



education

Department:
Education
PROVINCE OF KWAZULU-NATAL

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ECONOMICS P2
PREPARATORY EXAMINATION
SEPTEMBER 2020**

MARKS : 150

DURATION : 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 any **TWO** of the three questions.
 - **SECTION C** : Answer any **ONE** of the two questions
2. Write the question number above each answer.
3. Answer only the required numbers of questions. Answers in excess of the required number will not be marked.
4. Answer the questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
5. Number the answers correctly according to the numbering system used in this question paper.
6. Read the questions carefully.
7. Start each question on a new page.
8. Leave 2-3 lines between sub sections of questions.
9. Use only black or blue ink.
10. You may use a non- programmable pocket calculator.
11. Write legible and present your work neatly.

SECTION A: 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, for example 1.1.9. D.

1.1.1 Profit maximization is achieved in a firm when...

- A AC = AR.
- B AVC = AR.
- C TR > TC.
- D MR > MC.

1.1.2 A market structure which is considered to be a hybrid market is the ...market.

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

1.1.3 Price set by the government above market price to benefit businesses is the price...

- A floors
- B ceiling
- C wars
- D administration.

1.1.4 The demand curve of a firm in the perfect market is...

- A steep.
- B inelastic.
- C vertical.
- D horizontal.

1.1.5 The term short-run refers to a period where ...factors of production can change.

- A both variable and fixed
- B only variable
- C only fixed
- D floating

1.1.6 An international agreement held in 1997 where countries agreed to reduce their emission of the six greenhouse gases is the...

- A COP 17.
- B Rio 20 Summit.
- C Kyoto protocol.
- D Johannesburg Summit.

1.1.7 The inflation that measures unadjusted CPI figures is called ... inflation.

- A galloping
- B headline
- C hyper
- D all-inclusive

1.1.8 The introduction of harmful substances in the air is known as...

- A pollution.
- B externality.
- C sustainability.
- D climate change.

(8 x 2) (16)

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

COLUMN A	COLUMN B
1.2.1 Administered prices	A Transportation, telecommunications, water supplies to enable economic activities.
1.2.2 Price discrimination	B A cost to society created by market inefficiency.
1.2.3 Pareto efficiency	C The uncontrolled removal of vegetation in an unsustainable way.
1.2.4 Dead weight	D The practice of charging different prices to different consumers for the same good or service.
1.2.5 Indigenous Knowledge Systems	E A measure of price increases that excludes volatile elements such as fuel and energy.
1.2.6 Infrastructure	F Sustained and significant increase in the general price level.
1.2.7 Core inflation	G A combination of local knowledge for all forms of activities that are unique to a given culture.
1.2.8 Deforestation	H When it is not possible to make one person better off without making another person worse off.
	I Set or controlled by the government.

(8 x 1) (8)

- 1.3 Give ONE term for EACH of the following descriptions. Write only the term next to the question numbers (1.3.1 to 1.3.6) in the ANSWER BOOK. Abbreviations, acronyms and examples WILL NOT be accepted.
- 1.3.1 The minimum earnings required to prevent the entrepreneur from leaving the business.
- 1.3.2 An agreement between businesses to limit competition between them.
- 1.3.3 A statutory body whose main objective is to investigate, control and evaluate restrictive business practises.
- 1.3.4 The value of inputs owned by an entrepreneur used in a business.
- 1.3.5 A condition when too much money is spent in purchasing too few goods.
- 1.3.6 Plants and animal life found within a specified geographical region. (6 x 1) (6)

TOTAL SECTION A: [30]

