KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

PROVINCIAL STANDARDISED ASSESSMENT

GRADE 12

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:
   - SECTION A: COMPULSORY
   - SECTION B: Answer any TWO questions from this section.
   - SECTION C: Answer any 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 each question above each answer.
4. Read the questions carefully and start EACH question on a new page.
5. Leave at least ONE line between subsections of each question.
6. Answer questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
7. Answer ONLY the required number of questions. Answers in excess of the required number will NOT be marked.
8. Use ONLY blue or black ink.
9. Non-programmable pocket calculators may be used.
10. Write legibly and present your work neatly.

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 – 1.1.8) in the ANSWER BOOK. e.g. 1.1.6 D

1.1.1 The income earned by a firm from the sale of each unit of output is called… revenue.

A. marginal
B. average
C. total
D. tax

1.1.2 A market structure that is characterized by blocked entry is known as … market.

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

1.1.3 Costs to a third party that are excluded from the market price of goods and service are called …

A. social costs.
B. positive externalities.
C. negative externalities.
D. social benefits.

1.1.4 A firm that has no control over the market price is referred to as a ...
A. price-maker.
B. price-leader
C. price-fixer
D. price-taker.

1.1.5 Products that have distinct, non-identical features, quality and branding are known as … products.

A. heterogeneous
B. luxury
C. homogeneous
D. intermediate

1.1.6 Selling goods to a foreign country at a price that is generally lower than the country of origin is referred to as ...

A. trading.
B. dumping.
C. importing.
D. exporting.

1.1.7 Costs that are irrecoverable to the business once they are incurred are called … costs.

A. explicit
B. implicit
C. sunk
D. variable

1.1.8 A condition where a firm produces maximum output from minimum inputs is known as …

A. allocative inefficiency.
B. productive inefficiency.
C. Pareto inefficiency.
D. productive efficiency.

(8 x 2) (16)

1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A –H) next to the question number (1.2.1 – 1.2.8) in the ANSWER BOOK.

COLUMN A	COLUMN B
1.2.1 Industry	A. The period of production where only the variable cost of factors of production can change
1.2.2 Monopolistic Competition	B. A collection of firms that produce and sell similar or related products
1.2.3 Discounting	C. A percentage of an industry's sales that a particular company owns
1.2.4 Short-run	D. Total revenue from sale of goods and services excluding opportunity costs
1.2.5 Deadweight loss	E. A hybrid market structure that combines elements of perfect market and monopoly
1.2.6 South African Bureau of Standards	F. A method that is used to determine the present value of future payments to reflect the time value of money
1.2.7 Accounting profit	G. The reduction in total consumer and producer surplus when demand and supply are at a disequilibrium
1.2.8 Market share	H. A firm's total earnings that include explicit cost
	I. An institute that monitors the quality of goods in South Africa

(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 – 1.3.6) in the ANSWER BOOK. Acronyms and abbreviations will NOT be accepted.

1.3.1 Costs that remain the same regardless of changes in output levels.

1.3.2 A change in price that causes a smaller percentage change in quantity demanded.

1.3.3 A model that shows the maximum quantities of two products that can be produced using all available resources efficiently.

1.3.4 Additional costs incurred by a firm when one extra unit is produced.

1.3.5 Transactions in which one company purchases most or all of another company's shares to gain control of that company.

1.3.6 Goods and services supplied by the government.

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

Answer any TWO questions in this section.

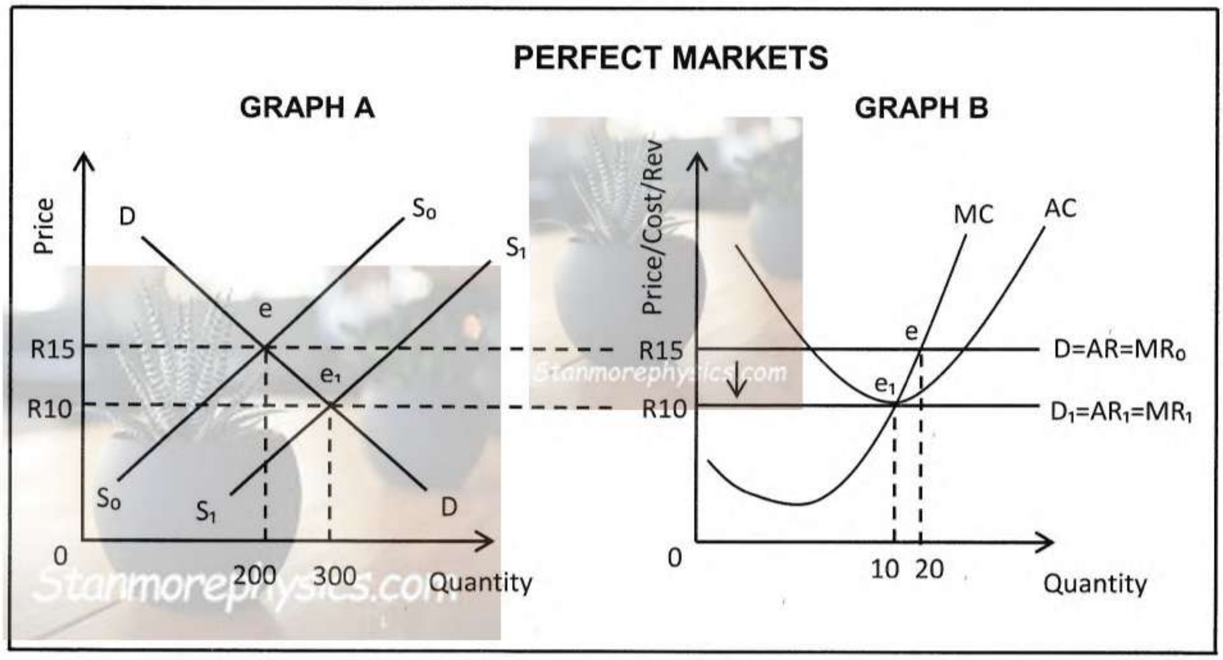
QUESTION 2 MICROECONOMICS 30 MINUTES – 40 MARKS

