KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

PROVINICAL STANDARDISED ASSESSMENT

GRADE 11

ECONOMICS P2

JUNE 2026

MARKS: 150

TIME: 2 hours

This question paper consists of 13 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 pen.

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 correct answer and write only the letter (A – D) next to the question number (1.1.1 to 1.1.8) in the ANSWER BOOK, e.g. 1.1.9 D.

1.1.1 The period during which at least one of the inputs is fixed is known as a …

A. long-run
B. long term
C. short-run
D. short term

1.1.2 A measure of how sensitive or responsive the quantity supplied is to a change in the price is known as …

A. price elasticity of supply
B. price elasticity of demand
C. perfectly elastic supply
D. perfectly elastic demand

1.1.3 A firm that can influence and has control over the price of a good or service is called …

A. price taker
B. price Maker
C. relative Price
D. absolute Price

1.1.4 The mechanisms that bring buyers and sellers together to exchange goods and services at a price is known as a/an …

A. market
B. economy
C. perfect market
D. imperfect market

1.1.5 The actual payment for factors of production that are used in the production of goods and services is called …

A. total costs
B. fixed costs
C. implicit costs
D. explicit costs

1.1.6 A huge profit the owner of a firm can make, where total revenue exceeds total costs is known as a/an …

A. normal profit
B. economic loss
C. profit maximising
D. economic profit

1.1.7 An amount of income generated from selling units of goods or services is called …

A. price
B. revenue
C. profit
D. costs

1.1.8 A market structure where a few large firms compete in the market is called …

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

(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, for example 1.2.9 J.

COLUMN A	COLUMN B
1.2.1 Unitary elastic demand	A. A period in which all inputs are variable.
1.2.2 Microeconomics	B. Change in cost, obtained by producing additional unit.
1.2.3 Relative price	C. The study of how individual households, and firms make decisions about scarce resources.
1.2.4 Heterogenous Products	D. The number of customers that one firm has access to in relation to the other firms in the market.
1.2.5 Marginal revenue	E. A change in quantity demanded is equal to change in price.
1.2.6 Long-run	F. Products that are slightly different from one another.
1.2.7 Market share	G. The price of good in relation to another good.
1.2.8 Average costs	H. An increase in total revenue obtained by selling one additional unit.
	I. The cost per unit of good produced.

(8 x 1) (8)

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1 to 1.3.4) in the ANSWER BOOK. Abbreviations, acronyms and examples will NOT be accepted.

1.3.1 The amount earned for sale of goods at a certain price.

1.3.2 The goods that are used together to satisfy a same need or a want.

1.3.3 An arrangement or agreement between sellers to limit competition in order to fix the price of a product.

1.3.4 The costs that changes as the quantity of goods produced changes.

1.3.5 The price at which demand and supply are equal.

1.3.6 A point where marginal revenue (MR) is equal to marginal cost (MC).

(6 x 1) (6)

SECTION B

Answer any TWO of the three questions in this section.

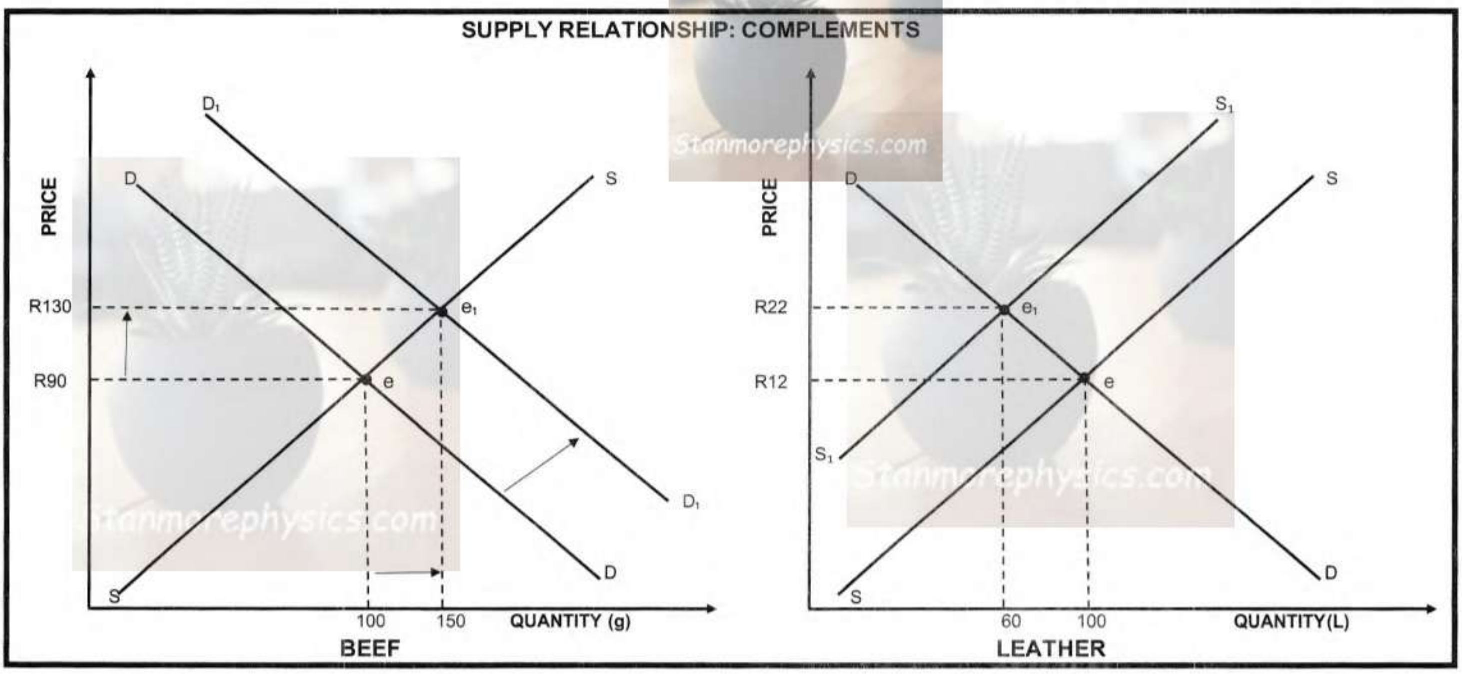
QUESTION 2: MICROECONOMICS **40 MARKS - 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Give any TWO examples of substitute products. (2 x 1) (2)

