KWAZULU-NATAL PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 11

ECONOMICS P2

JUNE 2023

COMMON TEST

MARKS : **150**

TIME : **2 Hours**

This question paper consists of 12 pages including this cover page.

INSTRUCTIONS AND INFORMATION

1. Answer THREE questions as follows:
   - SECTION A: COMPULSORY
   - SECTION B: Answer any TWO questions from this section.
   - SECTION C: Answer any ONE of the two questions.
2. Number the answers correctly according to the numbering system used in this question paper.
3. Write the number of each question above each answer.
4. Read the questions carefully and start EACH question on a new page.
5. Leave at least ONE line between subsections of each question.
6. Answer questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
7. Answer ONLY the required number of questions. Answers in excess of the required number will NOT be marked.
8. Use ONLY blue or black ink.
9. Non-programmable pocket calculators may be used.
10. Write legibly 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. e.g. 1.1.6 D

1.1.1 The quantity of goods or services that consumers are willing and able to buy at a specific price and time is called…

A. demand.
B. supply.
C. market.
D. exchange.

1.1.2 Value of inputs owned by entrepreneur and used in the production process is referred to as … costs.

A. variable
B. implicit
C. explicit
D. average

1.1.3 The degree of satisfaction of needs and wants that a consumer gets from using a product is called...

A. value.
B. quality.
C. durability.
D. utility.

1.1.4 A market structure that consists of few sellers is known as …

A. perfect.
B. monopoly.
C. oligopoly.
D. duopoly.

1.1.5 The amount by which total cost increases when one extra product is produced is called … cost.

A. production
B. input
C. marginal
D. average

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1.1.6 The study of the behaviour of individuals and firms in making decisions is referred to as ... economics.

A. micro
B. macro
C. public
D. international

1.1.7 The market where means of production are traded is called ... market.

A. financial
B. goods
C. stock
D. factor

1.1.8 The difference between a business's total revenue and explicit costs is called ... profit.

A. normal
B. accounting
C. economic
D. total

(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 –H) next to the question number (1.2.1 – 1.2.8) in the ANSWER BOOK.

Column A	Column B
1.2.1 Supply	A. A condition where market supply and demand are equal at the same price level
1.2.2 Variable costs	B. The human factor of production that combines other factors in order to start a business
1.2.3 Value	C. A firm that has no competition in the market
1.2.4 Equilibrium	D. The total quantity of goods or services that is available to consumers at a specific price and time
1.2.5 Short-run	E. Costs that change according to changes in output
1.2.6 Entrepreneurship	F. The period of production where only the variable factors of production can change
1.2.7 Price-taker	G. A condition where the company's total revenue is equal to the sum of total costs
1.2.8 Break-even-point	H. The amount of money that a person is willing to pay for a good or service
	I. An individual firm that only charges a price that is determined by the market

(8 X 1) (8)

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1 – 1.3.6) in the ANSWER BOOK. Acronyms and abbreviations will NOT be accepted.

1.3.1 A market structure with large numbers of producers and buyers

1.3.2 The minimum earnings required to prevent the entrepreneur from leaving the business

1.3.3 The amount that a consumer pays for a product at the time of the transaction

1.3.4 A group of companies that produce similar goods and service in the market.

1.3.5 The optimum level of production where marginal revenue and marginal costs are equal

1.3.6 The value of the best alternative that is given up when a decision is made

(6 x 1) (6)

TOTAL SECTION A: 30 MARKS

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SECTION B

Answer any TWO questions in this section.

QUESTION 2 MICROECONOMICS 30 MINUTES – 40 MARKS

2.1 Answer the following questions.

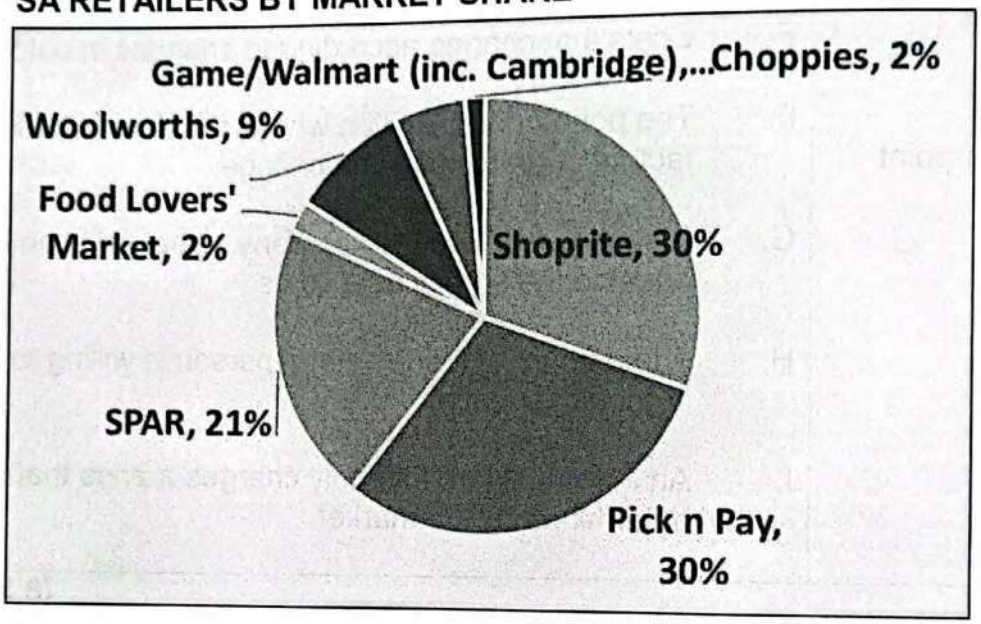
2.1.1 Name any TWO examples of inferior goods. (2 x 1) (2)

2.1.2 Why is the demand for luxury products elastic? (2)

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

IMPERFECT MARKETS

SA RETAILERS BY MARKET SHARE



Source: Researchgate.net

2.2.1 Which retailer has the largest number of customers? (1)

2.2.2 Provide the name of the imperfect market shown in the diagram above. (1)

2.2.3 Briefly describe the term *market share.* (2)

2.2.4 Explain the disadvantage of incomplete information for consumers. (2)

2.2.5 How does branding benefit sellers of homogenous products? (2 x 2) (4)

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

REVENUE CALCULATIONS

Quantities Sold	Price	TR	AR	MR
1	20	20	20	-
2	18	36	18	16
3	16	48	16	12
4	15	60	15	10
5	12	60	12	0
6	9	54	9	A

2.3.1 Identify the concept that refers to income from the table above. (1)

2.3.2 What does the abbreviation AR stand for? (1)

2.3.3 Briefly describe the term *market price.* (2)

2.3.4 Explain the importance of the 5th unit sold in relation to total costs. (2)

2.3.5 Calculate marginal revenue (A) above, using information from the table. Show all calculations. (4)

2.4 Discuss the factors that influence price elasticity of demand without graphs. (8)

2.5 How can businesses set objectives that make them successful? (8)

[40]

