GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2024

MARKING GUIDELINES

ECONOMICS (PAPER 2) (10732)

25 pages

SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE-CHOICE QUESTIONS

1.1.1 C – price war ✓✓

1.1.2 A – fixed ✓✓

1.1.3 D – tribunal ✓✓

1.1.4 A – subsidy ✓✓

1.1.5 B – mortgage ✓✓

1.1.6 C – outbound ✓✓

1.1.7 D – deflation ✓✓

1.1.8 B – pollution ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 F ✓ when AR is between the shutdown point and break-even

1.2.2 A ✓ average cost (AC) is greater than the market price

1.2.3 E ✓ differences may be imaginary, only the brand names vary

1.2.4 D ✓ adjusted for the effects of inflation, cost of living, or input prices over time

1.2.5 H ✓ the highest amount at which goods and services can be sold

1.2.6 I ✓ the combination of high consumer price increases and slow economic growth

1.2.7 B ✓ travellers who want to learn about sites of great archaeological significance

1.2.8 C ✓ costs set or controlled by the government (8 x 1) (8)

1.3 **GIVE THE TERM**

1.3.1 Kinked demand curve ✓

1.3.2 Equilibrium price/ point ✓

1.3.3 Minimum wages ✓

1.3.4 Public-private partnerships ✓

1.3.5 Producer Price Index ✓

1.3.6 Environmental subsidies/ Subsidies ✓

(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 features of the demand curve of a perfect market.**

Individual
- Demand curve horizontal/ perfect elastic?✓
- Demand curve price remain fixed✓
- Price, average revenue and marginal revenue same✓

Market
- The demand curve is negative (sloping downwards) ✓OR
- Prices increase/decrease when demand increases/decreases. ✓

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

2.1.2 **Why do producers/businesses prefer other market structures over perfect competition?**

Companies do not like pure competition because they need to compete with other companies based on price. Therefore, companies know that if there is pure competition in the market, they can not expect positive economic profits in the long run because the selling price is determined by the market. ✓✓
(Accept any other correct relevant response.) (1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **Identify the cause for job losses at platinum mines, according to the article.**

The platinum price fell/mines were making losses. ✓
(Accept any other correct relevant response.) (1)

2.2.2 **Name the type of cost that is used to determine the shut-down point of a business under perfect competition.**

Average Variable costs/ Variable cost ✓ (1)

2.2.3 **Briefly describe the term *short-run supply curve*.**

The firm's short-run supply curve is the portion of its marginal cost curve that lies above its average variable cost curve. ✓✓
(Accept any other correct relevant response.) (2)

2.2.4 **How does the platinum price influence the shutdown decision of platinum mines?**

Positive
Existing mines that were on the brink of closure may remain operational due to the improved profitability.✓✓
Mines may expand operations to capitalize on the higher prices, leading to increased output .✓✓
Negative
When platinum prices decline, it can be difficult to cover operational expenses, which can influence the decision to shut down temporarily or permanently. ✓✓
Mines that were already struggling financially may be forced to shut down sooner due to declining prices.✓✓

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

2.2.5 **How can the Sibanye mines ensure that their operations continue during a platinum price collapse?**

- Streamline operations to reduce production costs, which may involve renegotiating contracts and cutting unnecessary expenses. ✓✓
- Make use of more efficient production techniques and automation to increase efficiency and maintaining profitability at lower prices. ✓✓
- Adjust workforce using temporary or contract workers during peak times and scaling back during downturns. ✓✓
- Invest in exploration and technological innovation to identify new ore bodies, increase mineral recovery rates, and lower extraction costs. ✓✓

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

2.3 **DATA RESPONSE**

2.3.1 **Identify the productive inefficient point on the graph above.**

A ✓ (1)

2.3.2 **Name ONE cause of productive inefficiency.**

- Insufficient or poorly maintained infrastructure ✓
- Workforce with lower skills and productivity ✓
- Limited access to financing and capital ✓
- Bureaucracy and excessive government regulations ✓
- Corruption in government and business ✓
- Political instability and conflicts ✓
- Poor access to technology and innovation ✓
- Poor healthcare and high rates of illness ✓
- Inflexible labour markets ✓

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

2.3.3 **Briefly describe the term *pareto efficiency.***

A situation where resources are allocated in such a way that it is impossible to make any individual better off, without making someone else worse off. ✓✓
(Accept any other correct relevant response.) (2)

2.3.4 **Explain why allocative inefficiency leads to a reduction in the welfare of consumers.**

- Allocative inefficiency will result in the production of quantities and types of goods or services that are not best for consumers. ✓✓
- Allocative inefficiency can lead to a reduction in consumer surplus, which is the extra value that consumers receive when they can purchase a good or service at a price lower than what they are willing to pay. ✓✓
- Allocative inefficiency result in businesses producing goods that do not match or reflect the interest of consumers. ✓✓