2.1 Answer the following questions.

2.1.1 Name TWO market forces that set the price of goods and services under perfect competition. (2 x 1) (2)

2.1.2 Why is it relatively easy to enter the monopolistic markets? (2)

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



2.2.1 Identify the graph that represents an industry from the above source. (1)

2.2.2 Name the long-run quantity supplied by firms from the graph. (1)

2.2.3 Briefly describe the term *average cost.* (2)

2.2.4 Explain the reason for the decrease of the market price in the long-run. (2)

2.2.5 Use the information in the graph to calculate economic profit made by a perfectly competitive firm. Show all calculations. (4)

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

MONOPOLISTIC COMPETITION

[Adapted from www.educba.com]

2.3.1 Identify a strategy that monopolistic competitors use for gaining customers from the above information. (1)

2.3.2 Name the nature of decision-making under monopolistic competition. (1)

2.3.3 Briefly describe the term *brand loyalty*. (2)

2.3.4 Explain the impact of lack of information under monopolistic competition on consumers. (2)

2.3.5 How do non-price competition strategies affect the economy? (4)

2.4 Without the use of graphs, briefly discuss *taxes* and *subsidies* as government intervention to address consequences of market failures. (8)

2.5 Analyse the impact of large scale business shut-downs on the economy. (8)
[40]

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

3.1 Answer the following questions.

3.1.1 Name any TWO examples of monopolistic competitive markets. (2 x 1) (2)

3.1.2 How does the implementation of cost-benefit analysis benefit the public? (2)

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

COMPETITION POLICIES IN SOUTH AFRICA

Competition policies in South Africa aim to investigate anti-competitive behaviour and enforce fair market rules. Notable interventions through these policies include:

- Forcing Telkom to unbundle infrastructure.
- Fining construction firms for bid-rigging.
- Investigating banking sector collusion.
- Pressuring MultiChoice to share sports rights.

However, the policies face significant challenges. There is:

- Limited enforcement: Legal delays weaken penalties.
- Political interference: SOEs often avoid strict oversight.
- Global pressure: Multinationals exploit trade laws to bypass regulations.

[Adapted from: www.thebaharinetwork.com]

3.2.1 Identify a term that relates to companies that operate across international markets from the above extract. (1)

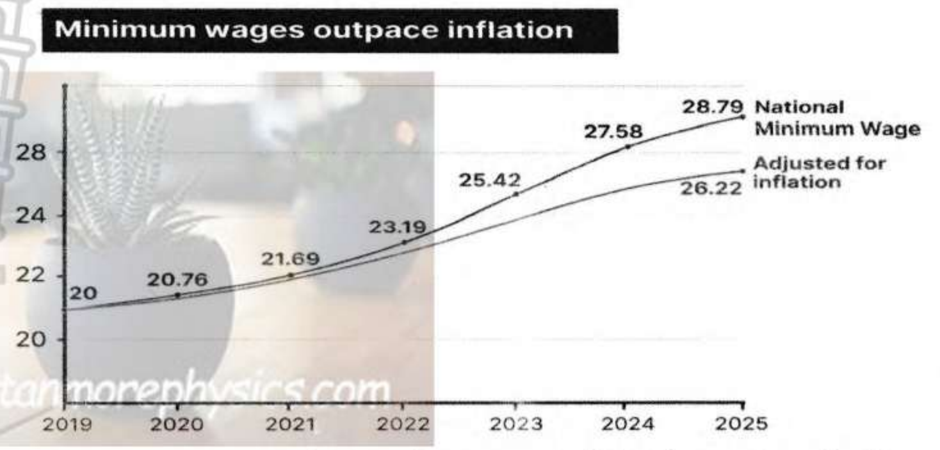
3.2.2 Name the legislation that promotes competition in South Africa. (1)

3.2.3 Briefly describe the term *deregulation.* (2)

3.2.4 Why is it necessary for the Competition Tribunal to restrict the mergers between large firms in the economy? (2)

3.2.5 How does the failure to enforce competition policies by government affect the economy? (2 x 2) (4)

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



Source: Department of Employment and Labour

3.3.1 Identify the original minimum wage in the graph above. (1)

3.3.2 Name any ONE industry in which there is high exploitation of workers through remuneration. downloaded from Stanmorephysics.com (1)

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

3.3.4 Why would there be an increase in labour supply when minimum wage is introduced? (2)

3.3.5 Use the graph above to calculate the percentage increase of minimum wage between 2022 and 2023. Show ALL calculations. (4)

3.4 With the aid of a correctly drawn and labelled graph, explain *short-run normal profit* for a perfectly competitive firm. (8)

3.5 How does the absence of government intervention in a perfect market affect the economy? (8)

[40]

QUESTION 4 MICROECONOMICS 40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Name any TWO examples of barriers to market entry. (2 x 1) (2)

4.1.2 How does the mobility of factors of production under perfect market benefit firms? (2)

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

PRICE FORMATION

[Adapted from www.educba.com]

4.2.1 Identify the market price from the above cartoon. (1)

4.2.2 Name the market structure illustrated above. (1)

4.2.3 Briefly describe the term *economies of scale*. (2)

4.2.4 Explain the importance of efficient transport system in a market. (2)

4.2.5 Why would an individual firm be forced to charge the market price? (4)

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

STATE BAILOUTS FOR SOUTH AFRICAN MONOPOLIES

	FIRM	R in billions
1.	ESKOM	230
2.	Transnet	35.46
3.	South African Airways	18.81
4.	South African Post Office	1.54
5.	Denel	1.54
6.	Airports Company South africa	1.25
7.	South African Broadcasting Corporation	0.94

