KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS P2

MARKING GUIDELINES

PREPARATORY EXAMINATION

SEPTEMBER 2024

MARKS: 150

These marking guidelines consist of 20 pages.

SECTION A: COMPULSORY

1.1 MULTIPLE CHOICE — 30 MARKS – 20 MINUTES

1.1.1 B economic ✓✓

1.1.2 C implicit ✓✓

1.1.3 C leadership ✓✓

1.1.4 B kinked ✓✓

1.1.5 D cost push ✓✓

1.1.6 A prime ✓✓

1.1.7 A global warming ✓✓

1.1.8 D Basel Convention ✓✓ (8 x 2) (16)

1.2 DATA RESPONSE

1.2.1 C The total costs of the production are equal to the total revenue received by the firm ✓

1.2.2 E A period of production where all input factors are variable ✓

1.2.3 G There are two firms that dominate the industry ✓

1.2.4 A A situation where it is impossible to make someone better off without making someone worse off ✓

1.2.5 B An increase in salaries that results in workers paying a higher income tax rate ✓

1.2.6 I Excludes items from the CPI basket that are highly volatile ✓

1.2.7 D The variety of species found within a specific region ✓

1.2.8 F Levied on undesirable effects on environmental use ✓ (8 x 1) (8)

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1.3 CONCEPTS

1.3.1 Marginal cost✓

1.3.2 Industry / market✓

1.3.3 Black market✓

1.3.4 Monetary policy/Inflation targeting✓

1.3.5 Stagflation✓

1.3.6 Preservation✓ (6 x 1) (6)

TOTAL FOR SECTION A: [30]

SECTION B

QUESTION 2: MICROECONOMICS 40 MARKS – 30 MINUTES

2.1 Answer the following questions.

2.1.1 **Give any TWO examples of sunk costs.**

- Salaries✓
- Advertising✓

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

2.1.2 **Why would long term average costs decrease as output increases overtime?**

The long term average costs decrease as output increases because fixed costs may remain unchanged as the level of production increases.✓✓

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

2.2 **DATA RESPONSE**

2.2.1 **Identify the shut-down point from the graph above.** (1)

Point b✓

2.2.2 **Give one example of a perfect competition.** (1)

Fresh fruits / vegetable sellers. ✓
(Accept any relevant and correct answer)

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

Marginal revenue is the income received for selling one additional unit of a product. ✓✓

(Accept any relevant and correct answer)

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2.2.4 **Why is the rising part of MC curve regarded as the supply curve?** (2)

- The rising part of the MC determines the quantity of goods the firm will produce at different price levels. ✓✓
- Producers always supply more goods at high prices.✓✓

(Accept any relevant and correct answer)

2.2.5 **How do new entries impact the perfect market in the long run?** (2 x 2) (4)

- New entrants would increase the level of competition, which would decrease the profits level. ✓✓
- The economic profit made would decrease due to increase in supply resulting in normal profits. ✓✓

(Accept any relevant and correct answer)

2.3 DATA RESPONSE

2.3.1 Identify a marketing strategy discussed in the extract above.

Advertising / online selling/door to door delivery ✓ (1)

2.3.2 What is the nature of product sold in the monopolistic competitive firm?

Heterogeneous / similar/ differentiated✓ (1)

2.3.3 Briefly describe the term *hybrid structure*.

Hybrid structure refers to a market structure which is a combination of two or more market structures. ✓✓
(Accept any relevant and correct answer) (2)

2.3.4 Why is the demand curve of a monopolistic competitive firm relatively elastic?

- There is a large variety of differentiated products from which consumers may choose. ✓✓
- There are many firms in the market selling differentiated products with no control over price. ✓✓

(Accept any relevant and correct answer) (2)

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2.3.5 How can the monopolistic competitor increase its market share without using price?

- Using appealing packaging to bring out important features of their product.✓✓
- Aggressive advertising which informs customers about the business
- or product it provides. ✓✓
- Improving their customer service in order to ensure that they
- return to their business. ✓✓ (4)

(Accept any relevant and correct answer)

2.4 Compare the monopoly with a perfect competition in terms of market entry and number of businesses. (8)

Market entry

- There are no barriers to entry into a perfect market, entry is free. ✓✓
- In a monopoly entry is blocked because of barriers. ✓✓

Number of businesses

- A perfect market has a large number of firms. ✓✓
- A monopoly is dominated by one firm. ✓✓

(Accept any relevant and correct response)

2.5 How does competition act benefit the South African economy? (8)

- All South Africans are given equal opportunities to participate in the economy to make it more efficient. ✓✓
- Mergers and takeovers are evaluated to regulate market power to prevent unemployment and decrease poverty. ✓✓
- Curb economic power of big conglomerates so as to arrive at an equitable distribution of wealth and income. ✓✓
- Successfully prosecuted unfair competition limits the abuse of power by big businesses and brings fair competition advantage to all businesses. ✓✓
- New trade agreements with other countries encourage local businesses to be internationally competitive due to exposure. ✓✓

(Accept any relevant and correct answer)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Give any TWO examples of non-renewable resources.