SECTION B

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

QUESTION 2: MICROECONOMICS

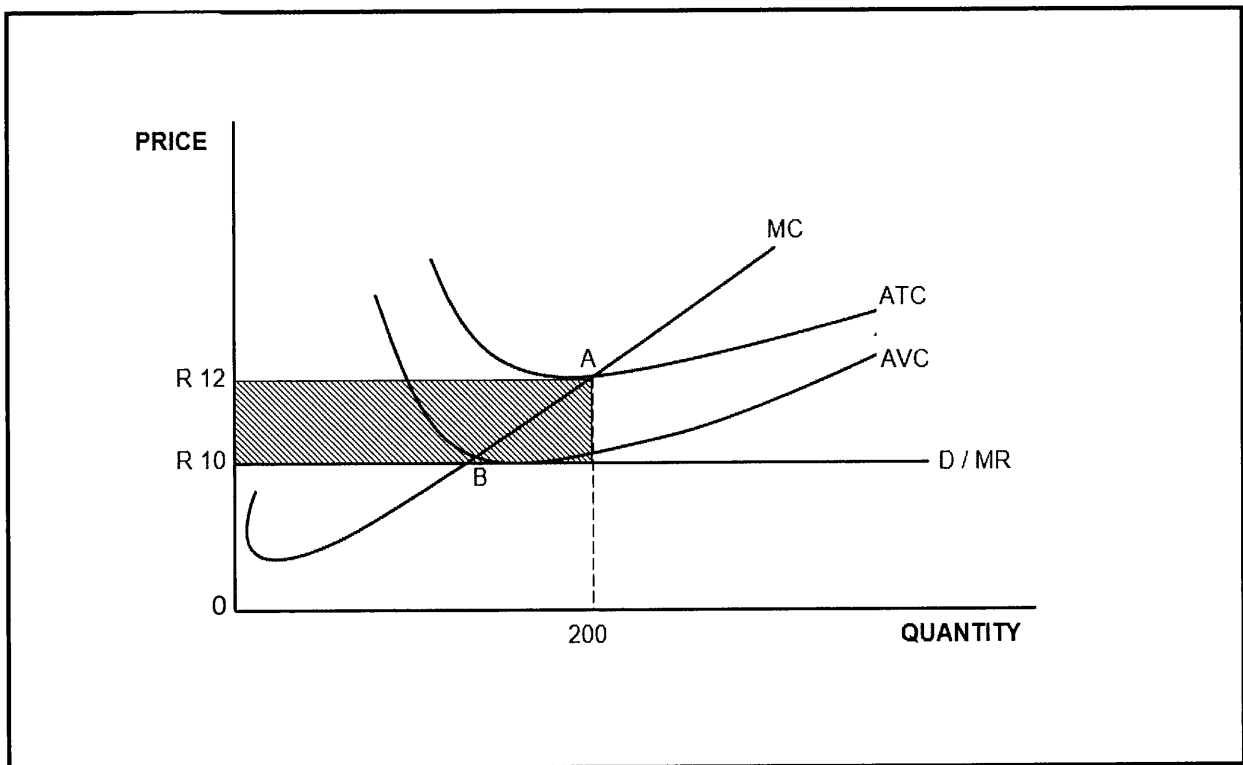
40 MARKS – 30 MINUTES

2.1 Answer the following questions.

2.1.1 Give any TWO characteristics of public goods. (2x1) (2)

2.1.2 Why does the government intervene when market failure occur in the economy? (1x2) (2)

2.2 Study the graph below and answer the questions that follow



2.2.1 Identify the shutdown point from the graph above. (1)

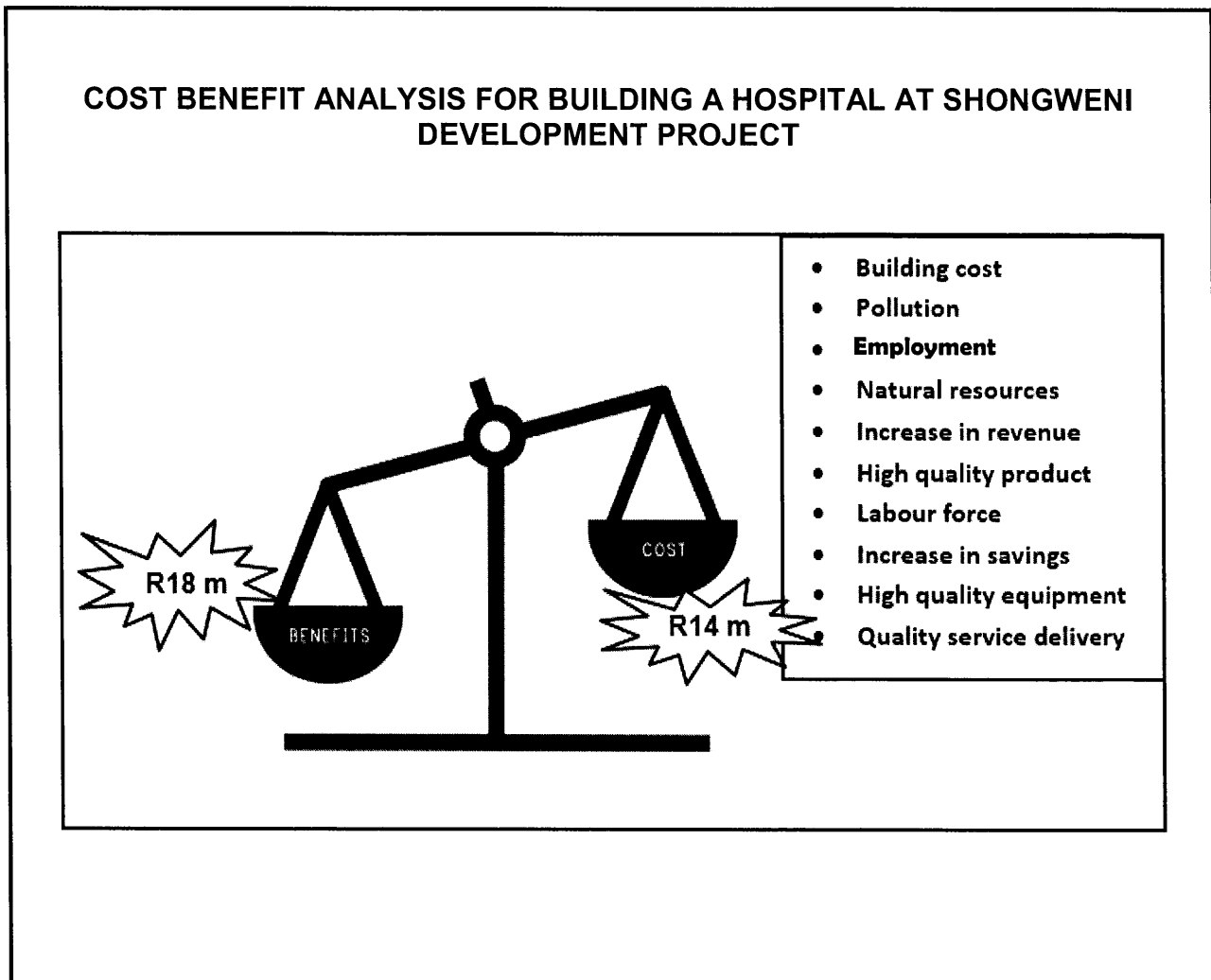
2.2.2 Mention ONE feature which shows that the above graph is of a single firm. (1)

