KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS P2

PREPARATORY EXAMINATION

SEPTEMBER 2023

MARKS: 150

DURATION: 2 Hours

This question paper consists of 14 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.

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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. The institution that reviews orders on restrictive business practices is called the Competition ...

A Policy.
B Tribunal.
C Commission
D Appeal Court

1.1.2. In a perfect market, normal profit is also known as the ... point.

A maximum
B zero
C break-even
D minimum

1.1.3. A formal agreement between a group of producers of a good or service to control supply and manipulate prices is called a/an ...

A industry.
B cartel.
C market.
D merger.

1.1.4. The value of inputs owned by an entrepreneur and used in the production process are called ... costs

A implicit
B production
C explicit
D total

1.1.5. The gains that are relatively more than what individuals and society pay for are called...benefits.

A private
B external
C social
D public

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1.1.6. An administrative device formulated in terms of quantity to limit trade or production is called....

A permit
B quota
C tax
D direct control

1.1.7. Visiting a country to see sites of archeological significance, such as the Cango caves, is called ... tourism

A paleo
B cultural
C business
D leisure

1.1.8. Taxation imposed on the output of goods that generate pollution is called ... tax.

A income
B producer
C value added
D green (8 x 2) (16)

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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 Profit maximization	A the introduction of waste matter into the environment
1.2.2 Marginal revenue	B spillover effects to third parties which are not included in the price
1.2.3 Black market	C measures taken to ensure non-renewable resources are not threatened by extinction
1.2.4 Duopoly	D when private sector fails to provide certain goods and services.
1.2.5 Externalities	E when a country experiences high inflation, high unemployment and low economic growth
1.2.6 Preservation	F a situation where marginal costs are equal to marginal revenue
1.2.7 Stagflation	G a market in which illegal goods are bought and sold
1.2.8 Pollution	H a market structure which is dominated by two firms
	I income received from selling one extra unit of output.
	(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 production period where at least one factor of production remains fixed

1.3.2 A situation where average costs decreases as production increases

1.3.3 Prices of goods and services that are set by the government

1.3.4 Inflation that excludes items from the CPI basket that show high price volatility

1.3.5 Laws passed by the government that regulate negative externalities generated by businesses

1.3.6 Traditions, rituals and music that are unique to a particular culture or society (6 x 1) (6)

TOTAL FOR SECTION A: [30]

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SECTION B

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

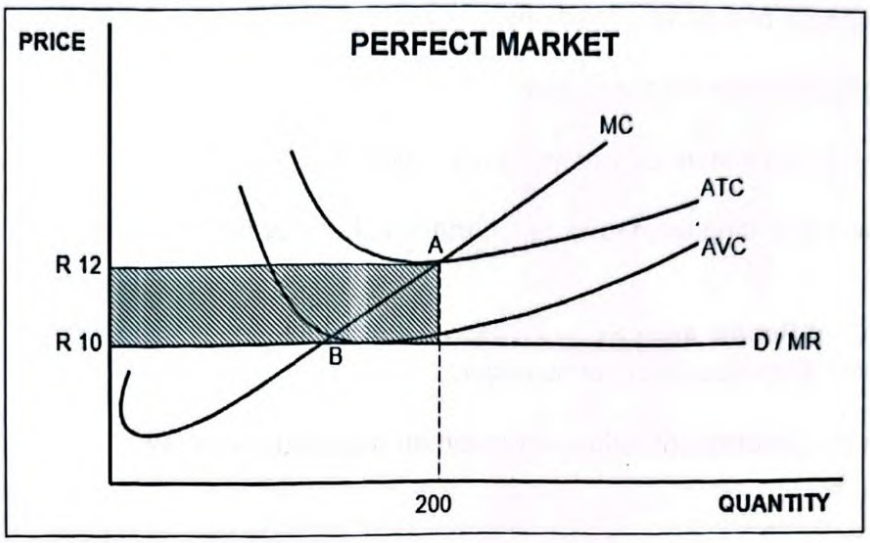
QUESTION 2: MICROECONOMICS 40 MARKS – 30 MINUTES

2.1 Answer the following questions.

2.1.1 Give TWO examples of variable costs. (2 x 1) (2)

2.1.2 Why is it difficult for firms to enter oligopoly market? (1 x 2) (2)

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



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

2.2.2 Which curve represents the supply curve in the graph above? (1)

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

2.2.4 Why is it not advisable for firms to change the price in a perfectly competitive market? (2)

2.2.5 Calculate the value economic loss illustrated in the above graph. Show ALL calculations. (2 x 2) (4)

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

The Competition Commission to break up big firms

The Competition Commission to inform the Parliament Portfolio Committee on Trade and Industry that several sectors are still dominated by large firms. The report found continued concentration in sectors including agriculture, retail and pharmaceuticals drove up prices and undermine job creation. Lack of competition in South African products market was found to be a limiting factor in the economy in the long term.