2.1.2 Why is monopolistic competition often described as a hybrid market structure? (2)

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



2.2.1 Identify the original price of beef form the graphs above. (1)

2.2.2 Name any other supply complement of beef except leather. (1)

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

2.2.4 Explain the demand relationship between complementary products. (2)

2.2.5 Why is there an indirect supply relationship between beef and leather, in the graph above? (2 x 2) (4)

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

COST OF REVENUE SCHEDULE					
UNITS	**AVERAGE REVENUE (R)**	**MARGINAL REVENUE (R)**	**AVERAGE COSTS (R)**	**MARGINAL COSTS (R)**	**PROFIT OR LOSS (R)**
2	7	7	9	5	**A**
5	7	7	7	7	**0**
8	7	7	9	10	**B**

2.3.1 Identify the number of units showing profit maximisation from table above. (1)

2.3.2 Give any ONE example of fixed cost. (1)

2.3.3 Briefly describe the term *normal profit*. (2)

2.3.4 Explain the shape of an average cost curve. (2)

2.3.5 Calculate Profit or Loss at point A in the table above. Show all calculations. (4)

2.4 Discuss monopolistic competition as a form of imperfect market structure. (4 x 2) (8)

2.5 Analyse the positive contribution of substitutes products in the economy. (8)

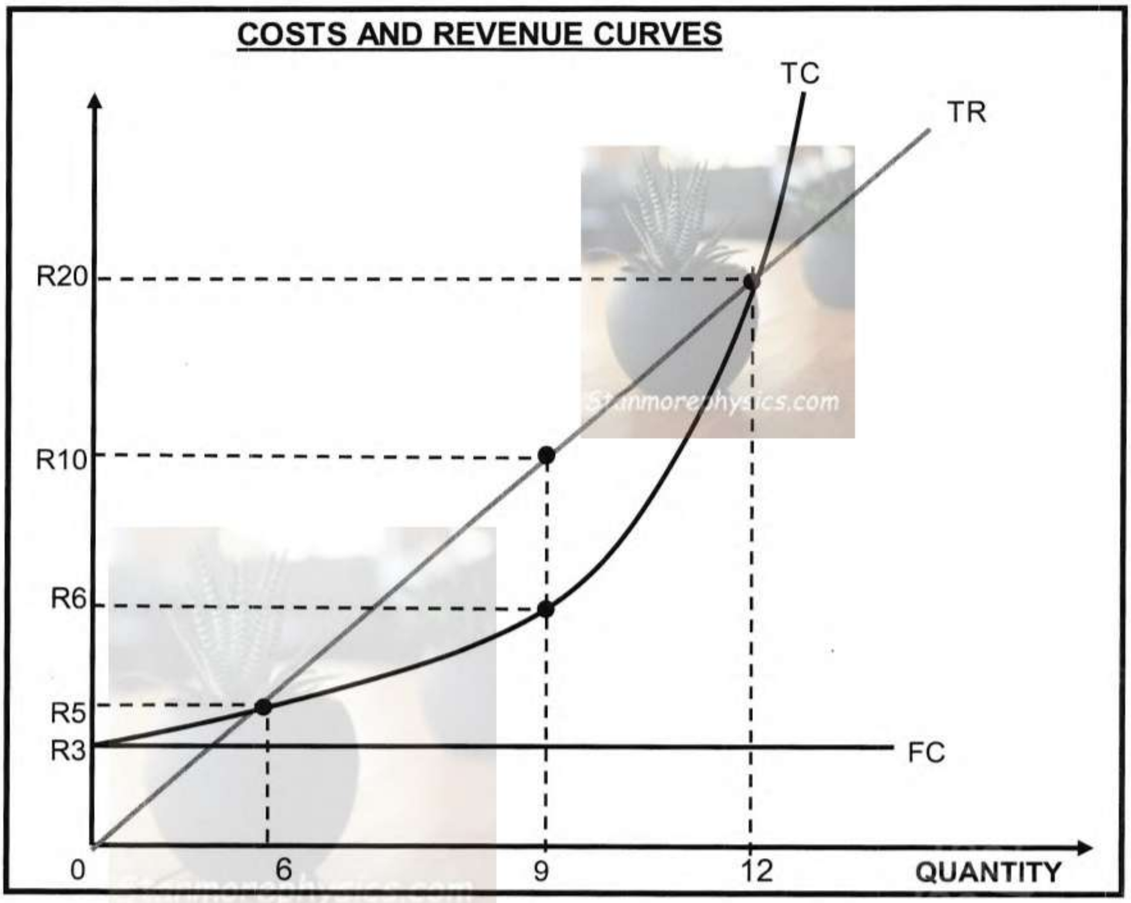
QUESTION 3: MICROECONOMICS **40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