2.2.3 Describe the term *marginal cost*. (2)

2.2.4 Briefly explain the reason for a perfect market to make a normal profit in the long run? (2)

2.2.5 Why is the rising part of the MC above point B is the supply curve? (2 x 2) (4)

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



[Source: www.google.com]

- 2.3.1 Give ONE example of external cost from the provided information. (1)
- 2.3.2 Identify the social benefit from the provided information above. (1)
- 2.3.3 Describe the term *cost benefit analysis*. (2)
- 2.3.4 Briefly explain the benefits that the government will receive from the approval of the above project? (2)
- 2.3.5 Why should the government conduct CBA before starting a project? (4)
- 2.4 Distinguish between allocative and technical inefficiency. (4 x 2) (8)
- 2.5 How does immobility of the factors of production cause market failure? (8)
- [40]**

QUESTION 3: CONTEMPORARY ISSUES

40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Give TWO types of consumer inflation. (2 x 1)(2)

3.1.2 How do debtors benefit from increased inflation? (1 x 2)(2)

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

INFLATION DATA – SOUTH AFRICA				
YEAR	Current prices (Rbillion)	Constant prices (Rbillion)	Deflator	Inflation (%)
2016	3 625 714	2 786 739	130	7.2
2017	3 880 824	2 805 240	138	8.2
2018	4 171 729	2842 416	146	A

(Source: Quarterly Bulletin December 2018)

3.2.1 What is the South African Reserve Bank (SARB) inflation rate target? (1)

3.2.2 Which year is currently used by the South African Reserve Bank (SARB) as the base year? (1)

3.2.3 Briefly explain the term constant prices. (2)

3.2.4 Briefly explain the purpose of measuring the inflation rate in the economy. (2)

3.2.5 Calculate rate of inflation for year 2018. Show all calculations. (4)

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

Desperate times call for desperate measures

A problem as complex as climate change requires efforts by the individuals, businesses and government. The solutions must be technological, economic and political. During the UN's international climate conference (COP21), 196 nations signed the Paris agreement and Paris Rulebook.

These two documents will serve as a roadmap for governments and businesses to keep temperatures below 1,5°C. Renewable energy must provide 100% of our energy needs. Transportation is electrified everywhere from electric buses to electric cars replacing thermal motors.

- 3.3.1 Give ONE example of renewable resource. (1)
- 3.3.2 Where was the COP21 held? (1)
- 3.3.3 Describe the term *conservation* (2)
- 3.3.4 Briefly explain the contribution by individuals to limit climate change. (2)
- 3.3.5 What effect would global warming have on the economy? (2 x 2) (4)
- 3.4 Differentiate between consumer price index (CPI) and producer price index (PPI). (4 x 2) (8)
- 3.5 Evaluate the success of monetary policy measures in combating demand –pull inflation in South Africa? (8)
- [40]**

