Province of the
EASTERN CAPE
EDUCATION

OR TAMBO INLAND

GRADE 12

ECONOMICS
20 APRIL 2022

TOPIC TEST -Perfect Markets

MARKS: 86

TIME: 60 Minutes

This question paper consists of 5 pages

INSTRUCTIONS AND INFORMATION

1. Answer ALL 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. Leave 2–3 lines between subsections of questions.

6. 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.

7. Use only black or blue ink.

8. You may use a non-programmable pocket calculator.

9. Write neatly and legibly.

QUESTION 1

1.1 Give ONE term for each of the following descriptions. Write only the term next to the question numbers (1.1.1 to 1.1.6) in the ANSWER BOOK.
Abbreviations, acronyms and examples will NOT be accepted.

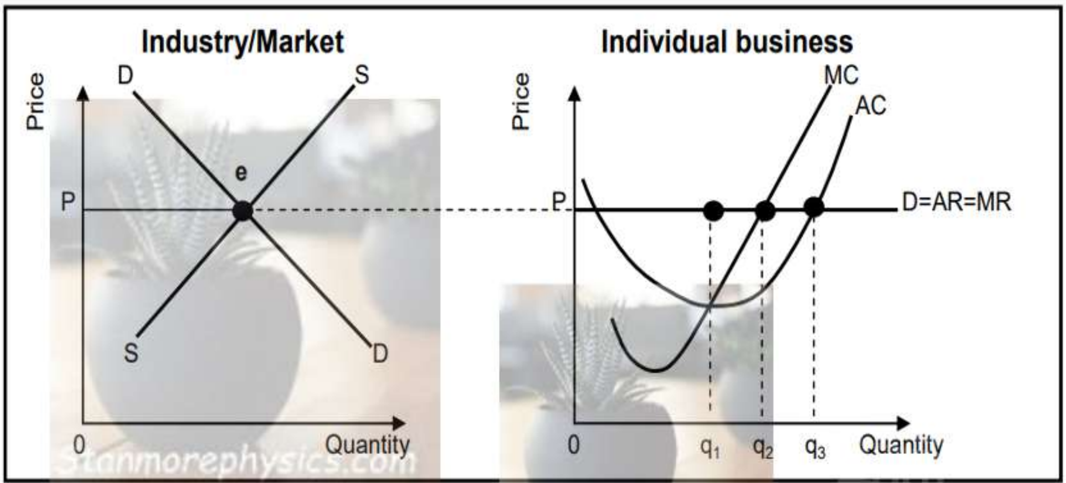
1.1.1 The value of skills owned by the entrepreneur and used in the production process.
1.1.2 Costs of inputs that are owned by an entrepreneur and used during the production process.
1.1.3 Income received from selling one extra unit of output.
1.1.4 Period of production where all factors of production become variable
1.1.5 Period of production where only the variable factors of production change
1.1.6 Actual expenditure of business, e.g. Wages and interest (6x1) (6)

QUESTION 2

2.1 Answer the following questions

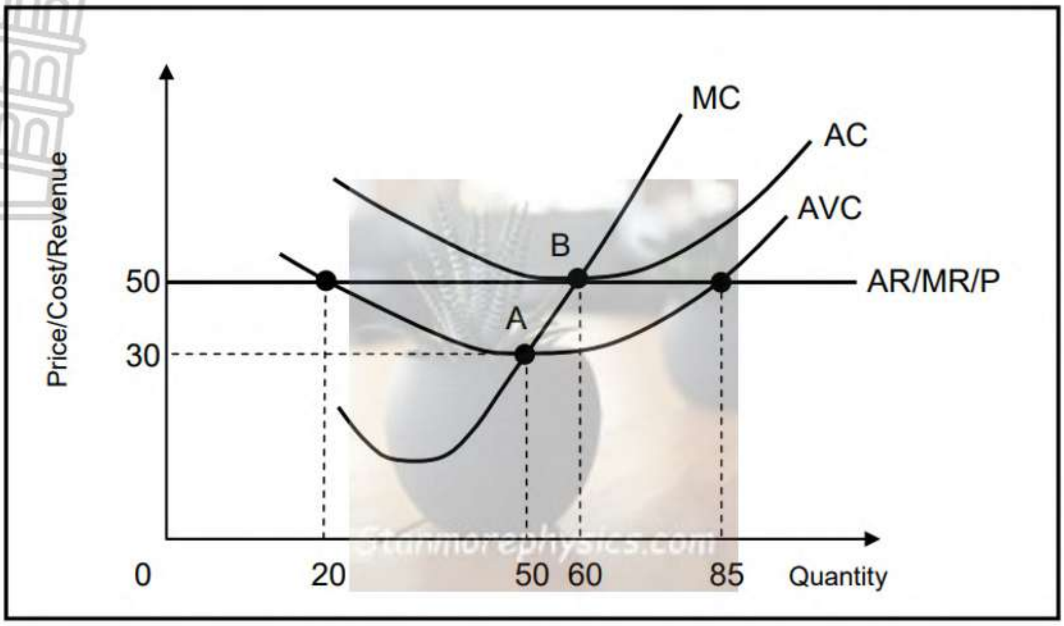
2.1.1 Name any TWO characteristics of perfect markets. (2x1) (2)
2.1.2 Why do homogeneous products benefit consumers? (1x2) (2)

