



# LIMPOPO

PROVINCIAL GOVERNMENT  
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF  
**EDUCATION**

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS**

**PAPER 2**

**MAY/JUNE 2021**

**MARKING GUIDELINE**

**MARKS: 150**

**TIME: 2 HOUR**

**This marking guideline consists of 18 pages**

**SECTION A (COMPULSORY)**

**QUESTION 1**

**1.1 MULTIPLE-CHOICE QUESTIONS**

- 1.1.1 B - explicit ✓
- 1.1.2 A - supply ✓✓
- 1.1.3 A - less at higher price ✓✓
- 1.1.4 D - externalities ✓✓
- 1.1.5 C - price leadership ✓✓
- 1.1.6 D - CBA ✓✓
- 1.1.7 D - vertical distance between total revenue and total cost is the greatest ✓✓
- 1.1.8 A - first ✓✓ (8 x 2) (16)

**1.2 MATCHING ITEMS**

- 1.2.1 H - The minimum earnings required to prevent an entrepreneur from leaving industry ✓
- 1.2.2 F - Marginal cost equals to average variable cost ✓
- 1.2.3 D - It also represents the industry ✓
- 1.2.4 B - Amount a firm earns for every unit sold ✓
- 1.2.5 C - Consumption by one person does not reduce consumption by another individual ✓
- 1.2.6 A - Resources are not appropriately used to produce maximum output at lowest cost ✓
- 1.2.7 E - Set below the market price to make the good affordable ✓
- 1.2.8 G - Approves large mergers ✓ (8 x 1) (8)

**1.3 PROVIDE ONE TERM**

- 1.3.1 Profit maximisation ✓
- 1.3.2 Fixed costs ✓
- 1.3.3 Price leadership ✓
- 1.3.4 Merit goods ✓
- 1.3.5 Oligopoly ✓
- 1.3.6 Collusion ✓ (6 x 1) (6)

**TOTAL SECTION A: 30**

**SECTION B**

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

**QUESTION 2: MICROECONOMICS****2.1 Answer the following questions:****2.1.1 Name TWO characteristics of Oligopoly market.**

- The product sold is either homogeneous or differentiated ✓
- Entry free but nit easy ✓
- There is considerabe control over price ✓
- There are few sellers ✓
- There is mutual dependence ✓
- There is collusion ✓

(Accept any other correct relevant response)

(Any 2 x 1)

(2)

**2.1.2 Why is it difficult for perfect competitor to make economic profit in the long run?**

Economic profits are only made in the short run and could be offset by many sellers who may enter the market in the long run and as a result would reduce the profits made by individual business in the market ✓ ✓

(1 x 2)

(2)

**2.2 Data response****2.2.1 Identify the market structure depicted by the graph above.**

Perfect market ✓

(1)

**2.2.2 What kind / type of profit is made in the depicted graph above.**

Normal profit ✓

(1)

**2.2.3 Briefly describe the term *perfect market*.**

A market structure consisting of many sellers and buyers ✓ ✓  
(Accept any other correct explanation)

(2)

**2.2.4 Why is the demand curve of an individual business in perfect market always horizontal?**

Every unit of a product that the individual business produces and sells, has to be sold at the prevailing market price ✓ ✓

(2)

2.2.5 **What positive impact has the competition commission achieved since its establishment?**

- Reduction in the monopolistic behaviour of certain companies e.g the engineering ✓✓
- The reduction of collusive behaviour in certain industries e.g. Bread companies, glass industry, cement industry ✓✓
- Management and smooth transition of mergers and take overs e.g. Shoprite- Checkers, Massmart- Walmart ✓✓

(4)

(Accept any other correct relevant explanation)

2.3 **Data response**2.3.1 **Identify the market structure depicted by the graph above.**

Monopolistic competition ✓

(1)

2.3.2 **What gives businesses in this market little control over the price of their product?**

The strength of brand loyalty/ frequency of the advertising or marketing plans ✓

(Accept any other correct relevant response)

(1)

2.3.3 **Briefly describe the term *collusion*.**

An arrangement between businesses or sellers with the aim of limiting competition ✓✓

(Accept any other correct relevant response)

(2)

2.3.4 **Why is the MR curve in monopolistic competition always sloping below the AR curve?**

With the exception of the first unit marginal revenue is always lower than average revenue in monopolistic competition ✓✓

(2)

2.3.5 **Why are cartels generally economically unstable?**

- Because there is a great deal of incentives for members not to stick to the agreement
- There is a great deal of cheating by cutting prices illegally and to sell more than its quota set by other members of the cartel (2 x 2)

(4)

2.4 **Differentiate between the *nature of the product* and *market entry* as characteristics of perfect competition.****Nature of the product**