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

3.1.2 Why will a firm consider it important to set time-specific goals? (2)

3.2 Study the graph below and answer the questions that follow:



3.2.1 Identify the profit maximising price from the graph above. (1)

3.2.2 Give a formula to calculate total revenue. (1)

3.2.3 Briefly describe the term *fixed costs.* (2)

3.2.4 How is a break-even point of a firm reached? (2)

3.2.5 Calculate Total costs of producing 9 units from the graph above.
Show all calculations. (4)

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

<u>An Imperfect Market</u>

An oligopoly is a market structure dominated by a few large firms with high interdependence and entry barriers. They often face a kinked demand curve, where demand is elastic above the prevailing price (rivals don't follow price increases) and inelastic below it (rivals match price cuts), causing price rigidity.

(Adapted from: www.tutor2u.net)

3.3.1 Identify the number of firms in an oligopoly from the extract above. (1)

3.3.2 Give the nature of a product in an oligopoly market. (1)

3.3.3 Briefly describe that term *price maker.* (2)

3.3.4 Explain the relationship between price and quantity supplied. (2)

3.3.5 How can increasing and decreasing price affect a firm operating in the oligopoly? (2 x 2) (4)

3.4 Discuss the relationship between a product and a factor market. (4 x 2) (8)

3.5 Analyse the different types of business objectives in the economy. (8)

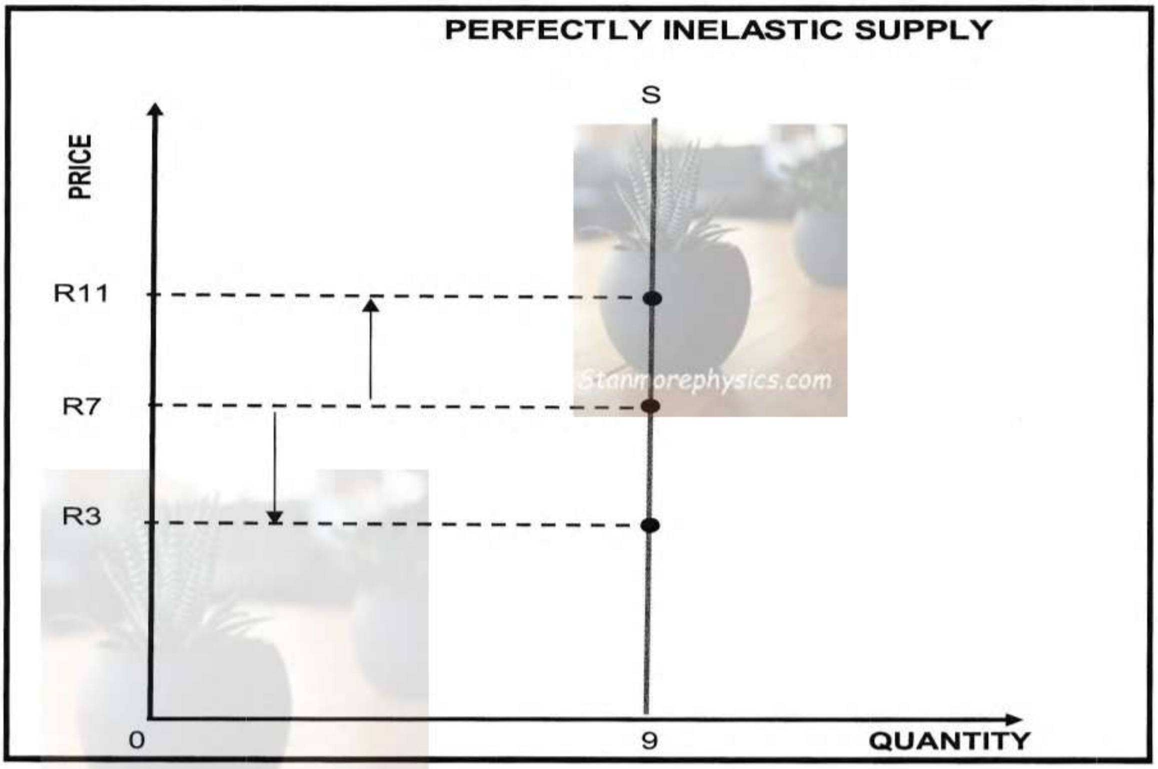
QUESTION 4: MICROECONOMICS **40 MARKS - 30 MINUTES**