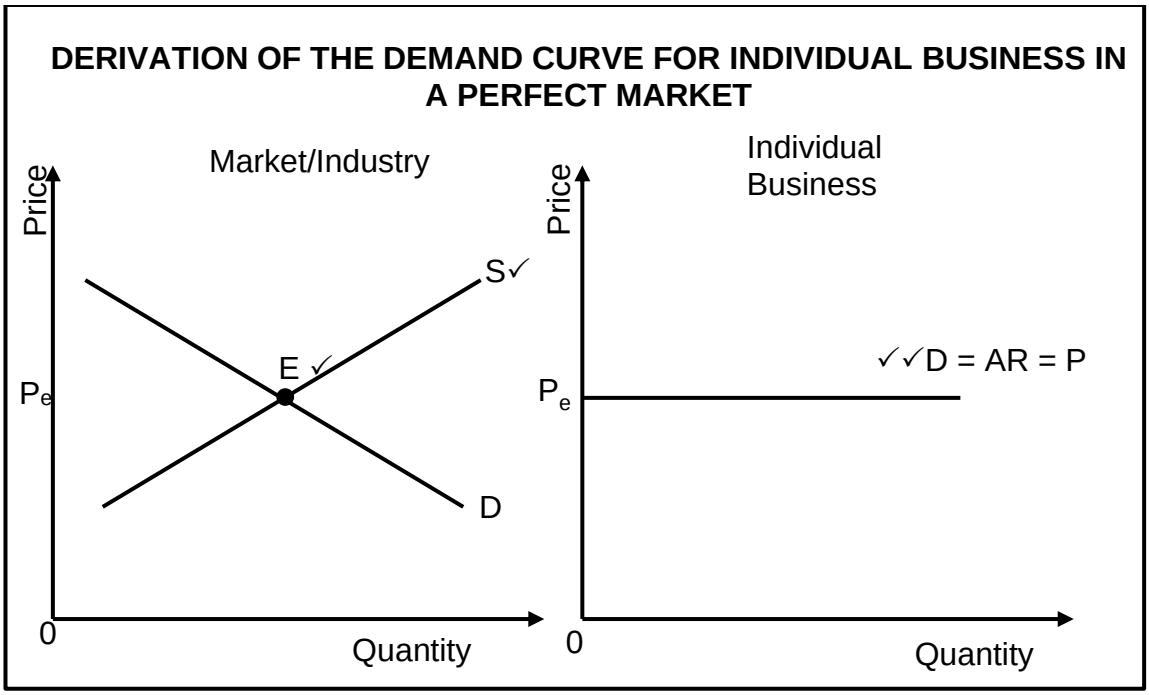
(Accept any other correct relevant response.) (2)

2.3.5 **What is the impact of productive inefficiency on the costs and the competitiveness of a business?**

- Productive inefficiency means that a firm is not operating at its maximum production capacity or at the lowest possible cost. ✓✓
- Inefficiency will lead to a business having higher production costs, which could lead to higher selling prices and lower its competiveness. ✓✓
- Inefficient firms will not benefit from economies of scale when they increase their production output. ✓✓
- As a result, they will be unable to offer lower prices and capture a bigger market share. ✓✓

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

2.4 **With the aid of a graph, explain the derivation of the demand curve for an individual business in the perfect market.**



Mark allocation	
1. Correct drawing/labelling of demand and supply curves of the market	= 1 mark
2. Indication of equilibrium point of the market	= 1 mark
3. Correct positioning/labelling and derivation of the individual business demand curve from the market equilibrium point at point P_e	
(No marks for only individual businesses only)	= 2 marks
	Max. = 4 marks

- The market price is set by the supply and demand of the industry (graph on left) P_e. ✓✓
- In a perfect market, all firms sell homogeneous products. Consumers have no preference for one firm's product over another, as they are identical in quality and characteristics. ✓✓
- There are a large number of buyers and sellers in a perfect market resulting in none of the individual businesses being able to influence the market price. ✓✓
- Each firm is a price taker, meaning it must accept the prevailing market price for its product. ✓✓
- Any business can sell as much as it wants at the market price, there is no need to reduce the price to sell more. ✓✓
- The demand curve for an individual business is thus perfectly elastic and horizontal at the market price P_e. (Graph on the right) ✓✓

(Accept any other correct relevant response.) (Max. 4) (8)

2.5 **How can non-market costs, such as environmental costs or social impacts, be included when conducting a CBA?**