[Adapted from www.news24.com]

4.3.1 Identify a firm that handles railway transportation from the above table. (1)

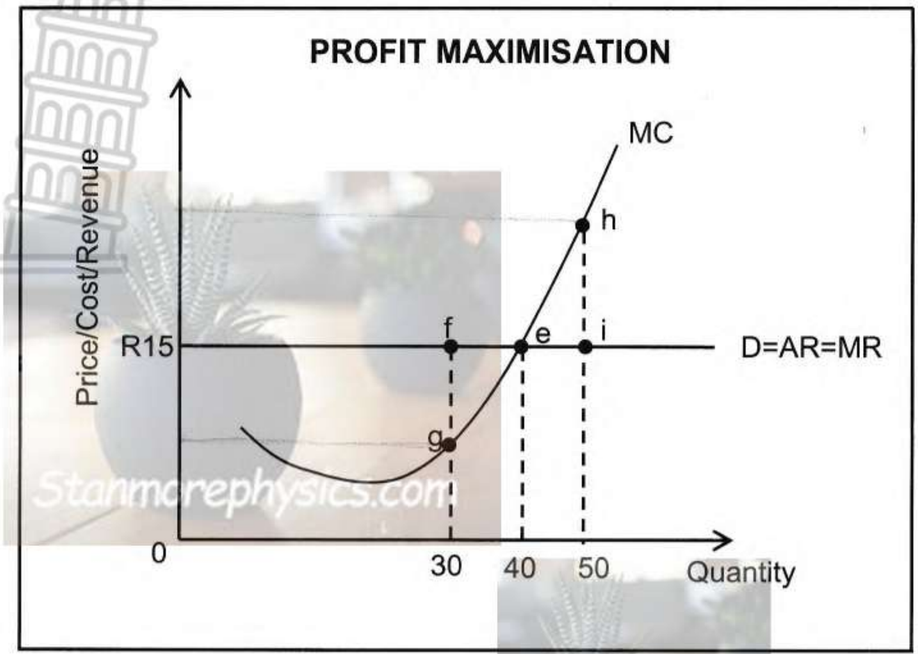
4.3.2 Name any ONE artificial monopoly from the table. (1)

4.3.3 Briefly describe the term *long-run*. (2)

4.3.4 Explain the impact of lack of close substitutes on consumers under a monopoly market. (2)

4.3.5 Why do monopolies experience inefficiencies despite having control of the market? (4)

4.4 Using the graph provided below, explain *profit maximisation* by referring to the relationship between marginal revenue (MR) and marginal cost (MC) curves. (8)



4.5 How can government encourage the consumption of merit goods? (8)

[40]

TOTAL SECTION B: 80

SECTION C

Only ONE question should be answered from this section:

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/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Assess/Debate **A maximum of 8 marks may be allocated for headings/examples**	Max. 26
Additional part: Critically discuss/Evaluate/Critically evaluate/Debate/Deduce/Compare/Distinguish/Interpret/How?/Suggest **A maximum of 2 marks may be allocated for mere listing of facts.**	Max. 10
Conclusion: downloaded from Stanmorephysics.com Any higher-order conclusion should include: • A brief summary of what has been discussed without repeating facts already mentioned in the body • Any opinion or valued 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 MICRO-ECONOMICS 40 MARKS – 40 MINUTES

- Discuss in detail the oligopoly market structure. (26)
- Analyse the factors that contribute to the reduction of imperfect markets. (10)

[40]

QUESTION 6 MICRO-ECONOMICS 40 MARKS – 40 MINUTES

- Discuss in detail the factors that lead to the misallocation of resources in the market. (26)
- How does government intervene in the economy to redistribute income and wealth? (10)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150

KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

FINAL

PROVINCIAL STANDARDISED ASSESSMENT

GRADE 12

ECONOMICS P2
MARKING GUIDELINES
JUNE 2026

MARKS : 150

This marking guidelines consists of 19 pages including this cover page.

SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE CHOICE QUESTIONS

1.1.1 B – average ✓✓

1.1.2 A – monopoly ✓✓

1.1.3 C – negative externalities ✓✓

1.1.4 D – price-taker ✓✓

1.1.5 A – heterogeneous ✓✓

1.1.6 B – dumping ✓✓

1.1.7 C – sunk ✓✓

1.1.8 D – productive efficiency ✓✓

(8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 B – A collection of firms that produce and sell similar or related products ✓

1.2.2 E – A hybrid market structure that combines elements of perfect market and monopoly ✓

1.2.3 F – A method that is used to determine the present value of future payments to reflect the time value of money ✓

1.2.4 A – The period of production where only the variable cost of factors of production can change ✓

1.2.5 G – The reduction in total consumer and producer surplus when demand and supply are at a disequilibrium ✓

1.2.6 I – An institute that monitors the quality of goods in South Africa ✓

1.2.7 H – A firm's total earnings that include explicit cost ✓

1.2.8 C – A percentage of an industry's sales that a particular company owns ✓

(8 X 1) (8)

1.2 GIVE THE TERM

1.3.1 Fixed cost ✓
1.3.2 Inelastic demand ✓
1.3.3 Production possibility curve ✓
1.3.4 Marginal cost ✓
1.3.5 Acquisitions ✓
1.3.6 Public goods ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

Answer any TWO questions in this section.