4.1 Answer the following questions.

4.1.1 Give any TWO industries operating in a monopolistic competition. (2 x 1) (2)

4.1.2 Why do total cost curve always starts above zero? (2)

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



4.2.1 Identify the original price from the graph above. (1)

4.2.2 Give the shape of a perfectly elastic supply curve (1)

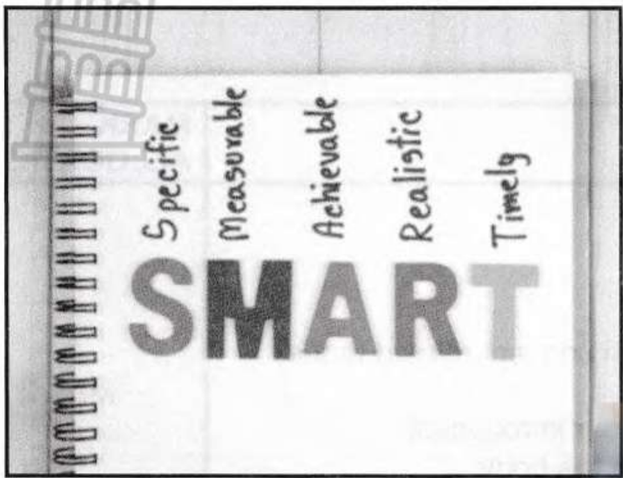
4.2.3 Briefly describe the term *utility*. (2)

4.2.4 Explain the effect of a decrease in price on quantity in an imperfect elastic supply. (2)

4.2.5 Calculate the price elasticity of supply (PES) from the graph above if there is an increase in price. Show all calculations. (4)

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

SMART GOALS: THE FOUNDATION FOR ACHIEVING BUSINESS SUCCESS



SMART goals have become a cornerstone of effective goal-setting because they provide a framework for business leaders and their teams to set realistic and measurable targets. When used correctly, the SMART goal framework helps businesses increase productivity, enhance team performance, and achieve long-term success.

Adapted from: www.actioncoach.co.za/smart-goals-the-foundation-for-achieving-business-success/

4.3.1 Identify any ONE benefit of setting SMART goal in a business from the extract above. (1)

4.3.2 Give any ONE objective of a business. (1)

4.3.3 Briefly describe the term *scarcity*. (2)

4.3.4 Why is the lack of complete information negatively affects the business? (2)

4.3.5 How can setting specific goals help a business to increase its revenue? (2 x 2) (4)

4.4 Briefly discuss economies of scale and diseconomies of scale. (2 x 4) (8)

4.5 Why is price elasticity of supply (PES) significant in an economy? (4 x 2) (8)

SECTION C

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

Your answer will be assessed as follows:

STRUCTURE OF ESSAY	**MARK ALLOCATION**
Introduction The introduction is a lower-order response: • A good starting point will be to define the main concept related to the question topic. • DO NOT include any part of the question in your introduction. • DO NOT repeat any part of the introduction in the body. • Avoid mentioning in the introduction what you are going to discuss in the body.	Max. 2
Body **Main Part:** Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse/ Compare/ Evaluate/ Distinguish/ Differentiate/ Explain/ Assess/ Debate. **A maximum of 8 marks may be allocated for headings/ examples.**	Max. 26
Additional part: Critically discuss/ Evaluate/ Critically evaluate/ Deduce/ Compere/ 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 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 • Recommendation	Max. 2
TOTAL	**40**

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

- Discuss in detail characteristics of perfect markets and monopoly. (26)

- How does a lack of competition in an imperfect market affect consumers? (10)

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

- Discuss in detail without the use of graphs, the types of price elasticity of demand. (26)

- Examine the factors determining elasticity of demand. (10)

TOTAL SECTION C: [40]

GRAND TOTAL: 150

FINAL

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EDUCATION
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PROVINCIAL STANDARDISED ASSESSMENT

GRADE 11

ECONOMICS P2

MARKING GUIDELINES

JUNE 2026

MARKS: 150

This marking guideline consists of 15 pages.

