education

Department of
Education
FREE STATE PROVINCE

PREPARATORY EXAMINATION

GRADE 12

ECONOMICS P2

SEPTEMBER 2022

MARKS: 150

MARKING GUIDELINE

This marking guideline consists of 19 pages.

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SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE-CHOICE QUESTIONS

1.1.1 A Industry /market✓✓
1.1.2 D sunk ✓✓
1.1.3 C ceteris paribus ✓✓ ✓✓
1.1.4 D non-rivalry ✓✓
1.1.5 B labour ✓✓
1.1.6 A deflation ✓✓
1.1.7 C progressive ✓✓
1.1.8 B deforestation ✓✓

(8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 E are classified and differentiated based on degree of competition✓

1.2.2 G gives the holder the exclusive opportunity to be the sole manufacturer of a product ✓

1.2.3 F an index used to calculate price changes of all final goods and services produced ✓

1.2.4 D person travelling through other countries to get to another destination ✓

1.2.5 I the period of production where only the variable factors of production can change ✓

1.2.6 B when a change in price will cause a small percentage change in quantity needed ✓

1.2.7 C an extra payment or levy in addition to price ✓

1.2.8 H tourists from other countries who stay for more than one day ✓ (8 x 1) (8)

1.3 IDENTIFY THE CONCEPT

1.3.1 Explicit cost ✓
1.3.2 Average revenue ✓
1.3.3 Headline ✓
1.3.4 Demerit ✓
1.3.5 Sanctions ✓
1.3.6 Indigenous knowledge system/ Indigenous knowledge ✓

(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

2.1 2.1.1 **Name any TWO indirect taxes**

- VAT✓
- Excise duty/Sin tax ✓
- Customs duty ✓

(Accept any other correct relevant response) (Any 2 x 1) (2)

2.1.2 **Why do governments conduct a cost benefit analysis when undertaking large projects?**

To make informed decisions. (MTG page 129) ✓✓ (2)
(Accept any other correct relevant response) (1 x 2)

2.2 **Data response**

2.2.1 **Identify the market price from the graph above.**

15 ✓ (1)

2.2.2 **What cost should be covered by the producer to be able to continue production in the short run?**

Average variable costs/AVC ✓ (1)

2.2.3 **Briefly describe the term *marginal cost*.**

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

2.2.4 **How is the price determined in the perfect market?**

In a perfect market, the price is determined by the interaction of demand and supply. ✓✓
(Accept any other correct relevant response) (Any 1 x 2) (2)

2.2.5 **Calculate the loss incurred by the perfect competitor above. Show ALL calculations.**

TR - TC	AR - AC x Q
(15 x 15) ✓- (20 x 15) ✓	15 - 20 ✓ x 15 ✓
225 – 300 ✓	-5 x 15 ✓
-75 ✓	- 75 ✓

(4)

2.3 **Data response**

2.3.1 **Which pandemic is referred to in the extract above?**

COVID-19/Coronavirus✓ (1)

2.3.2 **Name any ONE type of monopoly.**

Artificial/legal/local/technological✓
Natural✓ (1)

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

An arrangement between businesses with the aim of limiting competition between them by fixing prices. ✓✓ (2)

2.3.4 **How is the nature of the product in monopolistic competition different to that of a monopoly?**

Monopolistic competitors produce differentiated products ✓ while a monopoly produces unique products. ✓ (2)

2.3.5 **Discuss the negative consequences that the closure of restaurants had on their employees?**

- The employees lost their jobs and they could not earn any income as there were no customers ✓✓
- The employees' family's standard of living will drop, and it resulted in tensions inside their households ✓✓
- Some employees had to relocate or migrate as they could not afford to pay their rent ✓✓

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

2.4 **Elaborate how a perfect competitor will find it difficult to earn an economic profit in the long run**

- In the long run, a perfect competitor can only make normal profit due to easy access to the market ✓✓
- The economic profit will serve as a signal for others to enter the market ✓✓
- When new firms enter the market, supply will shift to the right/increase and more quantity of goods will be produced ✓✓
- The new equilibrium point will be reached and the price will decrease and the individual competitor will be forced to reduce the price as they are the price takers ✓✓
- The perfect competitor will now earn normal profit in the long run ✓✓

