KWAZULU-NATAL PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS P2

COMMON TEST

JUNE 2024

MARKS: 150

TIME: 2 hours

This question paper consists of 12 pages.

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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. Start each question on a new page.

7. Answer questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.

8. Answer ONLY the required number of questions. Answers in excess of the required number will NOT be marked.

9. Use ONLY blue or black ink.

10. Non-programmable pocket calculators may be used.

11. 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 – C) next to the question number (1.1.1 – 1.1.5) in the ANSWER BOOK. e.g. 1.1.6 D.

1.1.1. A group of firms selling similar products is called a/an …

A. economy.
B. market.
C. industry.
D. supply.

1.1.2. In a perfect market, entry is …

A. blocked.
B. free.
C. limited.
D. minimum.

1.1.3. Social costs are sum of private and … costs.

A. internal
B. external
C. variable
D. public

1.1.4. Goods that are highly desirable for the populations general welfare are called … goods

A. merit
B. community
C. collective
D. demerit

1.1.5. The nature of a product sold by a monopoly is …

A. homogeneous.
B. differentiated.
C. heterogeneous.
D. unique.

1.1.6. An oligopolist makes ... profit in a short-run.

A. economic
B. business
C. normal
D. maximum

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

A. total
B. production
C. explicit
D. implicit

1.1.8. The benefit gained by the community for the use of goods and services is called … benefit.

A. private
B. internal
C. social
D. individual

(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 number (1.2.1.-1.2.8.) in the ANSWER BOOK.

Column	Column B
1.2.1 Marginal revenue	A. A spill-over effects to third parties which are not included in the price
1.2.2 Black market	B. Expenses that cannot be recovered by the businesses e.g. advertising
1.2.3 Externalities	C. Dominated by few large sellers
1.2.4 Variable costs	D. Income received for an additional unit sold
1.2.5 Missing markets	E. An illegal market in which illegal goods are bought and sold
1.2.6 Oligopoly	F. Removal of rules and laws to facilitate optimal production
1.2.7 Sunk costs	G. Change as the level of output changes
1.2.8 Deregulation	H. A large number of sellers operate
	I. A condition where the private sector fail to provide certain goods and services

(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.-1.3.4.) in the ANSWER BOOK. Acronyms and abbreviations will NOT be accepted.

1.3.1. Supernormal profits made by the business in addition to normal profit.

1.3.2. Costs incurred for every extra unit produced.

1.3.3. Prices that are controlled by the government.

1.3.4. A group of firms entering into formal agreement to limit competition.

1.3.5. An exclusive right given to a firm to manufacture a product.

1.3.6 A situation where it is impossible to make someone better off without making someone worse off.

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION TWO MICRO-ECONOMICS 40 MARKS-30 MINUTES

2.1 **Answer the following questions.**

2.1.1. Give any TWO examples of positive externalities. (2x1) (2)

2.1.2. What is the benefit of being in the monopoly business? (1 x 2) (2)

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

MARKET A			MARKET B		
Quantity	Price	TR	Quantity	Price	TR
0	R15	-	0	30	-
1	R15	15	1	25	25
2	R15	30	2	20	40
3	R15	45	3	15	30
4	R15	60	4	10	40
5	R15	75	5	5	25

2.2.1. Identify the market structure in which the demand curve would be downwards sloping from the above information. (1)

2.2.2. What is the nature of the product sold in a monopolistic competitive firm? (1)

2.2.3. Briefly describe the term *average revenue*. (2)

2.2.4. Why do firms find it easy to enter the monopolistic competitive market? (4)

2.2.5. Calculate the marginal revenue for unit 2 in market B. Show all calculations. (4)

[10]

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

NEW BILL BRINGS SA CLOSER TO MORE COMPETITIVE ELECTRICITY MARKET

SAs power market is set `for transformation with the passing of the Electricity Regulation Amendment Bill by the National Assembly.

The bill's approval received overwhelming support with 234 votes in favour and only 25 against. However, its prospects of being signed into law before the general elections in May seem doubtful.

www.businesslive.co.za

2.3.1 Identify the market structure under which ESKOM operate in the extract above. (1)

2.3.2. What is the nature of a product such as electricity? (1)

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

2.3.4. How can Eskom improve electricity supply in South Africa? (2)

2.3.5. How would competition against ESKOM benefit the economy of South Africa? (4)

2.4. With an aid of a well labelled graph briefly discuss profit maximisation using the TR and TC curves. (8)

2.5 How do firms in an oligopoly market increase profits without causing price wars? (8)

[40]

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QUESTION 3 MICRO-ECONOMICS 40 MARKS-30 MINUTES

3.1 Answer the following questions.

3.1.1. Name any TWO institutions that promote competition in South Africa. (2x1) (2)

3.1.2. Why is the MR curve the same as the demand curve in a perfect market? (1x2) (2)

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



3.2.1. Name the market structure on the picture above. (1)

3.2.2. What type of profits are made in a monopolistic competitive firm in a short run? (1)

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

3.2.4. Why is the monopolistic competition considered to be a hybrid structure? (2)

3.2.5. Why is product differentiation beneficial to the monopolistic competitor? (2x2) (4)

[10]

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

THE COMPETITION POLICY

The Competition Commission has reasonable grounds to suspect that eight insurance companies have participated in collusive practises to fix prices and trading in South Africa. The companies are said to share information on premium rates which enables them to adjust prices of their insurance products.