- Coal✓
- Oil✓
- Natural gas✓

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

3.1.2 **How can an increase in disposable income promote tourism?**

An increase in disposable income will enable the people to save money that could be used on tourist activities.✓✓

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

3.2 **DATA RESPONSE**

3.2.1 Identify the economic concept represented in the picture above.

Deforestation✓ (1)

3.2.2 Name the form of erosion that may occur due to the removal of trees from the environment.

Soil erosion ✓ (1)

3.2.3 Briefly describe the term climate change.

Climate change is the change in the composition of the atmosphere and weather patterns that is related to human activity. ✓✓

(Accept any relevant and correct description) (2)

3.2.4 Why does the market fail to ensure sustainability of the environment?

The market fails to protect the environment because it is driven by self-interest of increased gains. ✓✓

The market does not capture social costs and social benefits when involved in its economic activities. ✓✓ (2)

(Accept any relevant and correct answer)

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3.2.5 How can education be used to promote environmental sustainability?

- Education can be used to change people's attitudes towards the economy positively. ✓✓
- People with more education take action to promote and support decisions to protect the environment. ✓✓
- Various innovative approaches have been tried to set communities to preserve wildlife. ✓✓

(Accept any relevant and correct answer) (4)
[10]

3.3 **DATA RESPONSE**

3.3.1 Identify the type of tourism in the picture above.

Leisure tourism✓ (1)

3.3.2 Give ONE example of an environmental world heritage site.

- Isimangaliso Wetlands Park✓
- The Cape Fynbos Region✓ (1)

(Accept any relevant and correct answer)

3.3.3 Briefly describe the term *transit tourist.*

Transit tourist is a tourist travelling through a country to another country. ✓✓ (2)

(Accept any relevant and correct description)

3.3.4 Why is crime prevention important for the growth of tourism in South Africa?

- The country needs to fight crime to make it safe for tourists to visit so as to increase the national income of the country.✓✓
- Safety of tourists ensures an inflow of foreign currencies which improves the country's economic status.✓✓ (2)

(Accept any relevant and correct answer)

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3.3.5 How can tourism negatively impact the environment?

- Waste product generation damages fish production, create health hazards and detracts the attractiveness of a destination.✓✓
- Permanent environment restructuring which includes major infrastructure development creates environmental stress.✓✓
- Directs environmental stress caused by tourist activities such as the destruction of coral reefs and vegetation destroys the environment.✓✓ (2 x 2) (4)

(Accept any relevant and correct response) **(10)**

3.4 **Briefly explain marketable permits and environmental subsidies as measures to ensure sustainable development.**

Marketable permits

- The government can issue a license to a business that pollutes the environment. ✓✓
- If the business reduces its pollution, it can sell all or part of its pollution license to another firm that has a larger or increased pollution level. ✓✓

Environmental Subsidies

- The government can use the income from environmental taxes to subsidies activities that reduce environmental damage. ✓✓
- Subsidising the introduction of environmentally friendly substitutes such as unleaded petrol to reduce carbon emission. ✓✓
- Supporting and encouraging recycling of waste material which could be reused in the production of useful goods. ✓✓

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

3.5 How can Tourism South Africa promote South Africa as a tourist destination?

- Lobbies and endeavours to influence government policies and decisions in the interest of tourist sector. ✓✓
- The national policy framework adds elements to support aim of making South Africa a tourist attraction. ✓✓
- In international context generic marketing include South Africa as a tourist destination presented to tourists. ✓✓
- Citizens are persuaded to take holidays in their own country and are provided with a variety of destinations. ✓✓
- Various purposes such as sport, are used to host international tourists, exposing them to the country's diversity and uniqueness. ✓✓

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

[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES **40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

4.1.1 **Give any TWO types of oligopolies.**

- Pure oligopoly✓
- Differentiated oligopoly✓ (2 x 1) (2)

