



education
MPUMALANGA PROVINCE
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**ECONOMICS P2
SEPTEMBER 2021
MARKING GUIDELINES**

MARKS: 150

This MARKING GUIDELINE consists of 22 pages

SECTION A: COMPULSARY

QUESTION 1

1.1. MULTIPLE CHOICE

- 1.1.1. A / completely blocked ✓✓
- 1.1.2. C / monopolistic competitive ✓✓
- 1.1.3. D / monopoly ✓✓
- 1.1.4. B / electricity ✓✓
- 1.1.5. B / outbound tourism ✓✓
- 1.1.6. C / also increases ✓✓
- 1.1.7. D / air pollution ✓✓
- 1.1.8. A / subsidies ✓✓

(8 x 2) (16)

1.2. MATCHING ITEMS TYPE

- 1.2.1 E / encourages people to buy new product of the same range ✓
- 1.2.2 C / a rate set by government, below which no employer can pay their workers ✓
- 1.2.3 I / business will close where MC is equal to the minimum point of the AVC ✓
- 1.2.4 F / the barriers are not economic in nature ✓
- 1.2.5 A / the process by which soil and rock are removed from the earth's surface and deposited elsewhere ✓
- 1.2.6 B / it excludes goods or products whose process are volatile such as food and fuel ✓
- 1.2.7 D / The activity of people visiting undisturbed natural areas, e.g. Kruger national park ✓
- 1.2.8 H / Prohibits the manufacturing of twelve of the deadliest chemicals ✓

(8 x 1) (8)

1.3. ONE TERM

- 1.3.1 Price leadership ✓
- 1.3.2 Long-run ✓
- 1.3.3 Patent ✓
- 1.3.4 Core inflation ✓
- 1.3.5 Transit tourists ✓
- 1.3.6 Air pollution ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

Answer any TWO of the three questions in this section.

QUESTION 2: MICROECONOMICS

2.1 Answer the following questions.

2.1.1 Give any TWO examples of negative externalities.

- Pollution✓
- Tobacco smoking✓
- Alcohol abuse✓

(2 x 1) (2)

2.1.2 Why will output in the goods market increase when businesses in the perfect market make economic profit?

More businesses will enter the industry to take advantage of economic profit ✓✓
(accept any other correct relevant answer)

(1 x 2) (2)

2.2 DATA RESPONSE

2.2.1 Which market structure is depicted by the logos above?

Oligopoly✓

(1)

2.2.2 Name the type of a demand curve for the above market structure.

Kinked demand curve✓

(1)

2.2.3 Briefly describe the term short run.

A period of production where only the variable factors of production can change while at least one factor is fixed ✓✓

(2)

2.2.4 Why is it difficult for new sellers to enter the car industry?

It is because of the barriers such as economies of scale that the few large existing firms enjoy ✓✓
(accept any other correct relevant answer)

(2)

2.2.5 How do firms in car industry compete with each other to increase their market share?

- Through product differentiation, products might slightly differ in terms of physical appearance, packaging etc. ✓✓
- Improve after-sale-services that are far more important to customers and will ensure a long-term relationship with that business ✓✓
- To spend more money on advertising to lure consumers onto their side ✓✓
- To establish brand loyalty, because oligopolies want consumers to believe that its brand is the best and to buy only that brand ✓✓
- Through product proliferation, oligopolies may produce many different ranges of products to cater for many different markets ✓✓
- By extending shopping hours to encourage greater flexibility to households ✓✓
- Through online purchases, it becomes easier for customers to shop around without any additional cost/variety of goods available to make comparisons ✓✓
- Paying loyalty rewards to customers for continued support ✓✓

(2 x 2) (4)

Accept any other correct relevant responses)

2.3 DATA RESPONSE**2.3.1 What is the selling price for the firm above in the long-run?**

- R10 ✓

(1)

2.3.2 Identify the equilibrium quantity for the industry in the short run

- 15000 ✓

(1)

2.3.3 Briefly describe the term explicit cost.

- Actual expenditure of a business ✓✓

(2)

2.3.4 How is the price for a perfect competitive firm determined?

- The interaction of market forces of demand and supply ✓✓

(2)

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

3.1 Answer the following questions.

3.1.1 Give TWO ways in which tourism is measured.

- There should be a purpose for the visit, e.g. camping, business or study ✓
- No remuneration must be earned at the tourist destination ✓
- A minimum length of stay should be one night ✓
- The maximum length of stay should not exceed one year ✓
- The travelling distance should exceed 160 km from a person's residence ✓

(2 x 1) (2)