Source: www.news24.com

2.3.1 Identify the market structure represented by the above extract. (1)

2.3.2 What type of a profit is made by oligopolies in the long-run? (1)

2.3.3 Briefly describe the term *patent*. (2)

2.3.4 Why do firms in an oligopoly market collude? (2)

2.3.5 How is branding used to increase market share by firms? (4)
[10]

2.4. Discuss C*ost Benefit Analysis* as an instrument used by the government to evaluate economic projects. (8)

2.5. How can the government reduce collusion amongst businesses? (8)

[40]

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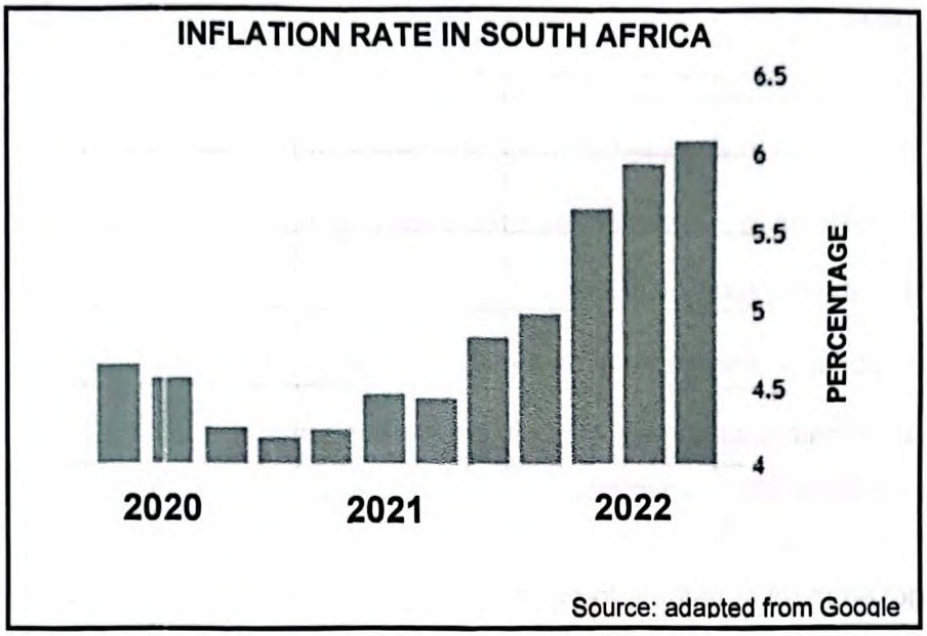
QUESTION 3: CONTEMPORARY ISSUES 40 MARKS – 30 MINUTES

3.1. Answer the following questions.

3.1.1. Give any TWO instruments of monetary policy. (2 x 1) (2)

3.1.2. Why do debtors benefit from inflation? (1 x 2) (2)

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



3.2.1 Identify the inflation rate in the second quarter of 2020? (1)

3.2.2 What is the inflation target set by the SARB in South Africa? (1)

3.2.3 Briefly describe term *demand pull inflation.* (2)

3.2.4 Explain the effect of a higher inflation rate on poor people. (2)

3.2.5 How did the government implement strategies to prevent high price increases? (2 x 2) (4)

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

Addressing Critical problems in global change

Global environmental change is having a profound impact on ecosystems around the world, with complex interactions at global change processes. Many of the changes include the climate change, urbanization, and dispensation of biochemical cycles. Research has impact on safeguarding biodiversity, global warming, conservation and wildlife degradation Research on ecological impacts of such changes is essential for safeguarding biodiversity and maintains healthy ecosystems for a sustainable development.

[Source:1000research.com]

3.3.1 Identify the term that refers to the rise in average earth temperature. (1)

3.3.2 Which international agreement on climate change was held in 1997? (1)

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

3.3.4 Why is air pollution from production a major problem on humans? (2)

3.3.5 How does climate change negatively affect the economy? (2 x 2) (4)

3.4. Briefly discuss the state of the environment in terms of *pollution* and *erosion.* (4 x 2) (8)

3.5. How does the government contribute to higher inflation in South Africa? (4 x 2) (8)

[40]

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QUESTION4 MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES
40 MARKS – 30 MINUTES

4.1. Answer the following questions.

4.1.1 Give TWO types of inefficiencies. (2 x1) (2)

4.1.2 Why is skilled labour considered as immobile? (1 x 2) (2)

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



The government has used taxes and interest rates to curb inflation in South Africa. This has been effective because the inflation targeting range has been achieved since its inception.

