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Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

SEPTEMBER 2016

**ECONOMICS P2
MEMORANDUM**

MARKS: 150

This memorandum consists 14 pages.

SECTION A (COMPULSORY)**QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

1.1.1 B quantity demanded is equal to quantity supplied. ✓✓

1.1.2 B advertising. ✓✓

1.1.3 A public ✓✓

1.1.4 C service ✓✓

1.1.5 C core-inflation. ✓✓

1.1.6 A economic profit ✓✓

1.1.7 B a negative ✓✓

1.1.8 A water ✓✓

(8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 G costs or benefits that affect a party that was not involved in an economic activity ✓

1.2.2 F occurs where marginal costs intersect with marginal revenue ✓

1.2.3 I authorise or prohibit large mergers ✓

1.2.4 H entry is restricted through licensing ✓

1.2.5 A measure of the changes in prices of all final goods and services produced in a particular year ✓

1.2.6 C foreigners visiting South Africa ✓

1.2.7 B introduce waste matter into the environment ✓

1.2.8 D activities of tourists who visit art galleries, museums, and also attend festivals ✓

(8 x 1) (8)

1.3 GIVE ONE TERM

1.3.1 Renewable resource ✓

1.3.2 Domestic tourism ✓

1.3.3 Deflation ✓

1.3.4 Pareto efficiency ✓

1.3.5 Price maker/Monopoly ✓

1.3.6 Homogeneous ✓

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B**QUESTION 2: MICROECONOMICS**

- 2.1 2.1.1
- Cash grants ✓
 - Interest free loans ✓
 - Depreciation written off ✓
 - Rent rebates ✓
 - Can be direct or indirect ✓
- (Accept any other correct relevant response) (1 x 2) (2)
- 2.1.2 No matter how much the supplier supplies in the market, it cannot change the market price, it is a price taker, and the demand curve is perfectly elastic. ✓✓
(Accept any other correct relevant response) (1 x 2) (2)
- 2.2 **Data Response**
- 2.2.1 P_1 ✓ (1)
- 2.2.2 Q_1 ✓ (1)
- 2.2.3
- The government makes use of traditional methods to redistribute wealth ✓✓ e.g. levying of taxes and providing free services ✓
 - Implement redress methods to enforce redistribution ✓✓ e.g. BEE and affirmative action ✓
- (Accept any other correct relevant response) (Max 4) (4)
- 2.2.4
- Maximum prices allow the poor greater access to certain goods and services. ✓✓
 - Sellers will not be willing to sell at the maximum price as a result less of that particular good will be supplied ✓✓
 - A black market can be formed where sellers offer their goods or services at a price that is higher than the maximum price. ✓✓
- (Accept any other correct relevant response) (Any 2 x 2) (4)
- 2.3 **Data Response**
- 2.3.1 **Costs:**
high capital costs, ✓ fuel prices, ✓ fuel use patterns ✓ (Any 1)
- Benefits:**
Energy efficiency, ✓ low cost housing, ✓ solar water heaters ✓ (Any 1) (2)
- 2.3.2 CBA – is a tool that is used to evaluate an investment project by weighing total social costs against total social benefits. ✓✓
(Accept any other correct relevant response) (2)

- 2.3.3
- To make decision on whether to undertake a project ✓✓
 - To assess whether a project will be a feasible investment ✓✓
 - Determine whether the project will benefit the country as a whole ✓✓
- (Accept any other correct relevant response) (Any 1 x 2) (2)

- 2.3.4
- Market fails because of inappropriate allocation of resources ✓✓
 - CBA seeks to correct project appraisal for market failure ✓✓
 - A need for cost benefit analysis arises in cases of market failure where government seeks to provide services needed ✓✓
- (Accept any other correct relevant response) (Any 2 x 2) (4)

2.4 **Cartel** ✓

- A cartel is a group of producers whose goal is to form a collective monopoly in order to fix prices and limit supply and competition. ✓✓
 - In general, cartels are economically unstable because there is a great incentive for members not to stick to the agreement, to cheat by cutting prices illegally and to sell more than the quotas set by the cartel. ✓✓
 - Some well-known cartels are the Organisation of Petroleum Exporting Countries (OPEC) and De Beers diamonds in South Africa. ✓✓
 - Cartels are generally forbidden by law in most countries. However, they continue to exist nationally and internationally. ✓✓
- (Accept any relevant explanation) (Max 4)