- All products sold at a specific market are homogeneous /standardised ✓✓
- It makes no difference to a buyer where and from whom to buy ✓✓

(2 x 2)

**Market entry**

Economics/P2

5  
NSC

Limpopo/Doe/June 2021

- There is complete freedom of entry and exit ✓✓
- The market is fully accessible ✓✓

(2 x 2) (8)

2.5 **Discuss the challenges that a monopolist would face if excessively high prices are charged for their products.**

- The monopolist would loose sales because consumers would not afford to buy the product anymore ✓✓
- Consumers have limited budgets and therefore the monopolist can therefore not demand excessive prices ✓✓
- The monopolist product has to compete for consumers' favour with all the products available in the economy ✓✓
- The monopolist stands to loose his/her market share because consumers might opt for alternative ✓✓

(Accept any other correct relevant response)

(Any 4 x 2)

(8)  
**[40]**



**QUESTION 3: MICROECONOMICS****3.1 Answer the following questions:****3.1.1 Give TWO examples of community goods.**

- Defence ✓
- Flood control ✓

(Accept any other correct relevant response)

(Any 2 x 1)

(2)

**3.1.2 Why are merit goods often not highly rated by the markets?**

If people had to pay market prices for them, little would relatively be consumed ✓✓

(Accept any other correct relevant response)

(2)

**3.2 Data response****3.2.1 Which of the two graph shows negative externality?**

B ✓

(1)

**3.2.2 At what price does the market experience an oversupply?**At  $P_2$  ✓

(1)

**3.2.3 Briefly describe the term *allocative efficiency*.**

It occurs when the production mix reflects the tastes and preferences of consumers ✓✓

(Accept any other correct relevant response)

(2)

**3.2.4 Why does government provide subsidies on certain goods in the economy?**

The government does that to enhance consumers' affordability and improvement of their livelihood ✓✓

(2)

**3.2.5 How can government correct or limit allocative distortions resulting from non-competitive markets?**

- Allowing competition from abroad and within the country on the less profitable products but highly demanded by the communities
- Providing subsidies and tax incentives to encourage those who wish to provide such services to make them available
- Offer training and research and development into how those services or goods be provided at the most cost-effective manner

(Accept any other correct relevant response)

(2 x 2)

(4)

3.3 **Data response**3.3.1 **Provide a suitable heading for the graph above.**

Production Possibility Curve ✓ (1)

3.3.2 **Which letter indicates unattainable combinations of goods from the graph above?**

Letter X ✓ (1)

3.3.3 **Briefly describe the term *Pareto optimum*.**

A situation where the welfare of community is at its maximum and it is impossible to make someone better-off without making another person worse-off ✓✓  
(Accept any other correct relevant response)

(2)

3.3.4 **What role can education play in shifting the PPC curve to the right?**

- The improvements in the standards of education can enhance and improve efficiency ✓✓
- The application or use of newly established ways of doing things according to improvement technology ✓✓
- Improvements in the skills and training through education ✓✓

(Accept any other correct relevant response)

(2)

