GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

JUNE EXAMINATION
GRADE 12

2024

MARKING GUIDELINES

ECONOMICS

(PAPER 2)

24 pages

SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE-CHOICE QUESTIONS

1.1.1 A – reduction in labour required ✓✓

1.1.2 B – Minimising costs ✓✓

1.1.3 C – negative externalities.✓✓

1.1.4 D – AR > MR. ✓✓

1.1.5 A – negatively sloping. ✓✓

1.1.6 B – Monopolistic competition ✓✓ A, B, Or C

1.1.7 D – firms are price takers. ✓✓

1.1.8 C – increase ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 I – the economy is efficiently distributing resources to meet the preferences of consumers ✓

1.2.2 D – cannot be utilised between industries ✓

1.2.3 A – all the cost divided by the quantity of output produced ✓

1.2.4 G – fierce competition prevents long term economic profit ✓

1.2.5 H – a system where the wealthy pay more, and low-income earners pay less ✓

1.2.6 B – occurs when two or more firms in the same industry informally agree to control the market ✓

1.2.7 C – costs that cannot be recovered once incurred ✓

1.2.8 F – the pursuit of income through activities that do not create any additional value ✓ (8 x 1) (8)

DRAFT

1.3 **GIVE THE TERM**

1.3.1 Cost-Benefit Analysis ✓

1.3.2 Missing markets ✓

1.3.3 Advertising/Marketing ✓

1.3.4 Oligopoly/Duopoly ✓

1.3.5 Deadweight loss/welfare loss ✓

1.3.6 Market structures ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICROECONOMICS

2.1 Answer the following questions.

2.1.1 **Name TWO characteristics of a demand curve of business in a perfectly competitive market.**
It is perfectly elastic. ✓
It is a horizontal line. ✓
It is the same as its marginal revenue curve. ✓
It is identical to the market price. ✓
It is the same as the Average Revenue Curve. ✓
(Accept any other correct relevant response.) (2 x 1) (2)

2.1.2 **Why is price discrimination not possible for firms in a perfect market?**
In a perfect market firms cannot raise their prices above the market price, without losing all their customers to competitors. As a result, firms will be unable to engage in price discrimination.✓✓
(Accept any other correct relevant response.) (1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **How will the avian flu outbreak impact the market supply of eggs?**
- Negatively ✓

The supply of eggs will decrease ✓ accept if only the term is given (1)
(Accept any other correct relevant response.)

2.2.2 **What is the effect of the flu outbreak on egg prices?**
There will be an increase in prices. ✓ accept if only the term is given (1)
(Accept any other correct relevant response.)

2.2.3 **Briefly describe the term *marginal product*.**
Marginal product is the additional unit of output which is produced if one more unit of input is added. ✓✓
(Accept any other correct relevant response.) (2)

2.2.4 **Explain why eggs are a homogenous goods.**
Eggs are typically uniform in their basic characteristics such as size, shape, grade and colour. ✓✓
(Accept any other correct relevant response.) (2)

2.2.5 **How do fluctuations in the market price of eggs impact the revenue of smaller producers?**

- Smaller local producers often operate on narrower profit margins compared to larger commercial producers. ✓✓
- Fluctuations in egg prices can directly affect these profit margins. ✓✓
- If prices drop, it can squeeze profits or even lead to losses for smaller producers who might not have the same economies of scale or resources to absorb such changes. ✓✓
- Smaller local producers might face challenges in competing with larger, more established egg producers during periods of price fluctuations. ✓✓
- Larger producers often have more resources, efficiency, and bargaining power, enabling them to handle market changes better. ✓✓
- Revenue volatility due to price fluctuations can affect the financial stability of smaller producers. ✓✓
- It might impact upon their ability to invest in equipment upgrades, technology, or expansion, limiting their long-term viability. ✓✓
- When the market price of eggs rises, smaller local producers can earn higher revenues for each unit of eggs sold. ✓✓

(Accept any other correct relevant response.) (4)

2.3 DATA RESPONSE

2.3.1 **Identify the competition institution with the highest authority.**

The Competition Appeal Court ✓ (1)

2.3.2 **Give ONE objective of the Competition Act.**

- Promotes the efficiency of the economy ✓
- Provides consumers with competitive prices and a variety of products ✓
- Promotes employment ✓
- Encourages South Africa to participate in world markets and accept foreign competition in South Africa ✓
- Enables SMMEs to participate in the economy ✓
- Allows the previously disadvantaged to increase their ownership of businesses ✓

(Accept any other correct relevant response.) (1)

2.3.3 **Briefly describe the term *competition*.**
Competition refers to the rivalry between firms in the determination of market prices. ✓✓
(Accept any other relevant response) (2)