QUESTION 4 MICROECONOMICS AND CONTEMPORARY ISSUES

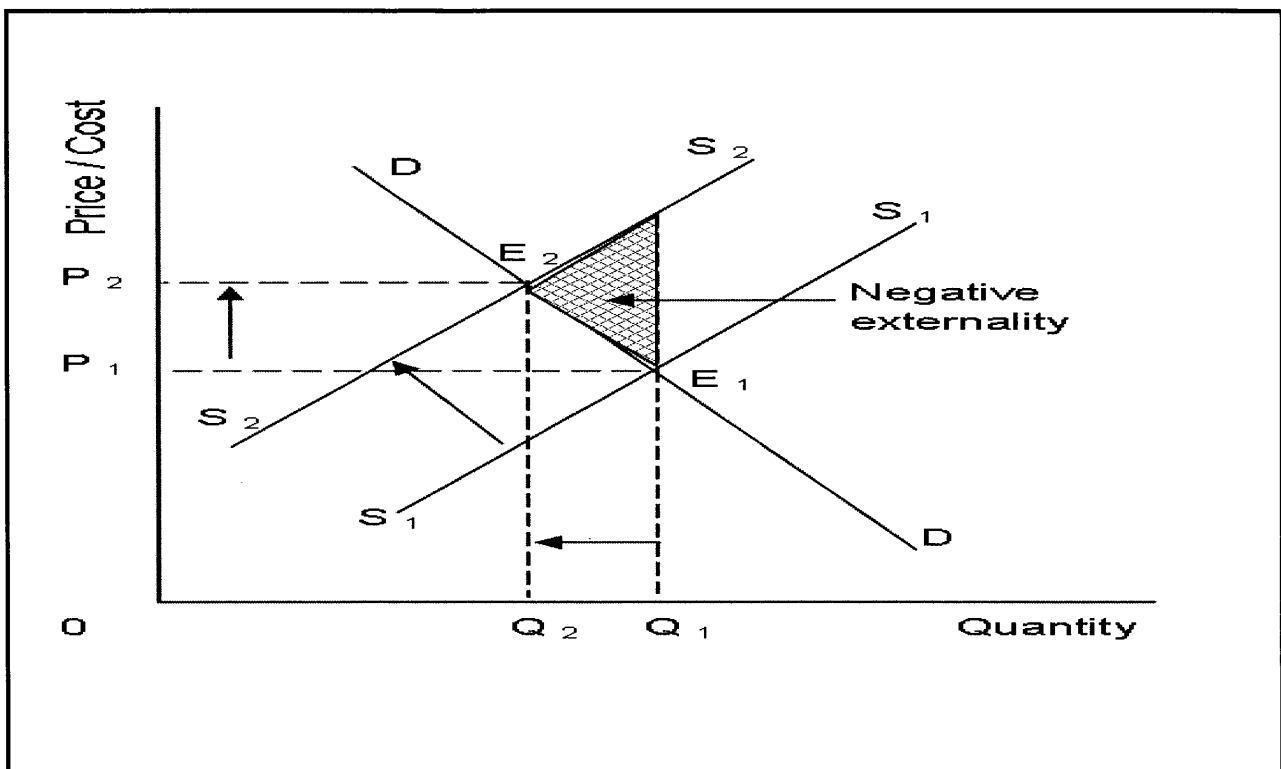
40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Give any TWO types of pollution. (2 x 1)(2)

4.1.2 How do consumers benefit from business competition in the market? (1 x 2)(2)

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



4.2.1 Name the shaded area in the graph. (1)

4.2.2 Give ONE example of positive externality. (1)

4.2.3 Describe the term *externalities*. (2)

4.2.4 Briefly explain the negative effect of a decrease in demand for cigarettes have in the economy? (2)

4.2.5 How does the government encourage positive externalities in the economy? (2 x 2)(4)

4.3 Study the extract below and answer the questions that follow

NEW INFLATION HIGHER

The official inflation rate will most probably rise when the CPI basket is adapted to include more products currently being used by most South African households, for example bread rolls, vodka, lawn mowers, washing machines and tablets (electronic devices), and exclude products such as mustard, calculators, fish paste and viennas.

An increase in the official rate of inflation may lead to more claims from workers to increase their wages and salary levels. Increased salaries in the public service will place an even greater burden on the budget deficit. This may even have serious consequences for interest rates in the future.

[Adopted from Sunday Times, March 2020]

- 4.3.1 Give another term for the unadjusted CPI inflation rate. (1)
- 4.3.2 Name ONE good that will be excluded from the CPI basket in future. (1)
- 4.3.3 Describe the term *core inflation*. (2)
- 4.3.4 Briefly explain the reason for workers to claim wages above the inflation rate? (2)
- 4.3.5 Why is it necessary to adopt the CPI basket? (2 x 2) (4)
- 4.4 Differentiate between natural monopoly and artificial monopoly. (2 x 4) (8)
- 4.5 How can government achieve the objectives of the competition act of South Africa? (8)
- [40]**
- TOTAL SECTION B: [80]**

SECTION C

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

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

QUESTION 5: MICROECONOMICS

40 MARKS – 40 MINUTES

- Discuss an oligopoly as a market structure. (26)
 - How do oligopolists compete without using price to increase their market share? (10)
- [40]**

QUESTION 6: CONTEMPORARY ISSUES**40 MARKS – 40 MINUTES**

- Discuss in detail measures used by the government to ensure a sustainable environment. (26 marks)
 - How has the government achieved success in conserving the environment in South Africa? (10 marks)
- [40]**

TOTAL SECTION C: [40]**GRAND TOTAL: [150]**



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GRADE 12

**ECONOMICS P2
PREPARATORY EXAMINATIONS 2020
MARKING GUIDELINE**

MARKS : 150

DURATION : 2 Hours

This marking guideline consists of 15 pages.