(Accept any other correct relevant response)
(Allocate a maximum of 4 marks for mere listing of facts/examples)
(4 x 2) (8)

2.5 **Analyse the impact of the kinked demand curve on an oligopoly market and to the individual firm.**

- An oligopoly competitor will lose many sales for any small increase in price. ✓✓
- If a firm decreases its price, while other firms do not follow, it will face a more inelastic demand curve which will allow it to increase sales. ✓✓
- The large price decrease will cause a small increase in the quantity demanded in this inelastic segment. ✓✓
- The profit obtained by any price decrease is actually less than at the original market price. ✓✓
- Any price increases in the segment above the market price will have a large decrease in the quantity demanded. ✓✓
- The kinked demand curve makes all competitors in the market to communicate and charge at the same market price. ✓✓
  (Accept any other correct relevant response)
  (Allocate a maximum of 2 marks for the mere listing of facts/examples) (8)

[40]

QUESTION 3

3.1 3.1.1 **Name any TWO environmental problems.**

- Biodiversity loss ✓
- Chemical waste ✓
- Hazardous waste ✓
- Climate change ✓

(Accept any other relevant correct response) (Any 2 x 1) (2)

3.1.2 **How does inflation affect the debtors?**

Debtors benefit because they receive money with a high purchasing power✓ and repay their debt with money with low purchasing power.✓
(Accept any other relevant correct response) (1 x 2) (2)

3.2 3.2.1 **What was the lowest price per litre of fuel since 2008?**

R6,01✓ (1)

3.2.2 **What is the South African inflation target?**

3 – 6 %✓ (1)

3.2.3 **Briefly describe the term *administered price inflation.***

Prices set or controlled by the government ✓✓ (Afr memo)
(Accept any other correct relevant response) (2)

3.2.4 **Explain how the South African Reserve Bank can use monetary policy to curb cost-push inflation?**

- SARB can reduce the supply of money in the economy by increasing the repo rate, thereby encouraging savings ✓✓
- SARB can use moral suasion where they can convince banks to restrict/reduce the granting of credit to producers as that will reduce their spending power ✓✓

(Accept any other relevant correct response) (1 x 2) (2)

3.2.5 **Discuss the impact of an increase in fuel prices on households.**

- Increases in fuel prices lead to businesses increasing the prices of goods and it becomes difficult for households to afford them ✓✓
- Households' level of poverty is increased by increases in fuel prices since they will be unable to access even their basic needs ✓✓
- Increases in fuel prices will increase the transport costs for households as they use transport to go to their different workplaces ✓✓

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

3.3 3.3.1 **Name the World Heritage Site depicted in the illustration above.**

(1)

Sterkfontein caves✓
(Accept any other correct relevant response)

3.3.2 **Give any ONE other World Heritage Site found in South Africa**

Mapungubwe✓/Vredefort Dome✓/Robben Island✓/Richtersveld And Botanical Landscape ✓ (1)
(Accept any other correct relevant response)

3.3.3 **Briefly describe the term *cultural tourism*.**

The activities of tourists who visit museums, art galleries and architectural attractions and who attend festivals, sports events, cultural events. ✓✓
(Accept any other correct relevant response) (2)

3.3.4 **Why is South Africa such a popular holiday destination?**

- SA has a range of tourist attractions, diverse cultures, numerous special interest activities and spectacular natural wildlife. ✓✓
- The peaceful political transformation in the country and the lifting of sanctions have led to a tourist boom in SA. ✓✓
- South Africa has hosted major international and African events such as the rugby, soccer and cricket world cups and the Africa Cup of Nations. ✓✓

(Accept any other correct relevant response) (Any 1 x 2) (2)

3.3.5 **How can the tourism industry benefit the poor rural community of South Africa?**

- Members of the community are directly involved in the tourist industry as travel agents and tour operators and earn an income from tourism.✓✓
- Entrepreneurs from households that operate as curio producers, interpreters also earn income from tourism. ✓✓
- Households benefit from improved infrastructure created for tourists but which local people can also use. ✓✓
- Households also benefit from acquiring skills that the tourism industry requires. ✓✓