Source: The Citizen

3.3.1. Give the market structure discussed in the extract above. (1)

3.3.2. What type of collusion are these insurance companies involved in? (1)

3.3.3 Briefly explain the term *duopoly.* (2)

3.3.4 How could the government limit collusion? (2)

3.3.5 What negative effect would limited competition of firms have on consumers? (2x2) (4)

[10]

3.4 Discuss immobility of the factors of production as a cause of market failure. (8)

3.5 How beneficial is the cost benefit analysis to the government? (8)

[40]

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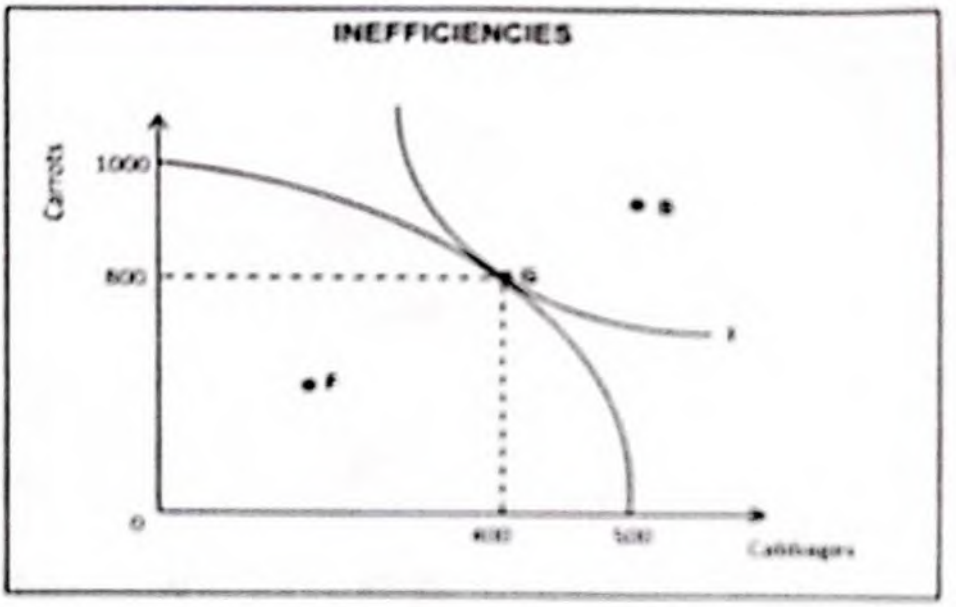
QUESTION 4 MICRO-ECONOMICS **40 MARKS-30 MINUTES**

4.1. Answer the following questions

4.1.1. Give any TWO features of the public goods. (1x2) (2)

4.1.2. How does the decrease in producer tax affect consumers? (2 x 1) (2)

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



4.2.1. Identify the curve that relates to allocative efficiency (1)

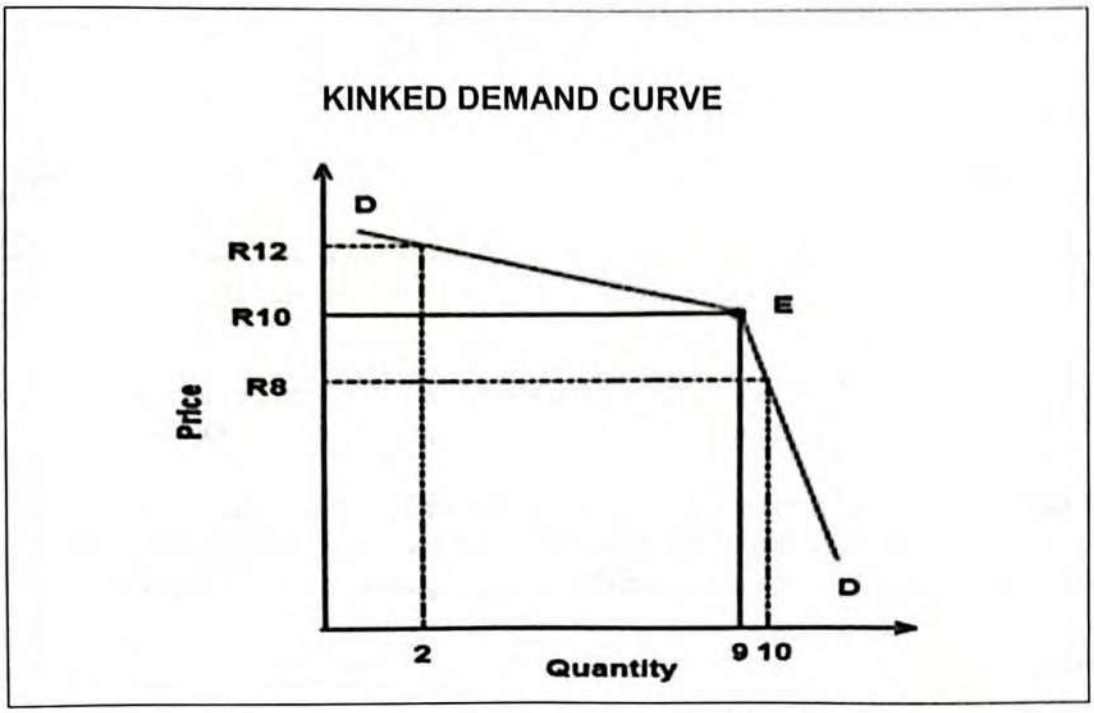
4.2.2. What quantity of cabbages will be supplied if 800 units of carrots are produced? (1)

4.2.3 Briefly describe the term *productive inefficiency* (2)

4.2.4 Why would production at point F be regarded as inefficient? (2)

4.2.5 How can the government discourage the consumption of demerit goods? (2x2) (4)

4.3 Study the graph below and answer questions that follow.



4.3.1. Identify the market price on the graph above. (1)

4.3.2. Which part of the demand curve is elastic? (1)

4.3.3. Briefly describe the term *pure oligopoly* (2)

4.3.4. Why would firms be reluctant to increase price in this market? (2)

4.3.5 Calculate the total revenue earned by this firm.
Show all calculations. (2 x 2) (4)

[10]