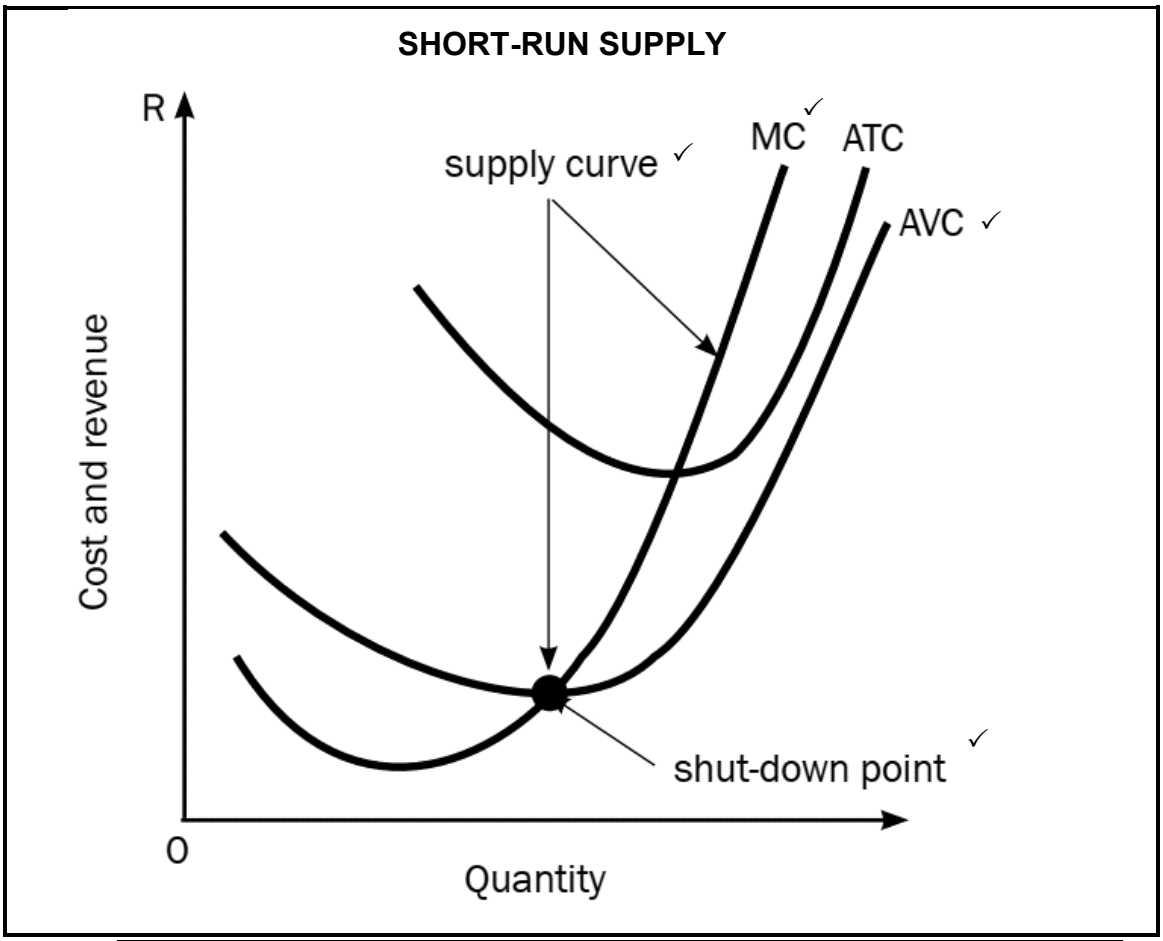
2.3.4 **Explain the role of the competition commission regarding the exchange rate manipulation matter.**
- It investigates restrictive business practices, abuse of dominant positions and mergers to achieve equity and efficiency in the South African economy. ✓✓

(Accept any other correct relevant response.) (2)

2.3.5 **How can the manipulation of the exchange rate impact businesses that are competing in world markets?**
- Exchange rate manipulation can lead to fluctuations in the costs of production. ✓✓
- Changes in exchange rates can impact the prices of imported raw materials, components, or finished goods, affecting a firm's cost structure. ✓✓
- This can affect profit margins and competitiveness. ✓✓
- A manipulated exchange rate can affect export competitiveness by making a firm's products more or less expensive compared to those of competitors from other countries. ✓✓
- Exchange rate manipulation increases currency-related risks, companies may need to employ more hedging strategies to mitigate the risks. ✓✓
- Currency uncertainties resulting from manipulation can deter or encourage firms from making foreign investments. ✓✓

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

2.4 **Draw a correctly labelled graph and explain how the supply curve is derived from cost curves.**



Correct drawing (shape) and labelling of MC = 1 mark
Correct drawing (shape) and labelling of AVC = 1 mark
Correct indication and labelling of shut down point = 1 mark
Correct indication and labelling of supply curve point = 1 mark
(any indication, eg. drawing darker)
Correct labelling of horizontal axis and vertical axis = 1 mark
(Max 4)

- The short-run supply curve of an individual producer is that part of the marginal cost curve that is above the minimum average variable cost. ✓✓
- This starts from shut-down point upwards. ✓✓
- Below the shut-down point, the firm will not sell any goods. ✓✓
- A firm will sell goods if the price is above the shut-down price level. ✓✓

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

2.5 **How does the slope of the total cost curve change in relation to changes in the output quantity produced?**

- Initially, as the quantity of output increases, the slope of the total cost curve tends to be relatively flat or shallow. ✓✓
- This indicates a phase of increasing marginal returns/Economics of Scale. ✓✓
- As production continues, the total cost curve starts to slope upward more steeply. ✓✓
- This occurs when the production reaches a point of diminishing marginal returns./Diseconomies of Scale ✓✓
- In this stage, the addition of more units of input leads to smaller and smaller increases in output. ✓✓
- As a result, the total cost increases at an increasing rate, leading to a steeper slope of the TC curve. ✓✓

(Accept any other correct relevant response.)
(Allocate a maximum of 2 marks for a mere listing of facts/examples.) (8)
[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