(Accept any other correct relevant response) (Any 2 x 2) (4)

3.4 **Differentiate between *demand-pull Inflation* and c*ost-push inflation*.**

DEMAND-PULL INFLATION

- It occurs when aggregate demand in an economy outpaces aggregate supply.✓✓
- It is when too much money is spent on too few goods. ✓✓
- It happens when it is easy to obtain loans or when people are employed and earn incomes, and these people overspend. ✓✓

(Max 4)

COST-PUSH INFLATION

- It occurs when there is a general rise in price levels due to increases in the costs of factors of production such as higher wages. ✓✓
- An example can be spikes in the oil price due to war. ✓✓
- Businesses normally also react to the rise in the price of their costs of production by increasing prices to maintain their profit margins. ✓✓

(Accept any other correct relevant response)
(Allocate a maximum of 4 marks for mere listing of facts/examples)
(Max 4) (8)

(2 x 4)

3.5 **How effective has the Department of Tourism's policy suggestions been in South Africa?**

- The policy has been successful since it assists in marketing tourism nationally and internationally. ✓✓
- It also created different representative bodies that make it easy for tourists to access knowledge about all tourist destinations. ✓✓
- It created a platform to improve supporting services that led to improvement in transport, accommodation, and other amenities. ✓✓
- The Policy also created guidelines for levying taxes that are efficient, equitable and simple. ✓✓
- The policy also requires improvement in economic infrastructure, social infrastructure, and basic services. ✓✓
- The South African government has spent large marketing and promotional budgets aimed at promoting SA to international customers; although the impact thereof was difficult to determine, due to lockdown ✓✓
- This was done by DEAT and other private sector organizations such as Business Trust and Tourism Business Council in South Africa. ✓✓
- Tourism was identified as one of the 6 core pillars of growth in the New Growth Path Framework, contributing to economic upliftment, community development and poverty relief. ✓✓
- The full potential of SA Tourism sector is hindered by crime, funding, lack of skills and immigration. ✓✓
- Small and Medium Tourism Enterprises (SMTES) are hindered by lack of skills and relevant qualifications in business management. Education and acquisition of requisite qualifications are required to produce stable managers. ✓✓
- South Africa's varied landscapes, diverse wildlife and rich cultural resources led to its global competitiveness as a tourist destination. It shows in total tourist arrivals between 1995 and 2019 from 4.5 to 10m tourists. ✓✓
- Over the last 5 years tourism created more than 64 000 jobs – more than mining and manufacturing combined – 4.5 % of all employment is directly linked to tourism. ✓✓
- National Tourism Sector Strategy aims to increase international tourist arrivals by 4m and domestic trips by 1m from 2019 – 2021. ✓✓

Accept any other correct relevant response)
(Allocate a maximum of 2 marks for mere listing of facts/examples) (8)

[40]

QUESTION 4

4.1 4.1.1 **Name any TWO inefficiencies in the market.**

- Productive/Technical✓
- Allocative✓

(Accept any correct relevant response) (Any 2 x 1) (2)

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

The market sees the environment as a common resource. ✓✓
Lack of knowledge: Businesses cause damage without realising it ✓✓
Carelessness: People continue with harmful practices and leave it to future generations to worry about the consequences ✓✓ (2)
(Accept any other correct relevant response) (Any 1 x 2)

4.2 4.2.1 **Identify any ONE variable cost that the companies, illustrated above, pay.**

Electricity✓
Water✓ (1)
(Accept any correct relevant response)

4.2.2 **Give ONE example of a non-price strategy used to increase the market share**

Advertising ✓/Marketing ✓
(Accept any correct relevant response) (1)

4.2.3 **Briefly describe the term *monopolistic competition.***

Monopolistic competition is a market structure that displays the characteristics of both perfect competition and monopoly. ✓✓ It is a market structure that has many buyers and sellers who are price setters. ✓✓
(Accept any correct relevant response) (2)