SECTION A (COMPULSORY)

QUESTION 1

1.1 **MULTIPLE-CHOICE QUESTIONS**

1.1.1 C - short-run ✓✓

1.1.2 A - price elasticity of supply ✓✓

1.1.3 B - price maker ✓✓

1.1.4 A - market ✓✓

1.1.5 D - explicit costs ✓✓

1.1.6 D - economic profit ✓✓

1.1.7 B - revenue ✓✓

1.1.8 C - oligopoly ✓✓ **(8 x 2)(16)**

1.2 MATCHING ITEMS

1.2.1 E - A change in quantity demanded is equal to change in price. ✓

1.2.2 C - The study of how individual households, and firms make decisions about scarce resources. ✓

1.2.3 G - The price of good in relation to another good. ✓

1.2.4 F - Products that are slightly different from one another. ✓

1.2.5 H - An increase in total revenue obtained by selling one additional unit. ✓

1.2.6 A - A period in which all inputs are variable. ✓

1.2.7 D - The number of customers that one firm has access to in relation to the other firms in the market. ✓

1.2.8 I - The cost per unit of good produced. ✓ **(8 x 1)(8)**

1.3 GIVE THE TERM

1.3.1 Revenue ✓

1.3.2 Complementary ✓

1.3.3 Collusion ✓

1.3.4 Variable costs ✓

1.3.5 Equilibrium price ✓ / Market price ✓

1.3.6 Profit Maximisation ✓ **(6 x 1)(6)**

TOTAL SECTION A: 30

SECTION B

Answer any TWO of the three questions in this section.

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

2.1 Answer the following questions.

2.1.1 Give any TWO examples of substitute products.

- Tea and coffee ✓
- Chicken and turkey ✓
- Wooden door and aluminium door ✓

(Accept any other correct relevant response)

2.1.2 Why is monopolistic competition often described as a hybrid market structure? **(2)**

Monopolistic competition is often described as a hybrid market structure because it blends characteristics of both perfect competition and monopoly. ✓✓

(Accept any other correct relevant response)

2.2 DATA RESPONSE

2.2.1 Identify the original price of beef form the graphs above. **(1)**

R90 ✓

2.2.2 Name any other supply complement of beef except leather. **(1)**

Cream ✓
Maas ✓

(Accept any other correct relevant response)

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

Supply is a willingness and ability of a producer to sell goods and services at a given price at a particular period of time. ✓✓
(Accept any other correct relevant response)

2.2.4 Explain the demand relationship between complementary products. **(2)**

- Complementary products have a positive demand relationship, meaning that when demand for one increase, the demand for its complements also increases.✓✓
- For instance if one product such as WhatsApp in cell-phones is highly demanded, the data as a complimentary product will also be highly demanded. ✓

(Accept any other correct relevant response)

2.2.5 Why is there an indirect supply relationship between beef and leather, in the graph above? **(2 x 2)(4)**

- The beef and leather are supply complements goods and the producer use the same resources (cows) to produce and supply both products. ✓✓
- The increase in demand for beef from D to D_1 a producer will have to supply less of leather S to S_1 since more resources (cows) will be used to cater for beef. ✓✓
- For a producer to supply more of one product such as beef, a producer will have to decrease supply of the complement product such as leather. ✓✓

(Accept any other correct relevant response)

2.3 DATA RESPONSE

2.3.1 Identify the number of units showing profit maximisation from table above. **(1)**

5 UNITS ✓

2.3.2 Give any ONE example of fixed cost **(1)**

Rent ✓
Insurance Premiums ✓
Property Tax/ Municipal Rates ✓

(Accept any other correct relevant response)

2.3.3 Briefly describe the term *normal profit*. **(2)**

Normal profit is the level of profit that is just sufficient to cover all costs, leaving no surplus earnings for the business. ✓✓

(Accept any other correct relevant response)

2.3.4 Explain the shape of an average cost curve. **(2)**

The average costs fall as more units are produced up to a certain point, and then increases faster when larger units are being produced, its therefore forms U-shape. ✓✓

(Accept any other correct relevant response)

2.3.5 Calculate Profit or Loss at point A in the table above. Show all calculations. **(4)**

Profit/ Loss(A) = (AR – AC) x Q
= (R7 – R9) ✓ x 2 ✓
= -R2 x 2 ✓
= -R4 ✓

A firm is making loss of –R4.

2.4 Discuss monopolistic competition as a form of imperfect market structure. (4 x 2)(8)

- There are many buyers and sellers and on the numerous firms operating in the market none dominates the entire market. ✓✓
- Product differentiation, goods are similar but not identical such as restaurants, and clothing brands. ✓✓
- Firms have some influence over price due to brand loyalty or product uniqueness. ✓✓
- Firms can enter or leave the market relatively easily, though not as freely as in perfect competition. ✓✓
- There is imperfect information in the monopolistic competition since consumers and producers lack complete knowledge about all products and prices. ✓✓

(Accept any other correct relevant response)

2.5 Analyse the positive contribution of substitutes products in the economy. (8)

- Availability of substitute goods help consumers to switch to cheaper alternatives, if price of one good increases. ✓✓
- Substitute products increases consumer choices, allowing consumers to pick product that will maximise their satisfaction. ✓✓
- Substitutes intensify competition, pushing firms to innovate, improve quality, and lower costs. ✓✓
- The availability of substitutes makes demand more elastic when one product's price rises, demand shifts to its substitute, stabilising overall market prices. ✓✓
- Substitutes reduce reliance on a single product or industry, making economies more resilient. ✓✓