3.1 Answer the following questions.

3.1.1 **Give any TWO examples of explicit costs.**

- Payment of salaries/wages. ✓
- Payment for rent. ✓
- Payments for raw materials. ✓
- Payment of utilities. ✓

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

3.1.2 **How does collusion affect the Global competitiveness of South African businesses?**

- Collusion tends to reduce competitive pressures leading to a decreased incentive for businesses to operate efficiently and innovatively. ✓✓
- When firms collude to fix prices, consumers end up paying more for goods and services. Higher prices can make South African products less attractive on the global market particularly if competitors can offer similar products at a more competitive price. ✓✓
- Collusion is illegal and can lead to legal consequences, South African businesses involved in collusive practices may face fines, legal action or damages to their corporate image, further impacting their ability to compete globally. ✓✓

(Accept any other correct relevant response.) (Max. 2) (2)

3.2 **Data Response**

3.2.1 **Identify the state enterprise depicted in the cartoon above.**
South African Airways/SAA ✓ (1)

3.2.2 **Name the market structure under which it operates.**
Oligopoly ✓ (1)

3.2.3 **Briefly describe the term *overt/explicit collusion*.**
Refers to a situation in which firms in an industry openly and directly coordinate their actions to achieve common goals typically aimed at maximising joint profits. ✓✓
(Accept any other relevant response.) (2)

3.2.4 **Why is it difficult for new firms to enter the airline industry?**

- Starting an airline requires substantial upfront costs for purchasing or leasing an aircraft, meeting safety and regulatory requirements as well as setting up infrastructure. These high capital requirements act as a significant barrier to new entrants. ✓✓
- Established airlines may have preferential access to prime airport slots and facilities. Securing landing slots and access to key airports can be difficult for new entrants limiting the ability to offer convenient schedules and expand their route network. ✓✓
- The major airlines are already well established brands with loyal customer base, new firms may not only need to convince customers to fly with them but offer reduced air fares which may affect air fare.

(Accept any other correct relevant response.) (Max. 2) (2)

3.2.5 **What impact would the collapse of the airline have on the South African economy?**

- The collapse of South African Airways could result in widespread job losses, contributing to higher unemployment rates. ✓✓
- SAA is part of the broader aviation supply chain, including aircraft manufacturers, maintenance providers and service suppliers. The collapse of the airline could disrupt these interconnected supply chains, affecting various businesses and potentially leading to job losses in related industries. ✓✓
- SAA plays a crucial role in connecting domestic and international destinations and facilitating tourism. The collapse of the airline could lead to reduced accessibility potentially impacting the tourism industry and related sectors like the hospitality and travel services. ✓✓

- SAA is involved in the transportation of high-value, time-sensitive goods. The collapse of the airline could disrupt the transportation of goods, impacting trade and potentially leading to increased costs for businesses relying on air freight services. ✓✓
- The South African government can divert tax revenue to other projects instead of bailing out SAA.

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

3.3 **Data Response**

3.3.1 **State the nature of products in the market as illustrated above.**
Differentiated products ✓ (1)

3.3.2. **Name ONE other industry that operates in this market structure.**
- Fitness centres ✓
- Consumer Electronics e.g., Apple, Samsung, Sony, Hisense ✓
- Hotels and Hospitality ✓

(Accept any other correct relevant response.) (1)

3.3.3 **Briefly describe the term *non-price competition*.**
It refers to a situation in which businesses compete based on factors other than the price of their products or services.✓✓
(Accept any other correct relevant response.) (2)

3.3.4 **Why are monopolistic competitive businesses reluctant to compete based on prices?**
- Products in a monopolistic competition often have elastic demand, meaning that changes in prices have a significant impact on the quantity demanded which reduces revenue due to reduced sales volumes. ✓✓
- Firms in the market may be reluctant to initiate price competition to avoid triggering price wars with competitors. Price wars can be detrimental to all the firms involved, leading to lower profits and potential financial instability. ✓✓ (Max. 2)

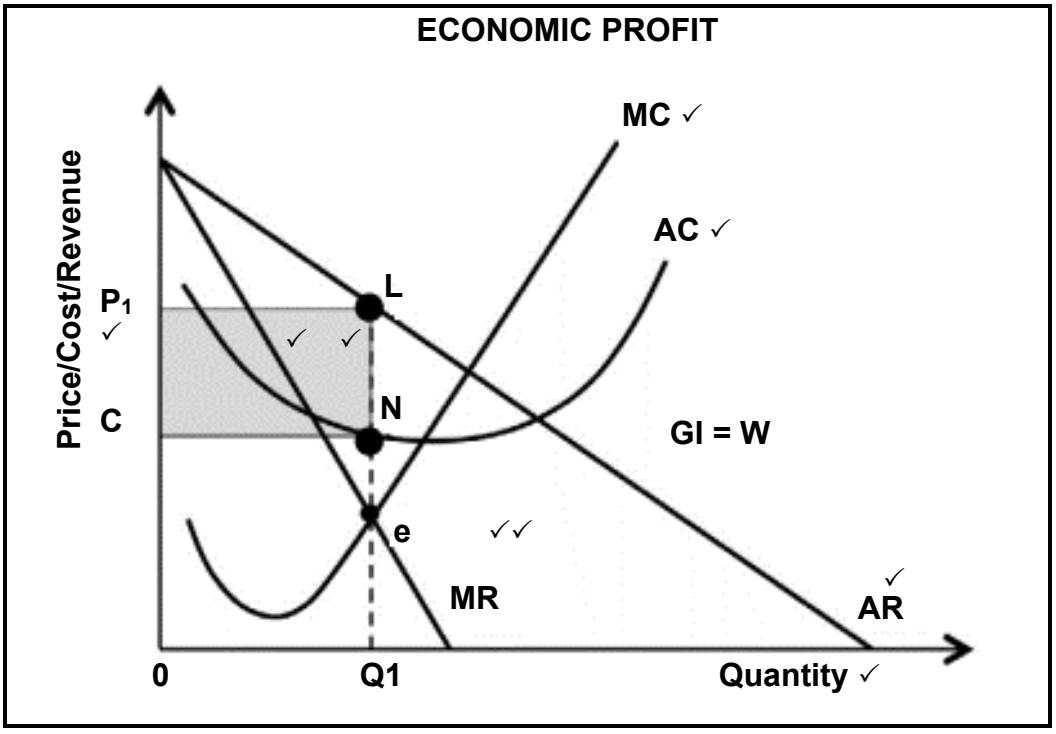
(Accept any other correct relevant response.) (2)