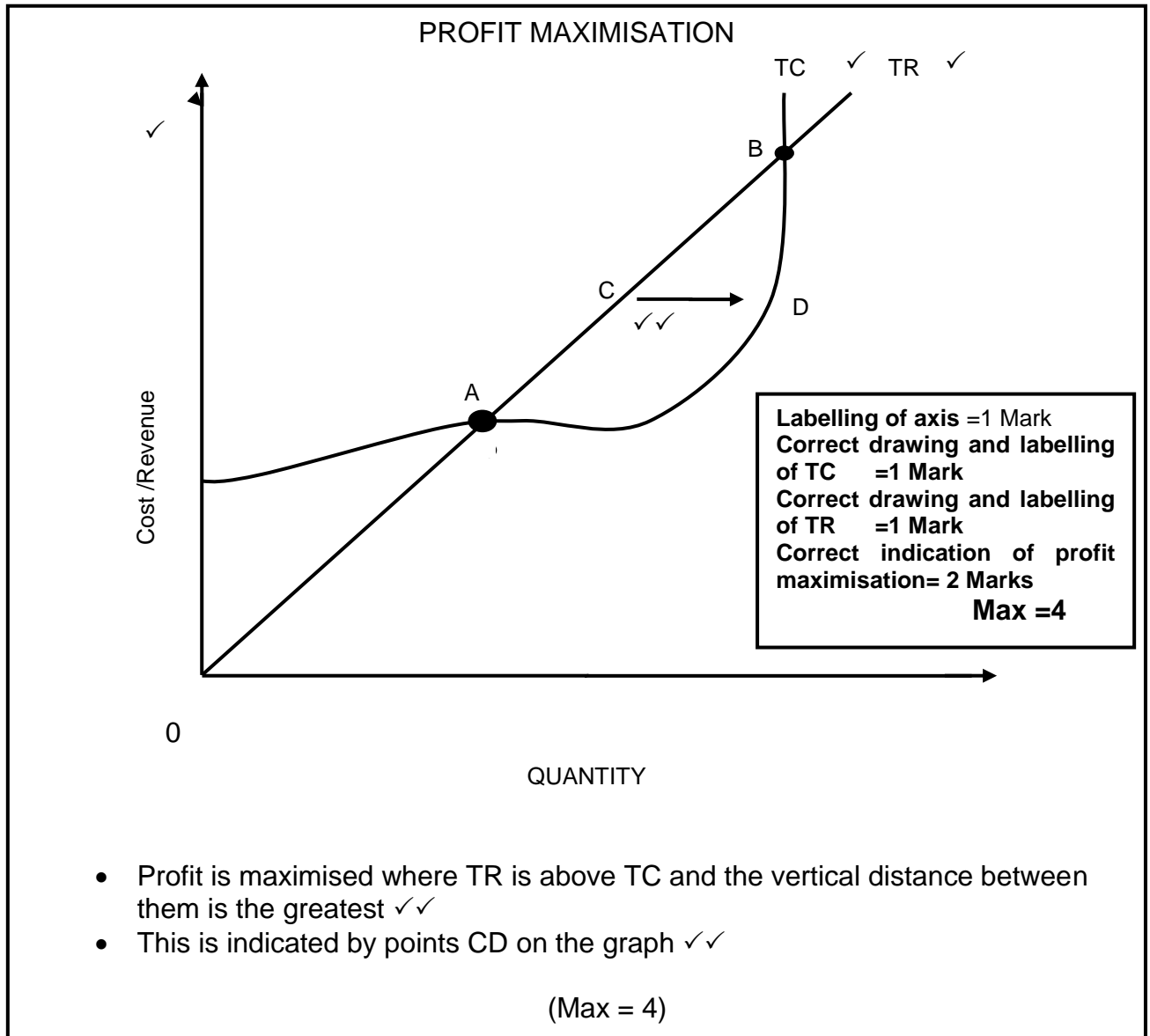
3.3.5 **Why is the outward bending of the production possibility curve regarded as an increase in the opportunity costs?**

- There is a limit to amount we can produce in a given time period with the available resources and technology ✓✓
- We can obtain additional quantities of any desired good only by reducing the potential production for another good ✓✓
- It is mostly difficult to move the resources elsewhere within a short period of time ✓✓

(Accept any other correct relevant response)

(4)

3.4 With the aid of a diagram discuss profit maximisation using TR-TC approach



3.5 Evaluate the impact of a cost benefit analysis on income redistribution

- CBA concentrates on the economic efficiency and benefits of a project ✓✓
- If the benefits exceed the costs acceptance of the project is recommended regardless of who benefits ✓✓
- However if the decision makers feel that the redistribution of income associated with the project is unacceptable, they may reject the project despite its net benefits ✓✓
- Losers are compensated in cash or in kind while gainers pay higher price or tax ✓✓

(Accept any other correct relevant response)

(8)  
[40]



**QUESTION 4: MICROECONOMICS****4.1 Answer the following questions:****4.1.1 Given TWO barriers to entry enjoyed by artificial monopolies.**

- Patent ✓
  - Licensing ✓ (2 x 1)
- (Accept any other correct relevant response) (2)

**4.1.2 Why is the demand curve of an oligopoly kinked?**

The Oligopolies behave differently when the prices of their products increase as opposed to when they decrease ✓✓ (1 x 2) (2)

**4.2 Data response****4.2.1 Identify the market structure depicted in the picture above.**

Oligopoly market ✓ (1)

**4.2.2 Give One form of collusion found in the above market structure.**

- Price leadership ✓
- Cartels ✓ (1)

**4.2.3 Briefly describe the term *cartel*.**

Occurs when collusion between Oligopolists occurs openly and formerly / an organisation of Oligopolistic businesses that comes into existence in an industry with a specific aim of forming a collective monopoly ✓✓ (2)

(Accept any other correct relevant response)

**4.2.4 What impact would an attempt to increase the price by one oligopolist lead to a decline in its market share?**

Buyers of the product would shift to other suppliers who provide the same or similar products and this will as a result reduce his market share and profitability ✓✓ (2)

(Accept any other correct relevant response)

**4.2.5 Why does the reduction in the price of one oligopolist not automatically leading to an increase in its sales?**

- An increase or decrease in sales of an oligopolist is dependant on the response of rival oligopolists ✓✓
- The rest of the factors of production are relatively immobile ✓✓
- Factory buildings and infrastructure cannot be moved to fit the demand ✓✓