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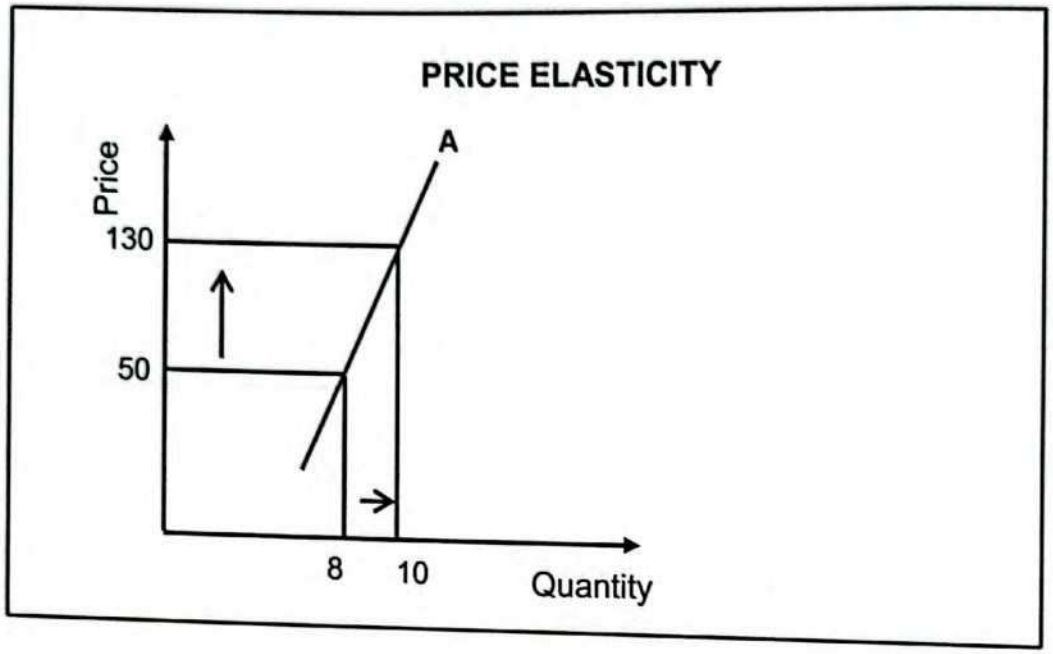
QUESTION 3 MICROECONOMICS 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name any TWO examples of fixed costs. (2 x 1) (2)

3.1.2 Explain the relationship between time period and price elasticity of demand. (2)

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



3.2.1 Provide the name for the curve labelled 'A' in the graph above. (1)

3.2.2 What type of price elasticity is shown by the graph? (1)

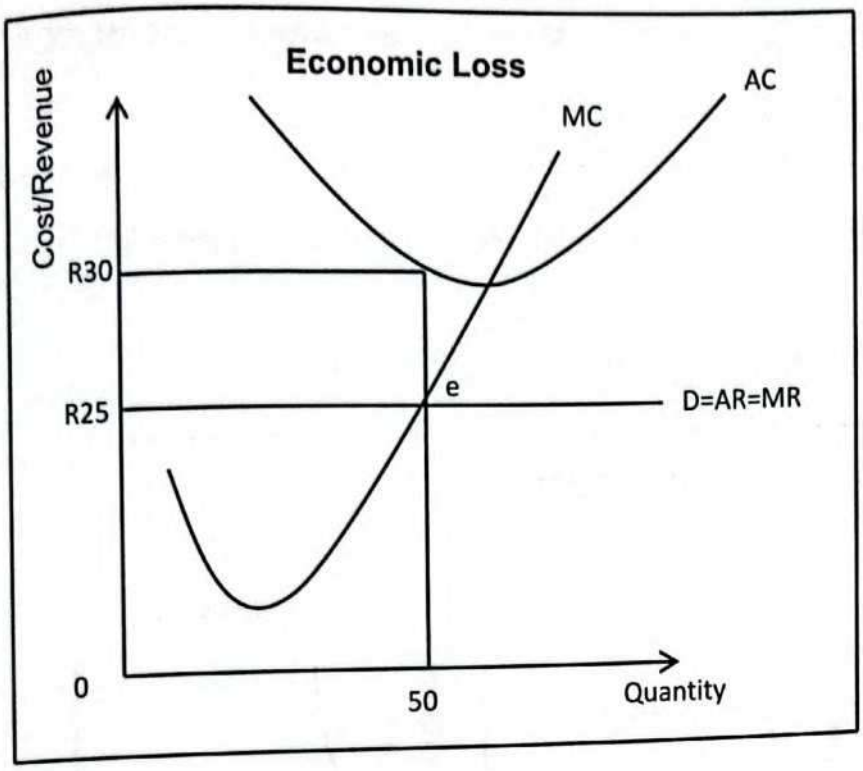
3.2.3 Briefly describe the term *scarcity*. (2)

3.2.4 Why would a rise in the price of a product have little effect on the quantity of goods offered in the market? (2)

3.2.5 Calculate the percentage change in price using the information given above. Show all your calculations. (2 x 2) (4)

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



3.3.1 Identify the costs of producing each unit in the above graph. (1)

3.3.2 What does the point labelled 'e' represent? (1)

3.3.3 Briefly describe the term *economic loss*. (2)

3.3.4 Why is average and marginal revenue equal on the demand curve? (2)

3.3.5 Calculate the economic loss made by the firm. Show all your calculations. (2 x 2) (4)

3.4 Distinguish between the different types of objectives in business. (8)

3.5 How does the entry of new firms in a perfect market affect the whole market? (8)

[40]