(Accept any other correct relevant response) **[40]**

QUESTION 3: MICROECONOMICS

3.1 Answer the following questions.

3.1.1 Name any TWO examples of variable costs. **(2 x 1)(2)**

- Water and electricity bill ✓
- Material costs ✓
- Wages ✓

(Accept any other correct relevant response)

3.1.2 Why will a firm consider it important to set time-specific goals? **(2)**

A firm considers it important to set time-specific goals because clear deadlines motivate teams to act promptly instead of postponing task which may delay or reduce revenue for a firm. ✓✓

(Accept any other correct relevant response)

3.2 DATA RESPONSE

3.2.1 Identify the profit maximising price from the graph above. **(1)**

R10 ✓

3.2.2 Give a formula to calculate total revenue. **(1)**

Price x Quantity / P x Q ✓

3.2.3 Briefly describe the term *fixed costs.* **(2)**

Fixed costs are costs that remain the same even if production changes in the business. ✓✓

(Accept any other correct relevant response)

3.2.4 How is a break-even point of a firm reached? **(2)**

A break-even point is reached when a firm incur costs that are equal to its revenue. ✓✓

(Accept any other correct relevant response)

3.2.5 Calculate Total costs of producing 9 units from the graph above. Show all calculations. **(4)**

TC = (FC + VC) x Q
TC = (R3 + R3) ✓ x 9✓
TC = R6 x 9 ✓
TC = R54✓
(Accept any other correct relevant calculation)

3.3 DATA RESPONSE

3.3.1 Identify a number of firms in an oligopoly from the extract above. (1)

Few ✓

3.3.2 Give the nature of a product in an oligopoly market. (1)

Homogenous/ Same/ Identical ✓
Heterogenous ✓

3.3.3 Briefly describe that term *price maker.* (2)

Price maker is a firm that can influence the price of a good or service. ✓✓

(Accept any other correct relevant response)

3.3.4 Explain the relationship between price and quantity supplied. (2)

There is a direct relationship between price and quantity supplied, as price increases, the quantity supplied also increases. ✓✓

(Accept any other correct relevant response)

3.3.5 How can increasing and decreasing price affect a firm operating in the oligopoly? (2 x 2)(4)

- Raising prices can lead to a loss of customers, reducing both the firm's market share and overall revenue. ✓✓
- Lowering prices may attract only a limited number of new customers, which often fails to offset the reduced-price level, ultimately diminishing the firm's profits. ✓✓
- Frequent price changes can provoke competitive retaliation, sparking price wars that harm all firms operating within the oligopoly. ✓✓

(Accept any other correct relevant response)

3.4 Discuss the relationships between a product and a factor market. (4 x 2)(8)

- Product market rely on the factor market to provide firms with factors of production in order to produce goods that are sold in the product market. ✓✓
- The limited supply of land by a factor market will reduce the production of food such as vegetables. ✓✓
- Product market supply goods and services that are needed and bought by households using remuneration earned upon selling factors of production.✓✓
- Higher demand for goods in a product market leads to higher demand for factors of production in a factor market. ✓✓
- There is mutual dependence between the markets, if factor costs rise such as wages in factor market, firms may raise product prices or reduce output, affecting the product market. ✓✓

(Accept any other correct relevant response)

3.5 Analyse the different types of business objectives in the economy. (8)

- Firms primarily focus on survival during periods of economic recession, as operating under such challenging conditions becomes increasingly difficult. ✓✓
- Individual firms often pursue sales maximisation by boosting sales volumes, even if this results in lower profit margins. ✓✓
- Firms strive to maximise profits by securing the highest possible financial returns. ✓✓
- Firms may seek to boost and secure higher revenues by adopting revenue-maximising strategies such as advertising and promotional campaigns. ✓✓
- Businesses may adopt customer-focused objectives such as innovation and satisfaction to maximise overall returns. ✓✓

(Accept any other correct relevant response) **[40]**

QUESTION 4: MICROECONOMICS

4.1 Answer the following questions.

4.1.1 Give any TWO industries operating in a monopolistic competition. **(2 x 1)(2)**

- Fast food or restaurants ✓
- Clothing or fashion retailer ✓
- Supermarkets ✓

(Accept any other correct relevant response)

4.1.2 Why do total cost curve always start above zero? **(2)**

The total cost curve starts above zero because firms incur fixed costs even when no output is produced. ✓✓

(Accept any other correct relevant response)

4.2 DATA RESPONSE

4.2.1 Identify the original price from the graph above. **(1)**

R7 ✓

4.2.2 Give the shape of a perfectly elastic supply curve. **(1)**

Horizontal supply curve ✓

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

Utility is a measure of satisfaction an individual gain from consuming each product. ✓✓

(Accept any other correct relevant response)

4.2.4 Explain the effect of a decrease in price on quantity in an imperfect elastic supply. **(2)**

A decrease in price will cause no or zero change in the quantity supplied in an imperfect elastic supply. ✓✓

(Accept any other correct relevant response)

4.2.5 Calculate the price elasticity of supply (PES) from the graph above if there is an increase in price. Show all calculations. **(4)**