SECTION A: COMPULSORY**QUESTION 1****30 MARKS – 20 MINUTES****1.1 MULTIPLE-CHOICE QUESTIONS**1.1.1 C ($TR > TC$) ✓✓

1.1.2 D (monopolistic competition)✓✓

1.1.3 A (floors) ✓✓

1.1.4 D (horizontal)✓✓

1.1.5 B (only variable) ✓✓

1.1.6 C (Kyoto protocol) ✓✓

1.1.7 B (headline)✓✓

1.1.8 A (pollution) ✓✓

(8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 I ✓

1.2.2 D ✓

1.2.3 H ✓

1.2.4 B ✓

1.2.5 G ✓

1.2.6 A ✓

1.2.7 E ✓

1.2.8 C ✓

(8 x 1) (8)

1.3 GIVE THE TERM

1.3.1 Normal profit ✓

1.3.2 Collusion ✓

1.3.3 Competition commission ✓

1.3.4 Implicit costs ✓

1.3.5 Demand pull inflation ✓

1.3.6 Biodiversity ✓

(6 x 1) (6)

TOTAL SECTION A: [30]

SECTION B

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

QUESTION 2: MICROECONOMICS**40 MARKS – 30 MINUTES****2.1 Answer the following questions.****2.1.1 Give any TWO characteristics of public goods.**

- Non rejectable ✓
- Non rival in consumption ✓
- Non excludable ✓
- Continuous consumption ✓
- Social benefit outweighs private benefit ✓ (2 x 1) (2)

2.1.2 Why does the government intervene when market failure occur in the economy?

The government intervene to ensure provision of essential goods and services. ✓✓ (1 x 2) (2)

(Accept any relevant and correct response)

2.2 DATA RESPONSE**2.2.1 Identify the shutdown point from the graph above.**

Point B ✓ / Accept explanation ✓ (1)

2.2.2 Mention ONE feature which shows that the above graph is of a single firm.

Horizontal demand curve ✓ (1)

2.2.3 Describe the term *marginal cost*.

Marginal cost is the amount by which total costs increases when one extra product is produced. ✓✓ (2)

(Accept any relevant and correct response)

2.2.4 Briefly explain the reasons for a perfect market to make a normal profit in the long run?

Firms make a normal profit in a long-run because many new businesses enter the market which results in the decrease in the market price, thus decreasing Profits. ✓✓ (2)

(Accept any relevant and correct response)

2.2.5 Why is the rising part of the MC above point B is the supply curve.

- The price of the product is determined using demand and supply curves. ✓✓
 - The MC curve is used to determine the quantity of goods the supplier is willing to produce. ✓✓ (2 x 2) (4)
- (Accept any other relevant and correct respond)

2.3 DATA RESPONSE

2.3.1 Give ONE example of external cost from the provided information.

Pollution ✓ (1)

2.3.2 Identify the social benefit from the provided information above. (1)

- Employment ✓
- Quality service delivery ✓

2.3.3 Describe the term *cost benefit analysis*. (2)

Cost benefit analysis is the analysis done by government which weighs costs and benefits of a project to determine whether it should be carried out. ✓✓

(Accept any relevant and correct response)

2.3.4 Briefly explain the benefits that the government will receive from the approval of the above project. (2)

- Collect more tax from the workers. ✓✓
 - Achieve its objective by creating job opportunities. ✓✓
- (Accept any relevant and correct response)

2.3.5 Why should the government conduct CBA before starting a project? (4)

- The government conducts the CBA in order to bring greater objectivity to decision making about the proposed project. ✓✓
- Determining the cost that the government will incur and budget accordingly. ✓✓

(Accept any correct and relevant answer)

Distinguish between allocative and technical inefficiency.

2.4

Allocative inefficiency	Technical inefficiency
<ul style="list-style-type: none"> • The product mix does not reflect consumer's tastes. ✓✓ • Businesses allocate resources inefficiently and produce goods and services that consumers do not want. ✓✓ • The quantities required by the consumers are not available. ✓✓ (Max. 4) 	<ul style="list-style-type: none"> • When businesses do not maximize outputs from given inputs. ✓✓ • A business does not produce goods at the lowest possible cost. ✓✓ • There is no room to reduce costs without producing fewer goods or without producing a lower quality good. ✓✓(Max.4)

(Accept any other relevant and correct answer)

(Mere listing of facts to be marked to a maximum of 4 marks)

(4x2) (8)

2.5 How does immobility of the factors of production cause market failure?

Immobility of the factors of production causes market failure by:

- Making it difficult for labour resources to move into new occupations and geographically meet the changes in consumer demand. ✓✓
- Not allowing factory buildings and infrastructure such as telephone lines, bridges, rail links and airports to move at will. ✓✓
- Denying physical capital to be moved to fit changes in demand. ✓✓
- Delaying technology used in the production to change. e.g. the use of robots. rather than labour in mines. ✓✓

(Accept any relevant and correct answer)

(8)

(Mere listing of facts to be marked to a maximum of 2 marks)

[40]

QUESTION 3: CONTEMPORARY ISSUES**40 MARKS – 30 MINUTES****3.1 Answer the following questions.****3.1.1 Give TWO types of consumer inflation.**

- Core inflation ✓
- Headline inflation ✓
- Administered price ✓

(2 x 1) (2)

3.1.2 How do debtors benefit from increased inflation?

Debtors benefit because they will repay their debts at a lower value than the initial loans or debt. ✓✓ (1 x 2) (2)

3.2 DATA RESPONSE**3.2.1 What is the South African Reserve Bank (SARB) inflation rate target?**

3-6% ✓

(1)

3.2.2 Which year is currently used by the SARB) as the base year?

2010 ✓

(1)

3.2.3 Briefly explain the term *constant price*.

Constant price is the rate of inflation as expressed by the consumer price index (CPI) has to be taken into account. ✓✓ (2)

(Accept any correct and relevant response)

3.2.4 Briefly explain the purpose of measuring the inflation rate in the economy.

Inflation is measured to determine the cost of living experienced by consumers of a country. ✓✓

(Accept any relevant and correct response)

(2)

3.2.5 Calculate rate of inflation for year 2018. Show all calculations.

$$\frac{146 - 138}{138} \times 100 = 5.8\%$$

(4)

3.3 DATA RESPONSE

3.3.1 Give ONE example of renewable resource. (1)

- Plants ✓
- Animals ✓

(Also accept any example of plants and animal life)

3.3.2 Where was the COP21 held? (1)

Paris✓ / France ✓

3.3.3 Describe the term *conservation* (2)

Conservation is preventing wasteful use of resources✓✓

(Accept any correct and relevant answer)

3.3.4 Briefly explain the contribution by individuals to limit climate change. (2)

Individuals can limit climate change by:

- Reducing the level of pollution through recycling. ✓✓
- Avoiding the burning of veld fires and fossil fuel. ✓✓

(Accept any correct and relevant answer)

3.3.5 What effect would global warming have on the economy? (2 x 2) (4)

- Global warming could:
- Decrease business profits due to decreased level of production. ✓✓
 - Decrease the level of employment causing poverty. ✓✓
 - Decrease government revenue due to less tax collected. ✓✓
- (Accept any relevant and correct answer)

3.4 Differentiate between consumer price index (CPI) and producer price index (PPI). (4 x 2) (8)

Consumer Price Index	Producer Price Index
• Pertains to cost of living. ✓✓	• Pertains to cost of production. ✓✓
• Basket consists of consumer goods and services. ✓✓	• Basket consists of goods only. ✓✓
• Capital and intermediate goods are excluded. ✓✓	• Capital and intermediate goods are included. ✓✓
• Prices include VAT. ✓✓	• Prices do not include VAT. ✓✓
• Interest rates are taken into account. ✓✓	• Interest rates are excluded. ✓✓
• Prices of imported goods are not shown. ✓✓ (Max.4)	• Prices of imported goods are shown. ✓✓ (Max.4)

(Accept any other relevant and correct response)

(Mere listing to be marked to a maximum of 4 marks)

3.5 Evaluate the success of monetary policy measures in combating demand –pull inflation in South Africa? (4 x 2) (8)

Monetary policy of the South African Reserve Bank has been successful by:

- Maintaining the inflation rate within the inflation target rate of 3-6%. ✓✓
- relaxing the exchange rate control between South Africa and some of its trade partners through agreements such as BRICS. ✓✓
- applying moral pressure on financial institutions to be more careful when granting credit. ✓✓

Unsuccessful by:

- decreasing repo rate which discourages savings and increasing spending. ✓✓
- increasing money supply through increased social security grants which has increased consumption spending. ✓✓

(8)

(Accept any relevant and correct response)

[40]

QUESTION 4 MICROECONOMICS AND CONTEMPORARY ISSUES
40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Give any TWO types of pollution.

