED < 1$). ✓✓
- Types of products with inelastic demand are basic (essential) goods such as basic food stuffs. ✓✓
- The price elasticity is less than 1 ($P < 1$). ✓✓
- This indicates that even if the price can increase, few consumers will stop buying it. ✓✓

5. Perfectly inelastic demand ✓

- It is when the increase or decrease in price of a product causes no change in quantity demanded. ✓✓
- This means the increase in price has no impact (effect) on the quantity consumed. ✓✓
- This is usually the case with habit forming products such cigarettes and illegal drugs. ✓✓

Max (26)

ADDITIONAL PART

Evaluate the reasons for consumer reactions to changes in prices.

- Consumers will react to increase in price of a good with a closed or identical substitute good, by buying less of the original goods and more of the substitute goods. ✓✓
- Consumers will not react to a price increase of the essential goods such as food, medicines etc., as goods these are necessary for survival. ✓✓
- A decrease in the price of these goods can lead to more quantities of these goods being bought and stored for later used. ✓✓
- Consumers will continue to buy habit forming product such as alcohol, cigarettes etc. regardless of price changes as these goods are addictive. ✓✓

- However if there is a possibility of removal of these goods, consumers will buy large quantities of these goods before removal and after the products are reintroduced. ✓✓
- Goods with limited utility (single function products) become too expensive; consumers will buy less of these goods as they have limited uses. ✓✓

(Accept any other correct relevant higher order response)

(Max 10)

CONCLUSION

- It is important for producers to study the buying pattern of consumers so they can plan prices accordingly. (Max. 2)

(Accept any other correct relevant higher order response)



TOTAL SECTION C: [40]

GRAND TOTAL: [150]