3.1.2 How would an increase in inflation affect creditors negatively?

- The creditor lends out money with a high purchasing power and receives it back at a low purchasing power ✓✓

(1 x 2) (2)

2 DATA RESPONSE

3.2.1 Name ONE purpose of tourism.

- Leisure and recreation ✓
- Business and professional ✓
- Studying ✓
- Medical purpose ✓
- Cultural tourism ✓
- Eco- tourism ✓

(Accept any other correct relevant response)

(1)

3.2.2 Provide ONE preventative measure people can take against the corona virus disease.

- Social distancing ✓
- Sanitization ✓
- Wearing of face masks ✓

(Accept any other correct relevant response) Must be one word answer

(1)

2.3.5 **Why does a short run equilibrium position in a perfect market will not remain fixed in the long run?**

- Profits will attract more entrants into the market, which will lead to an increase in supply ✓✓
- This will drive prices down towards average costs and profits will decrease ✓✓
- The new equilibrium position will be a normal profit ✓✓ (4)

2.4 **Briefly discuss the *nature of the product and market entry* as characteristics of monopolistic competitive market**

Nature of product

- Each firm sells a slightly differentiated product ✓✓
 - Differences might be real or imagined / differences can be based on the opinion of consumers ✓✓
 - Producers can compete against one another on the grounds of unique characteristics ✓✓
- Max 4

Market entry

- Entry into the monopolistic competitive market is easy and free ✓✓
 - There are no barriers ✓✓ such as licences, permits, patents and other restrictions ✓
- (8)
Max 4

2.5 **Why does government sometimes proceed with a project even if private costs exceed the private benefits in cost-benefit analyses?**

Governments might proceed with a project when:

- the primary objective is to provide public goods and services. ✓✓
- social costs and social benefits are also taken into account when deciding on a project. ✓✓
- a service is vital to the existence of the community. ✓✓
- when a need for infrastructure is necessary but might not have any benefits in terms of profit, e.g. the building of a community centre or a bridge ✓✓
- funding of these projects are mainly financed through tax revenue and does not impoverish any individual as such. ✓✓
- this infrastructure adds to the welfare of the community at large and is non-excludable to anyone using it. ✓✓ (8)

[40]

3.2.3 Briefly describe the term domestic tourism.

- South African citizens travelling within the borders of South Africa ✓✓ (2)

3.2.4 How does tourism help raise government revenue?

- Tourists pay taxes to government, e.g. Airport departure taxes and hotels levies increase the amount of taxes collected ✓✓ (2)

3.2.5 What are the negative effects of Covid-19 on the tourism sector?

- The tourism industry lost huge amount in terms of revenue due to countries imposing lockdowns in efforts to curb the virus ✓✓
 - This has resulted in many jobs being lost (approximately 100 -120 million jobs according to the UNWTO) ✓✓
 - Countries implemented travel restrictions leading to an estimated 1,1b loss in terms of international tourists ✓✓ (2 x 2) (4)
- (Accept any other correct relevant responses)

3.3 DATA RESPONSE**3.3.1 Identify the environmental problem depicted by the cartoon above.**

- Deforestation ✓ (1)

3.3.2 Name ONE consequence of the problem identified in the cartoon.

- Soil erosion ✓
 - Desertification ✓
 - Destruction of the natural ecosystem ✓
 - Increase in CO₂ level in the atmosphere because of lack of trees to absorb it ✓ – this can lead to global warming which in turn can cause climate change ✓
 - Loss of biodiversity ✓
- (Accept any other correct relevant response) (1)

3.3.3 Briefly describe the term biodiversity.

The variety of plant and animal species/life in a specific area/it relates to the number of generic variety among individual plant and animals within a community of organisms ✓✓ (2)

3.3.4 What impact does desertification have on food security?

- It makes it impossible to grow crops on the land, hence decreases food production and threatens food security ✓✓ (2)

3.3.5 How do forests reduce the effect of greenhouse gases?

- When natural forests are increasingly cut down for human use, greenhouses gases are increasing in the atmosphere ✓✓ – as greenhouse gases accumulate in the atmosphere the forests are needed to absorb it ✓✓ (4)

3.4 Briefly discuss employment as an effect of tourism.

- Tourism employs 7% of South Africa's workforce (approximately 1.12 million people) ✓✓
- Tourism is the largest provider of jobs because it:
 - Is labour intensive ✓✓
 - Employs many different kinds of skills, e.g. tourist guides, hotel staff, etc. ✓✓
 - Provide immediate employment ✓✓
 - Provide entrepreneurial opportunities ✓✓
- Tourism is the largest earner of foreign exchange because:
 - Foreign tourist pay for services in foreign exchange ✓✓
 - Foreign tourists usually spend more than local tourists ✓✓ (8)