- Air pollution ✓
- Water pollution ✓
- Land pollution ✓

(Accept any other relevant and correct answer)

(2 x1)(2)

4.1.2 How do consumers benefit from business competition in the market?

Consumers benefit by:

- Paying affordable prices of goods and services. ✓✓
- Accessing a variety of quality goods from businesses. ✓✓

(Accept any relevant and correct response)

4.2 DATA RESPONSE

4.2.1 Name the shaded area in the graph.

Negative externality ✓

(1)

4.2.2 Give ONE example of a positive externality.

- education ✓
- health ✓
- security ✓

(Accept any correct and relevant answer)

(1)

4.2.3 Describe the term externalities.

Externalities are costs or benefits to third parties which are not included in the market price of a product. ✓✓

(Accept any correct and relevant answer)

(2)

4.2.4 Briefly explain the negative effect of a decrease in demand for cigarettes on the economy.

- Decrease in demand for cigarettes will decrease levels of their supply which might cause shortage of cigarettes and increase in its price. ✓✓
- Due to lesser production of cigarettes employment levels would decrease. ✓✓
- Economic growth would decrease since lesser quantities of production. ✓✓
- Government revenue would decrease due to lesser taxes received from businesses and workers. ✓✓

(Accept any correct and relevant answer)

(2)

4.2.5 How does the government encourage positive externalities in the economy?

The government encourage positive externalities by:

- Subsidizing the production of merit goods. ✓✓
- Charging lesser taxes/ offer tax rebates on the production of merit goods. ✓✓
- Providing merit goods at affordable prices or for free to consumers. ✓✓

(Accept any correct and relevant answer)

(2 x 2) (4)

4.3 DATA RESPONSE

4.3.1 Give another term for the unadjusted CPI inflation rate.

Headline inflation ✓

(1)

4.3.2 Name ONE good that will be excluded from the CPI basket in future.

- Mustard ✓
- Calculators ✓
- Fish paste ✓
- Viennas ✓

(Accept any other correct and relevant response)

(1)

4.3.3 Describe the term *core inflation*.

Core inflation is a consumer inflation that is based on adjusted CPI inflation and it excludes items that are highly volatile. ✓✓

(2)

(Accept any correct and relevant answer)

4.3.4 Briefly explain the reason for workers to claim wages above the inflation rate.

- Workers want to maintain the same standard of living. ✓✓
- Workers may want to share in the profits made by the firm. ✓✓

(Accept any correct and relevant answer)

(2)

4.3.5 Why is it necessary to adopt the CPI basket?

It is necessary to adopt the CPI basket because:

- CPI is the most important indicator for the consumers as it relates to the cost of living. ✓✓
- CPI gives a clear picture of price movements without abnormalities, which assist consumers to adjust their spending. ✓✓

(2 x 2) (4)

(Accept any correct and relevant answer)

4.4 Differentiate between natural monopoly and artificial monopoly.

Natural monopoly	Artificial monopoly
<ul style="list-style-type: none"> Occurs where barriers to entry in the market are of economic nature. ✓✓ Occurs as a result of high development costs. ✓✓ Occurs when a single business is able to serve the whole market effectively. ✓✓ (Max.4) 	<ul style="list-style-type: none"> Occurs where barriers to entry are not of economic nature. ✓✓ Existence of patent rights, licensing and copyrights prevent entry to the market. ✓✓ At times the business fails to serve the whole market effectively. ✓✓ (Max.4)

(4x2)(8)

(Accept any other relevant and correct response)
(Mere listing of facts to be marked to a maximum of 4 marks)

4.5 How can government achieve the objectives of the competition act of South Africa?

The government could achieve competition policy goals by:

- Promoting employment through skills development and training. ✓✓
- Encouraging local businesses to participate in international competition through tax rebates and subsidies. ✓✓
- Enabling small businesses to participate in the economy by providing them with financial aid and support. ✓✓
- Allowing the previously disadvantaged to participate in the economy by implementing policies that promotes their participation. ✓✓
- Promoting economic efficiency through provision of basic infrastructure to provide basis for economic activities. ✓✓

(Accept any relevant and correct answer) (4 x 2) (8)
(Mere listing of facts should be marked to a maximum of 2 marks)

[40]

TOTAL SECTION B: [80]

SECTION C

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

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

- Discuss an oligopoly as a market structure. (26)
 - How do oligopolists compete without using price to increase their market share? (10)
- [40]**

INTRODUCTION

The oligopoly is a type of imperfect market in which only a few large producers dominate the market. ✓✓

(Accept any other relevant and correct response)

MAIN PART**Nature of product** ✓

- The product may be homogeneous in a pure oligopoly. ✓✓
- If the product is differentiated, it is known as a differentiated oligopoly. ✓✓

Market information ✓

- There is incomplete information on the product and the prices. ✓✓

Market entry ✓

• Market entry is not easy, it is limited in the sense that huge capital outlay might be necessary. ✓✓

Control over price ✓

- Oligopolists have considerable control over price, it can influence price, but not as much as the monopolist. ✓✓
- Oligopolies can frequently change their prices in order to increase their market share and this result in price wars. ✓✓

Mutual dependence ✓

- The decision of one firm will influence and be influenced by the decisions of the other competitors. ✓✓
- Mutual dependence (interdependence) exists amongst these businesses. ✓✓
- A change in the price or change in the market share by one firm is reflected in the sales of the others. ✓✓