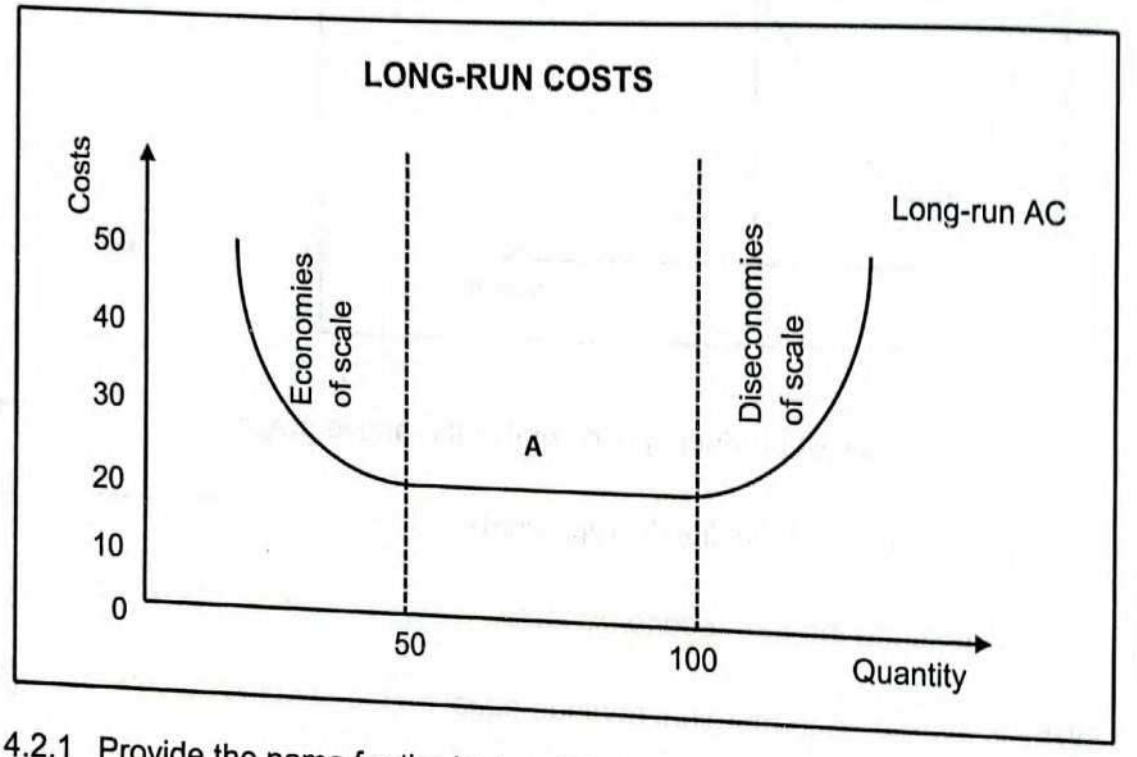
QUESTION 4 **MICROECONOMICS** **40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

4.1.1 Name any TWO examples of habit-forming products. (2 x 1) (2)

4.1.2 What can an individual firm in perfect market do in order to increase its profit? (2)

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



4.2.1 Provide the name for the horizontal part of ATC labelled 'A' in the graph above. (1)

4.2.2 How much is the increase in quantity produced above? (1)

4.2.3 Briefly describe the term *long-run*. (2)

4.2.4 What is the impact of producing more than 100 quantities on the business? (2)

4.2.5 How can a business achieve economies of scale? (2 x 2) (4)

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

ANOTHER CASE OF COLLUSION IN THE SIGHT OF THE COMPETITION COMMISSION

The Competition Commission found that it has "reasonable grounds" to suspect that eight insurance companies have participated in collusive practices to fix prices and trading conditions in South Africa.

The companies are BrightRock Life, Discovery, FMI — a division of Bidvest Life — Hollard, Momentum, Old Mutual Insure, Professional Provident Society and Sanlam.

The suspected collusion is in respect of fees for investment products such as retirement annuity and premiums for risk related products, namely, life insurance cover for dread disease, disability and life and funeral assistance benefits.

Adapted from Mail & Guardian

4.3.1 Identify a term that refers to payments from the extract above. (1)

4.3.2 What is the name of the industry in which the companies mentioned in the source belong? (1)

4.3.3 Briefly describe the term *collusion.* (2)

4.3.4 Why is it difficult for new firms to enter the oligopoly market? (2)

4.3.5 How does price-fixing negatively affect consumers? (2 x 2) (4)

4.4 With the use of a graph, explain profit maximization through TR and TC. (8)

4.5 Analyse the barriers that form monopoly markets. (8)

[40]

TOTAL SECTION B: [80]

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SECTION C

Only ONE question should be answered from this section:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower-order response. • A good starting point will be to define the main concept related to the question topic. • Do NOT include any part of the question in your introduction. • Do NOT repeat any part of the introduction in the body. • Avoid mentioning 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/ Draw a graph and explain/Use the graph given and explain/Complete the given graph/Assess/Debate **A maximum of 8 marks may be allocated for headings/examples** **Additional part:** Critically discuss/Evaluate/Critically evaluate/Debate/ Deduce/Compare/Distinguish/Interpret/How?/Suggest **A maximum of 2 marks may be allocated for mere listing of facts.**	Max. 26 Max. 10
Conclusion: Any higher-order conclusion should include: • A brief summary of what has been discussed without repeating facts already mentioned in the body • Any opinion or valued judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations	Max. 2
TOTAL	**40**

QUESTION 5 **MICRO-ECONOMICS** **MARKS – 40 MINUTES**

- Discuss in detail the demand and supply relationships with the aid of graphs. (26)
- How are relative prices used in the economy? (10)

[40]

QUESTION 6 **MICRO-ECONOMICS** **MARKS – 40 MINUTES**

- Discuss in detail with the use of graphs, the types of price elasticity of demand. (26)
- Analyse the importance of price elasticity of demand to producers. (10)

TOTAL SECTION C: [40]

GRAND TOTAL: [150]

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GRADE 11

ECONOMICS P2

JUNE 2023

COMMON TEST

MARKING GUIDELINE

MARKS : **150**

TIME : **2 Hours**

This marking guideline consists of 16 pages including this cover page.

SECTION A

QUESTION 1

1.1 MULTIPLE CHOICE

1.1.1 A ✓✓ (demand)
1.1.2 B ✓✓ (implicit)
1.1.3 D ✓✓ (Utility)
1.1.4 C ✓✓ (oligopoly)
1.1.5 C ✓✓ (marginal)
1.1.6 A ✓✓ (micro)
1.1.7 D ✓✓ (factor)
1.1.8 B ✓✓ (accounting) (8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 D ✓ (The total quantity of goods or services that is available to consumers at a specific price and time)

1.2.2 E ✓ (Costs that change according to changes in output)

1.2.3 H ✓ (The amount of money that a person is willing to pay for a good or service)

1.2.4 A ✓ (A condition where market supply and demand are equal at the same price level)

1.2.5 F ✓ (The period of production where only the variable factors of production can change)

1.2.6 B ✓ (The human factor of production that combines other factors in order to start a business)

1.2.7 I ✓ (An individual firm that only charges a price that is determined by the market)

1.2.8 G✓ (A condition where the company's total revenue is equal to the sum of total costs

(8 x 1) (8)

1.3 CONCEPTS

1.3.1 Perfect market ✓
1.3.2 Normal profit ✓
1.3.3 Nominal prices ✓
1.3.4 Industry ✓
1.3.5 Profit maximisation ✓
1.3.6 Opportunity cost ✓ (6 x 1) (6)

TOTAL SECTION A: [30]

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SECTION B

Answer any TWO questions in this section.