4.4 With an aid of a well labelled graph explain how a firm in a monopoly market make an economic loss. (8)

4.5 Evaluate competition policy on South African economy. (8)

[40]

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SECTION C

Answer **ONE** question from this section in the ANSWER BOOK

Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max. 2
Body: **Main part:** Discuss in detail/In-depth discussion/Examine/ Critically discuss/ Analyse/Compare/ Evaluate/Distinguish/ Differentiate/Explain/Assess/Debate **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	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

- Discuss in detail various equilibrium positions with an aid of graphs in a perfect market. (26)
- Why is a perfect market considered to be more efficient when compared to other market structures? (10)

[40]

QUESTION 6

- Discuss in detail government intervention as a consequence of market failures, with an aid of relevant graphs.
  - Maximum prices (13)
  - Providing producer subsidy (13)
- Why is it necessary to implement a national minimum wage in South Africa? (10)

[40]

GRAND TOTAL: 150

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MARKING GUIDELINE

MARKS: 150

TIME: 2 hours

This marking guideline consists of 20 pages.

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SECTION A (COMPULSORY)

QUESTION 1 30 MARKS-20 MINUTES

1.1 MULTIPLE CHOICE

1.1.1. C ✓✓ (industry)

1.1.2. B ✓✓ (free)

1.1.3. B ✓✓ (external)

1.1.4. A ✓✓ (merit)

1.1.5. D ✓✓ (unique)

1.1.6. A ✓✓ (economic)

1.1.7. D ✓✓ (implicit)

1.1.8. C ✓✓ (social)

(8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 D ✓
1.2.2 E ✓
1.2.3 A ✓
1.2.4 G ✓
1.2.5 I ✓
1.2.6 C ✓
1.2.7 B ✓
1.2.8 F ✓

(8 x 1) (8)

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1.3. CONCEPTS

1.3.1. Economic profit ✓

1.3.2. Marginal cost ✓

1.3.3. Administered prices ✓

1.3.4. Cartel ✓

1.3.5. Patent ✓

1.3.6 Pareto efficiency✓

(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 TWO MICRO-ECONOMICS 40 MARKS-30 MINUTES

2.1 **Answer the following questions.**

2.1.1. Give any TWO examples of positive externalities. (2x1) (2)

- Education ✓
- Health care ✓

(Accept any other relevant and correct response)

2.1.2. What is the benefit of being in the monopoly business? (1x2) (2)

Monopoly faces no competition in the market as a single seller / supplier in the whole market. ✓✓

(Accept any other relevant and correct response)

2.2. DATA RESPONSE

2.2.1. Identify the market structure in which the demand curve would be downwards sloping from the above information. (1)

Market B✓

2.2.2. What is the nature of the product sold in a monopolistic competitive firm? (1)

Homogeneous / Differentiated ✓

2.2.3. Describe the term *average revenue*. (2)

Average revenue is the income earned from one unit of a product sold. ✓✓

(Accept any other relevant and correct response)

2.2.4. Why do firms find it easy to enter the monopolistic competitive market? (2)

- There are no barriers that limit / hinder / stop firms from entering the market. ✓✓
- There is freedom to enter and exit the market. ✓✓
  (Accept any other relevant and correct response)

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2.2.5. Calculate the marginal revenue for market B **(4)**

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

$$= \frac{40✓ - 25}{2-1✓} ✓$$

$$= \frac{R15}{1}$$

= R15✓

[10]

2.3. DATA RESPONSE

2.3.1 Identify the market structure under which ESKOM operate in the extract above.
Monopoly ✓ (1)

2.3.2. What is the nature of a product such as electricity?
Unique ✓ (1)

2.3.3. Briefly describe the term *market.*
Market is a situation where buyers and sellers meet to buy and sell goods and services. ✓✓
(Accept any other correct relevant answer) (2)

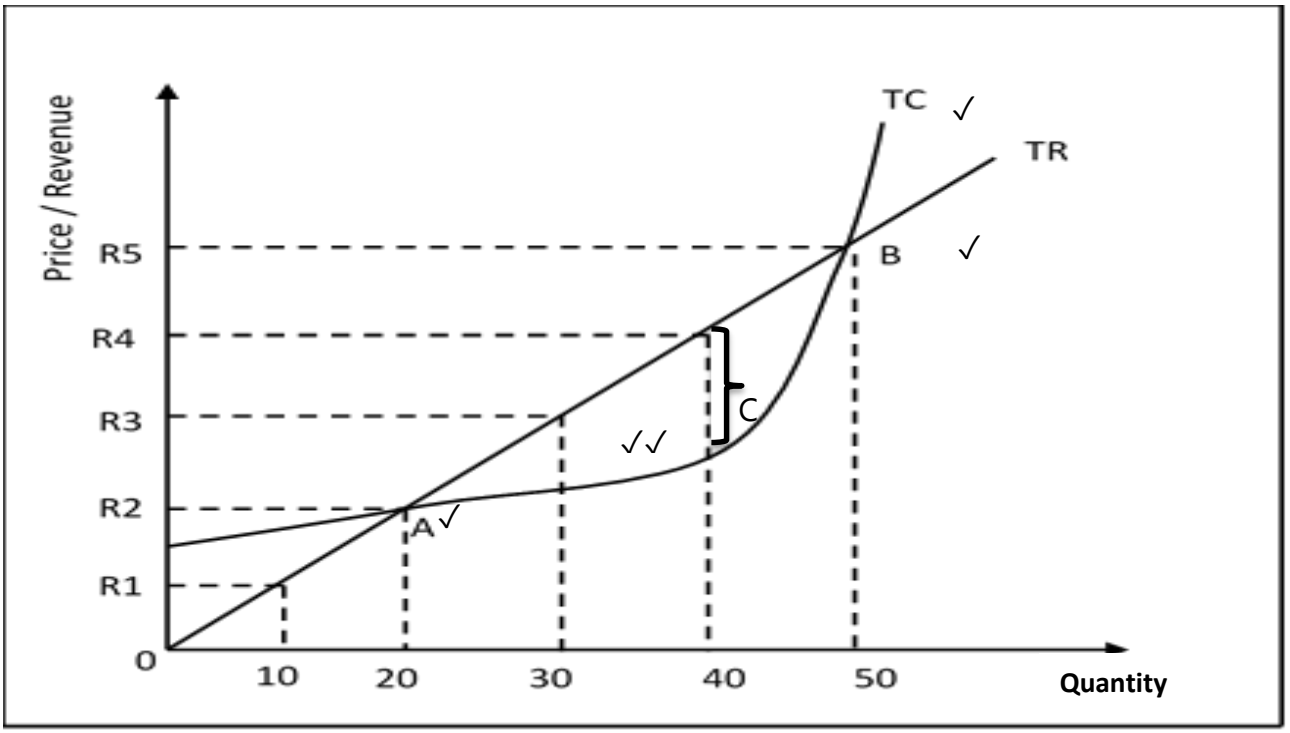
2.3.4. How can Eskom improve electricity supply in South Africa?
- Offer opportunity to sub-contractors to provide power to meet the demand. ✓✓
- Eliminate corruption within the company to improve efficiency. ✓✓