3.3.5 **Explain briefly why businesses in the market are said to be allocatively inefficient.**

- Firms in monopolistic competition often operate with excess capacity because they produce less than the output level that would minimise average total cost. This underutilisation of resources results in allocative inefficiency as the firms are not producing at the point where marginal cost equals marginal revenue. ✓✓
- In monopolistic competition, firms have some degree of market power, allowing them to set prices above their marginal cost. This markup between price and marginal cost results in a deviation from the allocatively efficient price, leading to a suboptimal allocation of resources in the economy. ✓✓
- Businesses in monopolistic competition often invest heavily in advertising to create brand loyalty and differentiate their products. These advertising expenses can be seen as a form of wasteful competition and may divert resources away from more productive uses, contributing to allocative inefficiency. ✓✓

(Accept any other correct relevant response.) (4)

3.4 **Draw a well labelled graph to illustrate economic profits for a monopoly market (without explanation).**



- Correct labelling of axis 1 mark
- Labelling on the axis 1 mark (Q1, 0, P1, C1). ✓
- Correct drawing and labelling of the MC 1 mark. ✓
- Correct xrawing and labelling of AR 1 mark✓
- Correct drawing and labelling of the AC 1 mark. ✓
- Indication of profit maximization (MC✓=MR✓) 2 marks
- Correct position/shading of economic profit. 2 marks✓✓

Max 8 (8)

3.5 **Analyse the relationship that exists between marginal revenue (MR) and average revenue (AR) for a monopolistic competition**.

- For a monopolistically competitive firm facing a downward-sloping demand curve, the marginal revenue curve lies below the demand curve.
- MR is less than price (P) because the firm must lower the price to sell additional units. ✓✓
- AR is always greater than or equal to MR in monopolistic completion.
- Monopolistically competitive firms seek to maximise profit where MR equals marginal cost (MC). Since MR is less than P, the firm produces where MR intersects MC, and the corresponding price is higher than marginal cost. ✓✓
- The degree of differentiation can influence the gap between AR and MR. More differentiation allows for a smaller gap and more control over price. ✓✓

(Accept any other correct relevant response.) (8)

[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 Answer the following questions.

4.1.1 Name TWO types of goods that are supplied by government.

- Public goods ✓
- Community goods ✓
- Collective goods ✓
- Merit goods ✓

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

4.1.2 **How does direct control lead to the misallocation of resources/Allocative Inefficiency?**

- Centralised systems may struggle to adapt quickly to changing economic conditions, technological advancements, or shifts in consumer preferences. This inflexibility can result in resources being allocated to outdated or inefficient projects. ✓✓
- Centralised control often involves applying uniform policies across diverse regions or sectors. However, different regions and industries may have unique needs and conditions. A one-size-fits-all approach can lead to misallocation as it fails to address the specific requirements of different areas or sectors. ✓✓
- Central authorities may not have access to the detailed and localised information that is crucial for efficient resource allocation. Decisions made without a clear understanding of local needs, preferences, and market conditions can result in misallocation. ✓✓

(Accept any other correct relevant response.) (2)

4.2 **Data Response**

4.2.1 **Identify the quantity supplied if the price ceilings are enforced.**

Q_1 ✓ (1)

4.2.2 **Name ONE benefit of the price ceiling for motorists.**

Lower prices ✓

(Accept any other correct relevant response.) (1)

4.2.3 **Briefly describe the term *minimum price.***

A price set above the equilibrium price/market price to allow producers to make a fair profit. ✓✓

(Accept any other correct relevant response.) (2)

4.2.4 **Explain the implications of a price ceiling set above the market price.**

- It is irrelevant as normally a price ceiling is set below equilibrium price. ✓✓
- Setting a price ceiling above the market price does not create any immediate effects on market, since the market is already operating at a price below the imposed ceiling. ✓✓

(Accept any other correct relevant response.) (2)

4.2.5 **How can the proposed price ceiling on unleaded petrol lead to black markets?**

- When the government imposes a price ceiling it creates excess demand for petrol as consumers want to purchase more fuel at the capped price than what suppliers are willing to provide. ✓✓
- The shortage of petrol due to the price ceiling creates an opportunity for some individuals or entities to exploit the situation by purchasing petrol at the lower legal price and selling it on the black market at higher, unregulated prices to capitalise on the scarcity. ✓✓
- The scarcity and increased demand for petrol can incentivise illegal activities such as smuggling or unauthorised trading. ✓✓
- This situation often incentivises illegal activities and the emergence of black markets where petrol is sold at prices higher than the regulated ceiling. ✓✓