4.2.4 **Which characteristics suggest that this market structure has a hybrid structure?**

There are many buyers and sellers like the perfect competition ✓ and they have a downward sloping demand curve like the monopoly. ✓
NB: [The response must include both characteristics of perfect competition and monopoly.]
(Accept any correct relevant response) (Any 2 x 1) (2)

4.2.5 **Discuss the impact of loadshedding on businesses in the South African economy.**

- It leads to a loss of profit for businesses, and they cannot pay their costs ✓✓
- It also leads to a waste of resources especially if they do not have the schedules of loadshedding ✓✓
- It leads companies to retrench or lay off workers as they can not afford to pay them ✓✓
- It damages their equipment and forces them to find alternative equipment that increases their costs ✓✓ (4)

(Accept any other correct relevant response)

4.3 4.3.1 **Identify the province that benefits most from domestic trips annually.**

Kwazulu Natal/KZN ✓ (1)

4.3.2 **Give any ONE reason for the growth in tourism**

Increased disposable income ✓/Improved transport and communication facilities ✓
(Accept any other correct relevant response) (1)

4.3.3 **Briefly describe the term *domestic tourism*.**

- It is when domestic tourists travel from place one to another within the borders of the country. ✓✓
- It is when South African citizens travel within the borders of South Africa. ✓✓ (2)

4.3.4 **Which opportunities are offered by tourism to the informal sector and previously disadvantaged groups?**

- Informal sector businesses and the previously disadvantaged groups earn recognition from visitors and the government subsidises them to upgrade their living standards ✓✓
  (Accept any other correct relevant response) (2)

4.3.5 **Why does tourism have a negative impact on the environment?**

- Tourists do not care whether the capacity of the area is exceeded and features of the tourist sites are vandalised or destroyed ✓✓
- Tourists are most of the time not aware of environmentally sensitive areas – cultural and natural assets are destroyed ✓✓

- Safari hunting benefits the individuals directly involved by ignoring environmental stress that might lead to a loss of wildlife species ✓✓
- More tourists increase the environmental cost that involves the generation of waste and pollution. ✓✓ (4)

(Accept any other correct relevant response) (Any 2 x 2)

4.4 **Differentiate between the *consumer price index* (CPI) and the *producer price index* (PPI).**

- The CPI measures the cost of living ✓ while the PPI measures the cost of production ✓
- The CPI basket consists of consumer goods and services ✓ while the PPI basket consists of goods only ✓
- In the CPI figures capital and intermediate goods are excluded ✓ while in the PPI, capital and intermediate goods are included ✓
- The CPI does not show prices of imported goods explicitly ✓while in the PPI prices are shown explicitly ✓
- CPI includes interest rates ✓ while PPI excludes interest rates ✓

(Accept any other correct relevant response)
(Allocate a maximum of 4 marks for mere listing of facts/examples) (4 x 2) (8)

4.5 **Evaluate the impact of competition policy on SA economy.**

The competition policy has successfully:

- Assisted in investigating and prosecuting unfair competition through the competition commission ✓✓
- Made recommendations about penalties for businesses found guilty of abuse through the competition tribunal ✓✓
- Implemented the Competition Tribunal by accepting or rejecting the investigation and recommendation of the Competition Commission ✓✓
- Curbed the economic power of big conglomerates to arrive at a more equitable distribution of income and wealth ✓✓
- Regulated mergers and takeovers to regulate market power of mergers such as Massmart and Wallmart where conditions were imposed to prevent possible unemployment that may result ✓✓

The competition policy did not succeed in the South African economy because:

- There are still frequent occurrences of collusive behaviour despite fines being imposed ✓✓
- Too many dominant firms prevented disadvantaged black industrialists from entering the market. ✓✓
- The original competition policy did not take into account the impact of mergers and acquisitions of SMMEs in terms of fair pricing ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 2 marks for mere listing of facts/examples)
(Any 4 x 2) (8)

[40]

TOTAL SECTION B: 80

SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK.