QUESTION 2 MICROECONOMICS 30 MINUTES – 40 MARKS

2.1 Answer the following questions.

2.1.1 Name TWO market forces that set the price of goods and services under perfect competition.

Demand ✓
Supply ✓ (2 x 1) (2)

2.1.2 Why is it relatively easy to enter the monopolistic markets?

Monopolistic markets are characterised by less barriers to entry as new firms can enter the market without obtaining licences, buying a patent, following strict government regulations and require reasonable / affordable start-up capital.✓✓
(Accept any other correct relevant response) (2)

2.2 DATA RESPONSE

2.2.1 Identify the graph that represents an industry from the above source.

Graph A ✓ (1)

2.2.2 Name the long-run quantity supplied by firms from the graph.

300 ✓ (1)

2.2.3 Briefly describe the term *average cost.*

Average cost refers to the cost of production incurred by the firm for every unit of output. ✓✓
(Accept any other correct relevant response) (2)

2.2.4 Explain the reason for the decrease of the market price in the long-run.

Short-run economic profit attracts new firms to enter the perfect market which causes an increase in quantity supplied and consequently result to a lower market price due to high competition. ✓✓
(Accept any other correct relevant response) (2)

2.2.5 Use the information in the graph to calculate economic profit made by a perfectly competitive firm. Show all calculation.

Economic profit = TR – TC
= (15 x 20) ✓ – (10 x 20) ✓
= 300 – 200 ✓
= 100 ✓

OR

(AR – AC) x Q
(15 – 10) ✓ x 20 ✓
5 x 20 ✓
100 ✓

2.3 DATA RESPONSE

2.3.1 Identify a strategy that monopolistic competitors use for gaining customers from the above information

Product differentiation ✓ (1)

2.3.2 Name the nature of decision-making under monopolistic competition.

Independent ✓ (1)

2.3.3 Briefly describe the term *brand loyalty*.

The tendency of consumers to consistently repeat purchases of a particular brand regardless of the price. ✓✓ (2)
(Accept any other correct relevant response)

2.3.4 Explain the impact of lack of information under monopolistic competition on consumers.

Consumers may be unable to make rational decisions when there is lack of information and that can cause misallocation of resources and result to market failures. ✓✓ (2)
(Accept any other correct relevant response)

2.3.5 How do non-price competition strategies affect the economy?

- Non-price competition strategies increase aggregate demand since they tend to induce consumers to increase spending. ✓✓
- The economy achieves price stability when firms opt to compete through non-price factors such as advertising. ✓✓
- Consumer choice gets promoted as businesses rely mostly on product differentiation to make their products unique. ✓✓ (4)

(Accept any other correct relevant response)

2.4 Without the use of graphs, briefly discuss *taxes* and *subsidies* as government intervention to address consequences of market failures.

Taxes
- Government intervenes in the market by levying taxes to recover the external costs incurred by third parties in the society. ✓✓
- Taxes increase the price of goods and services and result in a decrease in the production of demerit goods and service. ✓✓
- Levying taxes assists to reduce negative externalities such as pollution. ✓✓

- The state may also charge taxes such as excise duties with an aim to discourage the use of demerit goods. ✓✓

(Max. 4)

Subsidies

- The government provides subsidies to producers in order to encourage them to increase the production of essential goods and grow strategic industries. ✓✓
- Producer subsidies are often given to suppliers of agricultural products such as milk, wheat and maize in order to ensure food security. ✓✓
- Subsidies lower the cost of producing goods and thus the market price of these goods which makes them affordable to the public. ✓✓

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

2.5 Analyse the impact of large scale business shut-downs on the economy.

- There would be a decline of competition in the markets as the number of firms would be reduced, leaving few businesses which can lead to a creation or growth of imperfect markets. ✓✓
- Consumers may be left with limited choices of goods and services as shut-downs would result to less diversification in the economy. ✓✓
- Quantity supplied in the markets would decline and cause market prices of goods and services to soar. ✓✓
- The economy may experience de-industrialisation which can result to an increase in unemployment levels. ✓✓
- The country may become less self-sufficient and be forced to import certain goods from foreign markets. ✓✓
- There could be a recession which would cause a decline in business confidence and further cause other negative ripple effects in the economy. ✓✓

(Accept any other correct relevant response)
(Allocate a maximum of 2 marks for 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 examples of monopolistic competitive markets.

Restaurants ✓
Supermarkets ✓
Hairdressing salons ✓
(Accept any other correct relevant response) (2 x 1) (2)

3.1.2 How does the implementation of cost-benefit analysis benefit the public?

Cost-benefit analysis ensures efficient allocation of resources which assists the public to be provided with a project / service that would be beneficial for their needs and help in improving their standard of living.✓✓
(Accept any other correct relevant response) (2)

3.2 DATA RESPONSE

3.2.1 Identify a term that relates to companies that operate across international markets from the above extract.

Multinationals ✓ (1)

3.2.2 Name the legislation that promotes competition in South Africa.

Competition Act 89 of 1998 ✓ (1)

3.2.3 Briefly describe the term *deregulation.*

Deregulation is the removal of restrictive business laws in the market with an aim to promote competition and improve market efficiency. ✓✓
(Accept any other correct relevant response) (2)

3.2.4 Why is it necessary for the Competition Tribunal to restrict the mergers between large firms in the economy?

- Mergers of large firms may create dominant players in the market and result to the growth of imperfect markets. ✓✓
(Accept any other correct relevant response) (2)

3.2.5 How does the failure to enforce competition policies by government affect the economy?

- Firms may be tempted to rig prices if they are aware that competition policies are ineffective. ✓✓
- Consumers may continue experiencing different forms of exploitation such as price discrimination and consequences of collusion. ✓✓
- Legal delays would cause unnecessary administrative costs for the government and increase the burden on the fiscus. ✓✓

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

3.3 DATA RESPONSE

3.3.1 Identify the original minimum wage in the graph above.

R20 ✓ (1)

3.3.2 Name any ONE industry in which there is high exploitation of workers through remuneration.

Farming ✓
Domestic work services ✓
(Accept any other correct relevant response) (1)