(Accept any other relevant correct answer) (2)

2.3.5. How would competition against ESKOM benefit the economy of South Africa?
- Electricity will be cheaper and affordable for the consumers thus improve their living standards. ✓✓
- Businesses would be able to increase production since the cost of production will be decreased due to decreased electricity prices. ✓✓
- Government revenue would increase since more profits are earned by businesses. ✓✓

(Accept any other relevant correct answer) (4)

2.4. With an aid of a well labelled graph briefly discuss profit maximisation using the TR and TC curves. (8)



MARK ALLOCATION

2 marks – profit maximisation
1 mark – curves (TR and TC)
1 mark – Any break-even point

Explanation:

- If TC >TR the business makes a loss. ✓✓
- If TR > TC the business makes economic profit. ✓✓
- Profit is maximized at a point where there is the biggest difference between TC and TR, where TR is greater than TC at R4 with 40 units sold.✓✓
- The business will be making normal profits at points **A** and **B**. where TR = TC✓✓

(Accept any other relevant correct answer)

2.5 How do firms in an oligopoly market increase profits without causing price wars?
Oligopolies may increase profits by using non-price competition strategies such as:

- branding their product to create an impression that the product is for a particular age group or income group. ✓✓
- aggressive advertising which inform customers about the business or product it provides. ✓✓
- using appealing packaging to bring out important features of their product. ✓✓
- improving their customer service in order to ensure that they return to their businesses. ✓✓
- providing relevant and precise information which is crucial to the customers, since there are competitors in the market. ✓✓
- extending shopping hours to the convenience of customers. ✓✓
- Offering loyalty rewards to customers which will encourage their return to spend accumulated rewards. ✓✓

(Accept any relevant correct response) (8)

[40]

QUESTION 3 MICRO-ECONOMICS 40 MARKS-30 MINUTES

3.1 Answer the following questions.

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

- Competition Commission ✓
- Competition Tribunal ✓
- Competition Appeal Court ✓

(2x1) (2)

3.1.2. Why is the MR curve the same as the demand curve in a perfect market?
MR curve is the same as the demand curve because each additional unit is sold at the same price because a firm is a price taker. ✓✓
(Accept any other relevant correct answer) (1x2) (2)

3.2. DATA RESPONSE.

3.2.1. Name the market structure on the picture above.

Monopolistic competition ✓ (1)

3.2.2. What type of profits are made in a monopolistic competitive firm in a short run? (1)
Economic profit ✓

3.2.3. Briefly describe the term *long-run*.

Long-run is the period of production where all factors of production may change. ✓✓
(Accept any other relevant correct answer) (2)

3.2.4. Why is the monopolistic competition considered to be a hybrid structure?

The monopolistic competition combines the characteristics of both perfect and monopoly markets. ✓✓
(Accept any other relevant correct answer) (2)

3.2.5. Why is product differentiation beneficial to the monopolistic competitor?

- Product differentiation allows the monopolistic competitor's product to stand out from those of the competitors✓✓
- Product differentiation increases brand loyalty and builds brand equity✓✓

(Accept any other relevant correct answer) (2x2) (4)
[10]

3.3. DATA RESPONSE.

3.3.1. Give the market structure discussed in the extract above.

Oligopoly ✓ (1)

3.3.2. What type of collusion are these insurance companies involved in?

Tacit collusion / Implicit collusion ✓ (1)

3.3.3. Briefly explain the term *duopoly.*

Duopoly is a market that is dominated by two large businesses. ✓✓

(Accept any other correct relevant answer) (2)

3.3.4 How could the government limit collusion?

- Impose heavy fines and penalties on businesses found guilty of collusion. ✓✓
- Regulate the prices / administer prices of particular goods that are essential to consumers. ✓✓ (1 X 2) (2)

(Accept any other relevant correct answer)

3.3.5 What negative effect would limited competition of firms have on consumers?

- Consumers would not afford the high prices charged by firms and that would decrease their standard of living. ✓✓
- A variety of goods produced would be decreased which would limit consumer choice. ✓✓
- Reduced quantities may lead to high prices which may not meet consumer needs. ✓✓
- Quality of products supplied may be compromised which would not meet consumer needs. ✓✓ (2x2) (4)