3.5 Why is it important to conserve and preserve the country's natural resources?

It is important to conserve and preserve the country's natural resources because:

- it will ensure that future generation is able to access the resources ✓✓ - taking into account that some natural resources are fixed in quantity and non-renewable ✓✓
- a country needs them for its development, ✓✓ e.g. to generate energy ✓
- of the need to stay alive – nature provides all the essentials for daily needs
- a wide range of industrial material and biological material from plants and animals, directly and indirectly are used in production and in manufacturing of medicine ✓✓
- Industrial development requires mineral resources ✓✓

- It helps maintain an environmental balance, protect wildlife and promote biodiversity ✓✓
(Accept any other correct relevant responses)

(8)
[40]**QUESTION 4 MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES****4.1. Answer the following questions.****4.1.1 Name any TWO kinds of inefficiencies related to market failure.**

- Productive inefficiency/ technical inefficiencies ✓
- Allocative inefficiency ✓

(2 x 1) (2)

4.1.2 How would a lack of investment in infrastructure affect the tourism industry?

Lack of investment in infrastructure will result in unavailability of the necessary infrastructure/inadequate/poorly-maintained physical and basic infrastructure to support the tourism industry ✓✓

(1 x 2) (2)

4.2 DATA RESPONSE**4.2.1 What is represented by the letter B?**

Revenue maximisation point ✓

(1)

4.2.2 What quantity must the monopolist sell to obtain the maximum revenue?

600 ✓

(1)

4.2.3 Briefly describe the term marginal revenue.

- The extra amount of income gained by selling one more unit of production ✓✓

(2)

4.2.4 Why is the upper part of the demand curve represented by the letter C regarded as elastic?

This is because as the monopoly decreases the price, the total revenue increases ✓✓

(2)

- 4.2.5 Calculate the loss in total revenue if the monopolist decreases its price from R40 to R30.
Show all calculations

$$R40 \times 600 = R24\ 000 \checkmark$$

$$R30 \times 700 = R21\ 000 \checkmark$$

$$R24\ 000 - R21\ 000 = R3\ 000 \checkmark \checkmark$$

(2 x 2) (4)

4.3 DATA RESPONSE

- 4.3.1 Give ONE source of environmental friendly energy.

Water ✓

Wind ✓

Sun ✓

(1)

- 4.3.2 Name an international agreement that is aimed at managing nuclear waste.

Basil Convention ✓

(1)

- 4.3.3 Briefly describe the term environmental sustainability.

The ability of the environment to survive its use for economic activity/ it refers to meeting the needs of the present generation without compromising the needs of the future generations ✓✓

(2)

- 4.3.4 How would climate change affect agricultural production negatively?

- Projected increase in temperature changes precipitation patterns and changes in extreme weather events, ✓✓ and reduction in water availability results in reduced agricultural production ✓✓
(Accept any other correct relevant responses)

(2)

- 4.3.5 Why do businesses resist environmentally friendly production methods?

- Environmentally friendly methods are costly and will reduce businesses profits ✓✓
- They are also time consuming and will require them to train more employees ✓✓
(Accept any other correct relevant responses)

(4)

4.4 **Briefly discuss favourable conditions that monopolist enjoy in comparison with other market structures.**

- Unlike in a monopolistic competition, a monopoly enjoys the existence of the barriers that prevents new firms from entering the market. ✓✓ This makes it the only seller of a particular product that has no close substitutes. ✓✓
 - In a monopolistic competition there are no barriers to entry in the market and economic profits attract more firms to enter the market. ✓✓ As a result, firms end up making normal profits in the long run. ✓✓
 - The monopoly has the market power to influence price by changing the quantity of goods it supplies. ✓✓
 - The quantity that it supplies enables it to maximise profit hence it makes profit both in the short term and the long term. ✓✓
- (Accept any other correct relevant responses)

(8)

4.5 **How can countries deal with the problem of pollution?**

Countries can deal with the problem of pollution by:

- Developing alternative sources of energy, e.g. solar and wind than fossil fuels ✓✓
- Reducing industrial pollution – remove pollutants from exhaust streams of power plants and industrial plants before they enter the atmosphere ✓✓
- Implementing international agreements without fail, ✓✓ e.g. The Kyoto Protocol ✓ levying carbon tax on CO₂ emissions to encourage conservation imposing heavy penalties on industries that do not comply with environmental regulations ✓✓
- plant and grow as many trees as possible to help reduce the impact of greenhouse gases ✓✓
- reusing, recycling and reducing ✓✓ – recycled products take less power than products that are produced from scratch ✓✓
- Avoiding the use of products that have a high chemical content, e.g. perfumes, paints, etc. ✓✓
- taking a bus or carpooling or riding bike or walking instead of driving ✓✓
- manufacturing hybrid vehicles since they have an electric motors and rechargeable batteries ✓✓
- Making use of cars that have greater fuel efficiency ✓✓
- Buying less goods as this mean that fewer goods will be produced hence less air pollution ✓✓

(Accept any other correct relevant responses)

(4 x 2)

(8)

[40]

TOTAL SECTION B: 80

SECTION C

Answer any ONE of the two questions in this section.

QUESTION 5: MICROECONOMICS

- **Discuss causes of market failure under the following headings:**
 - Externalities (10 marks)
 - Imperfect competition (8 marks)
 - Immobility of factors of production (8 marks) (26)
- **Evaluate the success of government in the implementation of minimum wages.** (10)

INTRODUCTION

- Market failure is occurs when the forces of demand and supply fail to allocate resources efficiently ✓✓
(Accept any other correct relevant introduction) (Max.2)

BODY**MAIN PART****Externalities**

- Externalities are costs not included in the price of the product or service, and consequently there is a difference between the private cost/benefits and the social costs/benefits of production ✓✓
- **Private/internal costs** ✓ - the cost of producing the good or service which translate into the price that consumers pay ✓✓
- **Private/internal benefits** ✓ – are the benefits that accrue to those who produce goods and buy these goods, ✓✓ e.g. producing a bicycle (for producers) and using the bicycle (consumer) ✓
- **Social/external costs** ✓ – are total costs incurred by society as a whole. ✓✓ For example, the social cost of electricity includes the cost of capital, inputs and the cost of the externalities such as dirty water and air. ✓✓ Social cost = private costs plus external costs ✓✓
- **Social/external benefits** ✓ – this include the total benefit experienced by society as a whole. ✓✓ For example, municipalities provide clean water to society which results in fewer illnesses ✓
Social benefits = private benefits plus external benefits ✓✓
- Negative externalities are things like pollution, tobacco smoking and alcohol abuse. ✓✓ The costs of negative externalities are paid by society rather than by the producers. ✓✓ For example, the treatment to illnesses related to tobacco smoking are is paid by society ✓

- Positive externality are the positive effects of products to the third parties which are not paid for ✓✓
- Goods that result in negative externalities are often overproduced while goods that result in positive externalities are under-produced. This leads to market failure ✓✓

Imperfect Competition

- Competition in market economies is limited by the power of certain producers to prevent new businesses from entering the market. ✓✓
- This is imperfect competition. ✓✓
- Barriers to entry are created because of advertising, a lack of capital and controlling of resources. ✓✓
- The imperfect market doesn't allow for price negotiations ✓✓
- Advertising is used to promote producer sovereignty, which encourages consumers to buy existing products and allows producers to delay new products from entering the market until it is in their own interest. ✓✓
- e.g. business have had the technology to produce long-life light bulbs for many years but have chosen not to launch them in the market. ✓

Immobility of factors of production

- Labour takes time to move from one are to another ✓✓
- The supply of skilled labour cannot be increased because of the time it takes to be trained and educated ✓✓
- Physical capital, like factory buildings or infrastructure such as telephone lines cannot be relocated easily ✓✓
- Structural changes like a change from producing plastic packets to paper packets or shift from labour-intensive production to computer-based production requires a change in labours' skills, employment and work patterns. ✓✓ This takes time to change ✓

(Accept any other correct relevant responses)

(Max.26)

ADDITIONAL PART

It has been successful because;

- Many farmworkers and domestic workers are better off than before since they are protected by law and basic human rights. ✓✓
- There was an improvement in the living standard/ensure sustainable income for vulnerable workers ✓✓
- Vulnerable workers can receive unemployment benefits for which they did not qualify before ✓✓
- Vulnerable workers are entitled for sick leave with pay and entitled to annual leave with pay ✓✓
- Women are also entitled to maternity leave without the risk of becoming unemployed ✓✓

It has not been successful because;

- Some workers lose jobs because employers will fail to afford to pay them, this increases unemployment ✓✓
 - Workers are still earning below minimum wage because they fear losing their jobs. ✓✓
 - There is still huge gap between the rich and the poor ✓✓
- (Accept any other correct relevant responses) (Max.10)