QUESTION 2 MICROECONOMICS 30 MINUTES – 40 MARKS

2.1 Answer the following questions.

2.1.1 Name any TWO examples of inferior goods. (2 x 1) (2)

Salt ✓
Matches ✓
Candles ✓
(Accept any other correct and relevant response)

2.1.2 Why is the demand for luxury products elastic? (2)

The demand for luxury goods is elastic because it is sensitive to any price changes. ✓✓

2.2 DATA RESPONSE

2.2.1 Which retailer has the largest number of customers? (1)

Shoprite / Pick n Pay ✓

2.2.2 Provide the name of imperfect market shown in the above diagram. (1)

Monopolistic competition ✓

2.2.3 Briefly describe the term *market share.* (2)

Market share is the number of customers that one firm has access to in relation to other firms in the market. ✓✓
(Accept any other correct and relevant response)

2.2.4 Explain the disadvantage of incomplete information for consumers. (2)

Incomplete information may be a disadvantage for consumers because they can experience negative effects from using the product if they bought it without full information. ✓✓
(Accept any other correct and relevant response)

2.2.5 How does branding benefit sellers of homogenous products? (2 x 2)(4)

- Branding plays a significant role in developing customer loyalty where a consumer may choose one producer over another. ✓✓
- It assists firms in attracting customers and increasing their market share. ✓✓
(Accept any other correct and relevant response)

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2.3 DATA RESPONSE

2.3.1 Identify the concept that refers to income from the table above. (1)

Revenue ✓

2.3.2 What does the abbreviation AR stand for? (1)

Average revenue ✓

2.3.3 Briefly describe the term *market price*. (2)

Market price is the price at which buyers and sellers trade a product as determined by market forces of demand and supply. ✓✓
(Accept any other correct and relevant response)

2.3.4 Explain the importance of the 5th unit sold in relation to total costs. (2)

The 5th unit signals an end to an increase in total revenue as it produces marginal revenue of zero. ✓✓

2.3.5 Calculate marginal revenue (A) above, using information from the table. Show all calculations. (4)

$$MR = \frac{\Delta TR}{\Delta Q}$$

$$= \frac{54 - 60}{6 - 5} \checkmark \checkmark$$

$$= \frac{-6}{1} \checkmark$$

$$= -6 \checkmark$$

2.4 Discuss the factors that influence price elasticity of demand without graphs. (8)

- The availability of substitutes: the greater the number of substitutes and the closer the substitutes are to each other, the easier it is for households to start using alternative goods. ✓✓
- Time period: households have time to adjust to price changes by changing their behaviour over the long term; the longer price increases continue, the more consumers will adjust their demand for the product. ✓✓
- The degree of necessity or luxury of the product: goods considered essential by households tend to be more inelastic. ✓✓
- The proportion of income spent on the product: the smaller the proportion of income spent on a product, the more price-inelastic the demand for the product will be. ✓✓
- Brand loyalty and advertising: these make the demand for the product to be more price inelastic as consumers who are loyal to certain brands tend to continue buying the same quantities even if the price increases. ✓✓
- A change in the price of habit-forming products such as cigarettes and alcohol has a relatively small effect on the quantity demanded. ✓✓
(Accept any other correct and relevant response)

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2.5 How can businesses set objectives that make them successful? (8)

- Businesses should set objectives that are specific and understandable and not merely random ideas. ✓✓
- The set objectives should be measurable in order to test whether they have been achieved. ✓✓
- Goals must be acceptable to all stakeholders in the businesses so that everyone works towards achieving the same goals. ✓✓
- Businesses must set realistic objectives that can be achieved through available means. ✓✓
- There must be a time limit on which objectives are set so that progress can be measured. ✓✓

(Accept any other correct and relevant response)

[40]

QUESTION3 MICROECONOMICS 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name any TWO examples of fixed costs. (2 x 1) (2)

Insurance ✓
Rent ✓
Interest expense ✓
(Accept any other correct and relevant response)

3.1.2 Explain the relationship between time period and price elasticity of demand. (2)

The longer the time period involved in product changes, the more price elastic is the demand. ✓✓

3.2 DATA RESPONSE

3.2.1 Provide the name for the curve labelled A in the graph above. (1)

Supply ✓

3.2.2 What type of price elasticity is shown by the graph? (1)

Relatively inelastic ✓

3.2.3 Briefly describe the term *scarcity.* (2)

Scarcity refers to an economic problem of limited resources but unlimited human wants. ✓✓
(Accept any other correct and relevant response)

3.2.4 Why would a rise in the price of a product have little effect on the quantity of goods offered in the market? (2)

There are products whose supply can't be increased in a short-run, such as agricultural products. ✓✓
(Accept any other correct and relevant response)

3.2.5 Calculate the percentage change in price using the information given above. Show all calculations. (2 x 2) (4)

130 – 50 ✓
= 80
80 ÷ 50 ✓ x 100 ✓
= 160% ✓

3.3 DATA RESPONSE

3.3.1 Identify the costs of producing each unit in the above graph. (1)

R30 ✓

3.3.2 What does the point labelled 'e' represent? (1)

Loss minimization ✓

3.3.3 Briefly describe the term *economic loss.* (2)

Economic loss happens when total costs are greater than total revenue or when average revenue is lower than average cost. ✓
(Accept any other correct and relevant response)

3.3.4 Why is average and marginal revenue equal on the demand curve? (2)

Each unit sold yields the same revenue because they are sold at the same price. ✓✓

3.3.5 Calculate the economic loss made by the firm. Show all your calculations. (2 x 2) (4)

Economic loss = TR – TC
= (25 X 50) ✓– (30 X 50) ✓
= 1 250 – 1 500 ✓
= - R250 ✓

3.4 Distinguish between the different types of objectives in business. (8)

Survival ✓
- Initially the objective of the firm will be to merely survive. ✓✓
- New firms face constraints that could hamper their progress and success. ✓✓

Profit maximising ✓
- Businesses aim to make as much profit as possible. ✓✓
- Profit is the difference between the revenue and the cost of the business. ✓✓

Revenue maximising ✓

- Some businesses have very high costs if they have a very large workforce, large business premises, etc ✓✓

Sales maximising ✓

- Sales refer to the number of goods or services sold. ✓✓
  Reaching as many customers as possible can increase the size and popularity of the business although the profit may fall if lower prices have to be charged to reach this objective. ✓✓
  (Accept any other correct and relevant response) (4 x 2) (8)

3.5 How does the entry of new firms in a perfect market affect the whole market?(8)

- New firms increase the number of competitors in the market and cause an increase in supply. ✓✓
- The price levels of goods and services would decrease as a result of high supply. ✓✓
- All firms in the market would start earning lower profits than previously. ✓✓
- Firms would continue to increase production until some businesses cannot cover their average variable cost any more. ✓✓
- There are businesses that would end up leaving the market while others would only make normal profits in the long run. ✓✓
  (Accept any other correct and relevant response)

[40]

QUESTION 4 MICROECONOMICS 40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Name any TWO examples of habit-forming products. (2 x 1) (2)
Tobacco ✓
Alcohol ✓
Drugs ✓
(Accept any other correct and relevant response)