- It takes time for most industries to adapt to new technology  
✓✓ (2 x 2)

(Accept any other correct relevant response)

(4)

**4.3 Data response****4.3.1 Give an example of workers targeted for by minimum wages.**

- Farm workers ✓
- Domestic workers ✓

(Accept any other correct relevant response)

(1)

**4.3.2 What is the minimum wage payable from the graph above?**

W ✓

(1)

**4.3.3 Describe the term *minimum wages*.**

Some intervention by the government to support the most vulnerable in the labour market in determining the most acceptable minimum amount of money to be paid to them to sustain their livelihood for the labour they provide ✓✓

(Accept any other correct relevant response)

(2)

**4.3.4 What impact will the setting of minimum wages have on consumption?**

- Consumers purchasing power would increase and resultantly more goods would be consumed ✓✓
- Production for certain basic foodstuffs would increase as a result of the increased means of livelihood of the consumers ✓✓

(Accept any other correct relevant response)

(2)

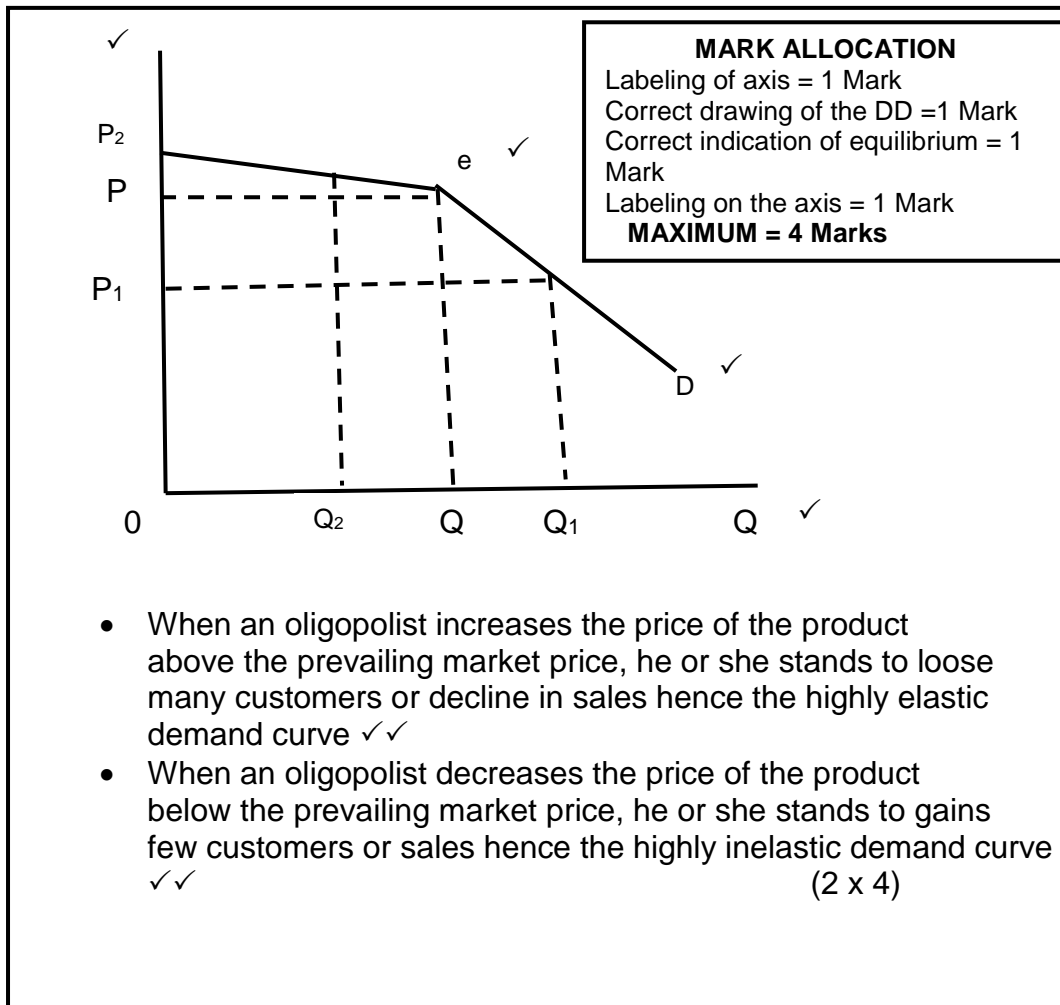
**4.3.5 Why does the government set minimum wages in certain industries?**