QUESTION 5

Discuss state intervention as a consequence of market failure (26 marks)

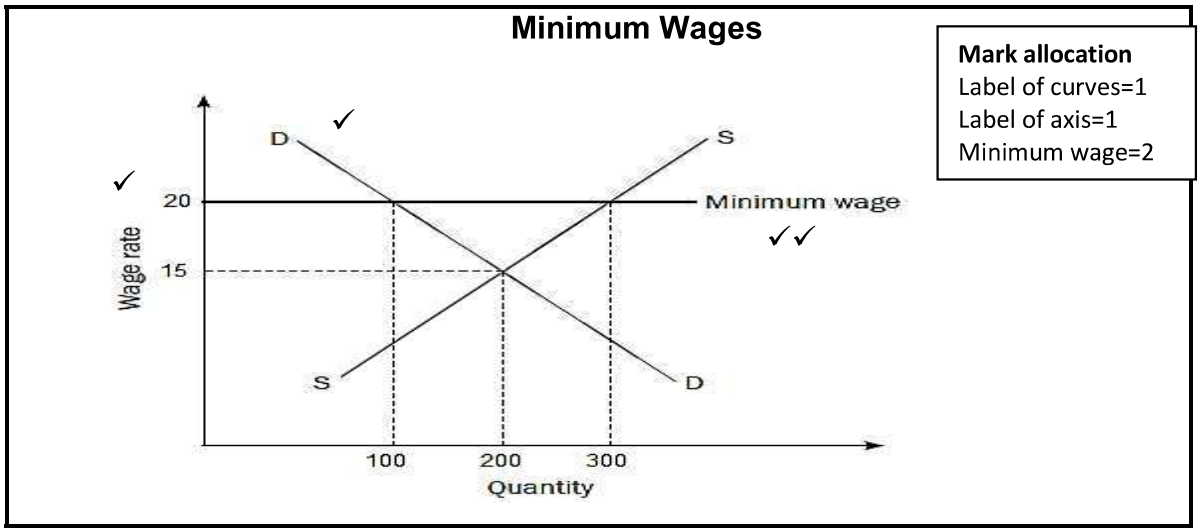
INTRODUCTION

Government needs to ensure that resources are allocated in such a way that society as a whole can benefit. ✓✓ While government is expected to intervene in the macro-economy, the modern trend is for government to allow free markets to prevail. ✓✓The purpose of government intervention is to ensure that the right quantity of resources is allocated to the production of output so that society as a whole maximises its benefits. ✓✓
(Accept any other correct relevant response) **(Max. 2)**