Source: adapted from Google

4.2.1 Identify the fiscal policy instrument used to curb inflation from the information above. (1)

4.2.2 Name the institution that is responsible for formulating monetary policy in South Africa. (1)

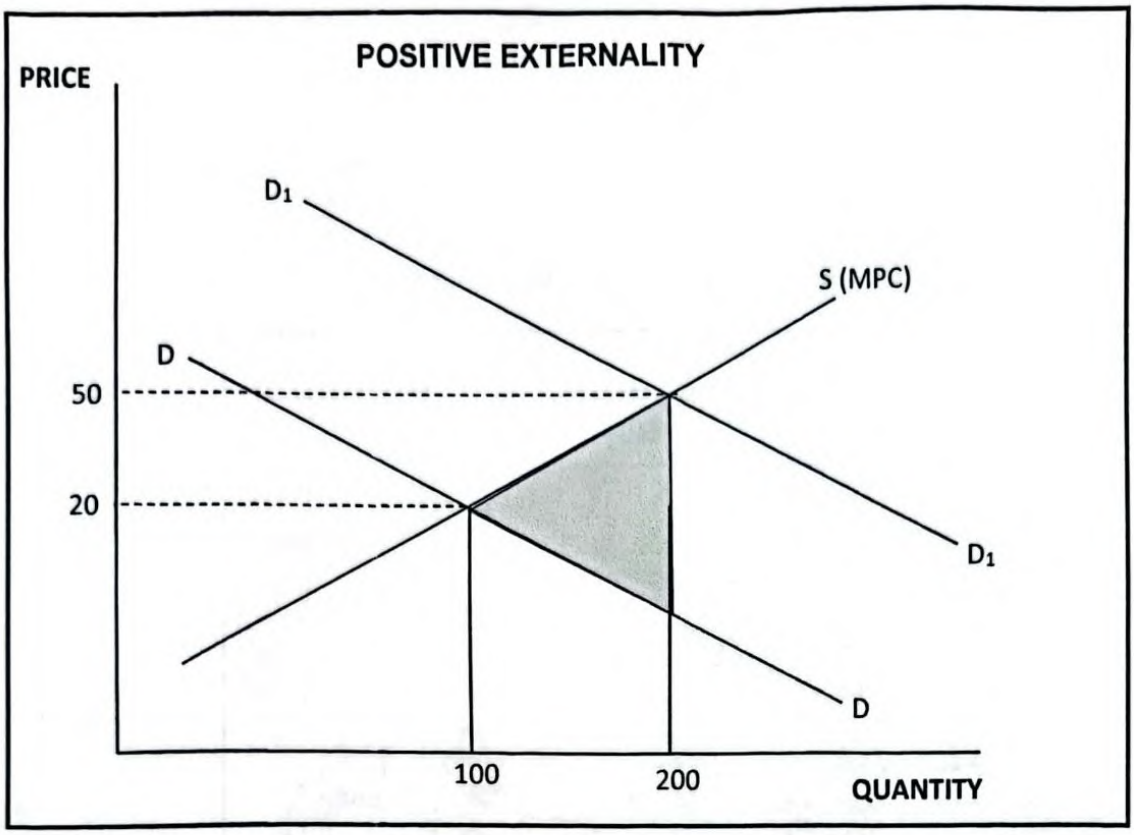
4.2.3 Briefly describe the term *indexation.* (2)

4.2.4 Explain the effect of COVID-19 pandemic on inflation. (2)

4.2.5 How can high inflation expectations influence the behavior of consumers? (2 x 2) (4)

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4.3 Study the graph below and answer the questions that follow



4.3.1 Identify the curve that represents marginal private benefits on the graph above (1)

4.3.2 Name the economic concept represented by shaded area on the graph above. (1)

4.3.3 Briefly describe the term *minimum wage.* (2)

4.3.4 What impact does government intervention have on education? (2)

4.3.5 How can the government encourage production and consumption of goods with positive externalities? (2 x 2) (4)

4.4 Distinguish between *overt collusion* and *tacit collusion.* (2 x 4) (8)

4.5 How can the South African government ensure environmental sustainability? (8)

[40]

TOTAL FOR 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:

STRUCTUTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower order-response • 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
Body **Main part:** Discuss in detail/ In depth discussion/ Examine/ Critically discuss/ Analyse/ Compare/ Evaluate/ Distinguish/Differentiate/ Explain. **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	Max. 26 Max. 10
Conclusion Any high-order conclusion should include: • 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**

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QUESTION 5: MICROECONOMICS MARKS – 40 MINUTES 40

- Discuss in detail the monopoly market without the aid of graphs. (26)
- Why are the South African state monopolies unable to achieve economic profit? (10)
[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES MARKS – 40 MINUTES 40

- Discuss in detail the effects of tourism. (26)
- How can domestic tourism be effectively promoted in South Africa? (10)
[40]

TOTAL FOR SECTION C: 40
GRAND TOTAL: 150

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FINAL

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PREPARATORY EXAMINATIONS

SEPTEMBER 2023

MARKING GUIDELINES

MARKS : 150

DURATION : 2 Hours

This Marking Guidelines consists of 16 pages.

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SECTION A: COMPULSORY

1.1 MULTIPLE CHOICE 30 MARKS – 20 MINUTES

1.1.1 D ✓✓ (appeal court)

1.1.2 C ✓✓ (break-even)

1.1.3 B ✓✓ (cartel)

1.1.4 A ✓✓ (implicit)

1.1.5 C ✓✓ (social)

1.1.6 B ✓✓ (quota)

1.1.7 A ✓✓ (paleo)

1.1.8 D ✓✓ (green) (8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1	F✓	a situation where marginal costs are equal to marginal revenue
1.2.2	I✓	income received from selling one extra unit of output
1.2.3	G✓	a market in which illegal goods are bought and sold
1.2.4	H✓	a market structure which is dominated by two firms
1.2.5	B✓	spillover effects to third parties which are not included in the price
1.2.6	C✓	measures taken to ensure non-renewable resources are not threatened by extinction
1.2.7	E✓	when a country experiences high inflation, high unemployment and low economic growth
1.2.8	A✓	the introduction of waste matter into the environment

(8 x 1) (8)

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1.3 CONCEPTS

1.3.1 Short-run✓

1.3.2 Economies of scale✓

1.3.3 Administered prices✓

1.3.4 Core inflation✓

1.3.5 Direct control✓

1.3.6 Indigenous knowledge system✓ (6 x 1) (6)

TOTAL FOR SECTION A: [30]

SECTION B

QUESTION 2: MICROECONOMICS 40 MARKS – 30 MINUTES

2.1 Answer the following questions.

2.1.1 Give TWO examples of variable costs.

- Water✓
- Electricity✓
- Raw materials✓

(Accept any relevant and correct answer) **(2 x 1)** **(2)**

2.1.2 **Why is it difficult for firms to enter oligopoly market?**
Firms require large amount of capital to start the business. ✓✓ (1 x 2) (2)
(Accept any relevant and correct answer)

2.2 **DATA RESPONSE**

2.2.1 **Identify the shutdown point in the graph above.**
B✓ (1)

2.2.2 **Which curve represents the supply curve in the graph above?**
MC ✓ (1)

2.2.3 **Briefly describe the term *marginal cost*.**
Marginal cost is the cost incurred for producing one additional unit of output. ✓ (2)
(Accept any relevant and correct answer)

2.2.4 **Why is it not advisable for firms to change the price in a perfectly competitive market?**

- Firms in a perfect market are price takers. ✓✓
- Price is determined by market forces of demand and supply. ✓✓
- If firms increase the price they may lose customers and revenue.✓✓ (2)

(Accept any relevant and correct answer)

2.2.5 **Calculate the value of economic loss illustrated in the graph above. Show ALL calculations.**

TR-TC
(PxQ) – (CxQ)
(R10x200) ✓ – (R12x200) ✓
R2000 – R2400✓ (2 x 2) (4)
-R400✓

2.3 DATA RESPONSE

2.3.1 Identify the market structure represented by the above extract.

Oligopoly ✓ (1)

2.3.2 What type of a profit is made by oligopolies in the long-run?

Economic profit✓ (1)

2.3.3 Briefly describe the term *patent.*

Patent is an exclusive right granted by the government to businesses to produce certain goods and services. ✓✓
(Accept any relevant and correct description) (2)

2.3.4 Why do firms in an oligopoly market collude?

- Firms collude to increase their revenue by increasing the price and adjusting the quantity. ✓✓
- Firms collude to eliminate competition amongst themselves. ✓✓

(Accept any relevant and correct answer) (2)