(Accept any relevant correct response)

[10]

3.4. Discuss immobility of the factors of production as a cause of market failure.

- 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 labourers' skills, employment and work patterns. ✓✓

Accept any relevant and correct response)

3.5 How beneficial is the cost benefit analysis to the government? (8)

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

(Accept any other relevant correct answer) (8)

[40]

QUESTION 4 MICRO-ECONOMICS 40 MARKS-30 MINUTES

4.1. Answer the following questions

4.1.1. Give any TWO features of the public goods. (2 x 1) (2)

- Non rival ✓
- Non excludable ✓
- Non reject-able ✓

4.1.2. How does the decrease in producer tax affect consumers?
A decrease in producer tax will reduce prices for the consumers and they would buy more goods and services. ✓✓
(Accept any other relevant correct answer) (1 x 2) (2)

4.2. DATA RESPONSE

4.2.1. Identify the curve that relates to allocative efficiency. (1)

Indifference curve / Curve I ✓

4.2.2. What quantity of cabbages will be supplied if 800 units of carrots are produced? (1)
400✓

4.2.3 Briefly describe the term *productive inefficiency.* (2)
Productive inefficiency occurs when the business do not maximise output from given inputs. ✓✓

(Accept any other relevant and correct response)

4.2.4 Why would production at point F be regarded as inefficient? (2)

- Few goods would be produced due to the inefficient allocation of resources. ✓✓
- Production will not be at an optimum level which would deprive consumers. ✓✓

(Accept any other relevant and correct response)

4.2.5 How can the government discourage the consumption of demerit goods? (4)

- The government would increase excise duties levied on demerit goods. ✓✓
- Information (education) would be provided about the harmful effects of these goods. ✓✓
- Banning and regulation of demerit goods would limit their

availability / accessibility to consumers. ✓✓

4.3 DATA RESPONSE

4.3.1. Identify the market price on the graph above. **(1)**

R10✓

4.3.2 Which part of the demand curve is elastic? **(1)**

DE✓

4.3.3 Briefly describe the term *pure oligopoly* **(2)**

Pure oligopoly is a market structure where few large firms produce homogeneous products. ✓✓

(Accept any other relevant correct answer)

4.3.4 Why would firms be reluctant to increase price in this market? (2)

- Firms are reluctant to increase the price because it will create price wars. ✓✓
- Increasing the price will lead to a decrease in revenue and profit of the firms. ✓✓

(Accept any other relevant correct answer)

4.3.5 Calculate the total revenue earned by this firm. Show all calculations.

Total Revenue = Price x Quantity

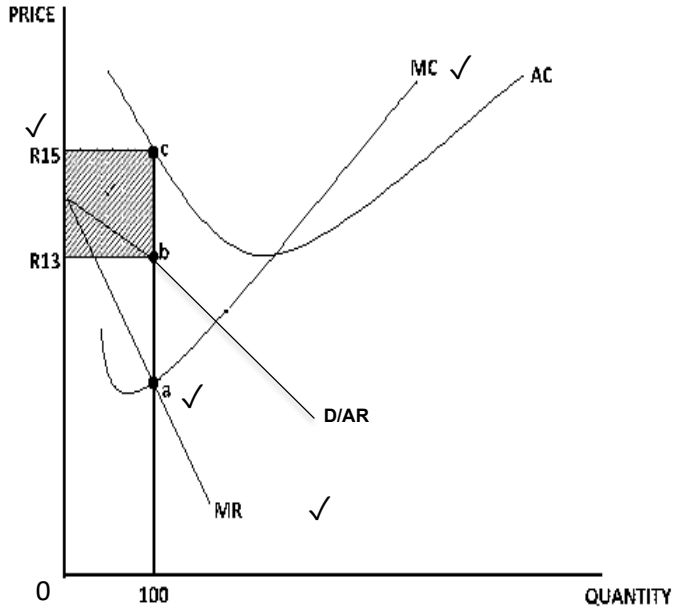
R10✓ x 9✓

R90 ✓✓

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

[10]

4.4 With an aid of a well labelled graph explain how a firm in a monopoly market make an economic loss. (8)



MARK ALLOCATION	
Labelling of and on axis	1 mark
Correct drawing and labelling of revenue curves	1 mark
Correct drawing, labelling and positioning of cost curves	1 mark
Correct indication of LOSS minimizing point	1 mark
Correct area of economic loss	1 mark
	Max 4

Explanation

- The monopoly will produce at the output level where MR=MC, because it can minimize losses at this level. ✓✓ ✓
- Point b represents the average revenue at selling price R13 while point C represents the average cost at the cost price R15 ✓✓
- The average cost is more than the average revenue, resulting in an economic loss for the business. ✓✓
- The shaded area shows the economic loss. ✓✓

(Accept any relevant and correct answer) Max 4

4.5 Evaluate competition policy on South African economy.

Competition policy is successful by:

- making provision for competition institutions to investigate any unfair competition in the country. ✓✓
- functioning as an investigator and evaluator of restrictive business practices. ✓✓
- making recommendations about penalties for businesses found guilty of abuse. ✓✓
- curbing of economic power of big conglomerates to arrive at a more equitable distribution of income and wealth. ✓✓

Competition policy is not successful because of:

- frequency of investigations into collusive behaviour. ✓✓
- fines were too lenient and not acceptable to some parties. ✓✓
- too many competitors still preventing young black businesses from entering into the market. ✓✓

(Accept any relevant correct response) (8)

[40]