(Accept any other correct relevant response.) (4)

4.3 **Data Response**

4.3.1 **Identify ONE method used when calculating the CBA above.**
Net Present Value/NPV ✓ (1)

4.3.2 **Name the project with the least Economic Costs.**
Station A/Thermal ✓ (1)

4.3.3 **Briefly define the term *social benefits* as is used in CBA.**
Social benefit refers to the total benefit that is enjoyed by the society as a whole. ✓✓
(Accept any other correct relevant response.) (2)

4.3.4 **What is the challenge of applying the cost-benefit analysis?**

- CBA often involves making subjective judgments about the monetary value of non-market goods, such as environmental quality or human life. Different stakeholders may have different opinions on the appropriate values to assign, leading to potential biases. ✓✓
- Assigning present values to future costs and benefits requires discounting, which involves assumptions about the appropriate discount rate. The choice of discount rate can significantly influence the results and may not accurately reflect societal preferences over time. ✓✓

(Accept any other correct relevant response.) (2)

4.3.5 **How can the South African government use the cost-benefit analysis to prevent market failure?**

- The cost-benefits analysis helps to ensure that public investments generate sufficient benefits to justify their costs, preventing wasteful spending and potential market failure. ✓✓
- Cost-benefit analysis includes the wider social impact and externalities in the decision making process, which is helpful for making decisions on whether the project should proceed or not. ✓✓
- CBA helps identify externalities, by quantifying these externalities. Government can design policies to include the costs or benefits on pricing thus preventing market failure. ✓✓

(Accept any other correct relevant response.) (4)

4.4 **Discuss the effects of minimum wages as a consequence of market failure.**

Positives of minimum wage.

- Supporters argue that minimum wages can help address income inequality by ensuring that even the lowest-paid workers earn a wage that allows them to meet their basic needs. This can lead to a more equitable distribution of income. ✓✓
- Minimum wages are seen as a tool to lift low-wage workers out of poverty. By setting a floor on wages, governments aim to ensure that workers earn enough to cover their essential living expenses, reducing the reliance on social welfare programmes. ✓✓
- Proponents contend that when low-wage workers earn more, they are likely to spend additional income on goods and services. This increased consumer spending can stimulate economic growth, creating a positive multiplier effect. ✓✓

Negatives of minimum wage.

- One of the main arguments against minimum wages is that they can lead to unemployment, particularly among low-skilled workers. If the minimum wage is set above the equilibrium wage determined by market forces, employers may be unable or unwilling to hire as many workers as possible, leading to job losses.✓✓
- Minimum wages can limit job opportunities for entry-level workers. Small businesses may struggle to afford higher wages, leading them to cut back on hiring or reduce working hours. ✓✓
- Critics assert that minimum wages interfere with the natural functioning of the labour market. They argue that wages should be determined by supply and demand, and government intervention through minimum wage laws disrupts this process, leading to inefficiencies. ✓✓

Additional

- Minimum wages raise the cost of labour for employers, particularly for businesses that heavily rely on low-wage workers. ✓✓
- This can lead to higher production costs and potentially result in increased prices for goods and services, affecting consumers. ✓✓

- When minimum wages are set above the equilibrium wage rate, employers may find it more expensive to hire additional workers resulting in reduced employment opportunities, for low-skilled workers✓✓
- Smaller businesses, with limited profit margins and fewer resources, may struggle to absorb the increased labour costs associated with minimum wages. This can lead to financial strain, reduced profitability, and potentially business closures. ✓✓
- Higher minimum wages can contribute to inflationary pressures in the economy. ✓✓
- As businesses face increased costs, they may pass those costs onto consumers through higher prices. ✓✓
- Minimum wage can erode the purchasing power of wages and potentially offset the intended benefits of higher minimum wages. ✓✓

(Allocate a maximum of 4 marks for a mere listing of facts/examples.) (8)

4.5 **What are some of the unintended consequences, in addition to lower production costs, of government subsidies on the agricultural sector?**

- Government subsidies in the agricultural sector are intended to support farmers, ensure food security, and facilitate rural development. Subsidies can however lead to unintended consequences. ✓✓
- Subsidies often incentivise farmers to increase production beyond market demand. ✓✓
- This can result in overproduction, leading to surpluses in the market. ✓✓
- Surpluses can drive down prices, negatively affecting farmers' incomes and creating storage and disposal challenges for excess produce. ✓✓
- Subsidies can distort market signals by artificially altering prices and production levels. ✓✓
- This may lead to the inefficient allocation of resources as farmers may focus on crops that are subsidised, rather than those with higher market demand or better environmental suitability. ✓✓
- Subsidies might encourage unsustainable agricultural practices. ✓✓ Certain crops may make excessive use of fertilisers and pesticides, leading to environmental degradation, soil erosion, water pollution, and loss of biodiversity. ✓✓
- Agricultural subsidies can distort international trade by making domestic products cheaper artificially, leading to trade disputes with other countries. ✓✓
- Subsidised exports from one country may undermine farmers in another country, creating unfair competition and impacting global market dynamics. ✓✓
- Subsidies often require substantial government spending. Over time, these subsidies can strain government budgets. ✓✓

(Accept any other correct relevant response.)
(Allocate a maximum of 2 marks for the mere listing of facts/examples.) (8)
[40]

TOTAL SECTION B: 80

SECTION C

Answer ONE of the two question from this section in the ANSWER BOOK.

Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower-order response. • A good starting point would 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. • Any opinion or value 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: MICROECONOMICS **40 MARKS – 40 MINUTES**

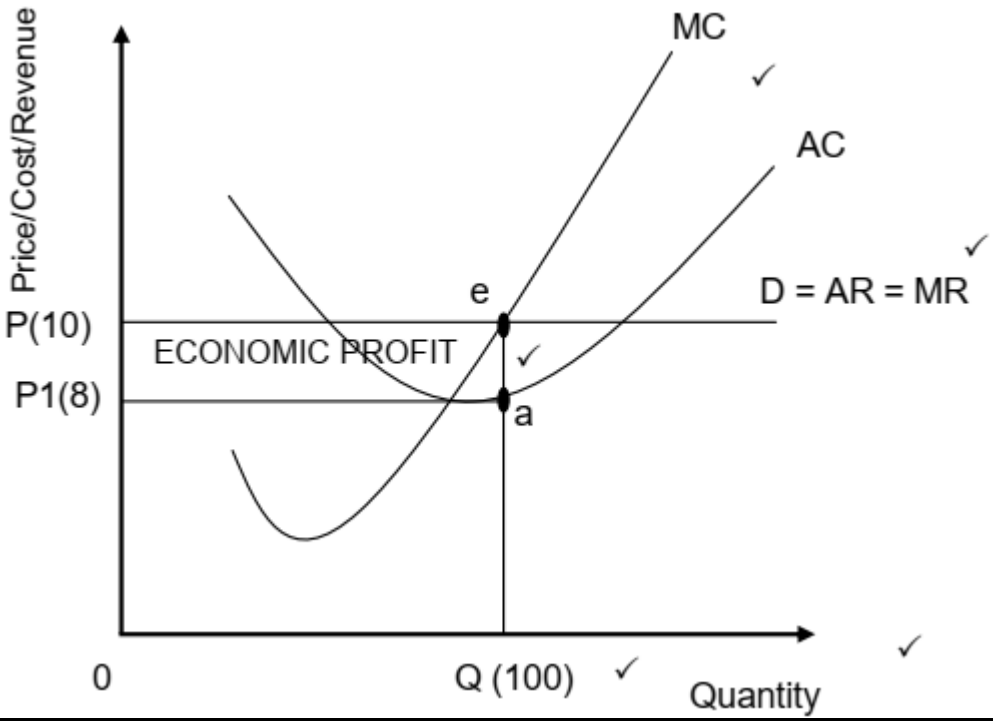
- **Discuss in detail the various equilibrium positions of a firm in a perfect market with the aid of graphs. (26)**
- **How does the pressures of competing in a perfect market affect the ethical behaviour of firms? (10)**

INTRODUCTION

The individual business can make an economic profit, economic loss or normal profit in the short run. They are referred to as short run equilibrium positions. In the long run the individual business will always make normal profit. ✓✓
(Accept any other suitable introduction.) (Max. 2)

BODY

MAIN PART
ECONOMIC PROFIT✓



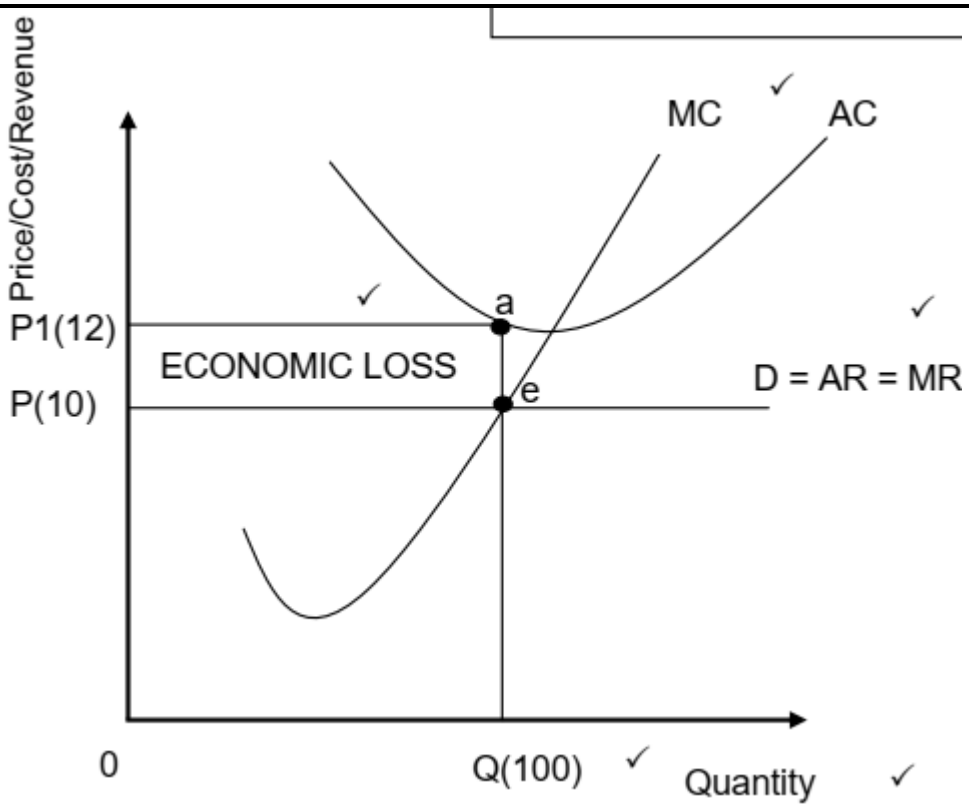
Correct positioning and labelling of cost curves = 1 mark
Correct positioning and labelling of revenue curves = 1 mark Indication of economic profit area = 1 mark
Labelling on axes = 1 mark
Labelling of axes = 1 mark