2.3.5 How is branding used to increase market share by firms?

- Businesses sell products that are slightly differentiated from those of their competitors to make them stand out. ✓✓
- Branding is conducted based on opinion of customers to make their opinion matter. ✓✓
- Building customer loyalty where consumers choose the firm's product over that of competitors. ✓✓

(Accept any relevant and correct answer) (4)

2.4 Discuss Cost Benefit Analysis as an instrument used by the government to evaluate economic projects.

A cost benefit analysis is used:

- in public sector as there are no market signals to guide decision making. ✓✓
- to identify all relevant benefits and costs of a project before an informed decision can be made. ✓✓
- to ensure economic efficiency in resources allocation. ✓✓
- to ensure a wider social impact and includes externalities in the decision making process to estimate the effect of investment on social welfare and the environment. ✓✓
- to bring greater objectivity to decision making to avoid subjectivity. ✓✓

(Allocate a maximum of 4 marks for mere listing of facts)
(Accept any relevant and correct response) (4X2) **(8)**

2.5. How can the government reduce collusion amongst businesses?

- Regulation of mergers reducing high concentration ratios of competition amongst businesses. ✓✓
- Screen market for suspicious pricing activities and high profitability. ✓✓
- Charge high fines and penalties for companies liable for collusion practices. ✓✓
- Offer immunity to firms who come clean and give government information about collusive behavior. ✓✓
- Lay criminal charges and jail sentences to company executives involved for conducting collusion practices. ✓✓
- Conduct surprise audits focusing on the company's vulnerabilities. ✓✓

(Allocate a maximum of 2 marks for mere listing of facts)
(Accept any relevant and correct answer) (4X2) **(8)**

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 30 MINUTES

3.1. Answer the following questions.

3.1.1. Give any TWO instruments of monetary policy.

- interest rates✓
- open market transactions✓
- moral suasion✓
- cash reserve requirement✓
- exchange rate policy✓

(2 x 1) (2)

(Accept any relevant and correct answer)

3.1.2. Why do debtors benefit from inflation?

Debtors access credit and return it with lesser purchasing power during higher inflation periods as the power of money declines. ✓✓ (1 x 2) (2)

Accept any relevant and correct answer)

3.2. **DATA RESPONSE**

3.2.1. Identify the inflation rate in the second quarter of 2020. (1)

4.5%✓

3.2.2. What is the inflation target set by the SARB in South Africa?

3%-6%✓ (1)

3.2.3. Briefly describe the term *demand pull inflation.*

Demand pull inflation is when there is too much money chasing too few goods. ✓✓ (2)

(Accept any relevant and correct description)

3.2.4. Explain the effect of a higher inflation rate on the poor people.

- Goods and services become more expensive and unaffordable for the poor. ✓✓
- The poor may not be able to satisfy their needs and wants leading to a poor standard of living. ✓✓

(Accept any relevant and correct answer) (2)

3.2.5. How did the government implement strategies to prevent high price increases?

- The government decreased the interest rates which alleviated debts for consumers. ✓✓
- The unemployment grant of R350.00 was introduced to assist consumers to afford basic needs.✓✓
- The government provided food parcels for the disadvantaged people who could not afford basic needs.✓✓ (4)

(Accept any relevant and correct answer)

3.3. **DATA RESPONSE**

3.3.1 Identify the term that refers to the rise in average earth temperature.
global warming /✓climate change✓ (1)

3.3.2 Which international agreement on climate change was held in1997?
Kyoto protocol✓ (1)

3.3.3 **Briefly describe the term *biodiversity.***
Biodiversity is a variety of plant and animal species living together in the particular ecosystem. ✓✓ (2)
(Accept any relevant and correct description)

3.3.4 **Why is air pollution from production a major problem on humans?**
- Air pollution causes diseases such as tuberculosis and destroys human life. ✓✓
- Increases poverty because of unemployment caused by inability to work. ✓✓ (2)

(Accept any relevant and correct description)

3.3.5 How does climate change negatively affect the economy?
- Shifting in weather patterns which threaten food production, increasing the prices of goods and services. ✓✓
- Rising sea levels would cause freshwater reserves to be contaminated, killing fish in the process. ✓✓
- Floods caused by heavy rains threaten human lives causing erosion and desertification. ✓✓
- Temperatures rise causing the spread of pests and diseases✓✓ (2 x 2) (4)

(Accept any relevant and correct response)

3.4. **Briefly discuss the state of the environment in terms of *pollution* and *erosion.***