4.1.2 **Why do municipalities charge levies on rubbish collection?**

Municipalities charge levies on rubbish collection in order to cover external costs such as provision of services to the community.✓✓

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

4.2 **DATA RESPONSE**

4.2.1 **Identify one artificial barrier to entry in the picture above.**

- Patents/ licenses / permits✓ (1)

4.2.2 **Name one example of a monopoly in South Africa.**

Transnet✓ (1)

(Accept any relevant and correct answer)

4.2.3 **Briefly explain the term *natural monopoly*.**

Natural monopoly is created when a firm requires high developmental costs to start its operation. ✓✓

(Accept any relevant and correct description) (2)

4.2.4 **Briefly explain the factors preventing a monopoly from charging excessively high prices.**

- The customers will not afford high prices which will decrease the demand for the product.✓✓
- When the demand decreases, the business will lose its revenue and profits.✓✓ (2)

(Accept any relevant and correct response)

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4.2.5 **Why do South African monopolies fail to achieve the typical long run equilibrium position of a monopoly?**

- Due to large maintenance costs, revenue is not sufficient to cover all expenses. ✓✓
- Corruption and incompetence within the businesses compromise the ability to make profits. ✓✓
- Over reliance on bailouts leads to inefficiencies in management and decision making processes. ✓✓ (2 x 2) (4)

(Accept any relevant and correct answer)

4.3 **DATA RESPONSE**

4.3.1 Identify the number of tourists that visited South Africa in October 2023.

1000 000✓ (1)

4.3.2 Give ONE type of tourism.

- Eco-tourism✓
- Business tourism✓
- Cultural tourism. ✓ (1)

(Accept any relevant and correct answer)

4.3.3 Briefly describe the term *tourism.*

Tourism is activities of people travelling to and staying in places outside their usual environment for no longer than one year for leisure, business and other purposes. ✓✓ (2)

(Accept any relevant and correct description)

4.3.4 Briefly explain the benefit of tourism on households.

- Tourism create employment opportunities for all levels of labour. ✓✓
- Infrastructure built for tourists is also available for use by the local people. ✓✓ (2)

(Accept any relevant and correct answer)

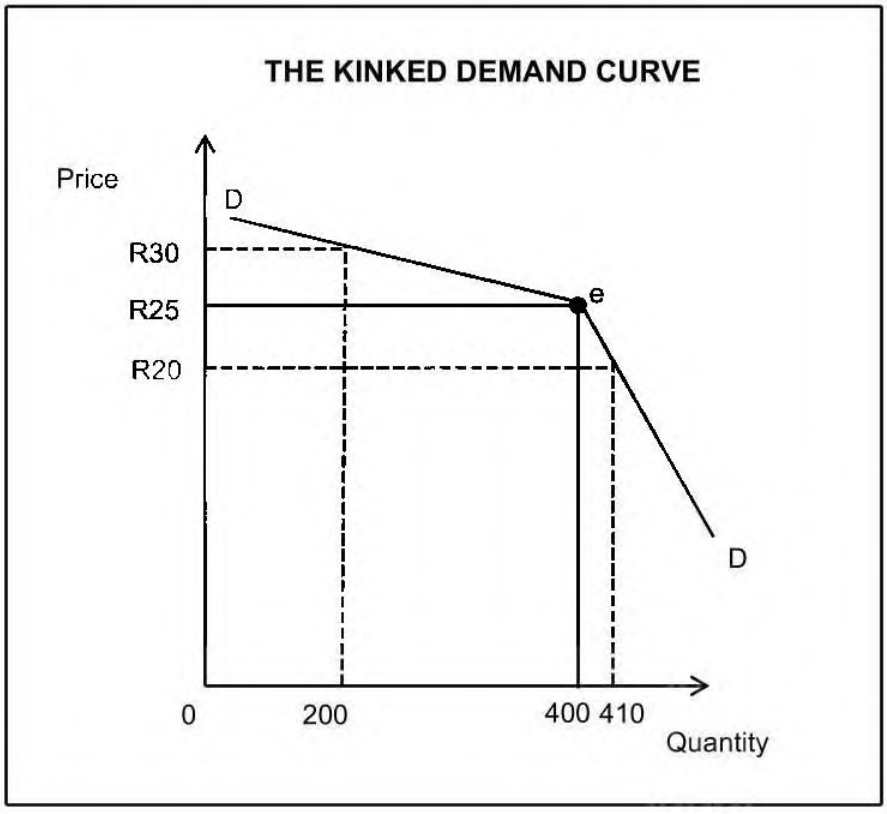
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4.3.5 Why is promoting tourism seen as a method of redistribution of income and wealth?