Max 4 marks

- Economic profit 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. ✓✓
- The firm produces at point e where MR=MC✓✓
- At e, Q/100 units are produced at P/R10. ✓✓
- At point e, AR (P/R10) is greater than AC (P1/R8). ✓✓

- The firm makes an economic profit of PeaP1 /TR - TC (R1000 – R800= R200) / R2 x 100 = R200). ✓✓

ECONOMIC LOSS✓

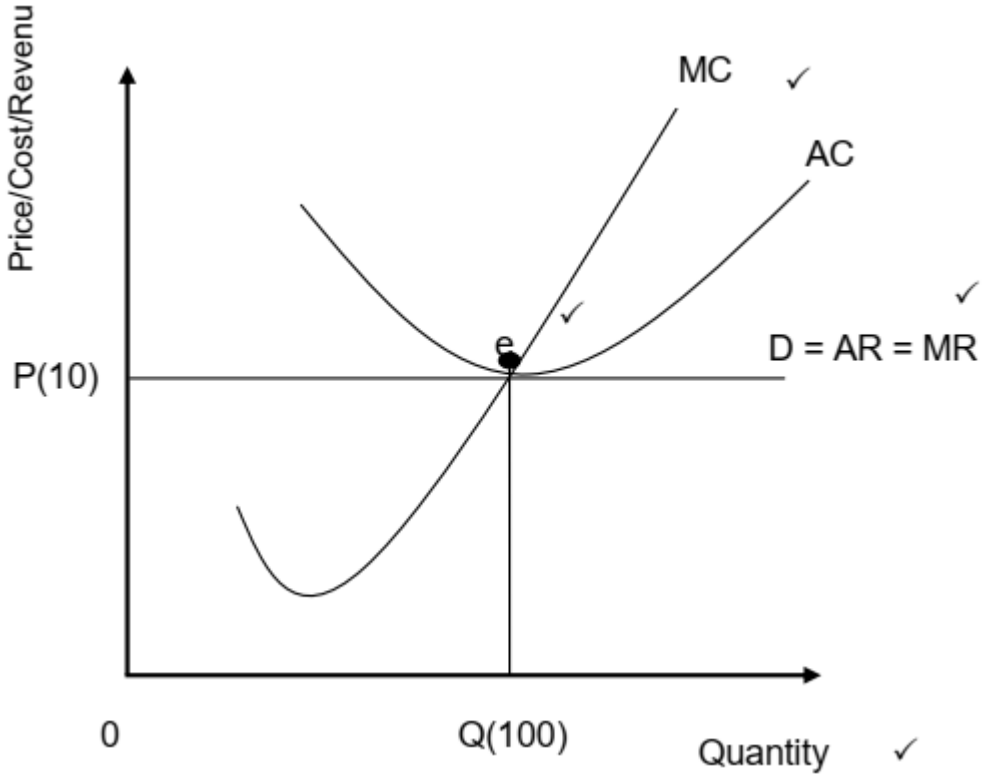


Correct positioning and labelling of cost curves = 1 mark
Correct positioning and labelling of revenue curves = 1 mark
Indication of economic loss area = 1 mark
Labelling on axes = 1 mark
Labelling of axes = 1 mark

Max 4 marks

- Economic loss occurs when total costs are greater than the total revenue/when average revenue is lower than the average cost. ✓
- The firm produces at point e where MR=MC. ✓✓
- At e, Q/100 units are produced at P/R10. ✓✓
- At point e, AR (P/R10) is less than AC (P1/R12). ✓✓
- The firm makes an economic loss of PP1ae / TR – TC (R1000 – R1200 = - R200)/ R10 – R12 = - R2). ✓✓

NORMAL PROFIT✓



Correct positioning and labelling of cost curves = 1 mark
Correct positioning and labelling of revenue curves = 1 mark Indication of break-even point = 1 mark
Labelling of axes = 1 mark Labelling on axes = 1 mark
Max 4 marks

- Normal profit is the minimum earnings required to prevent the entrepreneur from leaving the industry. ✓✓
- Normal profit occurs when total revenue equals total cost/ when average revenue equals average cost. ✓✓
- The firm produces at point e where MR=MC. ✓✓
- At e, Q/100 units are produced at P/R10. ✓✓
- At point e, AR (P/R10) is equal to AC (P/R10). ✓✓
- The firm makes normal profit of P x Q – AC x Q / R1000 – R1000 = R0 / R10 – R10 = R0. ✓✓

Additional instructions:

- Mark allocation for graphs= max 12 marks
  - Max 12 marks for 3 graphs
  - Max 8 marks for 2 graphs
  - Max 4 marks for 1 graph
- Mark allocation for explanations of graphs = max 14 marks (Max 26)