Pollution

- Air pollution is the contamination of the atmosphere that disturbs the natural composition and chemistry of the air. ✓✓
- Pollution occurs when the flow of residual emissions resulting from human activity exceeds the natural environment capacity. ✓✓
- Water pollution involves any contamination of water from chemical or bacterial matter which degrades the waters quality. ✓✓
- Soil pollution occurs when domestic and industrial waste is dumped on land. ✓✓
- Noise pollution happens when the sound coming from planes, and industries or other sources reaches harmful levels. ✓✓**(max. 4)**

Erosion

- Erosion is a process in which earth materials are warn away and transported by natural forces. ✓✓
- Water erosion is the most cause of soil erosion which washes away loose soil particles. ✓✓
- Wind erosion occurs commonly because of human activities especially farming, removing the fertile material vital to life. ✓✓

(Allocate a maximum of 4 marks for mere listing of facts)

(Accept any relevant and correct answer) **(max. 4)** **(8)**

3.5. How does the government contribute to higher inflation in South Africa?

- Increasing government spending without an increase in aggregate supply causing price increase. ✓✓
- Spending on capital projects that are more than the economy's capacity. ✓✓
- Increasing spending on social sector with an intention to reduce unemployment and poverty. ✓✓
- Increasing borrowing with an aim to raise levels of social grants at a rate higher than inflation rate. ✓✓
- Decreasing direct taxes which create higher consumer demand. ✓✓
- Decreasing indirect taxes such as company tax and custom duties, this leads to increased production and imports. ✓✓ **(4x2) (8)**

[40]

(Allocate a maximum of 2 marks for mere listing of facts)
(Accept any relevant and correct response)

QUESTION4 MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES **40 MARKS – 30 MINUTES**

4.1. Answer the following questions.

4.1.1 Give TWO types of inefficiencies.

- Allocative inefficiency✓
- Productive/Technical inefficiency✓ (2x1) (2)

4.1.2 **Why is skilled labour considered as immobile?**
The supply of skilled labour cannot be suddenly increased because of the time it takes to be trained or educated. ✓✓ (1x2) (2)
(Accept any relevant and correct answer)

4.2 **DATA RESPONSE**

4.2.1 Identify the fiscal policy instrument used to curb inflation from the information above. (1)
taxes✓

4.2.2 **Name the institution that is responsible for formulating monetary policy in South Africa.**
South African Reserve Bank/ SARB✓ (1)

4.2.3 **Briefly explain the term *indexation.***
Indexation is a policy of linking prices of items such as wages to price indices to eliminate the effects of inflation. ✓✓
(Accept any relevant and correct description) (2)

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4.2.4 **Explain the effect of COVID-19 pandemic on inflation.**

- When infections increase the government may be forced to shut down the economy and that may result in shortages of supply of goods and services.
- A decrease in production will result in an increase in the general price level. (2)

(Accept any relevant and correct answer)

4.2.5 **How can high inflation expectations influence consumers?**

- Consumer spending may increase when consumers expect prices to increase without market signals.✓✓
- More consumer goods and capital goods are bought before the price increase thus increasing aggregate demand.✓✓
- Labour unions demand higher wages to protect the purchasing power for their members when they anticipate inflation.✓✓

(Accept any relevant and correct answer) **(2 x 2)** **(4)**

4.3. **DATA RESPONSE**

4.3.1 Identify the curve that represent marginal private benefits on the graph above.

D ✓ (1)

4.3.2 Name the economic concept represented by the shaded area on the graph above.

Positive externality/External benefit/ Social benefit. ✓ (1)

4.3.3 Briefly describe the term minimum wage.

Minimum wage is a wage rate set by the government below which no employer can pay their workers. ✓✓ (2)

(Accept any relevant and correct description)

4.3.4 What impact does government intervention have on education?

- The demand for education increases as it becomes affordable. ✓✓
- The quantity of education supplied also increases. ✓✓ (2)

(Accept any relevant and correct description)

4.3.5 How can the government encourage production and consumption of goods with positive externalities?

The government encourages positive externalities by:

- Advertising on the media in order to increase awareness. ✓✓
- Providing education, health care and other services at a low cost ✓✓
- Providing consumer subsidies which lower the costs of goods and encourage its usage. ✓✓

(Accept any relevant and correct description) (2X2) (4)

4.4. **Distinguish between overt collusion and tacit collusion.**

Overt collusion

- Occurs when rival firms cooperate collectively in order to fix prices and limit supply. ✓✓
- A cartel is formed where members cheat by cutting prices illegally and sell at agreed quotas. ✓✓
- An example of overt collusion is OPEC. ✓
- Cartels are forbidden by law in most countries however they continue to exist. ✓✓