3.3.3 Briefly describe the term *labour*.

It is any physical or mental effort provided by workers in the production process or provision of services for remuneration. ✓✓
(Accept any other correct relevant response) (2)

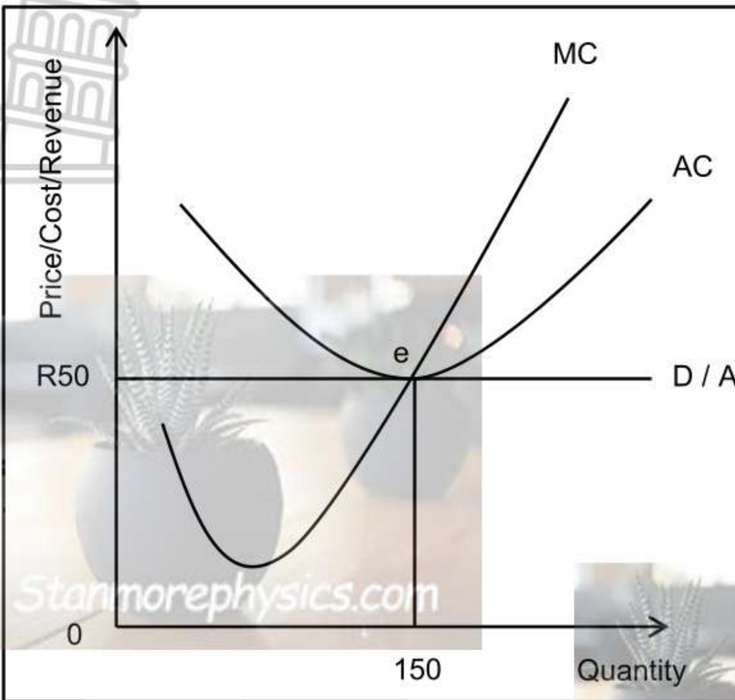
3.3.4 Why would there be an increase in labour supply when minimum wage is introduced?

Workers are attracted by an increase in wages since the minimum wage is considered to be enough to satisfy basic needs. ✓✓
(Accept any other correct relevant response) (2)

3.3.5 Use the graph above to calculate the percentage increase of minimum wage between 2022 and 2023. Show ALL calculations.

25.42 – 23.19 ✓ = 2.23 ✓
2.23 ÷ 23.19 x 100 ✓
9.62% ✓ (4)

3.4 **With the aid of a correctly drawn and labelled graph, explain *short-run normal profit* for a perfectly competitive firm.**



MARKING ALLOCATION:
Labelling on and of the axis = 1 mark
Correct drawing and labelling of average revenue curve (AR) = 1 Mark
Correct drawing and labelling of average cost curve (AC) = 1 Mark
Indication of profit maximisation point =1 Mark
Max. = 4 marks

- Normal profit is the minimum earnings required to prevent an entrepreneur from leaving the market. ✓✓
- In the graph above the business maximises profit at point 'e' where MR = MC and 150 units are produced at a market price of R50. ✓✓
- The turning point of AC is tangent to the demand curve, AR and MR curves. ✓✓
- At equilibrium point 'e', AC = AR and both total cost and total revenue are equal (R50 X R150 = R7 500). ✓✓
  (Accept any other correct relevant response) (Max. 4)

3.5 **How does the absence of government intervention in a perfect market affect the economy?**

- Competition in the economy is promoted since government plays no role that may create barriers to entry in the market through regulations. ✓✓
- Resources are allocated optimally as demand and supply determine prices of goods and services in the markets. ✓✓
- Companies invest significantly on research and development in order to innovate, improve efficiency and gain the competitive edge over their competitors. ✓✓
- Consumers benefit by paying lower prices that result from economies of scale due to efficiency and innovation. ✓✓
- Foreign investors are attracted into the economy as they are incentivised by freedom to enter and leave the market without government restrictions. ✓✓
- Consumers may be exposed to poor quality products when there are no government regulations that promote safety and quality. ✓✓
  (Accept any other correct relevant response)
  (Allocate a maximum of 2 marks for mere listing of facts) (8)

[40]

QUESTION 4 MICROECONOMICS 40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Name any TWO examples of barriers to market entry.

License ✓
Patent ✓
Government regulations ✓
(Accept any other correct relevant response) (2 x 1) (2)

4.1.2 How does the mobility of factors of production under perfect market benefit firms?

Firms are able to adjust their production levels with ease as factors of production can be moved from one line of production to the other and from one firm to another. ✓✓
(Accept any other correct relevant response) (2)

4.2 DATA RESPONSE

4.2.1 Identify the market price from the above cartoon.

R4.5 / R4.50 ✓ (1)

4.2.2 Name the market structure illustrated above.

Perfect market ✓ (1)

4.2.3 Briefly describe the term *economies of scale.*

Economies of scale is a situation where the average costs per unit of production decrease as output increases. ✓✓
(Accept any other correct relevant response) (2)

4.2.4 Explain the importance of efficient transport system in a market.

Efficient transport ensures that products are accessible to consumers, in that way, changes in demand and supply in one part of the market will influence the price in the entire market. ✓✓
(Accept any other correct relevant response) (2)

4.2.5 Why would an individual firm be forced to charge the market price?

- Buyers have complete knowledge of prices and products across the entire market and would switch to other competitors if a firm increases the price. ✓✓
- Product homogeneity removes the need for customer loyalty and that makes it easy for customers to leave a seller that charges a higher price. ✓✓
- High competition means the share of each seller in the market is so small that an individual firm cannot influence the price. ✓✓

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

4.3 DATA RESPONSE

4.3.1 Identify a firm that handles railway transportation from the above table.

Transnet ✓ (1)

4.3.2 Name any ONE artificial monopoly from the table.

South African Airways / South African Post Office / South African Broadcasting Corporation ✓ (1)