Non-price competition ✓

- Non - price competition can be through advertising, packaging, after-sales services. ✓✓
- Since price competition can result in destructive price wars, oligopolies prefer to compete on a different basis. ✓✓
- Participants observe one another carefully- when one oligopolist launches an advertising campaign, its competitors soon follow suite. ✓✓
- If oligopolies operate as a cartel, firms have an absolute cost advantage over the rest of the other competitors in the industry. ✓✓

Collusion ✓

- Collusion is a strategy used by firms to eliminate competition amongst each other. ✓✓
- It can be in a form of overt collusion where firms can work together to form a cartel and tacit collusion where a dominating business controls the price. ✓✓

Limited competition ✓

- There are only a few suppliers manufacturing the same product. ✓✓

Economic profit ✓

- Oligopolies can make an economic profit over the long term. ✓✓
- Abnormal profits may result to joint decision-making in an oligopoly. ✓✓

Demand curve ✓

- Slope from left down to the right. ✓✓
- It is known as the kinked demand since it contains the upper relatively elastic slope and the lower relatively inelastic slope. ✓✓

(Accept any other relevant and correct response)

(A maximum of 8 marks for sub-headings and examples)

(Max. 26)

ADDITIONAL PART

Oligopolist may increase their market share using non-price competition strategies by:

- branding their product to create an impression that its product is for a particular age group or income group. ✓✓
- aggressive advertising which inform customers about the business or product it provides. ✓✓
- using appealing packaging to bring out important features of their product. ✓✓
- improving their customer service in order to ensure that they return to their businesses. ✓✓
- providing relevant and precise information which is crucial to the customers, since there are competitors in the market, customers will patronize the businesses that provides relevant information. ✓✓
- extending shopping hours to the convenience of customers. ✓✓
- Offering loyalty rewards to customers which will encourage their return to spend accumulated rewards. ✓✓

(Accept any other relevant response)

(Max.10)

CONCLUSION

- In South Africa, oligopolists have been found to be illegally manipulating prices to their benefit, yet to the detriment of consumers and have been penalized for such action. ✓✓

(Accept any other relevant response)

(Max. 2)

QUESTION 6: CONTEMPORARY ISSUES**40 MARKS – 40 MINUTES**

Discuss in detail measures used by the government to ensure a sustainable environment. (26 marks)

INTRODUCTION

Environmental sustainability is the ability of the environment to survive its use for the economic activity. It refers to meeting the needs of the present generation without compromising the needs of the future generations. ✓✓

(Accept any other relevant and correct response)

(Max. 2)

BODY: MAIN PART**Granting of property rights ✓**

- The conservationist effect where people care for things that belong to them. ✓✓
- To prevent fauna and flora species from becoming extinct, people are granted property rights if they agree to preserve the fauna and flora. ✓✓
- Property rights can be expanded to common goods such as clean air. ✓✓
- The **Koyto Protocol** is an international agreement whereby developed countries pay developing countries for their right to pollute. ✓✓

Charging for the use of the environment ✓

- Price the environment where the government levies fees for waste produced and dumped in the environment. ✓✓
- In South Africa, local authorities levy charges on rubbish collection and sewage disposal. ✓✓
- The best results are achieved when charges are proportional to waste produced. ✓✓

Environmental taxes ✓

- Are taxes imposed on output of goods that generate external environmental costs. e.g. green taxes. ✓✓
- Carbon dioxide emissions from vehicle tyres are taxed. ✓✓
- The tax rate is equal to the marginal external cost. ✓✓

Environmental subsidies ✓

- Subsidies are granted to businesses to reduce environmental damage for example government subsidies on new technology that saves energy. ✓✓

Marketable permits ✓

- The government gives each business a licence to pollute to a certain degree.
- Businesses sell their licences to other businesses. ✓✓
- In South Africa marketable permits are granted by Department of Minerals and Energy. ✓✓

Public sector control ✓

- At times government must take direct control which could be through command and control, voluntary agreements or education. ✓✓

(Accept any other relevant and correct response)

(Max. 26)

ADDITIONAL PART

Government has achieved success in conserving the environment by :

- Protecting forests by setting quotas for cutting down trees to ensure deforestation does not exceed the renewal rate. ✓✓
- Reducing amount of greenhouse gases through imposing green taxes. ✓✓
- Imposing water restrictions on water consumption by the various municipalities. ✓✓
- Promoting, re-using, reducing and recycling of resources. ✓✓
- Maintaining the stock level of environmental resources through issuing permits and quotas. ✓✓
- Bringing balance in the ecosystem by building nature resources, protecting wetlands and heritage sites. ✓✓
- Charging taxes for the use of plastic in enforcing policies to promote use of renewable resources. ✓✓

(Accept any relevant and correct response)

(Max. 10)

CONCLUSION

The success in protecting the environment will take a united effort from consumers, businesses and government. ✓✓

(Accept any relevant and correct response)

(Max. 2)

[40]

TOTAL SECTION C: [40]

GRAND TOTAL: [150]