KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

NATIONAL

SENIOR CERTIFICATE

GRADE 12

ECONOMICS P2

MARKING GUIDELINES

PREPARATORY EXAMINATION

SEPTEMBER 2022

MARKS: 150

This marking guideline consists of 19 pages.

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SECTION A: COMPULSORY

1.1 MULTIPLE CHOICE

1.1.1 D✓✓ (agricultural)

1.1.2 C✓✓ (long)

1.1.3 C✓✓ (normal)

1.1.4 B✓✓ (merit)

1.1.5 A ✓✓ (stagflation)

1.1.6 D ✓✓ (Isimangaliso Wetlands Park)

1.1.7 A✓✓ (Ecotourism)

1.1.8 B✓✓ (marketable permit) (8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 I✓ - Used in the cost benefit analysis, where a market price for a good or service does not exist.

1.2.2 G✓ - Actual expenditure of a business such as water and electricity.

1.2.3 H✓ - When it is not possible to make one person better off without making another person worse off.

1.2.4 A✓ - An additional income gained from selling one extra unit of a product.

1.2.5 B✓ - Travels through a country to get to another country as a destination.

1.2.6 C✓ - Shows the relative importance of items in a consumer basket used to calculate inflation

1.2.7 E✓ - Imposed on the output of goods that generate pollution.

1.2.8 F✓ - A strategy aimed at achieving the sustainable use and management of natural resources. (8 x 1) (8)

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1.3 **CONCEPTS**

1.3.1 Fixed costs✓

1.3.2 Branding✓

1.3.3 Natural monopoly✓

1.3.4 Moral suasion✓

1.3.5 Inflation targeting✓

1.3.6 Infrastructure✓ (6 x 1) (6)

TOTAL 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 Name any TWO institutions that promote competition in South Africa.

- Competition Commission✓
- Competition Tribunal✓
- Competition Appeal Court✓ (2 x 1) (2)

2.1.2 What is the benefit of being a monopoly business?

No competition exists allowing high profits to be made. ✓✓ (1 x 2) (2)
(Accept any relevant and correct answer)

2.2 DATA RESPONSE

2.2.1 Identify the original quantity produced by the market.

Q_1✓ (1)

2.2.2 What is represented by the demand curve (D) in the above graph?

Marginal private benefit (MPB). ✓ (1)

2.2.3 Briefly describe the term *externalities*.

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

(Accept any relevant and correct description) (2)

2.2.4 Explain the effect of including external costs on the cost of production to producers.

- Products will become more expensive to produce. ✓✓
- Supply of the product will be reduced from S_1S_1 to S_2S_2 ✓✓

(Accept any relevant and correct answer) (2)

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2.2.5 How can price discrimination lead to market failure?

- Price discrimination can force customers to resort to illegal means of attaining the good/services. ✓✓
- Create black market where product can be sold at illegal prices or illegal goods may be sold. ✓✓
- Eruption of black markets allows creation of poor-quality products✓✓

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

2.3 DATA RESPONSE

2.3.1 What caused a decline in production capacity of cement producers in 2021?

- Weak demand✓
- intense competition✓ (1)

2.3.2 Name the type of profits made in the long run in this market.

Economic profit✓ (1)
(Accept any other relevant and correct response)

2.3.3 Briefly describe the term *duopoly*.

Duopoly is a market structure dominated by two large firms. ✓✓
(Accept any relevant and correct description) (2)

2.3.4 Why does mutual dependence affect the market share of the oligopolists?

- The decisions of one firm will influence and will be influenced by decisions of other firms to increase its market share. ✓✓
- Compels other firms to come up with strategies to counteract the actions of their competitors to maintain and improve its share of market. ✓✓

(Accept any relevant and correct answer) (2)

2.3.5 How can advertising be used as a non-price competition strategy?

- Advertising is used to provide information about the product and the enterprise. ✓✓
- The customers are persuading to buy the product on offer. ✓✓
- Consumers are reminded about the benefits of buying a particular product. ✓✓

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

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2.4 Discuss immobility of the factors of production as a cause of market inefficiency.