2.2 Study the graphs below and answer the questions



2.2.1 Identify the quantity where the individual business will maximise profit. (1)
2.2.2 Name the market structure illustrated above. (1)
2.2.3 Briefly describe the term economic profit. (2)
2.2.4 Why does the individual business take the price determined by the industry? (2)
2.2.5 How would the entry of new firms in the industry impact the individual business in the long run? (4)

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



2.3.1 Which curve is used to determine the supply of the firm? (1)

2.3.2 Identify the profit maximisation quantity. (1)

2.3.3 Briefly describe the term marginal cost. (2)

2.3.4 When will a firm in a perfect market shut down its operations? (2)

2.3.5 Use the graph above to determine the type of profit made by this firm. Show ALL correct calculations. (4)

2.4 Using TR and TC curves, draw a correctly labelled graph to briefly explain how a firm in a perfect market maximises profit. (8)

2.5 Outline the challenges that the competition policy in South Africa face in achieving their goals. (8)

QUESTION 3

ESSAY QUESTION

STRUCTURE OF ESSAY	MARKS
Introduction The introduction is a lower order response: • A good starting point would be to define a concept or key word that appears in the question. • Do not include any part of the question in your introduction. • 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/Assess/Debate **Additional part:** Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/Compare/ Explain/ Distinguish/Interpret/Briefly debate/How?/Suggest	Max. 26 Max. 10
Conclusion Any relevant higher order conclusion that should include: • A brief summary of what has been discussed / analysed without repeating facts already mentioned in the body; • An opinion or value judgment on the facts discussed; • Additional support information to strengthen the discussion / analysis; • A contradictory viewpoint with motivation, if so required; and • Recommendations.	Max. 2
TOTAL	**40**

- Discuss in detail the following equilibrium positions with the aid of graphs:
  - Economic profit
  - Economic loss (26)
- How can consumers benefit from competition? (10)

[40]

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QUESTION 1

1.1 Give ONE term for each of the following descriptions. Write only the term next to the question numbers (1.1.1 to 1.1.6) in the ANSWER BOOK.
Abbreviations, acronyms and examples will NOT be accepted.

1.1.1 The value of skills owned by the entrepreneur and used in the production process.
Implicit costs✓

1.1.2 **Costs of inputs that are owned by an entrepreneur and used during the production process**.
Implicit costs✓

1.1.3 Income received from selling one extra unit of output.
Marginal revenue✓

1.1.4 Period of production where all factors of production become variable
Long run✓

1.1.5 **Period of production where only the variable factors of production change**
Short run✓

1.1.6 Actual expenditure of business, e.g. Wages and interest
Explicit cost✓ (6x1) (6)

QUESTION 2

2.1 Answer the following questions

2.1.1 Name any TWO characteristics of perfect markets. (2x1) (2)

2.1.2 Why do homogeneous products benefit consumers? (1x2) (2)

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

2.2 DATA RESPONSE

2.2.1 Identify the quantity where the individual business will maximise profit.(1)
Q2 ✓

2.2.2 Name the market structure illustrated above. (1)
Perfect (competition/market) ✓

2.2.3 Briefly describe the term economic profit. (2)
Occurs when a firm's total revenue exceeds total costs / price (AR) is greater than average cost / the profit made by the business over and above normal profit ✓✓(Accept any other relevant and correct answer)

2.2.4 Why does the individual business take the price determined by the industry?

- An individual firm is very small in relation to the industry and has no influence over the market price. ✓✓
- If individual firms were to charge higher prices they may either lose customers or market share. ✓✓

- When firms charge lower prices, they can incur losses. ✓✓
  (Accept any other correct relevant response) (2)

2.2.5 How would the entry of new firms in the industry impact the individual business in the long run? (4)

- Competition will increase as the number of competitors in the market increase ΠΠ
- Supply of goods and services will increase leading to lower prices ΠΠ
- Lower prices will reduce economic profit and individual business will make normal profit in the long run. ΠΠ (Accept any other correct relevant response)