- Environmental or social impacts, play an important role in project decision-making. ✓✓
- Integrating them into the CBA framework is essential for a more holistic evaluation of projects or policies. ✓✓
- One would need to first identify and describe the environmental or social impacts associated with the project. ✓✓
- This may include environmental factors such as air and water quality, biodiversity, and social factors like community cohesion, cultural heritage, or public health. ✓✓
- By asking the experts and stakeholders to give their insights will ensure a comprehensive understanding of the environmental or social impacts. ✓✓
- Social impacts, surveys, focus groups, and participating methods can provide valuable quantitative and qualitative data. ✓✓
- An ecological footprint study can be used to assess the environmental impact of a project. ✓✓
- Calculate the opportunity cost of costed items used in the project. ✓✓ For example, if land is used for environmental conservation, estimate the opportunity cost by considering its potential alternative uses, such as agriculture or other developments. ✓✓
- Accurately assessing and integrating environmental or social impacts into the Cost-Benefit Analysis (CBA) framework is a complex but necessary task. ✓✓

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

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

3.1 Answer the following questions.

3.1.1 **List any TWO international protocols, on the environment, between 1990 and 2016.**

- Rio de Janeiro Earth Summit (1992) ✓
- Kyoto Protocol for Climate change (1997) ✓
- Johannesburg Summit (2002) ✓
- Millenium Development Goals (2015) ✓

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

3.1.2 **How does tourism contribute to climate change?**

Tourism is responsible for roughly 8% of the world's carbon emissions. From plane flights and boat rides to souvenirs and lodging. Various activities contribute to tourism's carbon footprint. ✓✓
(Accept any other correct relevant response.) (1 x 2) (2)

3.2 **DATA RESPONSE**

3.2.1 **Identify ONE opportunity brought about by tourism to develop entrepreneurship in South Africa.**

- Open B & B guest houses ✓
- Opening restaurants ✓
- Selling arts and crafts to tourists ✓

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

3.2.2 **Name ONE career related to tourism.**

- Tour guiding ✓
- Game ranging ✓
- Nature conservation ✓
- Developing and improving small businesses ✓

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

3.2.3 **Briefly describe the term *transit tourist.***

A transit tourist is a traveller who has a connecting flight or other form of transportation at a particular location, and who stays in that location for less than 24 hours before continuing to their final destination. ✓✓
(Accept any other correct relevant response.) (2)

3.2.4 **How is tourism marketed internationally by South Africa?**

- The South African Tourism (SAT) marketing strategy is focused on promoting South Africa's unique diversity, including its stunning scenery, rich wildlife, vibrant culture, and delicious cuisine. ✓✓
- SAT also works with its partners in the tourism industry to promote South Africa internationally. e.g., SAT partners with airlines, tour operators, and travel agents to offer special packages to potential tourists. ✓✓

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

3.2.5 **How can tourism reduce gender inequality in South Africa?**

- Create equal opportunities for women working in tourism. ✓✓
- Inspire women's tourism entrepreneurship. ✓✓
- Advance women through tourism education and training. ✓✓
- Encourage women to lead in tourism. ✓✓
- Support women in community and home-based tourism enterprises. ✓✓
- Tourism can empower women in multiple ways, particularly through the provisioning of jobs and through income- generating opportunities ✓✓

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

3.3 **DATA RESPONSE**

3.3.1 **Identify the cause of inflation in the graph above**

Cost push✓/ Decrease in supply✓/ An increase in the cost of production✓
(Accept any factors that can cause a shift in supply) (1)

3.3.2 **Name the type of inflation that excludes highly volatile prices.**

Core Inflation ✓

3.3.3 **Briefly describe the term *all-inclusive inflation.***

All-inclusive inflation is a measure of inflation that takes into account the prices of all goods and services produced in an economy. It is calculated using the Implicit GDP deflator, which is the ratio of GDP at current prices to GDP at constant prices. ✓✓
(Accept any other correct relevant response.) (2)

3.3.4 **Describe the effect of inflation on industrial unrest.**

When prices are rising rapidly, workers are likely to demand higher wages to keep up with the rising cost of living and this can lead to strikes and other forms of labour unrest. ✓✓
(Accept any other correct relevant response.) (2)

3.3.5 **Explain the effect of inflationary expectations on producers.**

High inflationary expectations can have a significant impact on the economy, potentially leading to the following:

- Businesses may struggle to plan for the future and make investment decisions due to uncertainty about future price levels. ✓✓
- If producers expect selling prices to rise in the future, they may be incentivized to increase production now to capitalise on higher future profits. This can lead to higher economic output and investment in production capacity. ✓✓
- **Erosion of purchasing power:** If input costs rise faster than selling prices, producers' profits can decrease, even if they raise prices. This can force them to cut costs or reduce production, impacting jobs and economic activity. ✓✓