- Employment of local and rural people help to improve their skills and their economic welfare.✓✓
- Use discriminatory pricing policy to benefit local people because tourists will pay higher prices.✓✓
- Creation of specific business zones for tourists provide programmes to address deficiencies in education and training for the poor. ✓✓ (2 x 2) (4)

(Accept any relevant and correct answer)

4.4 With an aid of a correctly labelled graph, explain the impact of price wars on the oligopoly market.



MARK ALLOCATION

Correct labelling of and on axis = 1
Correct shape of the curve = 1
Showing and labelling of the kink = 1
Showing a change in price and quantity = 1
Maximum marks = 4

- For a firm to make maximum profit, it will have to charge the market price of R25, which will give a revenue of R10 000 (R25 x 400). ✓✓
- If the firm increases the price to R30, it will make a revenue of R6000 (R30 x 200). Customers would opt for goods of competitors, decreasing demand drastically from 400 to 200 units. ✓✓
- Trying to attract more customers, a firm might decrease the price to R20, demand increases by only 10 units, receiving revenue of R8200 (R20 x 410). This will still be below the revenue received at the market price. ✓✓ (Max 4)

(Accept any correct and relevant answer)
(Maximum 4 marks for mere listing of facts) (2 x 4) (8)

4.5 **How successful has the international agreements on climate change been in reducing the effects of global warming?**

Successful

- Charging for the use of the environment where producers are made to pay a fee for the waste they need to dump. ✓✓
- The Kyoto Protocol has created awareness and formulated measures to fight climate change. ✓✓
- CITES has regulated trade in endangered species to address biodiversity loss.✓✓
- Protocols have banned the most dangerous manufactured substances such as DDT. ✓✓

Not successful

- Rate of greenhouse gasses has increased despite the many climate change conventions.✓✓
- The Paris agreement was undermined by the withdrawal of powerful countries which became major polluters. ✓✓
- Developing countries allow dumping of hazardous waste which encourages rich countries to contribute. ✓✓ (8)

(Accept any relevant and correct description)
(Maximum 2 marks for mere listing of facts)

[40]

TOTAL SECTION B: [80]

QUESTION 5: MICROECONOMICS **40 MARKS – 40 MINUTES**

- Discuss in detail all the factors that lead to the misallocation of resources in the market. (26)
- How can government intervention reduce the impact of market failure? (10)

[40]

INTRODUCTION

Market failure occurs when market forces of demand and supply do not ensure the correct quantities of goods and services that are produced to meet demand at the right price. ✓✓ (2)

(Accept any relevant and correct answer)

BODY / MAIN PART

Externalities ✓

- These are known as spill-over effects to third party which is not directly involved in the production process. ✓✓
- These are those costs and benefits that convert private cost and benefits into social costs and benefits. ✓✓
- As externalities in production and consumption often exist and output is usually based on private costs and benefits, this is a significant cause of market failure. ✓✓

Public goods / Missing markets ✓

- Significant market failure is to produce some goods and services, despite it being demanded✓✓
- Markets can only be formed under certain conditions and when these conditions are absent, markets struggle to exist. ✓✓
- Public goods are not provided for by market mechanism because producers cannot withhold goods for non-payment and since there is often no way of measuring how much a person consumes, there is no basis for establishing a market price. ✓✓
- Community and collective goods together are known as public goods. ✓✓
- **Community goods**: are goods that are characterised by the non-excludability and non-rivalry such as defence, police services, prison services, street lightning, flood control, storm water drainage and lighthouses. ✓
- **Collective goods**: are goods that are impossible to exclude free riders, such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals. ✓✓

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Merit goods and demerit goods ✓

- **Merit goods**: Some goods are highly desirable for the general welfare of the people of the country and are often not highly rated by the market. ✓✓
- If people have to pay market prices for them, relatively little would be consumed. ✓✓
- In this sense, the market fails to the detriment of the economy and society. ✓✓ e.g. health care services, education, skills training, safety, inoculation, car seats belts etc. ✓
- **Demerit goods**: are goods that are harmful or dangerous to the society, items such as cigarettes, alcohol, and non-prescriptive drugs are example of demerit goods. ✓✓
- In a free market economy, these goods are over-consumed. ✓✓
- Some consumers may be unaware of the true costs of consuming demerit goods that is their negative externalities. ✓✓
- Government can ban their consumption or reduce it by means of taxation (e.g. excise duties) and by providing information about their harmful side effects. ✓✓