PES = $\frac{\Delta QS}{\Delta P}$

= $\frac{0}{11-7}$ ✓✓

= $\frac{0}{4}$ ✓

PES = 0 ✓

(Accept any other correct relevant calculation)

4.3 DATA RESPONSE

4.3.1 Identify any ONE benefit of setting SMART goal in a business from the extract above. (1)

- Increase productivity ✓
- Enhance team performance ✓
- Long-term success ✓

4.3.2 Give any ONE objective of a business. (1)

- Survival ✓
- Profit maximising ✓
- Revenue maximising ✓
- Sales maximising ✓

4.3.3 Briefly describe the term *scarcity*. (2)

Scarcity is an economic problem of limited resources but unlimited human wants. ✓✓

(Accept any other correct relevant response)

4.3.4 Why is the lack of complete information negatively affects the business? (2)

Incomplete information leads to poor decisions, wasted resources, and missed opportunities. ✓✓

(Accept any other correct relevant response)

4.3.5 How can setting specific goals help a business to increase its revenue? (2 x 2)(4)

- Specific goals give employees and managers an exact target to work toward and this ensures resources are directed toward revenue-generating activities. ✓✓
- Firms can track progress against specific goals, identify gaps, and adjust strategies quickly. ✓✓
- Specific goals help businesses prioritize investments in marketing, technology, or training where they will have the greatest impact on revenue. ✓✓

(Accept any other correct relevant response)

4.4 Briefly discuss economies of scale and diseconomies of scale. (2 x 4)(8)

Economies of Scale

- Economies of scale refer to the cost advantages firms experience when production increases. ✓✓
- As output rises, the average cost per unit falls because fixed costs are spread over more units and operational efficiencies improve. ✓✓

Diseconomies of Scale

- A situation where the long-run average cost (LRAC) of production increases as output expands. ✓✓
- The condition occurs when a firm grows too large and its average costs per unit begin to rise instead of decreasing. ✓✓

(Accept any other correct relevant response)

4.5 Why is price elasticity of supply (PES) significant in an economy? (4 x 2)(8)

- Elastic supply means that firms can quickly increase output when prices rise, preventing sharp price increase. ✓✓
- Inelastic supply means that even small increases in demand can cause large price increases, leading to volatility. ✓✓
- Firms use PES to plan production levels, inventory management, and pricing strategies. ✓✓
- Elastic supply allows businesses to expand output easily, while inelastic supply forces them to focus on efficiency and cost control. ✓✓
- Elastic supply benefits consumers with stable prices and better availability of goods. ✓✓
- Inelastic supply often leads to higher costs and scarcity, especially in essential goods like food or housing. ✓✓

(Accept any other correct relevant response)

[40]

TOTAL SECTION B: 80

SECTION C

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

QUESTION 5: MICROECONOMICS

- **Discuss in detail characteristics of perfect markets and monopoly.** **(26)**
- **How does a lack of competition in an imperfect market affect consumers?** **(10)**

INTRODUCTION

- Market is any place or contact between buyers and sellers of goods and services. ✓✓
- Markets coordinate economic activities and determine prices for goods and services. ✓✓

  (Accept any other relevant introduction) Max (2)

BODY: MAIN PART

Perfect competition and Monopoly characteristics.

Number of businesses✓

- Perfect market has large number of buyers and sellers that an individual participant is small in relation to the market. ✓✓
- In a perfect market, individual buyer or seller cannot affect the market price. ✓✓
- Monopoly market has only one seller of a product and, the firm faces no competition. ✓✓
- In a monopoly a single seller is responsible for the industry output. ✓✓

Nature of the product ✓

- In a perfect market the product sold is homogeneous, meaning they are identical in regard to quality, size or shape. ✓✓
- In a perfect market It does not matter from whom the consumer buys the product as they are not different. ✓✓
- Monopolist product is unique with no close substitutes, therefore there is no competition. ✓✓
- The consumer can only buy the monopolist' product or go without it. ✓✓

Market entry ✓

- In a perfect market, there is freedom to enter into and exit from the market. ✓✓
- There are no legal, financial, technological or any other barriers in a perfect market. ✓✓
- In monopoly market the barriers prevent other businesses from entering the market. ✓✓
- Natural barriers such as exclusive ownership of scarce natural resource provide a barrier to enter the market. ✓✓

Information ✓

- Participants have full information (perfect knowledge) about the market conditions in a perfect market.✓✓
- Buyers have complete knowledge about price, quality and availability of products in the perfect market.✓✓
- In a monopoly, there is incomplete information about market conditions to consumers.✓✓
- The monopolist withholds information or provides insufficient information to consumers and this prevent them to make informed decisions.✓✓

Control over price ✓

- In a perfect market seller have no control over price as such they are called price takers.✓✓
- They take the price that is set by the market and charge it for their products. ✓✓
- A monopoly firm has a considerable (large) control over price as such it is known as a price maker.✓✓
- A monopoly does not have control over demand, so demand will influence the monopolists 'price. This means the monopolist cannot charge too high prices as people will stop buying if they cannot afford the price.✓✓