MAIN PART

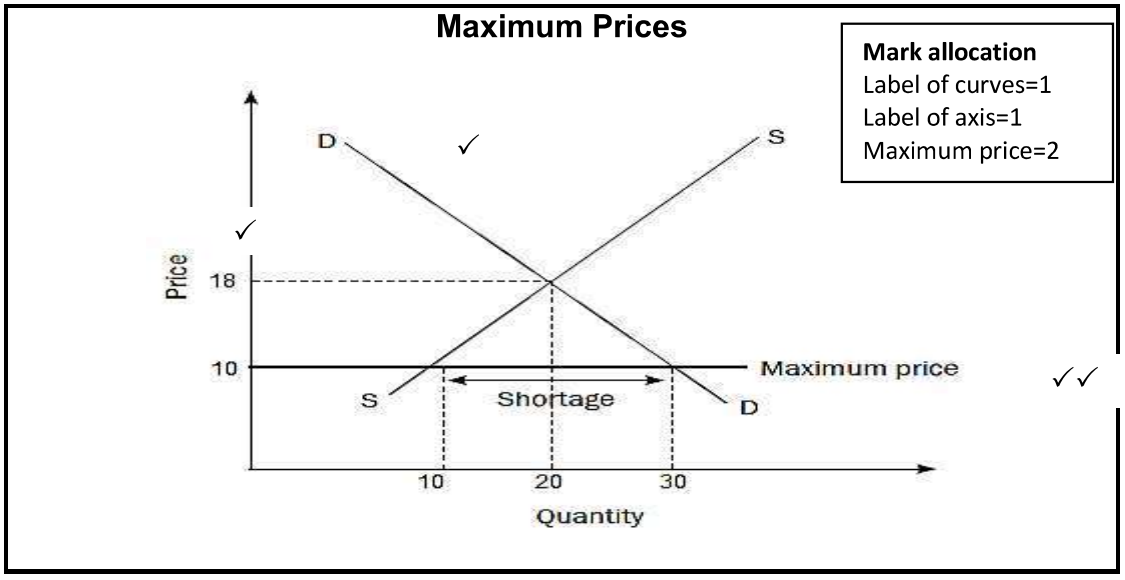
1. Minimum wages✓

- When the government enforces a minimum wage, it means workers have to be paid a certain wage amount and not anything less than this.✓✓
- Graph below shows that if the wage rate is set at R15, the corresponding demand and supply of labour will be 200. ✓✓
- If a minimum wage of R20 is set, the demand for labour will decrease from 200 to 100. ✓✓ Some people may become unemployed due to the introduction of a minimum wage. ✓✓
- However, the quantity of labour supplied will increase from 200 to 300. ✓✓
- More people will offer their labour because of the higher wage. ✓✓



2. Maximum price/price ceilings ✓

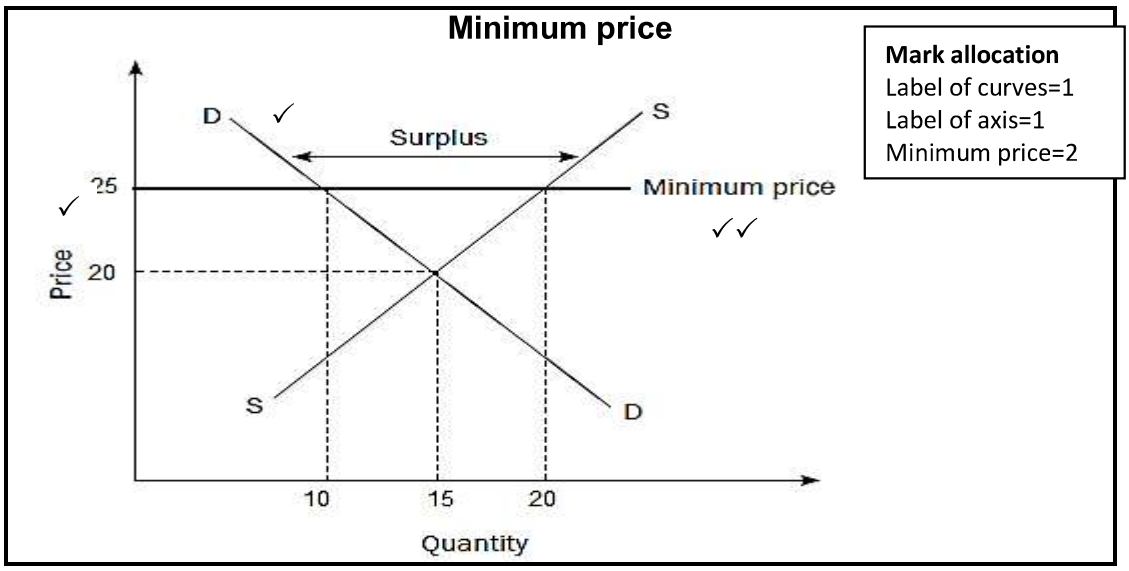
- The government sets a maximum price ceiling below the market price to make goods more affordable.
- Maximum prices allow the poor greater access to certain goods and services.



- A maximum price is set on goods such as basic foods, housing and transport. ✓✓
- In South Africa, the price of petrol, diesel fuel and paraffin are controlled at their maximum prices. ✓✓
- The government intervenes and passes a law that milk cannot be sold for more than R10. ✓✓
- There is a shortage of milk equal to the difference between 10 and 30. ✓✓
- A shortage creates a problem of how to allocate milk to consumers. ✓✓
- Black markets often develop where people can obtain milk. ✓✓