4.3.3 Briefly describe the term *long-run.*

Long-run is a period of production where all cost of factors of production can change. ✓✓
(Accept any other correct relevant response) (2)

4.3.4 Explain the impact of lack of close substitutes on consumers under a monopoly market.

- Consumers' right to freedom of choice may be affected and that can result to reduced consumer welfare. ✓✓
- Monopolies tend to charge prices that are higher than their marginal cost of production which leads to higher costs for consumers. ✓✓
(Accept any other correct relevant response) (2)

4.3.5 Why do monopolies experience inefficiencies despite having control of the market?

- Monopolies invest less on innovation to minimise costs since they face no competition, that prevents improvement in the quality of their product or service. ✓✓
- The reliance on adjusting output in order to influence the price results to high operational costs. ✓✓
- Monopolies often spend huge amounts of money on rent-seeking with an aim to create barriers to entry and maintain their status in the market. ✓✓
- Case studies indicate that corruption contributes significantly to inefficiencies for state owned monopolies due to government / political interference. ✓✓
(Accept any other correct relevant response) (4)

4.4 Using the graph provided below, explain *profit maximisation* by referring to the relationship between marginal revenue (MR) and marginal cost (MC) curves.

- Profit maximisation is a process of combining price and output levels to achieve the highest profit possible for the business. ✓✓
- In the graph above, a perfectly competitive firm maximises profit at point 'e' where MR = MC and the output produced is 40 at a market price of R15. ✓✓
- Any production level below 40 units, such as 30 units, yields revenue that is higher than marginal cost as shown by MR which lies above MC at points f and g. ✓✓
- Marginal cost that is lower than marginal revenue allows the firm to raise its profit

by increasing output up to a point where MR = MC (e). ✓✓

- Output levels beyond 40 units, such as 50 units, would make a loss for the firm as the cost of each additional output is higher than revenue it earns when it's sold. This is shown by point h and i where MC lies above MR. ✓✓
  (Accept any other correct relevant response) (8)

4.5 How can government encourage the consumption of merit goods.

- Government can run advertising campaigns on traditional and social media to inform the public about the benefits of merit goods. ✓✓
- Providing education, health care and other services at a low cost or free of charge so that these services can be accessible to all members of the public. ✓✓
- Providing consumer subsidies to lower the cost of goods and encourage their usage. ✓✓
- The state can pass regulations to make consumption of certain goods and services compulsory, such as mandatory childhood immunisation, because it benefits the society. ✓✓
- The use of tax credits for spending on merit goods such as medical aid schemes can lower the cost to consumers and encourage their use. ✓✓
  (Accept any relevant and correct responses)
  (Allocate a maximum of 2 marks for mere listing of facts) (8)

[40]

TOTAL SECTION B: [80]

SECTION C

Only ONE question should be answered from this section:

QUESTION 5 MICRO-ECONOMICS MARKS – 40 MINUTES

- **Discuss in detail the oligopoly market structure. (26)**
- **Analyse the factors that contribute to the reduction of imperfect markets. (10)**

INTRODUCTION

Market structure describes how buyers and sellers are organised and interact in a market / Refers to the characteristic of a market that influence its performance and the level of competition. ✓✓
(Accept any other correct relevant introduction) (Max. 2)

BODY

MAIN PART

CHARACTERISTICS OF OLIGOPOLY

Number of businesses ✓
- Only few large businesses dominate the oligopoly market. ✓✓ E.g. the mobile network industry. ✓
- There is limited competition in an oligopoly market structure. ✓✓
- A market that is dominated by two businesses only is referred to as a duopoly. ✓✓

Nature of the product ✓
- When the product is differentiated, the market is known as a differentiated oligopoly. ✓✓
- Product differentiation is a strategy used by businesses to make their products different from competitors in terms of colour, size, quality and appearance. ✓✓ E.g. cell-phone industry ✓
- When the product is homogeneous, the market is regarded as pure oligopoly. ✓✓ E.g. fuel industry. ✓

Entrance ✓
- Barriers to entry make it difficult for new businesses to enter an oligopoly market.✓✓
- The barriers to entry include economies of scale, high development costs, licenses and huge capital requirements. ✓✓
- Barriers to entry allow oligopoly businesses to make economic profit in the long-run ✓✓

Information ✓
- Neither the producer nor the consumer has full knowledge about the current market conditions. ✓✓
- Even though oligopoly businesses watch each other closely, it is difficult for them to know how their competitors will react to their decisions and actions. ✓✓
- It is difficult for Vodacom to know how MTN, Telkom and Cell-C will respond to its promotion strategies such as night shifts ✓

Control over the price ✓

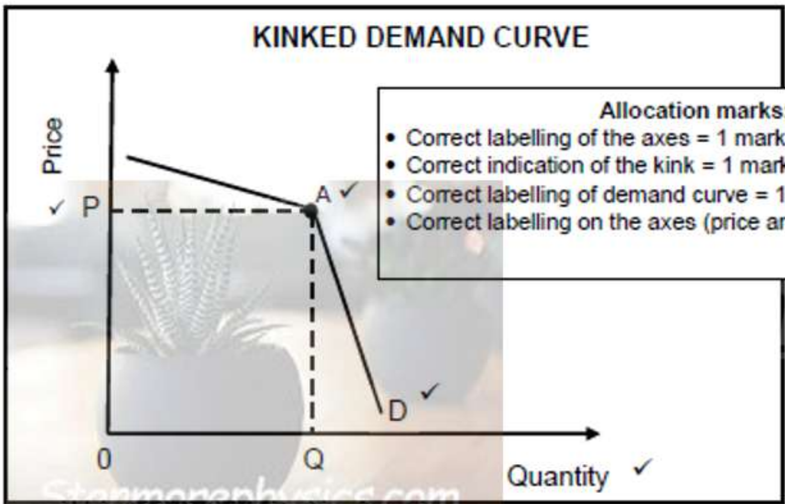
- Oligopoly businesses generally have considerable control over the price of their product, although it is less than a monopoly. ✓✓
- Oligopolies gain control over the price especially when they make joint decisions, through price leaderships and cartels. ✓✓