SECTION C

Answer **ONE** question from this section in the ANSWER BOOK

QUESTION 5

- **Discuss in detail various equilibrium positions with an aid of graphs in a perfect market. (26)**
- **Why is a perfect market considered to be more efficient when compared to other market structures? (10)**

INTRODUCTION

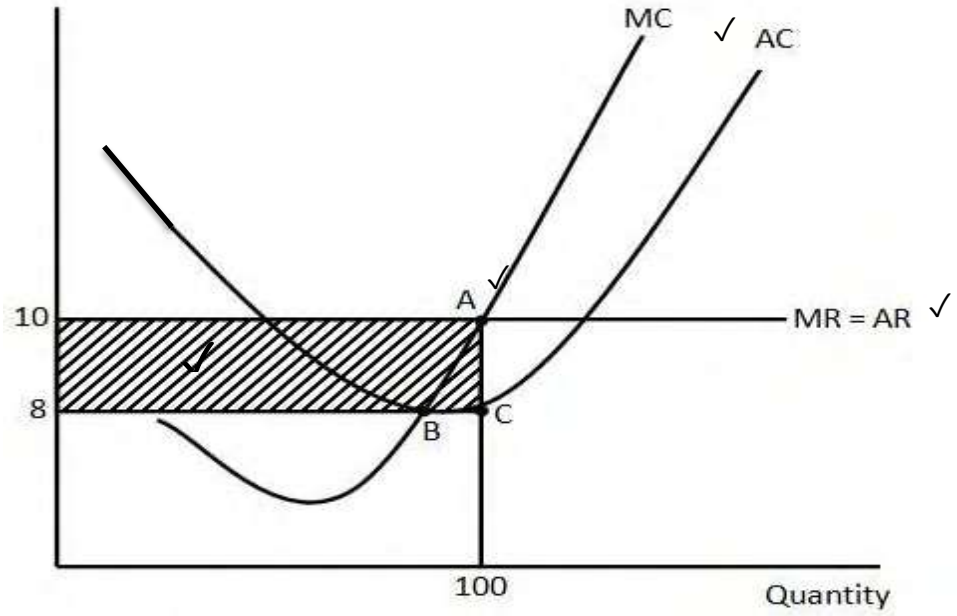
A perfect competition is a market structure with a large number of buyers and sellers. ✓✓

(Accept any other correct relevant response)

MAIN PART

ECONOMIC PROFIT✓

- It is the profit that is made in addition to the normal profit. ✓✓
- When average revenue is greater than average cost the firm makes economic profit. ✓✓
- Economic profit is made by the perfect competitor in the short-run. ✓✓



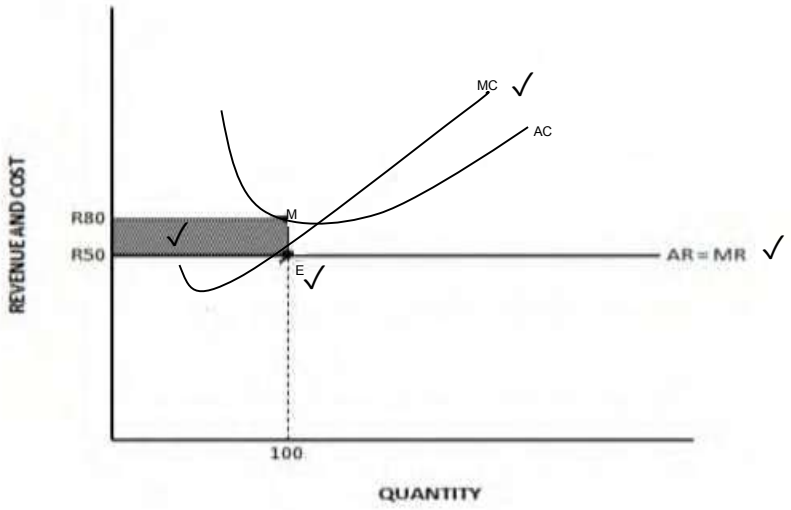
Mark Allocation	
Correct drawing and labelling of cost curves	1Mark
Correct drawing and labelling of revenue curves	1 Mark
Correct indication of profit maximisation point	1 Mark
Correct indication of area (Economic profit)	1 Mark
	Max 4 Marks

EXPLANATION

- Given a market price of R10, profit is maximised at point A where MR=MC=R10. ✓✓
- This occurs at a quantity of one hundred units. ✓✓
- The firm's average revenue (AR) per unit of production is R10. ✓✓
- The firm's average cost (AC) per unit of production is R8, which is lesser that a price of R10. ✓✓
- Therefore the firm is making an economic profit of R10-R8 = R2 per unit of production. ✓✓
- The economic profit is represented by the shaded area in the graph above. ✓✓

ECONOMIC LOSS ✓

- is made when total costs are greater than the total revenue. ✓✓
- When average revenue is lower than average cost the firm makes an economic loss. ✓✓