4.1.2 What can an individual firm in perfect market do in order to increase its profit? (2)

The individual firm can increase its profit by producing and selling more output. ✓✓

4.2 DATA RESPONSE

4.2.1 Provide the name for the horizontal part of ATC labelled A in the graph above. (1)

Constant returns to scale ✓

4.2.2 How much is the increase in quantity produced above? (1)

50 quantities ✓

4.2.3 Briefly describe the term *long-run.* (2)

Long-run refers to a period of production that is long enough for both fixed and variable costs to change. ✓✓
(Accept any other correct and relevant response)

4.2.4 What is the impact of producing more than 100 quantities on the business? (2)

The firm would start making a loss as it would produce less output than the inputs it uses in the production. ✓✓

4.2.5 How can a business achieve economies of scale? (2 x 2) (4)

- By buying raw materials in bulk in order to lower the costs of production. ✓✓
- The firm can start using modern technology so that it can improve efficiency and produce large quantities in a short period of time. ✓✓
- Building or buying a larger production plant. ✓✓
(Accept any other correct and relevant response)

4.3 DATA RESPONSE

4.3.1 Identify a term that refers to payments from the extract above. (1)

Premiums ✓

4.3.2 What is the name of the industry in which the companies mentioned? in the source belong? (1)

Insurance industry ✓

4.3.3 Briefly describe the term *collusion.* (2)

Collusion refers to an agreement between businesses with the aim of limiting competition between themselves by fixing prices. ✓✓
(Accept any other correct and relevant response)

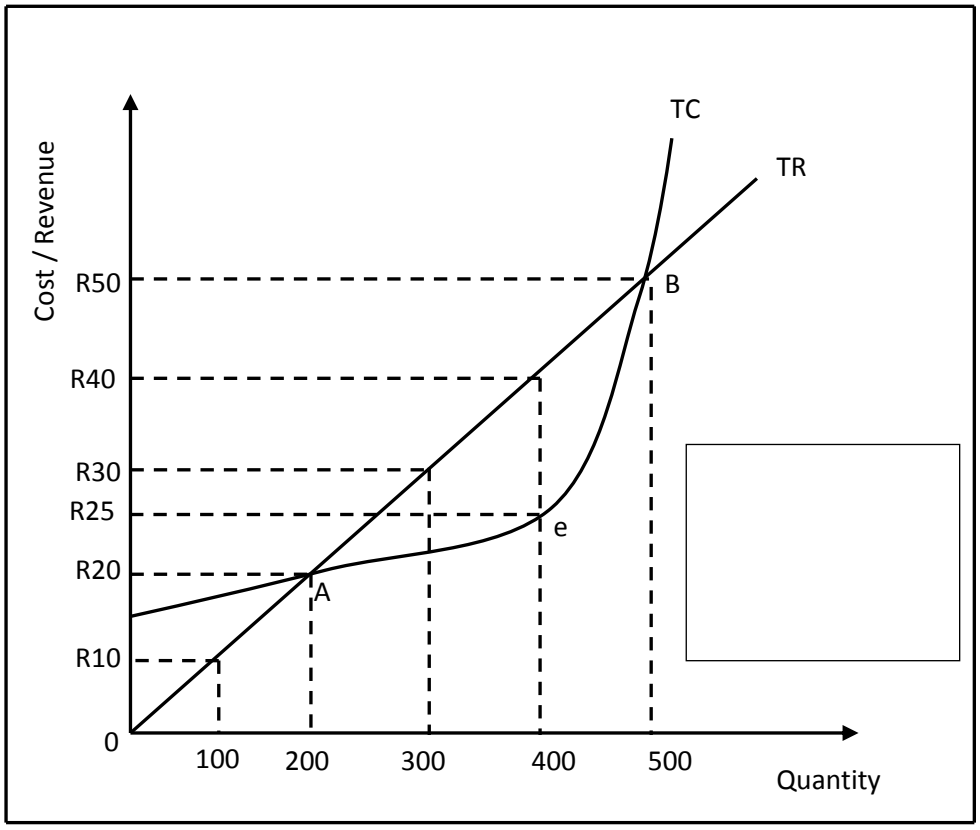
4.3.4 Why is it difficult for new firms in an oligopoly market to compete with existing firms? (2)

New firms find it difficult to compete in the oligopoly market because customers tend to be loyal to existing businesses as they use branding as a strategy to attract and keep customers. ✓✓
(Accept any other correct and relevant response)

4.3.5 How does price-fixing negatively affect consumers? (2 x 2) (4)

- Price-fixing results to increases in prices which makes the costs of living expensive consumers. ✓✓
- Consumers' standard of living may decline as they may find it difficult to affords certain products. ✓✓
(Accept any other correct and relevant response)

4.4 With the use of a graph, explain profit maximization through TR and TC. (8)



- From point A to point B, TR is above TC, the firm is making a profit. ✓✓
- Before point A and point B, TC is above TR, the firm is making a loss. ✓✓
- The gap between TR and TC represents profit. ✓✓
- Profit is maximised when the gap between TR and TC is the greatest at 400 quantities and at a market price of R25. ✓✓ (Max 4 Marks)

4.5 Analyse the barriers that form monopoly markets. (8)

- High development costs prevent new firms from entering the market. ✓✓
- Government may grant a firm a patent which makes the business to have an exclusive right to manufacture a product. ✓✓
- A business many have an advantage over the control of resources that other businesses need. ✓✓
- Government regulations may prevent other firms from entering the market. ✓✓
(Accept any other correct and relevant response)

[40]

TOTAL SECTION B: [80]

SECTION C

QUESTION 5 MICRO-ECONOMICS 40 MARKS – 40 MINUTES

Discuss in detail the demand and supply relationships with the aid of graphs. (26)