(max. 4)

Tacit Collusion

- Occurs when a dominant firm will increase the price of a product in hope that its rivals do the same. ✓✓
- This is referred to as price leadership since it does not guarantee compliance by other firms. ✓✓
- In a case where rival firms do not comply, this collusion may lead to price wars. ✓✓

(Allocate a maximum of 4 marks for mere listing of facts)

(max. 4)

(Accept any relevant and correct description) (4x2) (8)

4.5. **How can the South African government ensure environmental sustainability?**

- Charging for the use of the environment where producers are made to pay a fee for the waste they need to dump. ✓✓
- Taxing the polluters on goods such as tyres which are associated with pollution. ✓✓
- Setting standard for the highest level of pollution allowed. ✓✓
- Subsidising the anti-pollution devices by encouraging making use of green technology during production. ✓✓
- Using marketable permits where businesses buy licenses to allow a certain amount of pollution from the production process. ✓✓
- Granting of property rights which evokes the conservationist effect on people to take care of the environment. ✓✓

(Allocate a maximum of 2 marks for mere listing of facts)
(Accept any relevant and correct description) **(4X2)** **(8)**

TOTAL SECTION B: [80]

QUESTION 5: MICROECONOMICS MARKS – 40 MINUTES 40

- Discuss in detail the monopoly market without the aid of graphs. (26)
- Why are the South African state monopolies unable to achieve economic profit? (10)

[40]

INTRODUCTION

Monopoly exist where there is only one seller of a product, where product has no close substitutes, and where barriers block entry into the market completely. ✓✓ (2)
(Accept any other relevant and correct answer)
(Accept any other correct relevant response)

MAIN PART

- **Number of firms**✓
- The monopoly consist of one single firm. ✓✓
- The monopoly also represents the total industry. e.g. De Beers, Eskom etc. ✓✓

- **Demand curve**✓
- Monopolist are also confronted with a demand curve for their product but because there are the only supplier of the product, they can decide at what point on the demand curve they wish to be. ✓✓
- The monopolist is the only supplier of a product in the market. ✓✓
- The demand curve of a monopolist is that of a market as a whole. ✓✓
- The demand curve slopes downwards from left to right. ✓✓

- **Production level**✓
- One the monopolist has decided in a price, the quantity sold is determined by demand. ✓✓
- The monopolists influence the product-price combination of the product they sell. ✓✓

- **Control over price**✓
- A monopolist is regarded as a price maker. ✓✓
- Able to influence price through changing the quantity, buy limited by market demand and the goal of profit maximisation. ✓✓
- Monopolist chooses the combination of price and quantity that suits it the best. ✓✓

- **Marginal revenue curve**✓
- Because the demand curve is downwards sloping price will decrease for each additional unit produced. ✓✓
- Therefore the marginal revenue will be less than the price, thus the demand curve and marginal revenue curve is not the same. ✓✓
- The marginal revenue curve lies below the demand curve. ✓✓

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- **Cost of production**✓

- The shape of the cost revenue curve (MC and AC) is the same as any other producer. ✓✓
- The MC increases as more is produced. ✓✓
- The AC declines, reaches a minimum and then increases. ✓✓
- Profit maximisation is where MC = MR✓✓

- **Profit**✓

- Can earn economic profit in the short run and the long run. ✓✓
- Because new entries are blocked (no competition) and short-run economic profit therefore cannot be reduced by new competing firms entering the industry. ✓✓
- The monopoly can thus continue to earn economic profit as long as the demand for its product remains intact. ✓✓

- **Market entry**✓

- Refers to how easy or difficult for the businesses to enter or to leave the market. ✓✓
- Is entirely/completely blocked. ✓✓
- A number or barriers to entry that may give rise to monopoly can be economies of scale or limited size of the market or exclusive ownership of raw materials or patents or licensing or sole rights or import restrictions. ✓✓

- **Nature of product** ✓

  The product sold is unique with no close substitutes ✓✓

  (Accept any relevant and correct response)
  (Allocate a maximum of 8 marks for sub-headings and examples)

ADDITIONAL PART

- Monopoly firms in South Africa supply goods and services to the whole country and find it difficult to set very high prices to achieve profits. ✓✓
- They are subjected to regulations which determine the selling price of their product to be affordable to the poor. ✓✓
- They experience high maintenance costs due to the destruction of their infrastructure which compromises their profits. ✓✓
- Revenue seems to be less than costs due to corruption and theft and nonpayment by a large number of users. ✓✓
- Monopolies cannot manipulate their quantities to increase the price but fail to provide adequate quantities. ✓✓
- Most of monopolies are parastatals which lack accountability and poor management. ✓✓