Mutual dependence ✓

- There are few businesses selling a particular product, each business depends on other businesses' actions. ✓✓
- Decisions by one business can influence decisions by other businesses. ✓✓
- An oligopoly's decisions on decreasing or increasing the price are more complex than other markets because of other businesses actions and reaction. ✓✓

Demand curve ✓

- Oligopoly businesses have a kinked demand curve due to mutual dependence. ✓✓
- A kinked demand curve is a demand curve with two segments, one that is elastic and the other one that is inelastic. ✓✓
- Kinked demand curve is based on the following assumptions; -
- When one business increases the price, its competitors will not follow the move and customers will shift their purchases to other businesses with lower prices. ✓✓ The business that increased the price will lose a lot of customers and demand will be elastic. ✓✓
- When one business decides to decrease the price, other businesses will also decrease their prices. ✓✓The business that decreased the price will gain very few customers and demand will be inelastic. ✓✓
- An oligopoly business tends to have an elastic demand curve when it increases the price and an inelastic demand curve when it decreases the price. ✓✓



Allocation marks:
- Correct labelling of the axes = 1 mark
- Correct indication of the kink = 1 mark
- Correct labelling of demand curve = 1 mark
- Correct labelling on the axes (price and quantity) = 1 mark

4 Marks

- Above price P, demand is elastic and below price P, demand is inelastic. ✓✓
- An oligopoly will always maintain the price at the kink because there is no incentive for an oligopoly to increase or decrease the price. ✓✓

Collusion✓

- Collusion is an agreement within the same industry to reduce competition amongst themselves. ✓✓ E.g. Price fixing ✓
- Formal collusion is in the form of cartels such as OPEC which is also referred to as explicit or overt collusion. ✓✓
- Informal collusion is in the form of price leadership which is also referred to as implicit or tacit collusion. ✓✓

Non-price competition ✓

- Oligopolies try to avoid competing on prices because reduction in prices may result in destructive price wars which eliminate their profits. ✓✓
- Oligopolies would rather make use of non-price competition methods to increase their customer base. ✓✓
- They make use of non-price competition, such as product differentiation, branding, and advertising, to attract customers and increase their market share. ✓✓

Economic profit/Loss ✓

- Oligopolistic firms can make economic profit in both short run and long-run. ✓✓

Productive and allocative efficiency ✓

- Oligopoly businesses do not achieve allocative efficiency because they do not produce the optimum output. ✓✓
- Oligopolies do not achieve productive efficiency because they do not produce at the lowest possible average cost. ✓✓

(Accept any other correct relevant response) (Max. 26)
(Allocate a maximum of 8 marks for mere listing of facts/examples)

ADDITIONAL PART:
Analyse the factors that contribute to the reduction of imperfect markets. (10)

- The growth of globalisation in the 21st century has opened up international markets that can be accessed by companies across the world with trade liberalisation making this possible, thus creating competition in local markets. ✓✓
- Technological advancements improve innovation which assists entrepreneurs to find new ways of doing business and be able to break barriers to enter imperfect markets. ✓✓
- Attempts by governments to deregulate markets removes barriers and allows new firms to enter the market, fostering competition and lowering prices. ✓✓
- New media platforms such as social media have created awareness and easy access to information for consumers to make informed decisions about their choices of where they can buy goods and services and at what price. ✓✓
- Standardisation of products by most industries makes them more homogeneous, allowing consumers to switch between suppliers easily, which reduces product differentiation advantage. ✓✓

- Innovation assists in lowering cost of production which reduces start-up capital and allow new firms to enter the market with ease. ✓✓
- Access to e-commerce exposes consumers to suppliers that they can choose from across the world. ✓✓
- Removal of barriers allows new firms to have access to resources that would have been restricted to only one or few firms. ✓✓

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

CONCLUSION
Oligopoly businesses may enjoy economic profit in both the short-run and long-run due to the market powers they possess / Oligopolies produce goods and services at a higher cost and use resources inefficiently which may lead to higher prices and wastage of resources in the economy. ✓✓
(Accept any other correct relevant higher-order conclusion) (Max. 2) **[40]**

QUESTION 6 MICRO-ECONOMICS MARKS – 40 MINUTES

- **Discuss in detail the factors that lead to the misallocation of resources in the market. (26)**
- **How does government intervene in the economy to redistribute income and wealth? (10)**

INTRODUCTION
Market failure is when the forces of supply and demand fail to allocate resources efficiently / When markets fail to allocate goods and services efficiently. ✓✓ (Max. 2)
(Accept any other correct relevant response)

BODY

MAIN PART

EXTERNALITIES ✓

- Externalities are costs and benefits to the third party that are not included in the market price. ✓✓
- Goods that have negative externalities are over-produced because the cost to the third party is not included in the market price. ✓✓
- Goods that have positive externalities are under-produced because the benefit to the third party is not included in the market price. ✓✓
- Externalities are the cost and benefits (spill-over effects or third-party effects) that convert private cost and benefits into social cost and benefits. ✓✓

Basic cost and benefit concepts of externalities include the following;