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

3.4 **Distinguish between *fiscal measures* and *monetary measures* when combating inflation.**

- Fiscal measures target government revenues and expenditures, while monetary measures primarily deal with interest rates and the money supply. ✓✓
- Fiscal policy is controlled by the government, whereas monetary policy is managed by the central bank. ✓✓
- Monetary measures, especially interest rate changes, can often be implemented more quickly than fiscal policies, which may require legislative approval and can have delayed effects. ✓✓
- Fiscal measures tend to directly affect consumers and businesses through taxes and government spending, while monetary measures influence inflation indirectly through financial markets and credit availability. ✓✓
- Both fiscal and monetary measures aim to reduce inflation but operate through different mechanisms and at different levels of the economy. ✓✓ (4 x 2)

Fiscal measures

- These are measures applied by the government (treasury) to combat inflation ✓
- Increasing direct taxes to reduce disposable income and curb excessive demand ✓
- Increasing indirect taxes such as VAT, excise and customs duties to increase specific prices and curb demand ✓
- Reducing government spending to reduce disposable income thereby curbing demand ✓
- Implementing measures to improve productivity such as tax rebates, to improve the supply position ✓ (Max. 4)

Monetary measures

- These are measures applied by the central bank (SARB) to combat inflation ✓
- Increase the repo rate to banks to reduce the availability of credit to consumers ✓
- Increase the interest rates to make it more expensive to borrow thereby reducing demand ✓
- Decrease the money supply by means of open-market transactions through the selling of government bonds ✓
- Increase banks cash reserve requirements to reduce their money available for lending to customers ✓
- Introduce exchange and credit control ✓ (Max. 4)

(Accept any other correct relevant response.) (4 x 2) (8)

3.5 **What is the impact of exchange rates on tourism?**

- Exchange rates affect the demand for tourism by influencing the relative costs and benefits of traveling to different destinations. ✓✓
- When a currency appreciates, or increases in value, it becomes cheaper for the holders of that currency to buy goods and services abroad. ✓✓
- When a currency appreciates foreign travel becomes more attractive and affordable, it stimulates outbound tourism. ✓✓

- Conversely, when a currency depreciates, or decreases in value, it becomes more expensive for the holders of that currency to buy goods and services abroad. ✓✓
- When the currency losses value, foreign travel becomes less attractive and outbound tourism will be discouraged. ✓✓
- If the US dollar appreciates against the Rand, Americans will find it cheaper to travel to South Africa, while South Africans will find it more expensive to travel to the US. ✓✓

(Accept any other correct relevant answers.)
(Allocate a maximum of 2 marks for the mere listing of facts/examples) (4 x 2) (8)
[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 Answer the following questions.

4.1.1 **List any TWO world heritage sites.**

- Richtersveld Cultural and Botanical Landscape ✓
- iSimangaliso Wetland Park ✓
- Cape Floral Region ✓
- Cradle of Humankind ✓
- Mapungubwe Cultural Landscape ✓
- Robben Island ✓
- Ukhahlamba/Maloti Drakensberg Park ✓
- Vredefort Dome ✓
- Khomani Cultural Landscape ✓
- Barberton Makhonjwa Mountains ✓

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

4.1.2 **How does the imperfect distribution of income and wealth contribute to market failures?**

- Unequal distribution of income and wealth can restrict access to resources, hindering the individuals' ability to participate fully in markets. ✓✓
- Lower-income individuals have limited access to education, leading to a less skilled workforce, affecting efficiency in the labour market. ✓✓

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

4.2 **DATA RESPONSE**

4.2.1 **Identify the institution in the cartoon that closely resembles a perfect market.**

- The JSE ✓/Johannesburg Stock Exchange/Johannesburg Securities Exchange ✓ (1)

4.2.2 **Name ONE type of tax that may be levied on cannabis related products.**

- Sales tax ✓
- VAT ✓
- Sin tax/Excise tax ✓

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

4.2.3 **Briefly describe the term *market regulations*.**

- Rules put in place by authorities to ensure that markets operate fairly and efficiently. ✓✓

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

4.2.4 **Explain why a tax on cannabis could help prevent over-consumption/ abuse if legalised without any restrictions.**

- Taxes increase the price of cannabis products, making them less affordable, especially for price-sensitive consumers like the youth. ✓✓

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

4.2.5 **Evaluate the externalities of legalising cannabis on the South African economy.**

Positive impact

- Increase in revenue for the government through taxation (excise duty). ✓✓
- Increased number of commercial farms cultivating cannabis and possibly increased number of jobs. ✓✓
- Cannabis legalisation offers farmers an opportunity to diversify their crops. ✓✓
- Reduced spending on criminalised activities like policing and possible court intervention, thereby reducing government spending on prosecution cannabis users. ✓✓
- Social benefits for medicinal usage on people suffering from epilepsy. ✓✓