2.3 DATA RESPONSE

2.3.1 Which curve is used to determine the supply of the firm? (1)
MC ✓

2.3.2 Identify the profit maximisation quantity. (1)
60 ✓

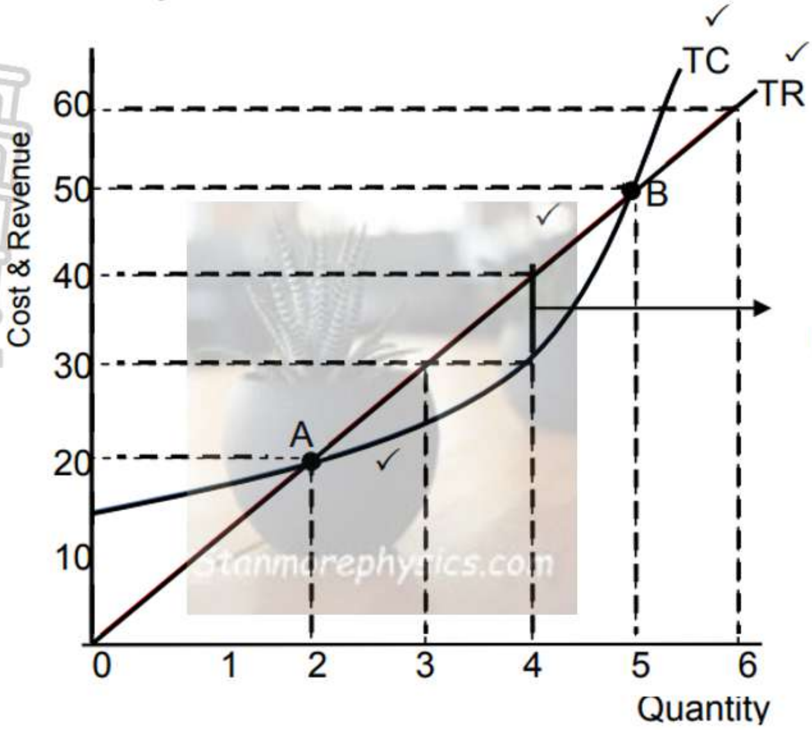
2.3.3 Briefly describe the term marginal cost.
Additional cost incurred when one more unit of a product is produced ✓✓
(Accept any other correct relevant response) (2)

2.3.4 When will a firm in a perfect market shut down its operations? (2)
Firms would shut down when they can no longer cover their variable costs. / MC=AVC /when the price reaches R30/AR <AVC✓✓
(Accept any other relevant correct answer)

2.3.5 Use the graph above to determine the type of profit made by this firm. Show ALL correct calculations. (4)

TR - TC
= 50 x 60 – 50 x 60 ✓
= 3000 - 3000 ✓
= 0 ✓
Therefore, the firm is making normal profit. ✓
OR
(AR-AC) X Q ✓
=(R50- R50) X 60 ✓
=0 ✓
Therefore, the firm is making normal profit. ✓ (4)

2.4 **Using TR and TC curves, draw a correctly labelled graph to briefly explain how a firm in a perfect market maximises profit.**
(8)



Marking grid
1. Correct positioning of TC curve = 1 mark
2. Correct labelling of TC curve = 1 mark
3. Correct positioning of TR curve = 1 mark
4. Correct labelling of TR curve = 1 mark
5. Correct indication of profit maximization = 2 marks

- The firm will make profits between points A and B (TR and TC) 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 ✓✓
- Breakeven points will occur at points A and B ✓✓
  (Accept any other correct relevant response).

2.5 **Outline the challenges that the competition policy in South Africa face in achieving their goals.** (8)

Challenges experienced by the competition policy are that:

● fines charged are too lenient and do not cover the costs suffered by consumers. ✓✓

● fines are too lenient to act as a deterrent to other businesses colluding which is evident from the larger number of firms being investigated regularly. ✓✓

● a lack of human resources results in some investigations or act of collusion sometimes goes undetected. ✓✓

● cases of restrictive practices take longer to investigate and lose merit in the process. ✓✓

● corruption and political interference/interests prevent some acts of collusion from being investigated properly ✓✓

● some mergers and acquisitions only protect workers in the short term. Eventually workers are retrenched. ✓✓
● artificial monopolies and other powerful businesses abuse their market power as the competition policy fails to create opportunities for new entrants to the market ✓✓
● the monitoring measures to identify collusion practices are compromised due to a lack of information as many investigations takes place after a long period of collusion. ✓✓
● the monitoring and enforcement of competition policies is difficult due to the vastness of areas ✓✓
(max 8)
(Accept any other correct relevant response) (A maximum of 2 marks will be allocated for mere listing of facts/examples)