- Government sets minimum wages in certain industries so as to reduce the level of exploitation for those who work in those sectors because they are not easy to unionise ✓✓
- They do not have a bargaining power as compared to others in other industries ✓✓ (2 x 2)

(Accept any other correct relevant response)

(4)

4.4 With the aid a graph, discuss the derivation of an oligopoly demand curve.



(8)  
[40]

4.5 Why are subsidies important on consumer goods and services?  
 Government grants subsidies on merit goods because:

(8)  
[40]

- these goods are important for the general welfare of the society ✓✓
  - stimulate production and create demand for these goods ✓✓
  - stimulate employment opportunities /jobs ✓✓
  - enhance economic growth and a competitive economy ✓✓
  - build an export driven econmy out of excess production ✓✓
- (Accept any other correct relevant response) (4 x 2)

**TOTAL SECTION B: 80**

**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
<b>Introduction</b>	Max. 2
<b>Body:</b> <b>Main part:</b> Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Differentiate/Explain/Assess/Debate	Max. 26
<b>Additional part:</b> 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	Max. 10
<b>Conclusion:</b> Any higher-order conclusion should include: <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned in the body</li> <li>• Any opinion or valued judgement on the facts discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max. 2
<b>TOTAL</b>	<b>40</b>

**QUESTION 5: MICROECONOMICS**

- **Discuss the causes of market failure in detail.** (26 marks)
- **How successful is the government in its efforts to improve income redistribution and overcome market failure?.** (10 marks)

**INTRODUCTION**

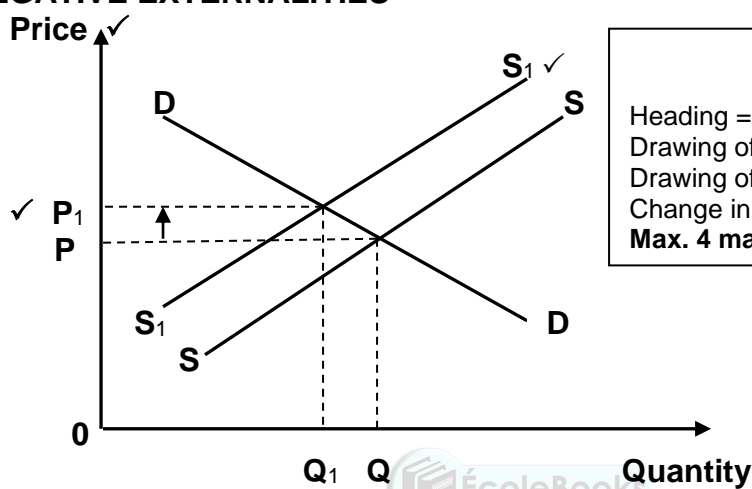
Market failure means that the best available or optimal production outcome has not been achieved/ it is the failure of markets to achieve optimum resource allocation ✓✓  
(Max. 2)

**BODY****MAIN PART**

**Externalities** ✓ these are known as spill-over effects to third party ✓✓  
These are those costs and benefits that convert private costs and benefits into social costs and benefits ✓✓

- **Private costs:** internal costs are known as private costs ✓✓  
They are the usual costs that consumers incur when they buy goods ✓✓
  - **Private benefits (internal benefits):** these are benefits that accrue to those who buy the goods and those who produce the goods ✓✓
  - **Social costs:** this is the cost of goods and services to those who create them and to society at large ✓✓  
Private costs plus external cost are equal to social costs ✓✓
  - **Social benefits:** external benefits and private benefits are equal to social benefit ✓✓
- As externalities in production and consumption often exist and output is usually based on private costs and benefits, this is a significant cause of market failure ✓✓

**NEGATIVE EXTERNALITIES** ✓



**Mark allocation:**  
 Heading = 1 Mark  
 Drawing of the axes = 1 Mark  
 Drawing of the supply curves = 1 Mark  
 Change in price = 1 Mark  
**Max. 4 marks for graph**

**Public goods:** ✓ Markets fail to produce some goods and services, despite it being needed or wanted ✓✓  
 Markets can only form under certain conditions and when these conditions are absent, markets struggle to exist ✓✓  
 Public goods are not provided for by the market mechanism because producers cannot withhold the goods for non-payment and since there is often no way of measuring how much a person consumes, there is no basis for establishing a market price ✓✓

- **Community goods:** these are goods such as defence, police service, prison services, street lighting, flood control, storm water drainage and lighthouses ✓✓
- **Collective goods:** these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerage systems, waste removals, water reticulation and refuse removals ✓✓

Community and collective goods together are known as public goods ✓✓

They are:

- **Non-rivalry:** this feature means that consumption by one person does not in any way reduce the consumption by another person ✓✓, e.g. lighthouse or street lighting ✓✓
- **Non-excludability:** this feature refers to the fact that consumption of a good cannot be confined to those who have paid for it, so there can be free-riders ✓✓  
 People can enjoy the product without paying for it ✓✓  
 E.g. radio and television in South Africa have many free riders ✓✓

**Merit and demerit goods:** ✓

- **Merit goods:** Some goods are highly desirable for the general welfare of the people of a country are often not highly rated by the market ✓✓  
If people have to pay market prices for them, relatively little would be consumed ✓✓  
In this sense, the market fails to detriment of the economy and society ✓✓  
E.g. health care services, education, skills training, safety, inoculations, car seat belts etc ✓✓
- **Demerit goods:** Items such as cigarettes, alcohol and non-prescriptive drugs are examples of demerit goods ✓✓  
In a free market economy, these goods are over-consumed ✓✓  
Some consumers may be unaware of the true costs of consuming them, that is their negative externalities - government can ban their consumption or reduce it by means of taxation (e.g. excise duties) and by providing information about their harmful side effects ✓✓

**Imperfect competition:** ✓ In market economies, competition is often impaired by power ✓✓

Power often lies to a greater extent with producers than with consumers ✓✓

Most business operate under conditions of imperfect competition that allows them to restrict output, raise prices and produce where price exceeds marginal cost ✓✓

They can also prevent new businesses from entering the industry, thereby preventing full adjustment to changes in consumer demand occurring ✓✓

**Lack of information:** ✓ Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make rational decisions ✓✓

- **Consumers:** Although advances in technology increase the amount of information to which people have access, they obviously do not have perfect information ✓✓
- **Workers:** They may be unaware of job opportunities outside their current employment ✓✓
- **Entrepreneurs:** They may lack information about the costs, availability and productivity of some factors of production, and may be operating because of incorrect information ✓✓

**Immobility of the factors of production:** ✓ Most markets do not adjust rapidly to changes in supply and demand ✓✓

While this may be partly due lack of information, it is also true that resources are very often not mobile ✓✓

- **Labour:** This may take time to move into new occupations and geographically to meet the changes in consumer demand ✓✓
- **Physical capital:** Factory buildings and infrastructure such as telephone lines, bridges, rail links and airports are not moveable at will ✓✓  
They last for many years, but cannot be moved to fit a change in demand ✓✓
- **Technological applications change production methods:** Technology used in the production may change, e.g. the use of robots rather than labour in mines ✓✓  
However, it takes time for most industries to adapt - with greater technological changes, there is an increasing need for workers to be flexible, to be willing to update their skills throughout their working lives and to change employment, occupations and work patterns ✓✓

**Imperfect distribution of income and wealth:** ✓ Perhaps the most important shortcoming of market systems is that it is neutral in the issue of income distribution ✓✓

If the initial distribution is unequal, the final distribution will be too ✓✓

For this reason, it is often argued that the market fails ✓✓

(Accept any other relevant response)

(Max. 26)

### ADDITIONAL PART

**How successful is the government in its efforts to improve income redistribution and overcome market failure?**

**The government enacted the following redistribution methods/measure in order to overcome market failure:**

- levying of taxes on the upper income bracket scales in order to subsidise the poor, e.g. property taxes ✓✓
- introducing of the broad-based economic empowerment policies to expand or open the market system ✓✓
- enacting the affirmative action policy to advantage the previously disadvantaged groups, e.g. women empowerment ✓✓
- returning of the land to the dispossessed through the land restitution programme ✓✓
- providing the previously disadvantaged with low cost housing structures ✓✓
- providing free services as well as benefits in kind to the poor e.g. school nutrition etc ✓✓



(Max. 10)

### CONCLUSION

Governments throughout the world get involved in production of public goods to mitigate against the negative consequences of these market failures ✓✓

(Any other relevant conclusion)

(Max. 2)

**[40]**

**QUESTION 6 MICROECONOMICS**

**MAIN PART**

With the aid of graphs discuss the economic profit and economic loss of a monopolist in the short term