Negative impact

- An increased use of cannabis, especially youngsters which have serious addiction issues and harmful side effects like brain damage and lung cancer. ✓✓
- Increase in public health expenditure to treat side effects. ✓✓
- Increased carbon dioxide from farming which could affect climate change. ✓✓
- An increase in excise duties on cannabis could drop the demand for legal cannabis products. ✓✓
- Currently the cultivation is restricted to private use and medical usage, corresponding regulations is focusing on limiting the supply side rather than the demand side. ✓✓

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

4.3 DATA RESPONSE

4.3.1 Identify ONE negative impact of inflation on tourism from the extract above.

- Surge in travel related costs ✓
- Decrease in the purchasing power of tourists ✓ (1)

4.3.2 Name ONE cause for the decrease in tourism other than inflation.

- Corona virus lockdown/COVID-19 ✓
- Economic impact of Russia-Ukraine war on global markets ✓
- Rise in energy and food costs. ✓
- Loadshedding ✓ (1)

(Accept any other correct relevant response.)

4.3.3 Briefly describe the term *cultural diversity.*

- Cultural diversity refers to the existence of a variety of cultures within a society and it encompasses the different customs, traditions, beliefs, values, and languages that make up the human experience. ✓✓

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

4.3.4 Describe the effect of tourism on infrastructure development.

Tourism often leads to the development of infrastructure, such as roads, airports, and public transportation, which benefits both tourists and residents. ✓✓

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

4.3.5 How can indigenous knowledge systems contribute to promoting tourism?

- IKS can provide insights into local cultures, traditions, and practices, allowing tourists to gain a deeper understanding and appreciation of the destination and this can lead to more authentic and enriching tourism experiences. ✓✓
- IKS can provide a wealth of information about local flora and fauna, traditional handicrafts and unique cultural practices. This information can be used to develop new and diverse tourism products and experiences that attract a wider range of visitors. ✓✓

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

4.4 **Explain how *price* and *output* are determined under monopolistic competition.**

- Monopolistic competition is a market structure where a large number of firms produce similar, though not interchangeable, products. ✓✓
- Companies in monopolistic competition act as price makers and set prices for goods and services. ✓✓
- Firms in monopolistic competition can raise or lower prices without inciting a price war, often found in oligopolies. ✓✓
- The monopolistic competitor will select the profit-maximising level of output where MR = MC, and then charge the price for that quantity of output as determined by the market demand curve. ✓✓
- If that price is above average cost, the monopolist earns positive profits. ✓✓
- Because the individual firm's demand curve is downward sloping, reflecting market power, the price these firms will charge will exceed their marginal costs. ✓✓
- A monopolistically competitive firm is not efficient because it does not produce at the minimum of its average cost curve or produce where P = MC. ✓✓
- Thus, a monopolistically competitive firm will tend to produce a lower quantity at a higher cost and charge a higher price than a perfectly competitive firm. ✓✓

(Accept any other correct relevant response.) (4 x 2) (8)

4.5 **How are local people marginalised in popular tourist areas?**

- Prices of necessities in these areas tend to be higher than elsewhere. ✓✓
- Business activities are limited for locals as they are regulated to supply certain products and services. ✓✓
- Protection and security are highly visible in these areas while very little resources are available in local communities. ✓✓
- The facilities (in resorts) are often restricted to visitors only. Local people cannot enjoy these facilities. ✓✓
- Local people have to be resetled in order to accomadate the development of new tourist facilities. ✓✓
- Local workers only receive lower wage jobs and cannot afford to experience local tourism facilities. ✓✓

(Accept any other correct relevant response.)
(A maximum of 2 marks may be allocated for the mere listing of facts/examples) (8)

[40]

TOTAL SECTION B: 80

SECTION C

Answer ONE of the two questions in 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

- **Discuss, in detail, the various short run profit and loss possibilities of the monopoly with the aid of graphs. Briefly explain the long run equilibrium without the use of graphs. (26)**

- **Why does the monopoly market structure often lead to inefficient markets? (10) [40]**