QUESTION 3

ESSAY QUESTION

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- Discuss in detail the following equilibrium positions with the aid of graphs:
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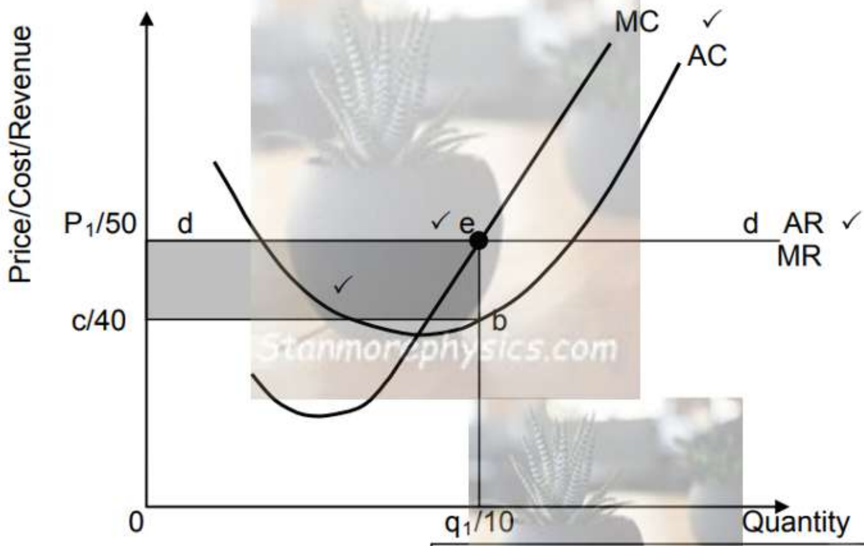
  (10)

[40]

ECONOMIC PROFIT

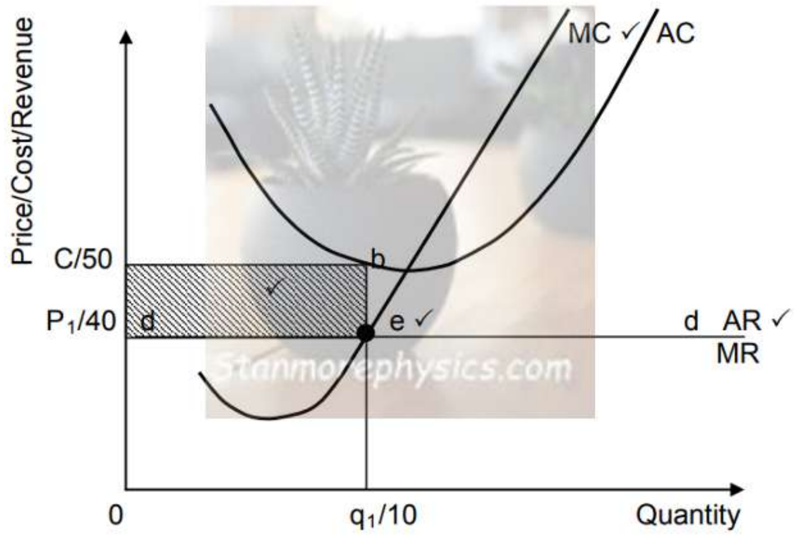


Mark allocation	
Correct drawing and labelling of cost curves:	1 mark
Correct drawing and labelling of revenue curves:	1 mark
Correct indication of profit maximisation point:	1 mark
Correct indication of area (economic profit):	1 mark
	Max 4 marks

- The minimum point of the short-term average cost curve (AC) is lower than the market price ✓✓
- The business is in equilibrium (it is maximising profits) at point e where MR = MC and the business will produce at quantity q1 and market price P1 ✓✓
- Total revenue is equal to 0q1 x 0P1 (50 x 10) and total cost is equal to 0q1 x 0c (40 x 10) ✓✓
- The economic profit is represented by the area cP1eb (R100) ✓✓ (6)
  (Max 10)

(Accept any other correct relevant response)

ECONOMIC LOSS



Mark allocation
Correct drawing and labelling of cost curves: 1 mark
Correct drawing and labelling of revenue curves: 1 mark
Correct indication of loss minimizing point: 1 mark
Correct indication of area (economic loss): 1 mark
Max 4 marks

- The minimum point of the short-term average cost curve (AC) is higher than the market price ✓✓
- The business is in equilibrium (it is maximising profits) at point e where MR=MC and the business will produce at quantity Q and market price P ✓✓
- Total revenue is equal to 0q1 x 0P1 (40 x 10) and total cost is equal to 0c X 0q1 (50 x 10) ✓✓
- The economic loss is represented by the area P1cbe (100) ✓✓
- (Accept any other correct relevant response) (4) (Max 8)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