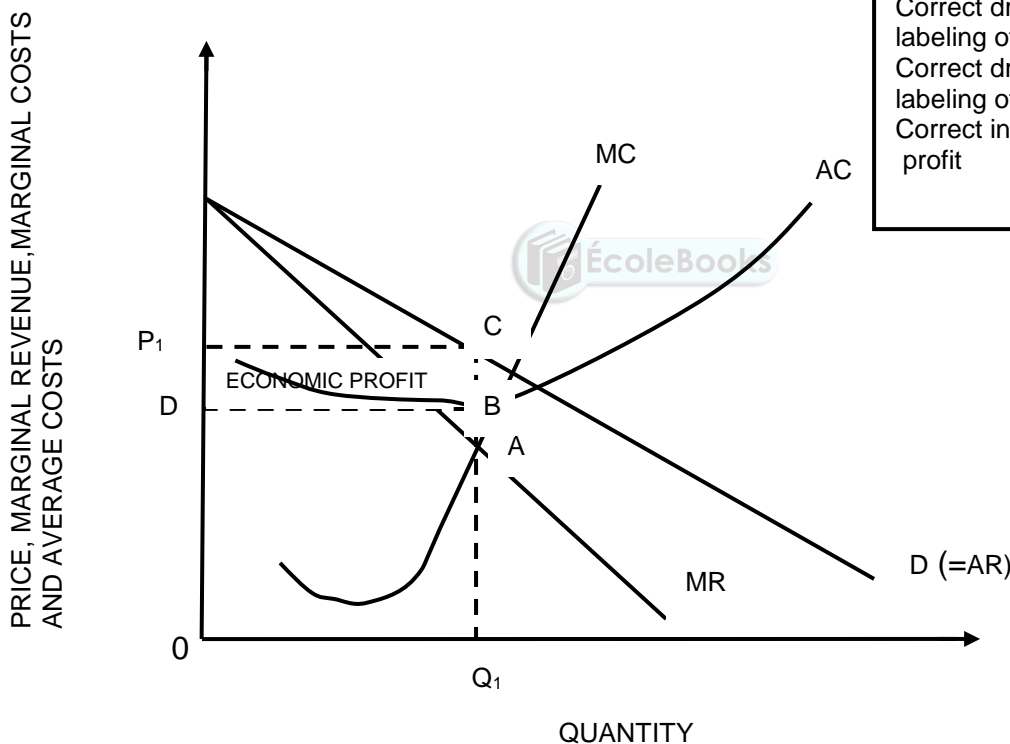
**INTRODUCTION**

This is a kind of a market structure in which there is only one manufacturer or seller of a product, there are no close substitutes for the product ✓✓

(Accept any other correct relevant response)