- Labour takes time to move from one area to another. ✓✓
- The supply of skilled labour cannot be increased suddenly because of the time it takes to be trained or educated. ✓✓
- Physical capital, like factory buildings or infrastructure such as telephone lines cannot be reallocated easily. ✓✓
- Structural changes require a change in the labour skills, employment and work patterns. ✓✓

(Accept any relevant and correct response) (4 x 2) (8)

2.5 Analyse the negative impact of collusion in the economy?

- When firms collude, they hamper the competitiveness of the market thereby causing high rate of unemployment and slowing down economic growth. ✓✓
- Collusion allows for illegal practices such as price fixing which cause inflation and exacerbates unaffordability in the economy. ✓✓
- The excessive market power possessed by cartels reduces supply of goods/ services thus causing an inefficient allocation of resources. ✓✓
- The collusive behavior like price leadership result to big firms manipulating consumers therefore pushing up general price levels. ✓✓
- It distorts economic markets and slow-down innovation therefore retarding the real GDP. ✓✓ (4 x 2) (8)

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

[40]

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QUESTION 3: CONTEMPORARY ISSUES 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name TWO examples of hazardous waste

- Biomedical waste✓
- Radioactive waste✓
- Pesticides✓

(Accept any relevant and correct answer)

(2 x 1) (2)

3.1.2 **What is the negative impact of inflation on the value of money?**

- The value of money will drastically decrease when compared to other currencies✓✓
- The purchasing power parity of money is reduced. ✓✓

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

3.2 DATA RESPONSE

3.2.1 In which year was the CPI at its lowest according to the table?

2020✓ (1)

3.2.2. Name ONE type of consumer inflation.

- Headline inflation✓
- Core inflation✓
- Administered inflation✓ (1)

3.2.3 Briefly describe the term *demand pull inflation*.

Demand pull inflation occurs when aggregate demand for goods and services exceed the supply of goods and services. ✓✓

(Accept any relevant and correct description) (2)

3.2.4 What could have caused an increased inflation rate in 2021?

- Closure of many firms due to lockdown, decreased the level of production, causing prices to increase. ✓✓
- Increased cost of production due to unavailability of production resources. ✓✓

(Accept any relevant and correct answer) (2)

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3.2.5 How can inflation targeting benefit the economy?

- It reduces uncertainty and promotes sound planning in the public and private sector. ✓✓
- It provides explicit measure that serves to discipline monetary policy and improves the accountability of the central bank. ✓✓
- By keeping price levels low making goods and services affordable. ✓✓

(Accept any relevant and correct answer)

(2 x 2) (4)

3.3 DATA-RESPONSE

3.3.1 Identify the environmental problem caused by air pollution.

- Climate change ✓
- Global warming ✓ (1)

3.3.2 What was the increase in the average global temperature?

6 degree Celsius✓ (1)

3.3.3 Briefly describe the term *deforestation*.

Deforestation is the process where trees and forests are removed from the land and not replaced. ✓✓
(Accept any relevant and correct description) (2)

3.3.4 Explain the effect of climate change on the agricultural industry?

- Climate change has caused flooding and drought which has decreased the production of agricultural products. ✓✓
- The agricultural industry has decreased profits due to less demand because of high prices. ✓✓

(Accept any relevant and correct description) (2)

3.3.5 How can businesses reduce the level of environmental damages?

- Invest and encourage production of sustainable technology. ✓✓
- Build commercial and residential buildings aimed at achieving zero emission and waste. ✓✓
- Improve waste compaction landfills with smart technology. ✓✓
- Improve use of agricultural cover crops to reduce carbon dioxide emission to the atmosphere. ✓✓

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

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3.4 **Differentiate between renewable resources and non-renewable resources.** **(4 x 2) (8)**

Renewable resources	**Non-renewable resources**
● Resources which cannot be exhausted even after continuous utilisation. ✓✓	● Resources which cannot be replaced once they are used. ✓✓
● Resources that can be returned to their natural state. ✓✓	● Resources that cannot be returned to natural state. ✓✓
● Examples included sun, wind and tidal energy. ✓	● Example include coal, petroleum, natural gas. ✓

(Accept any relevant and correct response)