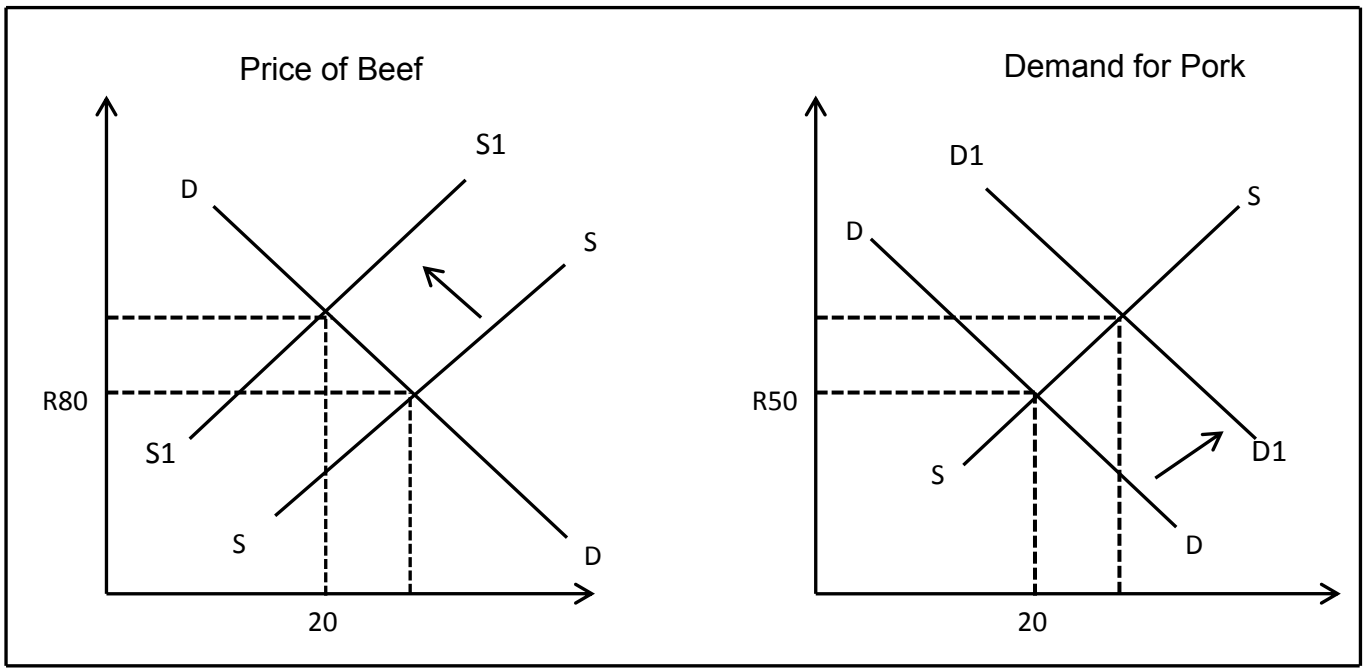
INTRODUCTION
A demand relationship occurs when two or more goods and services are demanded at the same time, due to the fact that they can be used together. ✓✓
(Accept any relevant introduction.)

BODY

There are two types of demand relationships i.e. substitutes and complements. ✓✓

Substitutes

- A substitute product is a product that is used in place of another product. ✓✓
- Some products have specific relationships that will affect demand. ✓✓
- Example: if you want to buy beef but it is too expensive, you tend to buy a cheaper alternative, e.g. pork. In this instance, pork is the substitute product. ✓✓



EXPLANATION OF THE GRAPH

Price of beef

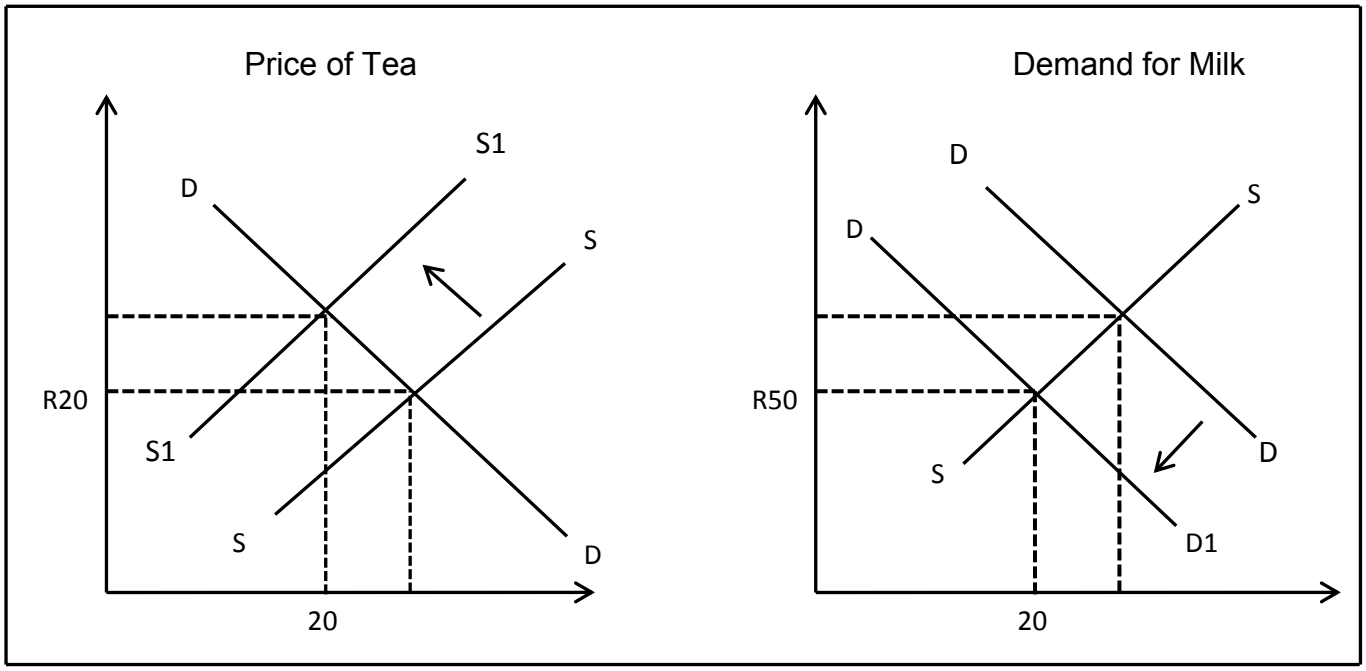
- The price of beef increases from R80 to R100 due to a decrease in supply (supply curve shifts from SS to S1S1). ✓✓
- The increase in price results to a decrease in quantity demanded of beef from 40 to 20. ✓✓

Demand for pork

- The demand for the substitute good, which is pork, increases from DD to D1D1. ✓✓
- Because of the increase in demand, price also increases from R50 to R70. ✓✓
- This implies that an increase in price of one product will cause an increase in demand of substitute products. ✓✓

Complements

- Products are complementary products when they are used together to satisfy a need or a want, e.g. tea and milk. ✓✓



EXPLANATION OF THE GRAPH

Price of tea

- The price of tea increases due to a decrease in supply. ✓✓
- Supply curve shifts from SS to S1S1. The price of tea increases from R20 to R30. ✓✓
- Quantity demanded for tea decreases from Q to Q1. ✓✓

The demand for milk

- The increase in price of tea will cause a decrease in demand for milk. ✓✓
- People will buy less tea, therefore they will need less milk. ✓✓
- This causes the demand curve (DD) to shift leftwards to D1D1, and quantity demanded decreases from 30 to 20 and price will decrease from R60 to R50. ✓✓

For complementary goods, when the price of one good increases, the demand for the complementary product will decrease. If the price of one product decreases, the demand for the complement products will increase. ✓✓ (Max. 13) (26)

ADDITIONAL PART
How are relative prices used in the economy? (10)