(Allocate a maximum of 2 marks for mere listing of facts)

CONCLUSION

The monopoly can earn economic profit for as long as the demand for its product continues and its production costs are kept at minimum. ✓✓ (2)

(Accept any other relevant and higher order response)

QUESTION 6: CONTEMPORARAY ECONOMIC ISSUES

- Discuss in detail the effects of tourism. (26)
- How can domestic tourism be effectively promoted in South Africa? (10)

INTRODUCTION

Tourism is the activities of people travelling to and staying in places outside their usual environment for not more than one year for leisure, business and other purposes. ✓✓ (2)

(Accept any relevant and correct introduction)

Main Part

- **Gross Domestic Product✓**

- Tourism is the fourth largest industry in South Africa and supports a large number of establishments. ✓✓
- Direct contribution: Tourism contributes 7.9% of GDP in South Africa. ✓✓
- Indirect contribution: Tourism is a service-based industry responsible for 65% of GDP in developed countries and 40% in developing countries. ✓✓

- **Employment✓**

- About 7% of the South African workforce is employed in this industry. ✓✓
- It is regarded as largest provider of jobs and earner of foreign exchange. ✓✓
- Tourism is labour intensive although has the lowest ratio of investments. ✓✓
- Different skills are used from hairdressers to accountants. ✓✓
- It has a potential to create jobs and for small entrepreneurs. ✓✓
- Immediate employment is provided for in the informal sector for example food vendors. ✓✓

- **Poverty✓**

- The income earned in this industry contributes to the country's growth and development. ✓✓
- Department of Tourism is involved in poverty relief projects that promote community owned products and services. ✓✓
- Poverty relief programs manage and administer poverty relief proposals. ✓✓
- Their focus is on infrastructure investment and product development. ✓✓
- Through these programs the DEAT is seeking to provide long term sustainable work opportunities for members of South Africa's poorest communities. ✓✓
- Tourism is an effective mechanism for distributing resources to rural areas to develop them as tourist sites✓✓

- **Externalities✓**

- Tourism activities may result in benefits or costs to third parties who are not part of the buyer seller market. ✓✓
- Negative externalities may include traffic and congestion, destruction of flora fauna, spoiling views of landscape and aircraft noise near airports. ✓✓
- Positive externalities may include for example Gautrain which provide links to different areas speedily. ✓✓
- Other benefits are the new amenities increased direct and indirect tax revenue. ✓✓
- Tourism can cause inflation which makes some goods unaffordable to locals. ✓✓

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- **The environment ✓**
- The influx of tourists and vehicles into conservation areas damages grass plants and animal species. ✓✓
- Tourism involves transport which is a major source of pollution. ✓✓
- Policy should be in place to ensure tourists are transported in the most environmental friendly way horse riding and cycling. ✓✓
- The rapid degradation of the environment poses a major threat to the tourism industry. ✓✓

- **Investment / infrastructure✓**
- Tourism leads to increased demand which makes business more willing to invest in capital goods and labour. ✓✓
- Government expenditure on infrastructure is encouraged because it can generate income. ✓✓
- South Africa has a first world infrastructure, however they is a lack of infrastructure in rural areas which limits the participation of rural communities. ✓✓
- Energy infrastructure like electricity is needed by tourists at tourist site. ✓✓
- Tourists need basic services like water and refuse removal. ✓✓

(Accept any relevant and correct response)
(Allocate a maximum of 8 marks for sub-headings and examples)

ADDITIONAL PART

- Creation of representative bodies where industries linked to a tourism attraction would represent it in wider tourism industry circles. ✓✓
- Improve marketing where tourists receive accurate description and information about competitive prices. ✓✓
- Improve accessibility of tourist locations by grading roads and adding more exciting detours. ✓✓
- Extending supporting services through adopting the mix of services to the needs of market expectations. ✓✓
- Increasing the range of services and facilities e.g. security and refueling facilities in poorly provided areas. ✓✓
- Provide ancillary services to tourists and the industry through networking and information centers. ✓✓

(Allocate a maximum of 2 marks for mere listing of facts)

CONCLUSION

Tourism sector is highly dependent on the improvement of the infrastructure of the country which would highly increase the national income to the benefit of its citizens. ✓✓
(Accept any other relevant and higher order response)

[40]

TOTAL FOR SECTION C: [40]
TOTAL MARKS: [150]

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