3.5 How can monetary policy be used to combat inflation?

- The South African Reserve Bank adjust the quantity of money to the needs of the economy, (through open market policy thus maintaining a fine balance between the supply of goods and services and money supply.)✓✓
- The SARB curbs inflation caused by excess demand by reducing the money supply.✓✓
- The bank rate of the central bank (SARB) affects interest rates in the economy (repo rate) ✓✓
- 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 (moral suasion) on financial institutions to be more careful when granting credit. ✓✓
- The central bank can raise the repurchase (Repo) rate which will affect interest rates and discourage borrowing. ✓✓

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

(4 x 2) (8)

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QUESTION 4 MICROECONOMICS AND CONTEMPORARY ISSUES 40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Name any TWO features of public goods

- Non-excludable. ✓
- Non-rival. ✓
- Non-rejectable. ✓

(Accept any relevant and correct answer) (2)

4.1.2 How can developing countries be assisted to adapt to climate change?

- Granting financial support to switch from fossil fuel energy to green energy so as to lower carbon emissions. ✓✓

(Accept any relevant and correct description) (1 x 2) (2)

4.2 **DATA RESPONSE**

4.2.1 **Identify a curve that represents the demand curve in the graph above.**

AR✓ (1)

4.2.2 **What type of profit is made by the firm above?**

Economic profit✓ (1)

4.2.3 **Briefly describe the term *marginal costs*.**

Marginal costs are costs incurred for producing additional unit of a product. ✓✓
(Accept any relevant and correct description) (2)

4.2.4 Why would a monopolist sometimes fail to achieve economic profit?

- A monopolist may misdirect its funds in its operations causing losses. ✓✓
- Employees may conduct corrupt behavior which increases costs over revenue earned. ✓✓

(Accept any relevant and correct answer) (2)

4.2.5 Calculate the total profit made by this firm. Show ALL calculations.

TR-TC
PxQ – CxQ
13x100✓- 8x100✓
1300 – 800✓
R500✓

OR Total profit
= Price – Cost x 100
= (13-8) ✓ x 100✓
= R5 x 100✓
= R500✓

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(2 x 2) (4)

4.3 DATA RESPONSE

4.3.1 Identify the country that contributed the most to air pollution according to the information provided.

China✓ (1)

4.3.2 **Name the international agreement that was signed to ban the use of fossil fuel in 1997?**

Kyoto protocol ✓ (1)

4.3.3 **Briefly describe the term *preservation.***

Preservation is any strategy undertaken to safeguard the environment and maintain its current condition. ✓✓
(Accept any relevant and correct description) (2)

4.3.4 **Why do markets fail to protect the environment?**

- The market see environment as a common resource to be used for its own benefits. ✓✓
- Externalities such as air pollution caused by factories cannot be stopped without policy restrictive policies. ✓✓
- Lack of knowledge, businesses damage the environment without realizing it. e.g companies making aerosol cans can (such as spray deodorants) did not know the damaging effect they had on the ozone layer. ✓✓

(Accept any relevant and correct response) (2)

4.3.5 **How do property rights promote environmental sustainability?**

Property rights promote environmental sustainability by:

- Ensuring that people take care of the resources that belongs to them and use them profitably. ✓✓
- Protecting fauna and flora from becoming extinct through their conservation and preservation. ✓✓
- Encouraging innovation of environmentally friendly technology and methods to limit pollution. ✓✓

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

4.4 Discuss producer price index as a measure of producer inflation.

- Producer price index measures costs of production before the goods leave the factory. ✓✓
- A basket of goods only is used to calculate the producer price index excluding services. ✓✓
- Capital goods and intermediate goods are considered in the calculation. ✓✓
- Prices of imported goods are measured at point where goods enter the boarders of the country. ✓✓
- Prices exclude VAT and interest rates are excluded in the calculation of the producer price index. ✓✓

(Accept any relevant and correct response)

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(4 x 2) (8)

4.5 **Analyse the importance of conducting a cost benefit analysis (CBA) before a public project is approved.**

- Cost benefit analysis is used as a guide to decision making since government does not use market signals but considers all relevant benefits and costs of a project. ✓✓
- A wider social impact and externalities are included in decision making to estimate the extent of the investment. ✓✓
- Economic efficiency in economic resources is ensured to avoid resources misallocation and wastage. ✓✓
- Objectivity to decision making is used to avoid subjectivity. ✓✓
- Cost benefit analysis is applicable only to the government while businesses use feasibility study since government is not interested in making profit. ✓✓