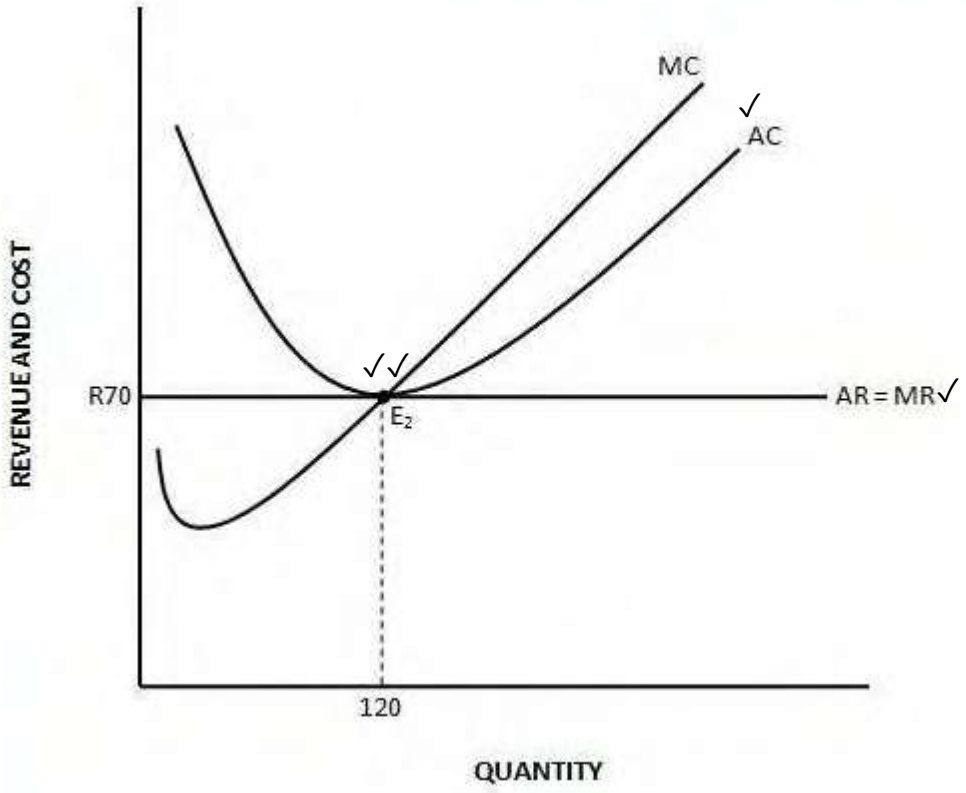
Mark Allocation	
Correct drawing and labelling of cost curves	1Mark
Correct drawing and labelling of revenue curves	1 Mark
Correct indication of loss minimizing point	1 Mark
Correct indication of area (Economic loss)	1 Mark
	Max 4 Marks

EXPLANATION

- Given a market price of R50, loss is minimized at point E where MR=MC=P✓✓
- This occurs at a quantity of 100 units. ✓✓
- The average revenue (AR) per unit of production is R50. ✓✓
- The average cost (AC) per unit of production is R80, which is less than the price of R50. ✓✓
- Therefore the firm is making an economic loss of R50-R80 = -R30 per unit of production. ✓✓
- Economic loss is represented by shaded area on the graph above. ✓✓

NORMAL PROFIT✓

- is the minimum earnings required to prevent the entrepreneur from leaving the industry. ✓✓
- When average revenue equals average cost the firm makes normal profit. ✓✓
- Normal profit is made by a firm in the long-run, if more firms enter the market. ✓✓



Mark Allocation	
Correct drawing and labelling of cost curves	1Mark
Correct drawing and labelling of revenue curves	1 Mark
Correct indication of profit maximisation point /point E_2	2 Mark
	Max 4 Marks

EXPLANATION

- Given a market price of R70 profit is maximised where MR=MC=P. ✓✓
- This occurs at a quantity of 120 units. ✓✓
- At the quantity of 120 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. ✓✓

ADDITIONAL PART

Why is a perfect market considered to be more efficient when compared to other market structures? **(10)**

- There are no barriers to entry in the market, aspiring businesses can easily enter the marker. ✓✓
- There is no limit to the number of businesses that can join the market; it increases competition which is more beneficial to the consumer. ✓✓
- A perfect competitor sells large quantities at smaller prices. ✓✓
- The nature of a product is homogeneous, product is already known in the market and costs of advertising are saved. ✓✓
- There is no exploitation of consumers since perfect competitors are price takers and sell at a market price. ✓✓
- Every individual business owns a small portion of the market share. ✓✓

(Accept any other relevant and correct 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. ✓✓

(Accept any other relevant and higher order response)

[40]

QUESTION 6

- **Discuss in detail government intervention as a consequence of market failure with an aid of relevant graphs:**
  - **Maximum prices (13)**
  - **Providing producer subsidy (13)**
- **Why is it necessary to implement a national minimum wage in South Africa? (10)**

INTRODUCTION

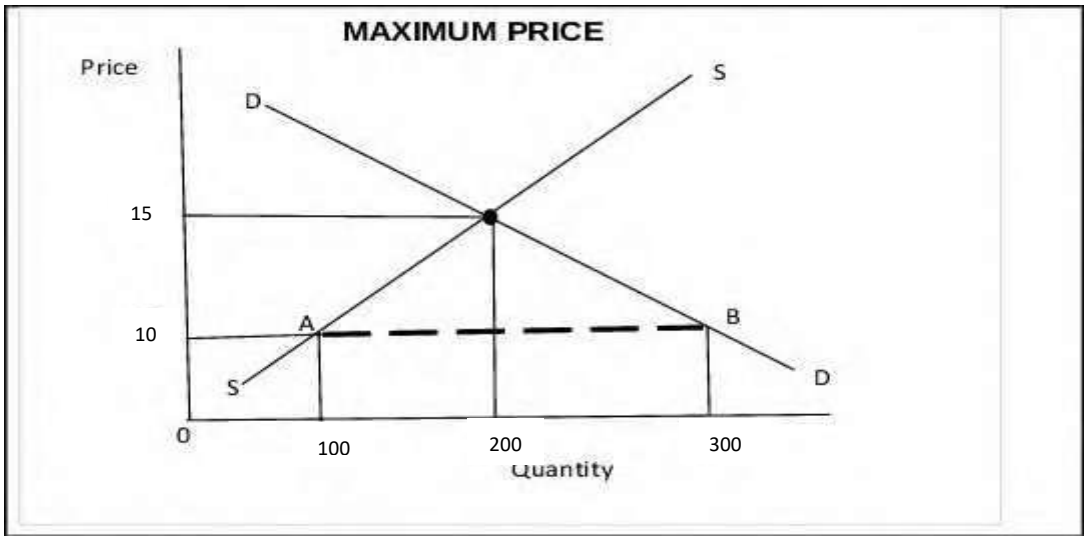
Market failure occurs when market forces of demand and supply do not ensure the correct quantity of goods and services are produced to meet demand at the right price. ✓✓