**MAIN PART**

**ECONOMIC PROFIT**

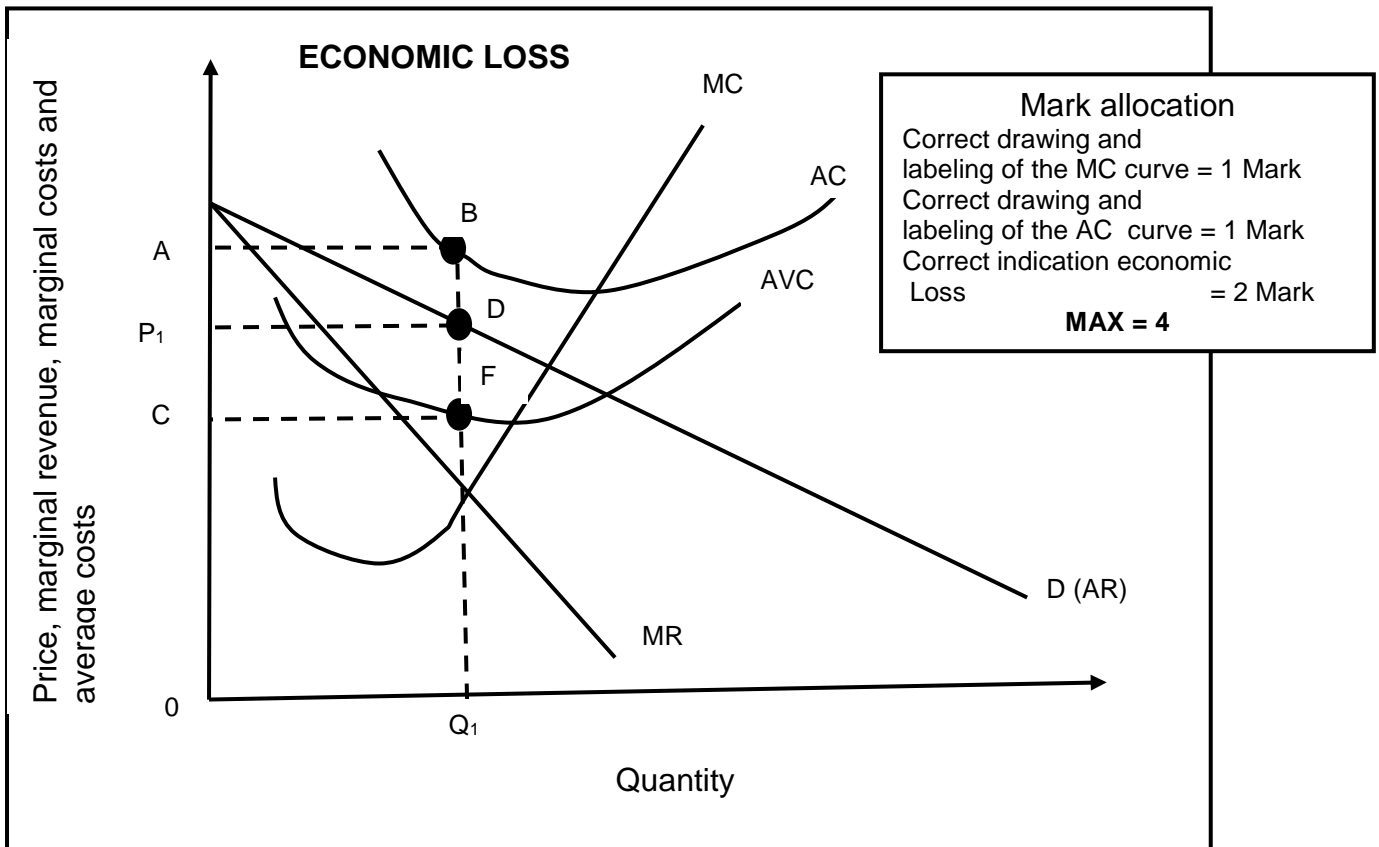


Mark allocation	
Correct drawing and labeling of the MC curve = 1 Mark	
Correct drawing and labeling of the AC curve = 1 Mark	
Correct indication economic profit = 2 Mark	
<b>MAX = 4</b>	

- Point A represents the maximisation position, since the  $MR=MC$  and at this point, the monopolist produces quantity  $Q_1$ , to maximise profit ✓✓
- The price the monopolist should charge per unit is determined by the market demand curve  $DD$  and according to the graph ✓✓
- Consumers are willing to pay a price of  $P_1$  for quantity  $Q_1$  ✓✓
- The total revenue is therefore equal to  $P_1$  multiplied by  $Q_1$  and is represented by the area  $0P_1CQ_1$  ✓✓
- The average cost revenue curve enables us to calculate the monopolist profit ✓✓
- The average cost per unit to produce  $Q_1$  units, which is represented by  $B$  ✓✓
- The total costs equals average cost ( $D$ ) multiplied by quantity  $Q_1$  represented by the area  $(0DBQ_1)$  ✓✓



- In this case, total revenue exceeds total costs and the firm earns an economic profit ✓✓
- In terms of the diagram, the area  $0P_1CQ_1$  (which represents the total revenue) is greater than area  $0DBQ_1$  (which represents the total costs) ✓✓
- This indicates that the monopolist earns an economic profit equal  $0P_1CQ_1 - 0DBQ_1 = P_1CBD$  ✓✓



- The AC lies above the demand curve ✓✓
- Equilibrium is achieved where  $MR=MC$  and in this instance the point where  $MR=MC$  is considered the loss minimising point and not the profit-maximisation point ✓✓
- The monopolist will produce quantity  $Q_1$  and sell at price  $P_1$  ✓✓
- The average cost represented by A is higher than the price of the product,  $P_1$  ✓✓
- The monopolist total cost is  $0Q_1 \times Q_1B$  at output  $Q_1 = 0Q_1BA$  ✓✓
- The monopolist's total revenue is  $0P_1 \times Q_1 = 0P_1Q_1$  ✓✓
- Since total revenue is less than total costs, the monopolist makes a loss ✓✓
- The monopolist makes a loss represented by  $P_1ABD$  ✓✓
- This loss is caused by the high average cost of production ✓✓

**ADDITIONAL PART**

**How can the government assist in the control and management of negative impacts of monopolies in the economy?**

**Government can assist in doing the following:**

- Monopolies and Oligopolies often have market power and the government may legislate to reduce their absolute power ✓✓
- allow through the legislation the establishment of other competitors for fair enough good competition ✓✓
- manage and control any abnormal profits made through collusion and price fixing through the Competition Commission ✓✓
- legislate for the easy access of resources and support of the emerging economics competitors in the industry ✓✓
- support for young and coming competitors in the areas where there was dominance of monopolies by offering financial support ✓✓
- promotion of entrepreneurial capabilities in such areas where it is difficult for young industries to venture making businesses into ✓✓
- manage pricing by invoking minimum and maximum prices to avoid unethical behaviour ✓✓
- exploitation of consumers and users of certain services and services shall be reduced through the legislative framework and monitoring ✓✓ (Max.10)

(10)

**CONCLUSION**

Governments should through the development, monitoring and implementation of proper legislative powers, ensure effective and efficient management of the economy for all in the country ✓✓

(Accept any other correct relevant higher order conclusion)

(Max.2)

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