- Relative prices are used by consumers and producers when making decisions about their spending and production. ✓✓
- Policy makers use these prices to decide on the appropriate measures to implement in managing the economy. ✓✓
- When economists assess the performance of the economy, they use relative prices. ✓✓
- They are used as an indicator that informs us when the economic condition is improving or worsening. ✓✓
- Relative prices can be used to inform the public about the level of inflation, economic growth and development in the country. ✓✓
  (Accept any other correct and relevant response)

CONCLUSION
It is very important for firms to understand the nature of their products and its market and how it's influenced by the factor market. ✓✓
(Accept any other correct and relevant response)

[40]

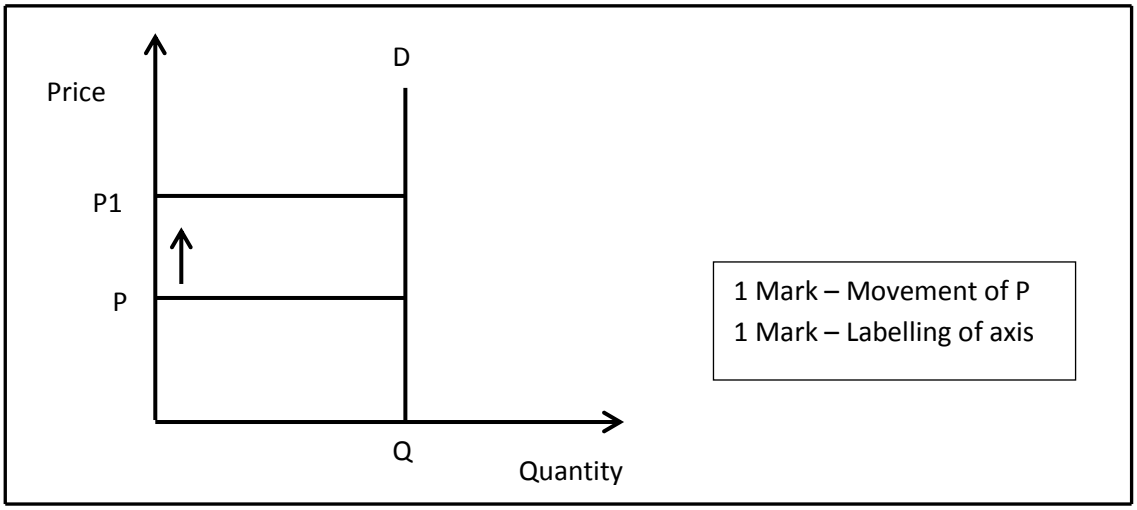
QUESTION 6 MICRO-ECONOMICS 40 MARKS – 40 MINUTES
Discuss in detail with the use of graphs, the types of price elasticity of demand. (26)

INTRODUCTION
Price elasticity of demand (PEd) is defined as the percentage change in the quantity demanded caused by a percentage change in the price assuming that everything else remains constant (ceteris paribus). ✓✓ (Max 2)
(Accept any other correct and relevant definition)

BODY: MAIN PART

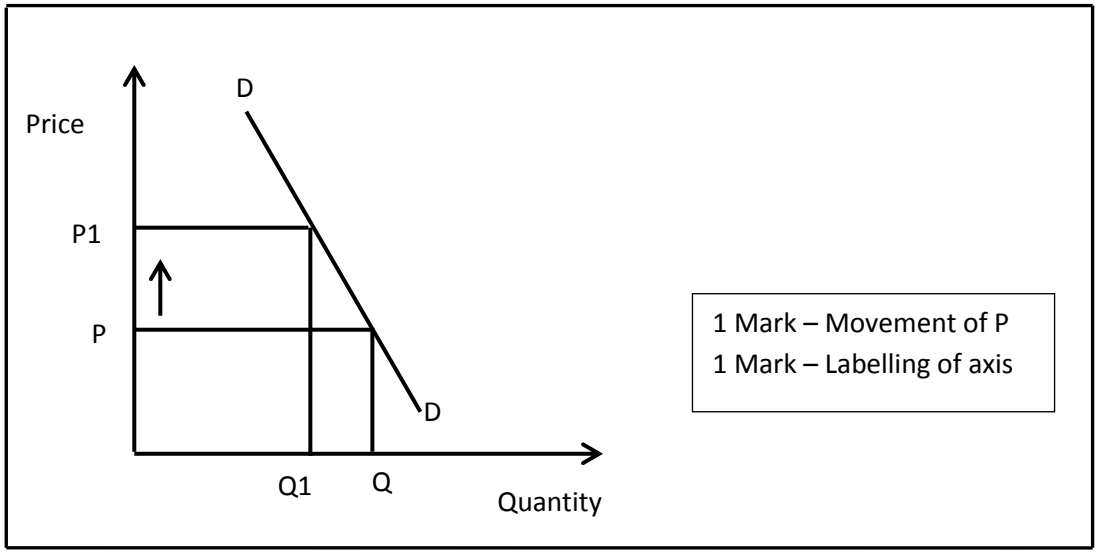
Perfectly inelastic demand

- Any change in price will have no effect at all on quantity demanded.✓✓
- To increase revenue, the firm needs to increase the price. ✓✓
- The increase in price causes a vertical demand curve.
- The value of PED equals to zero ✓✓
- This is a theoretical concept but it could be applicable on products such as petrol and medicine like insulin. ✓✓



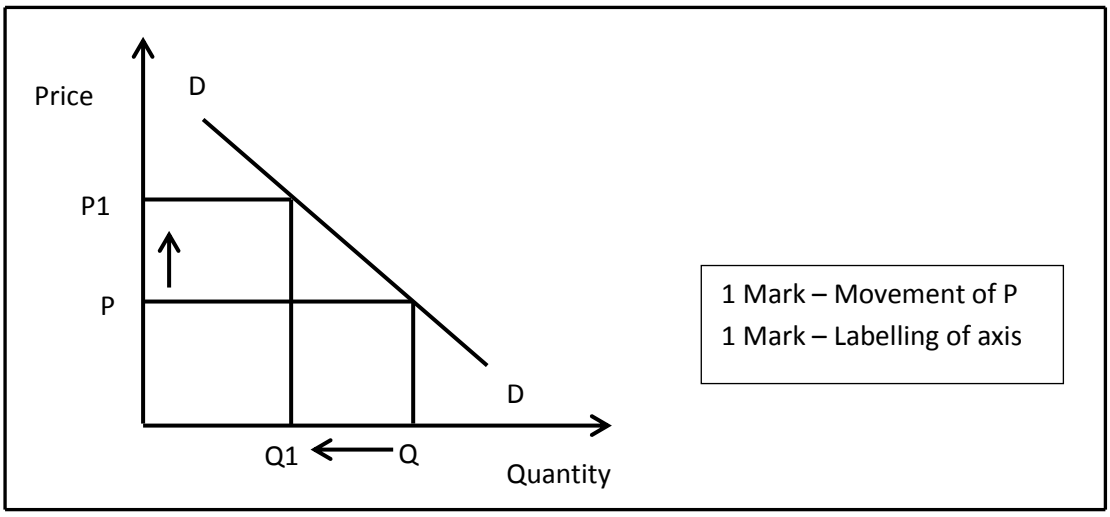
Relatively inelastic demand

- A change in price causes a smaller change in quantity demanded than that of the change in price. ✓✓.
- The value of PEd is between 0 and 1 (PED < 1). ✓✓
- TR changes in the same direction as price. ✓✓
- Examples of products with relatively inelastic demand are cigarette and alcohol. ✓✓