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

(4 x 2) (8)

[40]

TOTAL SECTION B: [80]

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SECTION C

QUESTION 5: MICROECONOMICS 40 MARKS – 40 MINUTES

- With the aid of graphs, explain the equilibrium positions in a perfect market. (26)
- Evaluate the competition policy in promoting a more competitive economy. (10)

[40]

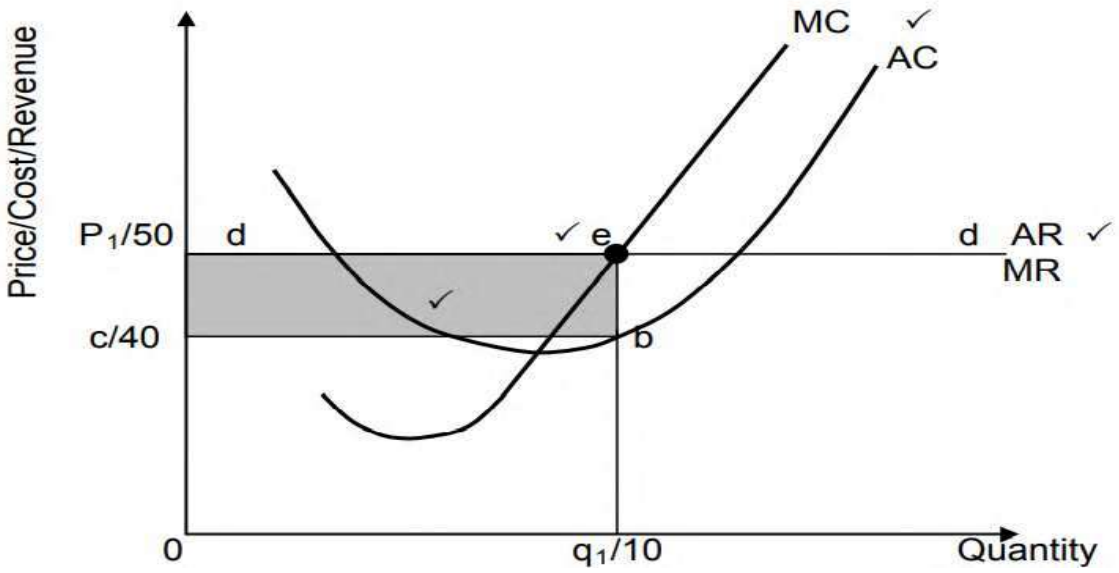
INTRODUCTION

A perfect competitor is a market structure with a large number of sellers, selling homogenous products. ✓✓ (Max. 2)

(Accept any other correct relevant response)