- Private costs are the internal costs incurred by consumers and producers when they buy or produce goods and services. ✓✓
- Private benefits are enjoyed by those who buy the goods and those who produce the goods. ✓✓ For example, the family enjoys using the car and the producer sells it (profit). ✓
- Social costs are the costs to individual producers and consumers as well as to society at large. ✓✓ For example, pollution that is caused by waste products, such as tyres, batteries, oil. ✓
- No value is given for these extra or external costs because no market exists to price them. ✓✓
- Social costs include both private costs and external costs. ✓✓
- Social benefits are the total benefits enjoyed by producers, consumers and the society at large. ✓✓
- Social benefits include both private benefit and external benefit. ✓✓

Missing Markets ✓

- Markets are often incomplete in the sense that they cannot meet the demand for certain goods. ✓✓

  Public goods: ✓
- They are not provided by the price mechanism because producers cannot withhold the

goods from non-payment and there is often no way of measuring how much a person consumes. ✓✓

Public goods, which include community and collective goods, have the following features:

- Non-rivalry which means that consumption by one person does not reduce the consumption of another person, ✓✓ for example, a lighthouse.
- Non-excludability which means that consumption cannot be confined to those who have paid, so there are free riders, ✓✓ for example, radio and TV licences in South Africa. ✓
- Non-rejectability which means that individuals cannot abstain from consumption on public goods such as street lights ✓✓

Merit goods ✓

- These are goods/services that are deemed necessary or beneficial to the society, For example, education, health care etc. ✓✓
- These goods are highly desirable for general welfare but not highly rated by the market, therefore provide inadequate output/supply. ✓✓
- The reason for the undersupply of merit goods is that the market only takes the private costs and benefits into account and not the social costs and benefits. ✓✓

Demerit goods ✓

- These are goods/services that are regarded as bad or harmful for consumption hence we should use less of these ✓✓ For example, alcohol, cigarettes, etc. ✓
- Demerit goods lead to a lot of social costs, therefore, the government charges sin tax / excise duties to discourage the consumption of such goods. ✓✓
- The market tends to oversupply demerit goods. ✓✓
- Some consumers may be unaware of the true cost of consuming them. ✓✓

Lack of information ✓

- Markets do not respond to changes in consumer demand if resources cannot be easily reallocated due to lack of information. ✓✓
- Technical and allocative efficiency require that both producers and consumers have complete and accurate information about the costs and benefits of the goods and services produced and consumed in the market. ✓✓
- Producers and consumers make production and consumption decisions based on the information they have. ✓✓
- When information is incomplete or inaccurate, it leads to wrong decisions about what to produce, how to produce and for whom to produce, and a waste of resources occurs. ✓✓
- Producers might not know all the different technologies and production techniques that are available and the different resources that can best be used to produce goods/services more efficiently. ✓✓
- Consumers might not know that the price of a product is lower from other suppliers or about the harmful effects of a product since they might just base their decisions to use the product on the information from a misleading supplier. ✓✓

Immobility of factors of production ✓

- The supply of labour cannot be increased because of the time it takes to be trained or educated. ✓✓
- Labour takes time to move into new occupations and geographically due to the long time it takes to upgrade skills, and family ties. ✓✓
- Physical capital such as equipment, buildings, land and raw materials can only move from one place to another at a high cost.✓✓
- Technological applications change production methods such the use of robots rather than physical labour. ✓✓
- With greater technological change there is an increasing need for workers to become flexible, to update skills, change employment, occupations and work patterns. ✓✓

Imperfect competition ✓

- In market economies, competition is often weakened by market power because power often lies to a greater extent with producers than with consumers. ✓✓
- Most businesses operate under conditions of imperfect competition that allows them to restrict output, raise prices and produce where price exceeds marginal cost. ✓✓
- Monopolies and oligopolies restrict supply in order to maximise profits and can also prevent new businesses from entering the industry. ✓✓
- Resources are under allocated to the production of goods and services produced under conditions of imperfect competition. ✓✓
- The government may choose to do nothing about imperfect competition and trust that large profits will attract competitors to the market or it can regulate the market through competition policy. ✓✓

Imperfect distribution of income and wealth ✓

- The shortcoming of market systems is that it is neutral in the issue of income distribution. ✓✓
- If the initial distribution of income is unequal, the final distribution will also be unequal hence the market is failing. ✓✓
- Unequal distribution of income is caused by varying of skill levels and the ability to produce output. ✓✓
- The market fails to ensure that everyone gets equal access to the output of the economy. ✓✓
- Too many of the resources are used to produce output for the rich and too few for the poor. ✓✓

(Accept any other correct relevant response) (Max. 26)
(Allocate a maximum of 8 marks for headings / sub-headings/examples)

ADDITIONAL PART:
How does government intervene in the economy to redistribute income and wealth? **(10)**

- Government uses progressive income tax system in which higher-income groups pay higher marginal tax rate in order to finance the provision of social services to the poor. ✓✓
- Tax revenue is used to pay cash grants such as old-age grants, disability grants and child support grant which assists the public to satisfy their basic needs. ✓✓

- Implementing policies such as Broad-Based Black Economic Empowerment, land redistribution and land restitution helps to improve the economic position of the previously disadvantaged groups. ✓✓
- The state provides free of charged and subsidised public goods and services such as education, primary healthcare and housing to improve the standard of living for poor people. ✓✓
- A tax threshold of R99 000 is used to exempt people who are younger than 65 years of age as a means to redistribute income. ✓✓
- Job creation programmes such as the Expanded Public Works Programme have Been implemented with an aim to generate income for poor and unskilled people. ✓✓
- Government imposes taxes and laws on demerit goods to discourage consumption and to earn revenue that can be used to finance the provision of public goods. ✓✓

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

CONCLUSION
Fiscal policy is considered the most effective tool for redistributing income and wealth to address market failures. However, the design and implementation needs to be carefully considered to ensure that it is effective in addressing the market failure without creating unintended consequences. ✓✓
(Accept any other correct relevant higher order conclusion) (Max. 2) **[40]**

TOTAL SECTION C: 40

GRAND TOTAL: 150