Imperfect competition ✓

- In market economies, competition is often impaired by power. ✓✓
- Power often lies to a greater extent with producers than with consumers. ✓✓
- Most businesses operate under conditions of imperfect competition that allows producers to restrict output, raise prices and produce where price exceeds marginal cost. ✓✓
- They can also prevent new businesses from entering the industry, thereby preventing full adjustment to charges in consumer demand occurring. ✓✓

Lack of information ✓

- Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make rational decisions. ✓✓
- **Consumers**: Although advances in technology increase the amount of information to which people have access, they obviously do not have perfect information. ✓✓
- **Workers** may be unaware of job opportunities outside their current employment. ✓✓
- **Entrepreneurs** may lack information about the cots, availability and productivity of some factors of production, and may be operating on the basis of incorrect information. ✓✓

Immobility of the factors of production: ✓

- Most markets do not adjust rapidly to changes in supply and demand, due to lack of information. ✓✓
- **Labour** take time to move into new occupations and geographically to meet the changes in consumer demand. ✓✓
- **Physical capital**: Factory buildings and infrastructure such as telephone lines, bridges, rail links and airports are not moveable at will. ✓✓
- They last for many years, but cannot be moved to fit change in demand. ✓✓
- **Technological applications change production methods**: Technology used in the production may change. e.g. the use of robots rather than labour in mines. ✓✓
- However, it takes time for most industries to adapt - with greater technological changes, there is an increasing need for workers to be flexible, to be willing to update their skills throughout their working lives and to change employment, occupations and work patterns. ✓✓

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Imperfect distribution of income and wealth: ✓

- The most important shortcoming of market systems is that it is neutral in the issue of income distribution. ✓✓

(Accept any relevant and correct answer)

NOTE: Headings and examples will be marked to a maximum 8

(Maximum 26)

ADDITIONAL PART

How can government intervention reduce the impact of market failure? (10)

- The government may pass laws on competition and prevent unaffordable prices and limited supply to avoid imperfect competition. ✓✓
- Levy taxes to recover external costs, which would decrease the production of goods causing negative externalities. ✓✓
- Provide producer subsidies to lower cost of producing essential goods and lowering their prices. ✓✓
- Set minimum prices to enable producers to make comfortable encouraging them to supply essential goods. ✓✓
- Provide public goods and services which suppliers do not intend to provide because of their non-profitability. ✓✓
- Promote the availability of information and quality on goods supplied and services provided for the benefit of consumers. ✓✓

(Max 10)

(Accept any relevant and correct answer)

CONCLUSION

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

(Accept any relevant and correct higher order response)

(40)

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

- Discuss in detail the consequences of inflation. (26)
- Analyse the success of the monetary policy committee in curbing inflation. (10)

INTRODUCTION

Inflation refers to a sustained and significant increase in the general level of prices over a period of time. ✓✓

(Accept any relevant and correct response)

BODY: MAIN PART

Creditors ✓

- Creditors (lenders) suffer due to price increases because they get repaid with money with a low purchasing power, especially if the interest rate has been below the inflation rate. ✓✓
- Inflation harm creditors as they lose due to a fall in the real value of money. ✓✓
- Changes in price level affect debtors and creditors differently at different time periods. ✓✓

Debtors ✓

- Debtors receive the money with a relatively high purchasing power and repay their loans with money with low purchasing power. ✓✓
- During periods of rising prices, debtors gain in real terms because the contract was signed in advance and cannot be changed. ✓✓

Salaries and wage earners ✓

- Price increases affect people negatively because their incomes are relatively fixed. ✓✓
- Real wages fall sharply during period of high inflation as a result of a decline in capital stock and a shift in relative prices. ✓✓
- Inflation can impoverish large segments of the population by eroding the real wages. ✓✓
- Relative wages are the important component of wealth; they constitute the main source of income for many households, especially for the less well-off. ✓✓
- The behaviour of real wages therefore has a direct bearing on income distribution and level of poverty. ✓✓
- This group includes retired people, pensioners and poor, that will experience the erosion of spending power eventually earn too little to survive. ✓✓
- Wage increases are lower than the inflation rate increase. ✓✓