MAIN PART

ECONOMIC PROFIT✓



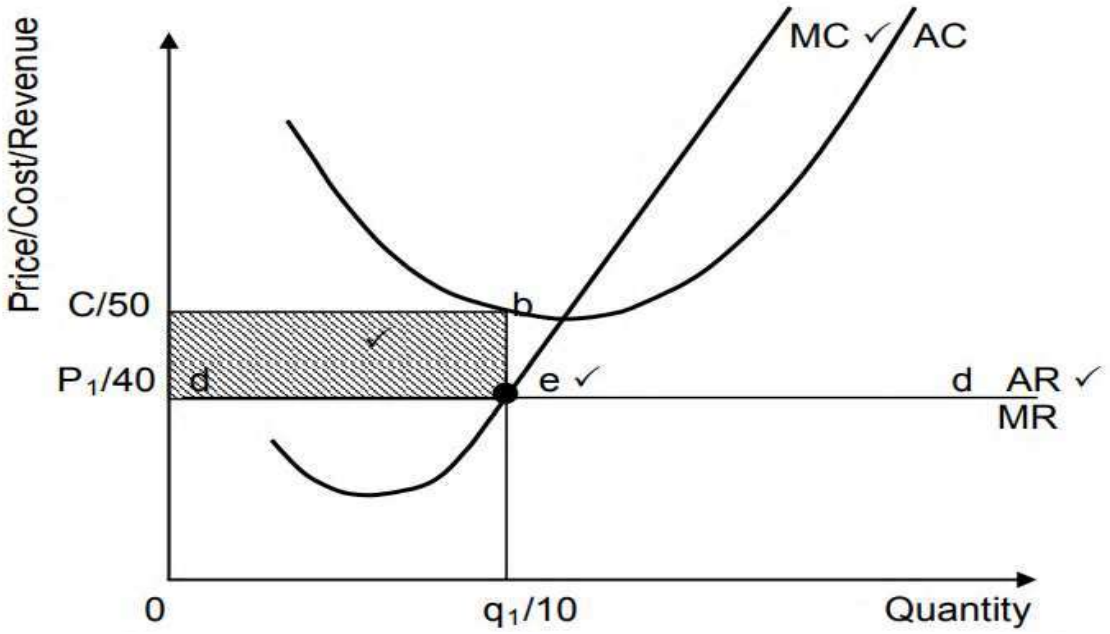
MARK ALLOCATION	
Correct drawing and labeling of cost curves	1Mark
Correct drawing and labeling of revenue curves	1 Mark
Correct indication of profit maximisation point	1 Mark
Correct labeling of and on axis	1 Mark
	Max 4 Marks

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EXPLANATION

- The minimum point of the short-term average cost curve (AC) is lower than the market price ✓✓
- The business is in equilibrium (it is maximising profits) at point e where MR = MC and the business will produce at quantity q1 and market price P1 ✓✓
- Total revenue is equal to 0q1 x 0P1 (50 x 10) and total cost is equal to 0q1 x 0c (40 x 10) ✓✓
- The economic profit is represented by the area cP1eb (R100) ✓✓ (Max.4)
  (Accept any other correct relevant response)

ECONOMIC LOSS ✓



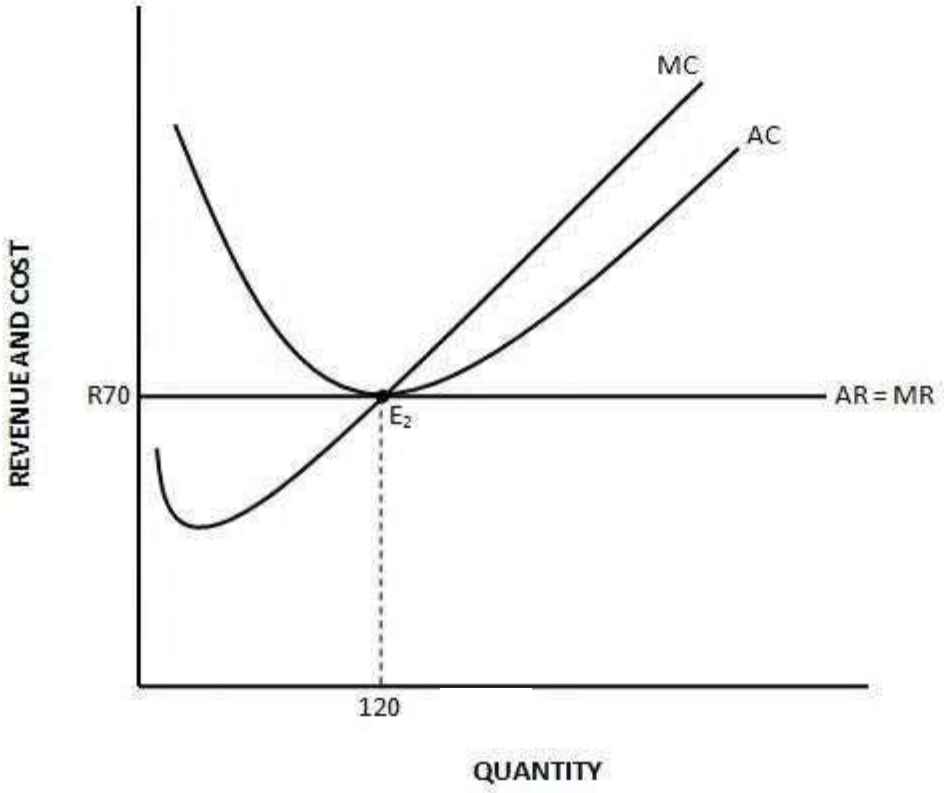
Mark Allocation	
Correct drawing and labeling of cost curves	1Mark
Correct drawing and labeling of revenue curves	1 Mark
Correct indication of profit maximisation point	1 Mark
Correct labeling of and on axis	1 Mark
	Max 4 Marks