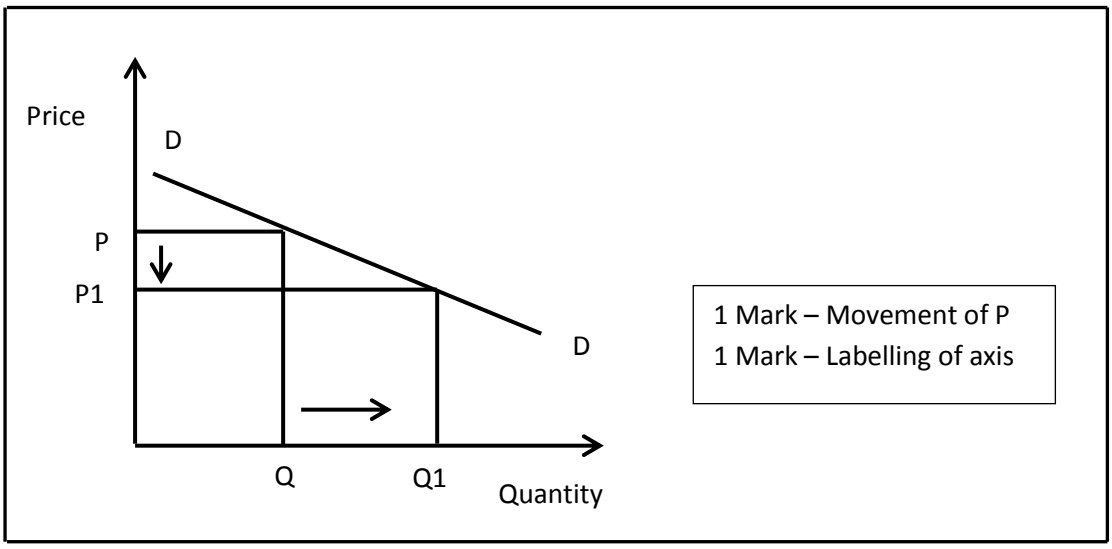
Unit Elastic demand

- The change in price is exactly the same percentage as the change in quantity demanded. ✓✓
- The value of PED equals to 1 (PEd = 1). ✓✓
- Price changes have no effects on revenue. ✓✓
- An example of such a product could be a toothpaste where there are many substitutes but consumers keep buying their favourite brands. ✓✓



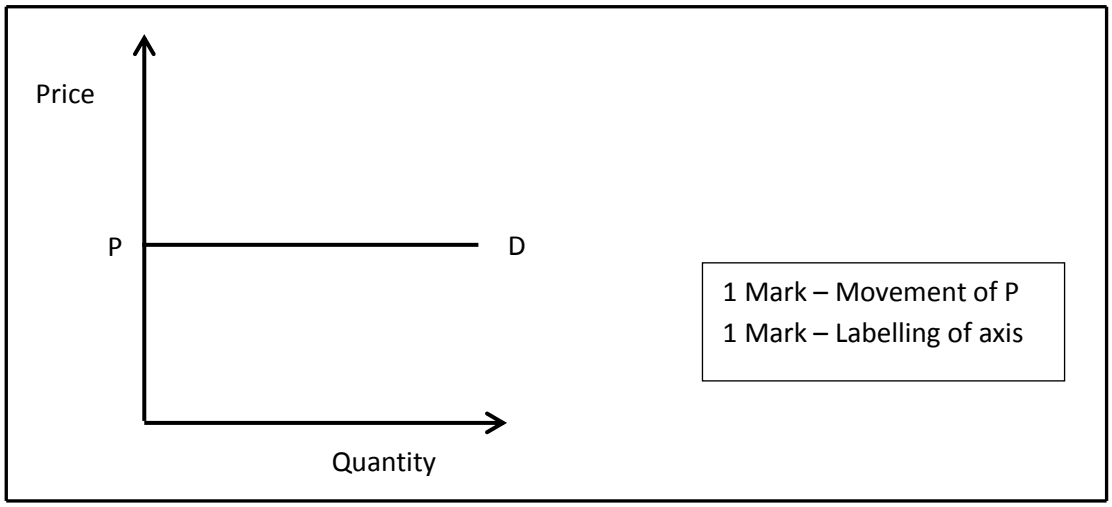
Relatively elastic demand

- The quantity demanded reacts to a change in the price, but by a greater percentage than that of the change in price. ✓✓
- Total revenue will change in the opposite direction of the change in price. ✓✓
- The value of PEd is between 1 and infinity (PEd > 1) ✓✓
- Examples of products with relatively elastic demand include luxury goods such as jewellery. ✓✓



Perfectly elastic demand

- When the demand is perfectly elastic this will lead to a change in price and an infinite change in the quantity demanded. ✓✓
- Income will increase infinitely with a reduction in price. ✓✓
- The value of Ped is infinite (PEd = ∞). ✓✓
- This is a theoretical concept and there is no example applicable to it. ✓✓



BODY: ADDITIONAL PART

ADDITIONAL PART

Analyse the importance of price elasticity of demand to producers. (10)

- By studying price elasticity of demand, producers can predict the effects of a change in price on quantity demanded. ✓✓
- Price elasticity of demand assists businesses to decide on how to increase their total revenue. ✓✓
- To increase its total revenue the producer can (a) increase the price to get more revenue per product and (b) decrease the price to increase the quantity sold. ✓✓
- If the buyers are sensitive to the price (elastic demand), they will buy more if the price decreases, so the producers should decrease the price. ✓✓
- If the buyers are not sensitive to price (inelastic demand) they will not buy much less even if the price goes up, so the producers should increase the price. ✓✓
- To increase sales, increase the price when the demand is inelastic, or decrease the price when the demand is elastic. ✓✓
- Price elasticity of demand informs producers about the decision to make when there is a change in the price of a substitute product. ✓✓
  (Accept any other correct and relevant response)

CONCLUSION

The producer cannot always rely on price increases to increase revenue, as they must know how a price increase will affect the demand for their product and rather use other non-price methods to increase market share and revenue. ✓✓

(Any other correct and relevant conclusion)

TOTAL SECTION C: [40]
GRAND TOTAL: [100]

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