(Accept any other correct relevant response) (Max. 26)
(Allocate a maximum of 8 marks for subheadings and examples)

ADDITIONAL PART

- In an imperfect market with limited competition, firms gain the power to influence prices and often set them higher, which disadvantages consumers.✓✓
- A shortage of goods and services may arise in an imperfect market because only a limited number of suppliers exist.✓✓
- Consumers may experience reduced choices or even no alternatives in a monopoly situation, leading to lower satisfaction.✓✓
- The absence of competition can cause inefficiencies within firms, resulting in lower-quality products or services being supplied.✓✓
- With fewer businesses operating, job opportunities in the country decline.✓✓
- Consumers become more vulnerable in an imperfect market because they cannot easily switch providers if restrictive contracts or hidden fees are applied.✓✓

(Accept any correct relevant responses) (Max. 10)
(Allocate a maximum of 2 marks for mere listing of facts)

CONCLUSION

In conclusion, it is essential for the government to support business operations without imposing restrictive measures, thereby enabling firms to realise their potential and drive growth and development within the country. ✓✓

(Accept any other correct relevant conclusion) (Max. 2)

[40]

QUESTION 6: MICROECONOMICS

- **Discuss in detail without the use of graphs, the types of price elasticity of demand. (26)**
- **Examine the factors determining elasticity of demand. (10)**

INTRODUCTION

Price elasticity of demand (PEd) is defined as the percentage change in the quantity demanded caused by a percentage change in the price assuming that everything else remains constant (ceteris paribus). ✓✓ (Max 2)

(Accept any other relevant correct introduction)

BODY: MAIN PART

Perfectly inelastic demand ✓

- A perfectly inelastic demand means that any change in price causes no effect at all on quantity demanded. ✓✓
- It is a theoretical concept but could apply in products such as fuel and certain medicine because they have no substitute and consumers have to continue buying despite the increase in price. ✓✓
- Goods with perfectly inelastic demand have a value of zero (PEd = 0). ✓✓
- The change in total revenue as a result of a change in price follows the direction of the price. ✓✓

Relatively inelastic demand ✓

- A large change in price would cause a smaller percentage change in quantity demanded. ✓✓
- Products such as cigarettes and alcohol tend to have relatively inelastic demand. ✓✓
- Goods that have a relatively inelastic demand have a value between 0 and 1 (PED < 1). ✓✓
- Total revenue changes in the same direction as the change in price. ✓✓

Unit Elastic demand ✓

- Unit elastic demand happens when the percentage change in the quantity demanded is equal to the percentage change of the price. ✓✓
- It is usually applicable with products for which consumers have brand loyalty. ✓✓
- The value for products with unit elastic demand is equal to 1 (PEd = 1). ✓✓
- Price changes have no effect on total revenue. ✓✓

Relatively elastic demand ✓

- A change in price causes a greater percentage change in quantity demanded than in the price itself. ✓✓
- Products such as jewellery have relatively elastic demand since consumers are very sensitive to a change in the price of these goods. ✓✓
- The value of PEd is between 1 and infinity (PEd > 1). ✓✓
- Total revenue will change in the opposite direction of the change in price. ✓✓

Perfectly elastic demand ✓

- When demand is perfectly elastic, even a smallest decrease in price causes an infinitely large increase in quantity demanded while a smallest price increase can cause quantity demanded to decrease to zero. ✓✓
- It is a theoretical concept that may rarely apply to certain luxury products. ✓✓
- Products with perfectly elastic demand have an infinite value (PEd = ∞). ✓✓
- Income increases infinitely with a reduction in price while an increase in price can results to zero revenue. ✓✓

(Accept any other correct relevant response) (Max. 26)
(Allocate a maximum of 8 marks for subheadings and examples)

ADDITIONAL PART

- Goods with close substitutes have elastic demand, as consumers can easily switch to cheaper alternatives when prices rise.✓✓
- Goods that account for only a small share of consumers' income tend to have inelastic demand, since price changes are barely noticed.✓✓
- A product that represents a significant portion of consumers' income, price changes strongly influence purchasing behaviour, making demand elastic.✓✓
- Necessities are required daily, and price changes have little effect on demand, keeping it inelastic.✓✓
- Strong brand loyalty and effective advertising reduce price sensitivity, making demand for those goods more inelastic.✓✓
- Products such as cigarettes often lead to addictive consumption, making their demand relatively inelastic.✓✓
- If consumers have ample time to compare prices, demand becomes more elastic because they can adjust their choices.✓✓
- Luxury goods are non-essential, so price changes cause noticeable shifts in demand, making them elastic.✓✓

(Accept any correct relevant responses) (Max. 10)
(Allocate a maximum of 2 marks for mere listing of facts)

CONCLUSION

In conclusion, businesses must invest in researching, analysing, and understanding the market to expand their share and boost profitability, achieving growth without relying on price increases.✓✓

(Accept any other correct relevant conclusion) (Max. 2)

[40]

TOTAL SECTION C: [40]

GRAND TOTAL: 150