Investors and savers ✓

- Assets with a fixed nominal value have a fixed return and lower purchasing power as prices increase. ✓✓
- Purchasing power is reduced unless the interest rate is above the inflation rate. ✓✓
- People who invest in negotiable instruments such as shares, often benefit from inflation, because during periods of inflation, interest rates are increased to encourage savings. ✓✓

Taxpayers✓

- With inflation taxpayers' nominal income rise although their real income remains unchanged, because taxes are levied on the nominal income but not on real income, and this affects the purchasing power of taxpayers. ✓✓
- If the income tax brackets remain unchanged, inflation increases the average rate of personal income tax. ✓✓
- Individuals will have to pay higher taxes even if there are actually no better off than before-bracket creep leads to a redistribution of income from the government. ✓✓

Industrial peace✓

- Wage bargaining is accompanied by strikes and mass action. ✓✓
- These actions can sometimes spill over into violence which affects society at large. ✓✓
- Inflation leads to demands for increased wages as trade unions puts increasing pressure on employers to raise wages and salaries. ✓✓
- In extreme situations, in the presence of exceptionally higher inflation together with a government that is determined to yield to wage increase demands (which can push inflation to even higher levels) widespread civil unrest would follow. ✓✓

Balance of Payment problems ✓

- If a country's rate of inflation is higher than that of its trading partner, the prices of exported goods increase while the prices of imported goods decrease ✓✓
- This leads to loss of competitiveness in the export market leading to a decrease in exports ✓✓
- Cheaper imports have a negative effect on a country's balance of payments ✓✓
- The loss of competitiveness can be a result of increased unemployment ✓✓

Unemployment and poverty ✓

- The effects of inflation are uneven, because it does not benefit anyone and harms most – some less than others ✓✓
- Inflation also tends to redistribute income from low income groups to higher income groups ✓✓
- This is because people in the low income groups do not have assets than can rise in value faster than the rate of inflation to help them overcome the effects of inflation ✓✓
- Powerful groups such as trade unions, large companies and the wealthy people, are able to increase their share of national income at the expense of disadvantaged people such as pensioners, the unemployed and the welfare recipients ✓✓

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Low inflation expectations✓

- Limit excessive wage demands by different labour unions because workers do not expect increases in cost of living in the future ✓✓
- Allow consumers to postpone consumption expenditure thereby reducing pressure on price increases✓✓
- Give households confidence that inflation rate will be low in future and encourage them to save more from the income, thereby controlling excess demand ✓✓
- Reduce panic buying by consumers when they expect that prices will be stable in the future ✓✓
- Increase the burden on debtors which discourages them from borrowing money, due to the real interest rate ✓✓

High inflation expectations✓

- Excessive wage demands by different labour unions because workers anticipate increases in cost of living in the future will lead to producers increasing prices in order to recover extra costs of production ✓✓
- Prompts consumers to engage in panic buying when they expect prices to rise and thereby increasing pressure on price to rise ✓✓
- Make households to save less, thereby leading to excess demand for goods and services ✓✓
- Decreases real interest rates which will discourage savings ✓✓
- Reduce the burden on creditors as they will receive their money at higher interest rates ✓✓

(Accept any other correct relevant response)
Allocate a maximum of 8 marks for headings/subheadings/examples

(Max 26)

ADDITIONAL PART

Analyse the success of the monetary policy committee in curbing inflation. (10)

- The SARB has been successful in maintaining the level of inflation between 3% to 6%. ✓✓
- If inflation target range is exceeded the monetary authorities (SARB) acts to reduce the demand for money, such as increasing interest rates. ✓✓
- If the inflation levels increase beyond the inflation target it leads to wage –push inflation and possible strike action. ✓✓
- Employers will give in to worker's demands but put their prices up to compensate for increased labour cost / increased cost of living. ✓✓
- If targets are exceeded the country's credit rating can be negatively affected. ✓✓
- The control of inflation levels prevents South African citizens from living on too much credit from commercial banks. ✓✓

Failure of monetary policy committee in curbing inflation

- Inflation targeting negatively affects people on a fixed income, because they are reliant on an income that does not increase at a rate which inflation increases. ✓✓
- Headline inflation includes all the volatile products such as fuel and electricity, which are not considered as part of the inflation targeting policy. ✓✓

(Accept any relevant and correct answer)

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CONCLUSION

Unacceptably high inflation rates cause hardships among the poor, unemployed and low-income earners, therefore proper measures to control it have to be put in place.✓✓

(Accept any relevant and correct higher order response)

TOTAL FOR SECTION C: [40]

TOTAL MARKS: 150

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