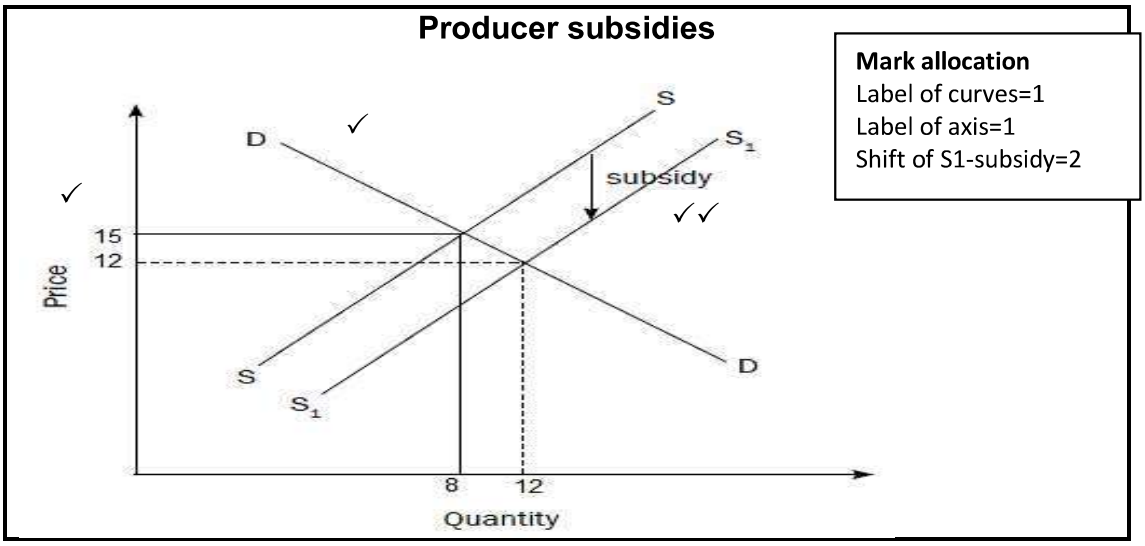
3. Minimum prices/price floors ✓

- The government sets a minimum price at some point above the market price. ✓✓
- This is done to enable producers to make a comfortable profit and thus encourages them to supply important essential goods. ✓✓
- Consider the market for wheat. If the government sets a minimum price at R25, farmers will earn greater profits and supply more wheat. Quantity supplied will therefore increase to 15. ✓✓



4. Providing Producer Subsidies ✓

- The government provides subsidies to producers in order to encourage them to increase the production of goods or increases the supply of goods. ✓✓
- Subsidies lower the cost of producing goods and thus the market price of these goods is lowered. ✓✓



(Accept any other correct relevant response) **(Note well: consider other headings listed on the Examination guidelines)**
(Allocate a maximum of 8 marks for mere listing of facts/examples) **(26 marks)**

ADDITIONAL PART

Evaluate government redistribution of income in SA. (10 marks)

- Government has redistributed through taxes (taxing the wealthy according to a progressive tax system), using it to provide the poor with different social grants to support them. ✓✓ e.g. child support grant. ✓
- Government has also been good in providing some of the goods free of charge to the community,✓✓ e.g. education, which benefitted children in all communities ✓
- Government has also been subsidising essential goods ✓✓ e.g. subsidising bread to assist the poor during difficult times of lock-down. ✓
- Government has been subsidising businesses who were hard hit by COVID-19 regulations and this has negatively affected other firms who were not subsidised as they cannot compete with them. ✓✓
- Government has inappropriately used fiscal and monetary policy to achieve macroeconomic stability in the economy and this affected households negatively as their properties were repossessed due to high-interest rates. ✓✓
- Government has also prevented misleading advertisements of liquor and tobacco on TV and radio and this has contributed positively to the reduction in the use of these demerit goods in society. ✓✓
  (Accept any other relevant explanation)
  (Allocate a maximum of 2 marks for mere listing of facts/examples) **(Max. 10)**

CONCLUSION

The intervention of government ensures that inefficiencies are eliminated and that the market is operating effectively. ✓✓

(Any other correct relevant higher orderconclusion) **(Max. 2)**

[40]

QUESTION 6

Examine the measures by government to ensure sustainable development of the environment (26 marks)