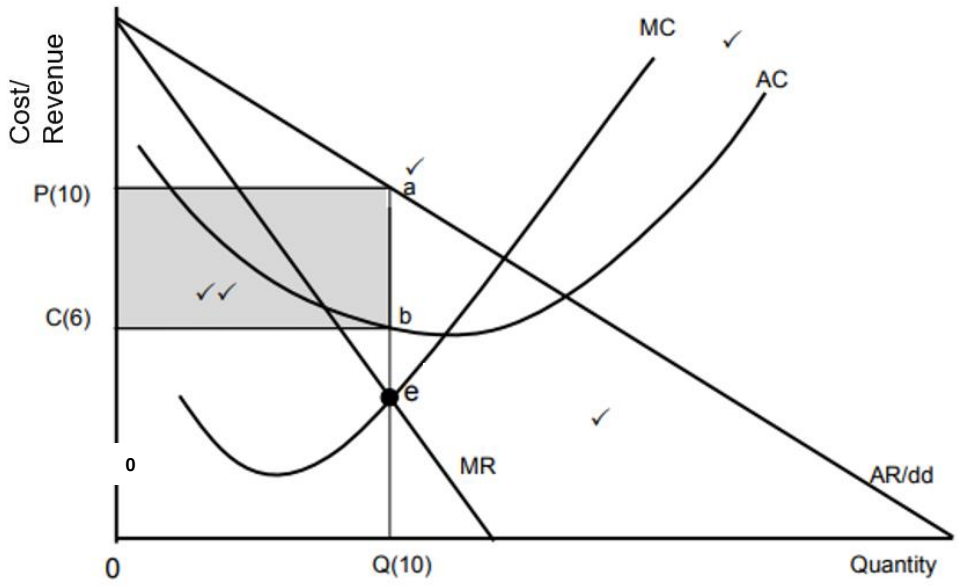
INTRODUCTION

A monopoly exists when a single firm dominates the entire market for a particular good or service. ✓✓
(Accept any other relevant introduction.) (Max. 2)

MAIN PART

Short run equilibrium positions

Economic profits



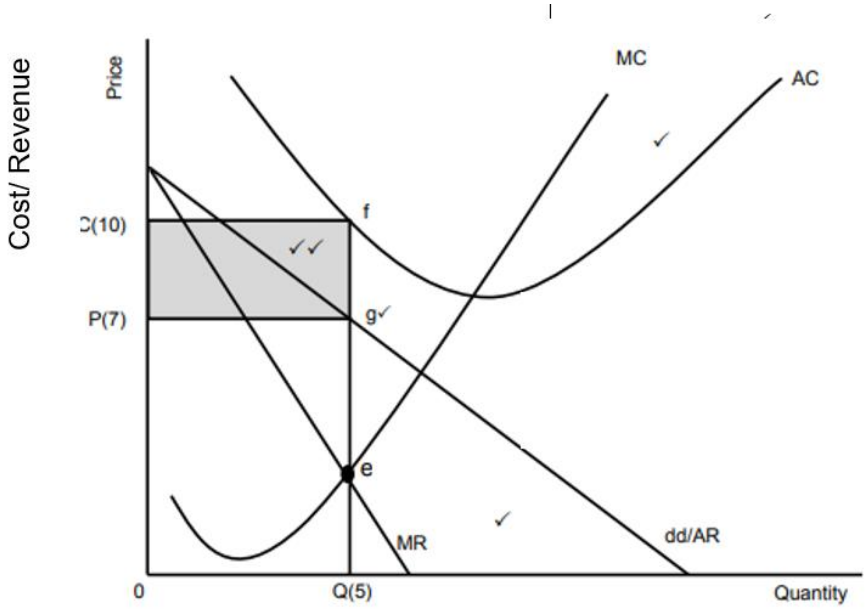
Mark allocation		
1.	Correct positioning and labelling of cost curves = 1 mark	1 mark
2.	Correct positioning and labelling of revenue curves = 1 mark	1 mark
3.	Correct indication of profit maximising point = 1 mark	1 mark
4.	Correct indication of economic profit = 2 marks	2 mark
	Max.	**4 marks**

- Monopoly is subject to same technological and cost constraints as other market structures ✓✓

- The cost structure of the monopoly is the same than that of competitive businesses✓✓
- Where the monopolist will try to maximize both short and long-term profit ✓✓
- Location of SAC in relation to market price determines profit or loss ✓✓
- The MR curve lies below the AR curve, halfway between the AR and the origin ✓✓
- The MC curve intersects the AC curve at its minimum point ✓✓
- Determine point where SMC = MR – point where production cost of last unit is equal to revenue it earns (point e) – profit-maximising production quantity of Q on horizontal axis ✓✓
- The monopolist will produce at the output (Q[10]) where MR=MC, because it can maximise profit at this level ✓✓
- Point a represents the average revenue at selling price (P[10]) while point b represents the average cost at the cost price (C[6]) ✓✓
- When the average revenue is more than the average cost, it results in an economic profit for the business / When the TR is more than TC it will result in an economic profit for the business ✓✓
- The monopoly makes economic profit when AC curve is below market price (AR) ✓✓
- The monopoly blocks new entries so that competing businesses cannot reduce short run economic profit ✓✓
- Total income = Price x Quantity = OP(10) x OQ(10) = OPaQ (100)
  Total cost = Cost x Quantity = Oc(6) x OQ(10) = OCbQ (60) ✓✓
  Economics profit = Income – Cost = 100 – 60 = CPab (40) ✓✓