(Accept any other relevant and correct response)

BODY / MAIN PART

Maximum Prices

- Government may impose a maximum price on essential goods. ✓✓
- The aim is to ensure that everyone including the poor is able to buy the product. ✓✓
- The maximum price is always less than the market price. ✓✓



Mark Allocation

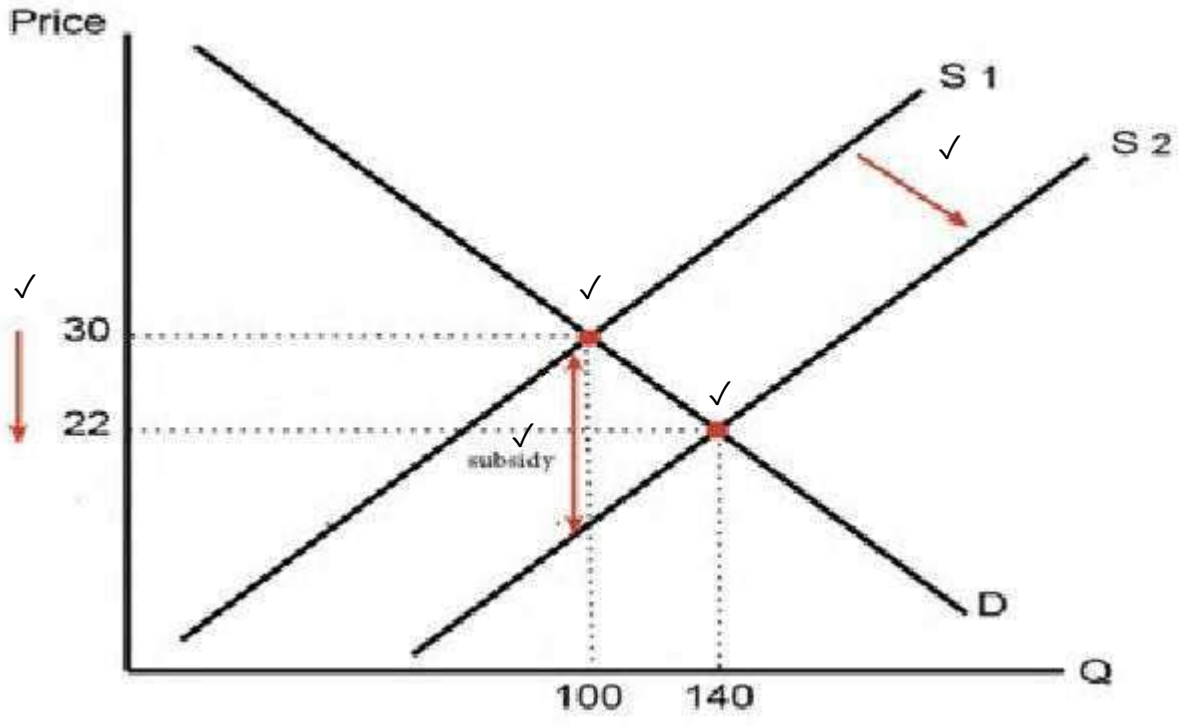
Labelling of and on axis	1 Mark
Equilibrium point	1 Mark
Indication of maximum price	2 Mark
	Max 4 Marks

Explanation:

- Initially the market equilibrium price is R15 and equilibrium quantity is 200. ✓✓
- The government intervenes and passes a law that bread cannot be sold for more than price R10. ✓✓
- The effect of this maximum price is that quantity supplied decreases to 100 and quantity demanded increases to 300. ✓✓
- There is a shortage of bread equal to the difference between 100 and 300. ✓✓
- A shortage creates problems of how to allocate bread to consumers. ✓✓
- Black markets often develop where people can obtain bread. ✓✓
- A black market is illegal markets in which either illegal goods are bought and sold and illegal prices are charged. ✓✓
- Maximum prices may cause a shortage of goods but they do improve the welfare of some consumers since goods can be purchased at lower prices. ✓✓

Providing producer subsidy

- The government provided subsidies to producers in order to encourage them to increase the production of goods. ✓✓
- Producer subsidies are often given to suppliers of agricultural products such as milk, wheat and maize. ✓✓
- Subsidies lower the cost of producing goods and thus the market price of these goods is lowered. ✓✓



- The market price of R30 and corresponding quantity is 100. ✓✓
- If the government subsidises the production of bread, the market price will decrease to R22, with corresponding quantity 140. ✓✓
- The lower price R22, allows the producer to produce more bread. ✓✓

(Max 26)

ADDTIONAL PART

Why is it necessary to implement a national minimum wage in South Africa?

- Protect workers from being exploited by employers. ✓✓
- It increases buying power enabling workers to afford more goods and services. ✓✓
- It improves standard of living by being able to satisfy more wants. ✓✓
- Improves the distribution of income to those people who received very low wage in the past. ✓✓
- People become encouraged to find employment, which will reduce unemployment and poverty. ✓✓
- It reduces dependency on government, such as issuing of social grants. ✓✓

(Accept any relevant and correct answer) (10)

CONCLUSION

- Market failures can have devastating effects on the economy which requires government to intervene to reduce their consequences. ✓✓ (2)

(Accept any other relevant and higher order response)

[40]

GRAND TOTAL: 150

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