CONCLUSION

Government cannot just allow markets to fail as it will be bad for the people in the country. It therefore intervenes to limit the consequences of market failure ✓✓
(Accept any other correct relevant higher-order conclusion) (Max.2)

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

- Discuss in detail the measures that can be used to combat inflation. (26)
- What positive impact did the 2020 lockdown have on the South African Reserve Bank's decision on interest rates? (10)

INTRODUCTION

Inflation is a sustained and significant increase in the general price level of goods and services over a period of time resulting in a decline in the purchasing power of money/policy makers can use various policy measures to fight inflation when it gets too high or to get it within the required inflation targets ✓✓
(Accept any other correct relevant introduction)

(Max.2)

BODY**MAIN PART****Fiscal measures ✓**

Are measures taken by the Minister of Finance regarding taxation and expenditure ✓✓

These measures include:

- An increase in **direct taxation** (personal income tax) which will help to decrease demand ✓✓
- An increase in **indirect taxation** (VAT) causes spending to decrease because goods become more expensive ✓✓
- A **loan levy** ✓- Reduces the disposable income of consumers ✓✓
- The **state cuts back on expenditure** by cancelling government projects like roads, hospitals and schools ✓✓
- **The country's financial budget is non-inflationary** (the government uses loans from the non-banking sector to limit inflation) ✓✓
- **The state imposes surcharge** on imported goods ✓✓ This increases the price of these imported goods resulting in many people being unable to afford to buy these goods ✓✓

Monetary measures ✓

Are measures taken by the governor of the reserve bank to combat inflation ✓✓

- The SARB **adjusts the quantity of money to the needs of the economy**, ✓✓ e.g. through open-market policy, thus maintaining a fine balance ✓
- The SARB **curbs inflation** caused by excess demand by reducing the money supply ✓✓
- The **bank rate** of the central bank (SARB) affects the interest rates in the economy ✓✓ The bank rate can be raised to encourage savings ✓✓

- Excessive credit can be reduced by **restricting the granting of credit** by banks ✓✓
- The SARB can apply **moral pressure/suasion** on financial institutions to be more careful when granting credit ✓✓
- The central bank can **increase the cash reserve requirements** for commercial banks, thereby reducing the amount of money available for commercial banks to lend out to the general public ✓✓
- The SARB **sell government securities** (government bonds) thereby reducing the amount of money in circulation ✓✓

Other measures

Additional measures that can be taken to fight inflation include:

- **Increase productivity** ✓ - This is a long-term measure generated through improved education and training which allows more people to be employed and ensure that they are more productive ✓✓
- **Price control** – By fixing the prices of certain essential goods, the government assures that they remain affordable ✓✓
- **Wage policy** ✓ – The government takes a decision to break the inflationary spiral of increased wages and prices by keeping the increase in wages below the level of inflation ✓✓
- **Stricter conditions for consumer credit** ✓ – The government makes it harder for consumers to get credit in order to restrict their spending ✓✓
- **Encourage personal savings** ✓ – Government implements measures to encourage savings, ✓✓ e.g. by cutting taxes on savings. ✓ The imbalance between demand and supply is corrected by increased savings, as people save more and spend less
- Import controls are relaxed ✓✓
- **Floating exchange rate** ✓ – Prices are automatically adjusted to international conditions
- **Indexation** ✓ – A policy of linking price items such as wages, pensions and mortgage bond interest rates to price indices to eliminate the effects of inflation ✓✓

(Accept any other correct relevant responses)

(Max.26)

ADDITIONAL PART

What positive impact did the 2020 lockdown have on the South African Reserve Bank's decision on interest rates?

- The lockdown has resulted in the SARB taking unprecedented decisions with regard to interest rates.
- In 2020, the SARB monetary policy committee cut the interest rate many times.
- In January 2020, interest rate was cut by 25 basis points, that came as a result of the impact of the corona virus pandemic in the South African economy.

- In April 2020, a further cut of 100 basis points was done on the repo rate hence lowering the interest rates by 7.75%
- In total, the repo rate was decreased by 300 basis point in 2020.
- In January 2021, the repo rate was left at 3.5% in order to support the economy that was already in recession before the pandemic.

(Max.10)

(Accept any other correct relevant responses)

CONCLUSION

Inflation affects economic growth by changing the labour supply and demand. And thus reducing aggregate employment in the sector that is subject to increasing return. The reduction in the level of employment will reduce the marginal productivity of capital ✓✓

(Accept any other correct relevant higher-order conclusion)

(Max.2)

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