(Max 6)

Economic losses



Mark allocation		
1.	Correct positioning and labelling of cost curves = 1 mark	1 mark
2.	Correct positioning and labelling of revenue curves = 1 mark	1 mark
3.	Correct indication of loss maximising point = 1 mark	1 mark
4.	Correct indication of economic loss = 2 marks	2 mark
	Max.	**4 marks**

- The minimum point of SAC is higher than market price ✓✓
- A monopoly makes an economic loss when its revenue is less than its costs ✓✓
- The monopoly will produce at the output level where MR=MC, because it can minimise losses at this level ✓✓
- Point g represents the average revenue at selling price (P[7]) while point represents the average cost at the cost price (C[10]) ✓✓
- The average cost is more than the average revenue, resulting in an economic loss for the business / When the TC is more than TR it will result in an economic loss for the business ✓✓
- The shaded area PCef shows the economic loss ✓✓
- The monopoly suffer an economic loss in the short run when the AC curve is above the market price (g) ✓✓
- Total income = Price x Quantity = OP(7) x OQ(5) = OPgQ (35)
  Total cost = Cost x Quantity = OC(10) x OQ(5) = OCfQ (50) ✓✓
- Economic loss = (PCfg)15 ✓✓

(Max 6)

Long run equilibrium

- In the long run, a monopoly achieves equilibrium at the point where it maximizes profit.
- Given that it is the sole producer in the market it can continue to earn economic profits because there are barriers to entry (e.g., patents, economies of scale, or government regulations✓) that prevent other firms from entering the market and driving profits down. ✓✓
- The monopoly doesn't face competition, so unlike in competitive markets, it doesn't experience pressure to reduce its price to the level of its average cost. ✓✓
- A monopoly is not necessarily productively efficient because it does not produce at the minimum point of the average total cost (ATC) curve. ✓✓
- The long-run equilibrium of a monopoly is characterized by profit maximization where MC = MR, the ability to maintain economic profits due to entry barriers, and inefficiencies in terms of both allocative and productive efficiency. ✓✓

(Max. 6)

ADDITIONAL PART

- Monopolies, while potentially efficient in certain aspects, are often criticised for their potential to lead to inefficiencies in resource allocation. ✓✓
- Monopolies have the power to set prices higher than the marginal cost of production. ✓✓
- Since they are the sole provider in the market, consumers have limited choices and may be forced to accept higher prices. ✓✓
- This can result in a misallocation of resources as consumers may not be able to afford the product at the price, charged by the monopoly leading to a reduction in consumer surplus. ✓✓
- Monopolies may produce less than the socially optimal quantity of goods or services. ✓✓
- In a monopoly, the quantity produced is determined where marginal revenue equals marginal cost, and this can be lower than the level that maximizes social welfare. ✓✓
- Since they face limited competition, there is less pressure to innovate, cut costs, or improve processes. ✓✓
- This can result in a less efficient use of resources and higher production costs than might be the case in a competitive market. ✓✓
- With little competition, monopolies may have less motivation to invest in research and development or innovate. ✓✓
- In a competitive market, firms are constantly seeking ways to differentiate themselves and gain a competitive edge, resulting in a lack of innovation and technological progress. ✓✓ (Any 5 x 2)

(Accept any other correct relevant response.)
(A maximum of 2 marks may be allocated for the mere listing of facts/examples)

Conclusion

- In conclusion, while a monopoly can generate economic profits in both the short and long run, it also raises concerns about market power, inefficiency, and potential harm to consumers. ✓✓
- Government intervention may be necessary to regulate and monitor monopolies to ensure fair competition and to protect the interests of consumers. ✓✓ Max. 2

(Accept any other correct relevant response.)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

- **Discuss, in detail, the following problems and the international measures taken to ensure sustainable development:**

  - **Biodiversity (8 marks)**
  - **Chemical waste (6 marks)**
  - **Climate change (6 marks)**
  - **Indigenous knowledge (6 marks)** **(26)**

- **Critically discuss why the market fails to ensure environmental sustainability.** **(10)**

INTRODUCTION

Environmental sustainability is the ability of the environment to survive its use for economic activities/Environmental issues are global issues, as such the following environmental problems are areas of concern. ✓✓
(Accept any other relevant introduction.) (Max. 2)