INTRODUCTION

Environmental sustainability relates to the ability of the environment to survive its use for economic activity. ✓✓
(Accept any other correct relevant introduction) **(Max. 2)**

MAIN PART

PUBLIC SECTOR INTERVENTION

Public sector intervention aims to achieve social efficiency. This occurs through:

1. **Granting Property Rights** ✓

   - The conservationist effect: People care for things that belong to them. ✓✓
   - To prevent fauna and flora species from becoming extinct, people are granted property rights if they agree to preserve the flora and fauna. ✓✓
   - Property rights can be expanded to common goods such as clean air. ✓✓

2. **Environmental Taxes** ✓

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

3. **Environmental Subsidies** ✓

   - Subsidies are granted to businesses to reduce environmental damage, e.g. the government subsidises new technology that saves energy, such as energy-saving light bulbs or solar geysers. ✓✓

4. **Marketable Permits** ✓

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

5. **Charging for the use of the environment**

- Price the environment: The government levies fees for waste produced and dumped in the environment. ✓✓
- In South Africa, local authorities levy charges on rubbish collection and sewage disposal. ✓✓
- The best results are achieved when charges are proportional (related to) waste produced. ✓✓
  (Accept any other relevant explanation)
  (Allocate a maximum of 8 marks for mere listing of facts/examples)

(Note well: consider other headings listed on the Examination guidelines)
(26 marks)

ADDITIONAL PART

How successful was the government in applying the measures to ensure sustainable development of the environment? (10 marks)

The different measures that were used were successful in that:

1. **Rio De Janeiro Summit (UNCED)** ✓

- The South African government intervened by ratifying and implementing the Rio Declaration on Environment and Development that sought to create global awareness of the dangers of unsustainable development. ✓✓
- The summit was a watershed moment for the environment. ✓✓ It brought together a remarkable 172 countries, more than 100 of them which were represented by their leaders to start to address at the global level the unsustainable use of natural resources and man's impact on the environment ✓✓
- It had its own challenges as other countries never agreed to limit greenhouse gases. ✓✓

2. **Johannesburg Summit (WSSD)** ✓

- The South African government as the host signed the Johannesburg Declaration and committed itself to address socio-economic issues such as HIV/AIDS, improved sanitation, poverty relief and a greater supply of food and water. ✓✓
- Its outcome included among others decisions on, the recognition of the rights and roles of communities in natural resources management. ✓✓
- It also included the promotion of greater corporate responsibility and accountability. ✓✓
- It also included the reaffirmation of the principle of access, the incorporation of ethics into the implementation of Agenda 21, ✓✓the acceptance of the need to delink economic growth from environmental degradation ✓✓ and

the launching of key initiatives and partnerships on sustainable development. ✓✓

3. **Kyoto Protocol** ✓

   - As a signatory of the protocol, South Africa was successful in reducing the emission of greenhouse gases by approximately a percentage below the emissions expected under a 'No-Kyoto' scenario. ✓✓
   - In some cases it was reported that it was not successful since the greenhouse output has increased since 1997 and not decreased. ✓✓

4. The local authority in South Africa levies charges for rubbish collection or sewage disposal on households, businesses and others. ✓✓

5. The production of environment-friendly substitutes such as unleaded petrol was introduced to substitute leaded petrol. ✓✓

6. Municipalities encourage the recycling of waste by issuing dust bins for glass, tins and cardboards/by compensating recyclers to collect waste on a daily basis and sell at collection points to generate income. ✓✓

7. Community wildlife reserves managed for sport hunting in Southern Africa have been transformed into areas managed for conservation.✓✓

8. The Minister of Environmental Affairs visits communities regularly to address problems with water supply and water purity.

   (Accept any other relevant answer)
   (Allocatea maximum of 2 marks for mere listing of facts/examples) **(Max. 10)**

CONCLUSION

South Africa has had stable prices since the implementation of inflation targeting in 2000 and has been signing all the international agreements to show that they care about the environment. ✓✓
(Accept any other correct relevant higher order conclusion) **(Max. 2)**

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150