EXPLANATION

- The minimum point of the short-term average cost curve (AC) is higher than the market price✓✓
- The business is in equilibrium (it is maximising profits) at point e where MR=MC and the business will produce at quantity Q and market price P ✓✓
- Total revenue is equal to 0q1 x 0P1 (40 x 10) and total cost is equal to 0c X 0q1 (50 x 10) ✓✓
- The economic loss is represented by the area P1cbe (100) ✓✓
  (Accept any other correct relevant response) (max. 4)

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NORMAL PROFIT✓



MARK ALLOCATION		
Correct drawing and labeling of cost curves	1Mark	
Correct drawing and labeling of revenue curves	1 Mark	
Correct indication of profit maximisation point /point e	1 Mark	
Correct labeling of and on axis	1 mark	
	Maximum-4	marks

EXPLANATION

- Given a market price of R70 profit is maximised where MR=MC=P. ✓✓
- At the quantity of 100 the firm's average revenue (AR) per unit of production is R70 ✓✓
- The firm average cost (AC) per unit of production is R70✓✓
- Since AR = AC, the firm earns a normal profit since all its costs are fully covered. ✓✓
- Point E_2 is usually called a break-even point. ✓✓ (Max. 4)

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ADDITIONAL PART

The competition policy promoted a competitive economy by:

- investigating unfair competition in the country by institutions like Competition Commission, Competition Tribunal and Appeal Court. ✓✓
- functioning as an investigator and evaluator of restrictive business practices. ✓✓
- making recommendations about penalties for business found guilty of abuse. ✓✓
- implementing the Competition Tribunal who accepts or rejects the investigation and recommendation of the Competition Commission and confirms penalty imposed. ✓✓
- Making it possible for the business to appeal for penalty imposed by the Competition Appeal Court. ✓✓
- curbing the economic power of big conglomerates to arrive at a more equitable distribution of income and wealth. ✓✓
- Regulating mergers and takeovers to regulate market power of mergers. ✓✓

The competition policy did not promote competitive economy because:

- there are still frequent occurrence of investigations into collusive behavior e.g. cement steel, bread, bank industries. ✓✓
- fines were too lenient and did not act as a deterrent to collusive behavior. ✓✓
- too many dominant firms prevented disadvantaged black industrialist entering into the market (BEE) ✓✓
- the original competition policy did not take into account the impact of mergers and acquisitions on SMME's in terms of fair pricing. ✓✓
- the shortcomings of the competition policy has led to the adoption of the Competition Amendment Bill which will promote the competition further. ✓✓ (Max. 10 marks)

(A maximum of 2 marks for mere listing of facts)
(Accept any other relevant and higher order response)

CONCLUSION

Businesses under perfect competition can only realise normal profits in the long-run due to the number of businesses entering in the market to share in the profits being made in the short-run. ✓✓ (Max. 2 Marks)
(Accept any other relevant and higher order response)

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QUESTION 6

Examine in detail the effects of tourism. (26)
How can domestic tourist attractions be effectively distributed across 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. ✓✓
(Max. 2)

(Accept any other correct relevant response)

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 it 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 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✓✓

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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 and 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. ✓✓

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 by 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 there 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. ✓✓

(Max. 26 Marks)

ADDITIONAL PART

- Creation of representative bodies where industries are linked to a tourism attraction which would represent them 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 tours. ✓✓
- 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 centres. ✓✓

(Max. 10 Marks)

(Accept any other relevant and higher order response)

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CONCLUSION

Marketing of tourism products to both domestic and international markets is important for achieving the full growth potential of the sector in South Africa. ✓✓

(Max. 2 Marks)

(Accept any other relevant and suitable conclusion)

[40]

TOTAL SECTION C: [40]

GRAND TOTAL: 150

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