MAIN PART

Biodiversity loss

- Biodiversity is the variety of species of plants and animal in a particular area. ✓✓
- It is concerned with the genetic variety among individuals within the same species and the number of species within a community of organisms. ✓✓
- The diversity of species in the world decreases rapidly due to extinction and extinction is an irreversible process. ✓✓
- Modern techniques such as gene transplantation can help to limit the loss of species. ✓✓
- The **United Nations' Convention on International Trade in Endangered Species (CITES)** prohibits trade in endangered plant and animal species. ✓✓
- Monitoring and regulation of trade in endangered species is carried out using permits and quotas. ✓✓
- In South Africa, a permit is needed for one to import plants and animals. ✓✓ (Max. 8)

Chemical waste

- Chemical waste is toxic and its effect on an organism can be death or infertility. ✓✓
- Chemical waste needs to be carefully managed to ensure that it does not leak into the ground water. ✓✓
- The **Stockholm Protocol** bans the twelve deadliest manufactured chemicals. ✓✓
- The **Rotterdam Convention** protects countries that lack adequate infrastructure to monitor the import and export of dangerous chemicals. ✓✓ (Max. 6)

Climate change

- Climate change is the change in the composition of the atmosphere that is related to human activity. ✓✓
- A build-up of certain gases such as carbon dioxide in the atmosphere causes the heat to be captured into the atmosphere, which leads to global warming. ✓✓
- Effects of climate change include changes in temperature and weather patterns. ✓✓
- The **United Nations' Framework Convention on Climate Change (UNFCCC)** sets objectives to reduce greenhouse gases. ✓✓
- **Kyoto Protocol** was signed as an agreement in which the levels of greenhouse gas emissions were agreed upon. ✓✓
- The objectives of the agreement were not achieved. ✓✓
- The Paris Agreement is a landmark international treaty aimed at addressing climate change by reducing greenhouse gas emissions and limiting global warming.✓ ✓ (Max. 6)

Loss of indigenous knowledge

- Indigenous people have knowledge about the natural environment, which they often use to make a living. ✓✓
- Indigenous people use organic methods and natural processes in dealing with the environment. ✓✓
- Local capacity building is important as it can help indigenous people to learn more about the environment beyond their traditional lifestyle and experiences. ✓✓
- **UNESCO's** management of the social transformation programme (**MOST**) is a global effort to document local/indigenous knowledge before it is lost forever. ✓✓

(Accept any other correct relevant response.) (Max 6)
(Allocate a maximum of 8 marks for the mere listing of facts/examples)
(At least **TWO** marks should be allocated for the **international measures** used to solve each problem) (Max. 26)

ADDITIONAL PART

Critically discuss why the market fails to ensure environmental sustainability.

- When companies or individuals engage in activities that harm the environment (pollution, habitat destruction, etc.), those costs aren't reflected in the price of their goods or services. ✓✓
- This means society, not the polluter, bears the true cost, leading to the overproduction of damaging activities and an under-provision of environmental protection. ✓✓
- Businesses often focus on maximizing short-term profits, neglecting long-term environmental consequences. Sustainable practices might involve upfront investments or reduced immediate profits, making them less attractive in a purely market-driven system. ✓✓
- Consumers often lack complete information about the environmental impact of their choices. This can lead to decisions that unknowingly contribute to environmental harm. ✓✓
- Many environmental resources, like clean air and healthy forests, are public goods. These are non-excludable (everyone can access them) and non-rivalrous (one person's use does not diminish the use by another person). ✓✓

- Markets struggle to efficiently manage public goods because free riders can consume them without contributing to their upkeep. ✓✓
- When the true cost of a resource used is not reflected in prices, people tend to consume more than is sustainable. ✓✓
- Businesses underinvest in sustainable practices due to short-termism/focus on short term profits ✓✓
- Inefficient allocation of resources, resources flow toward activities that provide immediate profit, regardless of their environmental impact. ✓✓
- Carelessness, people continue with harmful practises and leave future generations to worry about the consequences. ✓✓
- While markets are efficient in allocating resources for some goods and services, they are not well-suited for ensuring environmental sustainability. ✓✓
- Policy interventions, such as regulations, carbon pricing, and subsidies for sustainable practices, are often needed to address these market failures and encourage environmentally responsible behaviour. ✓✓

(Accept any other correct relevant response.) (Max. 10)
(A maximum of 2 marks may be allocated for the mere listing of facts/examples)

CONCLUSION

Countries need to implement various strategies to address market failures in ensuring environmental sustainability. These include policy interventions, investments in infrastructure, empowering communities and individuals and international co-operation. ✓✓
(Accept any correct relevant response.) (Max. 2)

[40]

TOTAL SECTION C: 40

TOTAL: 150