ADDITIONAL PART

- In a highly competitive environment, firms may face immense pressure to succeed, which might lead some to consider unethical practices to gain an edge over competitors. ✓✓
- This pressure to perform and stay afloat in the market can sometimes drive firms to compromise on their ethical standards. ✓✓
- The need make profits can lead to compromises in product/service quality as firms attempt to stay profitable at market prices. ✓✓
- This could result in unethical decisions, such as the lowering of product standards or engaging in deceptive advertising. ✓✓
- In a struggle to survive or stay competitive, firms might gradually dilute their ethical standards to match those of competitors, rationalising that they have no choice but to adapt to the industry norms. ✓✓
- Competition does not necessarily erode ethical behaviour. ✓✓
- Many firms in competitive markets maintain high ethical standards and conduct business with integrity. ✓✓
- Ethical behaviour often stems from a company's values, leadership, and commitment to maintaining ethical standards despite competitive pressures. ✓✓
- Moreover, competition can also foster positive outcomes, encouraging innovation, efficiency, and better customer service. ✓✓
- Ethical behaviour can become a competitive advantage for firms by enhancing their reputation and building trust with consumers. ✓✓

(Accept any other correct relevant response.)
(Allocate a maximum of 2 marks for the mere listing of facts.) (Max. 10)

CONCLUSION

While competitive markets may present challenges to ethical behaviour, a firm's commitment to upholding ethical standards despite competitive pressures is crucial in maintaining integrity and trustworthiness in the market. Ethical behaviour remains a choice influenced by a firm's values, culture, and leadership. ✓✓
(Accept any other correct higher-order conclusion.) (Max. 2) **[40]**

QUESTION 6: MICROECONOMICS **40 MARKS – 40 MINUTES**

- **Discuss in detail, without the use of graphs, the characteristics of monopoly as a market structure.** **(26 marks)**
- **Critically analyse the existence of monopolies in addressing socioeconomic issues in South Africa.** **(10 marks)**

INTRODUCTION

A monopoly is a market structure characterised by a single seller or producer dominating the entire industry, facing no competition from other firms. ✓✓
(Accept any other correct relevant introduction.) (Max. 2)

MAIN PART

The characteristics of a monopoly are as follows:

Single seller or producer ✓
- There is only one firm in the industry and this firm is responsible for the total market output. ✓✓
- The monopoly firm has market power as it faces the market demand curve for its product. ✓✓
- Consumers have limited choice as there is only one supplier in the market. This lack of choice can result in higher prices and reduced consumer surplus. ✓✓

Control over price ✓
- It can change the market price by changing the quantity it supplies as it is able to supply quantity that enables it to maximise profits. ✓✓
- Unlike in competitive markets where prices are determined by market forces, the monopoly can dictate the price. ✓✓

Nature of products ✓
- The monopolist produces a unique product for which there are no close substitutes. ✓✓
- This means that consumers do not have alternative options from different sellers. ✓✓ e.g., Eskom is the only bulk supplier of electricity in South Africa. ✓

Barriers to entry ✓
- Monopolies often have significant barriers that prevent new firms from joining the market. ✓✓
- Barriers may include high start-up costs, control over essential resources, government regulation and strong brand loyalty. ✓✓

Economies of scale. ✓

- Monopolies may benefit from economies of scale, allowing them to produce at lower average cost as they operate on a larger scale. ✓✓
- The monopolist's primary aim is to maximise profits, the firm produces at a point where MC=MR to maximise profits. ✓✓
- Because of the existence of barriers to entry, the monopolist tends to make economic profits in both the short term as well as in the long term. ✓✓

(Allocate a maximum of 8 marks for the mere listing of facts/examples.)
(Accept any other relevant heading up to a maximum of 8 marks and responses)

(Max. 26)

ADDITIONAL PART

South Africa, like many other countries, grapples with complex socioeconomic challenges, and the role of monopolies can have significant implications. ✓✓

Positive aspects.

- Monopolies may lead to the efficient production of goods or services due to economies of scale. This can result in lower average costs, potentially allowing for more affordable products for consumers. ✓✓
- Monopolies, if adequately regulated, can invest heavily in research and development, leading to innovation and technological advancements. This could have positive spill-over effects on the broader economy. ✓✓
- In certain industries, such as utilities, a monopolistic structure may be more conducive to long-term planning and significant infrastructural investments. This can positively impact the overall development of the country. ✓✓

Negative aspects.

- One of the main drawbacks of monopolies is their ability to set prices without competitive constraints. This can result in higher prices for consumers, reducing their purchasing power and contributing to income inequality. ✓✓
- Monopolies restrict consumer choice as there is only one provider in the market. This lack of competition can lead to complacency, the reduced quality of products or services, and a lack of incentive to meet diverse consumer preferences. ✓✓
- Monopolies often create significant barriers to entry, limiting opportunities for new businesses. This can hinder entrepreneurial activities and economic dynamism, particularly for small and medium-sized enterprises (SMEs). ✓✓
- Monopolies may engage in rent-seeking behaviour, focusing more on protecting their market dominance rather than on improving efficiency or innovation. This can lead to stagnation and hinder overall economic development. ✓✓

(Accept any other correct relevant response.)
(Max 4 marks if facts are not analysed.)
(Allocate a maximum of 2 marks for mere listing of facts/examples.)

(Max. 10)

CONCLUSION

The existence of monopolies in South Africa needs to be carefully assessed within the broader socio-economic context. While certain advantages may exist, the potential negative consequences, especially in terms of inequality and limited competition, underscore the importance of effective regulation and policies that foster inclusive economic development. ✓✓
(Accept any other correct higher-order conclusion.) (Max. 2)

TOTAL SECTION C: 40

TOTAL: 150