Price leadership ✓

- A dominant firm will increase the price of a product in the hope that its rivals will see this as a signal to do the same. ✓✓
 - It is an example of a tacit collusion. ✓✓
 - Examples of price leadership are in steel and food industries. ✓
- (Accept any relevant explanation) (Max 4) (8)

- 2.5
- Due to the fact that monopolies decide on production levels and determine their own prices, consumers (demand) do not influence the price or supply. ✓✓
 - The monopoly is however influenced by the limited budget of consumers as they decide how much they will spend on a particular product. ✓✓
 - Even though the monopoly is the only supplier of the product consumers may decide not to buy the product. ✓✓
 - In as much as there are no close substitutes consumers may still substitute the product of a monopolist ✓✓ e.g. paraffin for electricity ✓
- (Accept any other correct relevant response) (Max 8) (8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

- 3.1 3.1.1
- Increases in advertising and promotion ✓
 - Ease of obtaining foreign exchange and making payments ✓
 - More awareness of leisure and recreation ✓
 - Domestic tourism ✓
 - Increase in disposable income ✓
 - Reduced working hours ✓
 - Improved transport, communication and accommodation facilities ✓
 - Effect of the internet ✓
- (Accept any other correct relevant response) (2 x 1) (2)
- 3.1.2 When the prices of key input goods that are imported increase (oil, energy, capital goods and intermediate goods), the domestic costs of production are pushed upwards leading to cost push inflation. ✓✓
(Accept any other correct relevant response) (2)
- 3.2 **Data Response**
- 3.2.1 2010 ✓ (1)
- 3.2.2 Decrease ✓ (1)
- 3.2.3 CPI is an index that measures price of a fixed basket of consumer goods and services ✓✓ (2)
- 3.2.4
- Prices increase at a very high rate, more than 50% ✓✓
 - The currency of the country loses power as people could not afford basic goods and services ✓✓
- (Accept any other correct relevant response) (Any 1 x 2) (2)
- 3.2.5
$$\text{CPI}_{2012} = \frac{\text{Price of basket in current year (2014)}}{\text{Price of the basket in the base year (2010)}} \times 100 \checkmark$$

$$= \frac{248,10}{200} \times 100 \checkmark$$

$$= 124,1 \checkmark\checkmark$$
 (4)
- 3.3 **Data Response**
- 3.3.1
- Sho't left campaign ✓
 - Its Here Vaya Mzantsi ✓
- (2 x 1) (2)
- 3.3.2 The activities of people who travel for various purposes, such as conferences, meetings, leisure, health etc. ✓✓
(Accept any other correct relevant response) (2)
- 3.3.3
- Advertise tourist attraction destination ✓✓
 - To offer a complete tourism package, ✓✓ i.e. safe and reliable transport/comfortable accommodation ✓
- (Accept any other correct relevant response) (Max 2) (2)

- 3.3.4
- Tourism can stimulate the business environment in areas such as food, entertainment and other services ✓✓
 - Offer entrepreneurial opportunities for the informal sector ✓✓
 - Construction industry, manufacturing sector and transport sector benefit from increased demand in tourism ✓✓
 - Businesses benefit when the government develops infrastructure ✓✓ for example, upgrading of roads, bridges and airports ✓

(Accept any other correct relevant response)

(Max 4)

(4)

- 3.4
- Increase in household consumption due to easily available credit ✓✓
Decline in savings causes consumers to have more money to spend ✓✓
 - Investors expenditure may lead to higher profit expectations of businesses ✓✓
They will invest more, this might lead to an increase in the demand for goods and services ✓✓
 - An increase in government spending leads to an increase in prices ✓✓
More money comes into circulation due to an increase in spending on infrastructure, consumption spending and social spending ✓✓
 - Export earnings will grow due to an increased demand for locally produced goods in foreign countries without an increase in production ✓✓
this might lead to higher prices ✓✓
 - Reduction in individual tax rebates that leave consumers with more disposable income ✓✓ this might lead to luxurious spending patterns by consumers ✓✓

(Any 2 x 4)

(8)

(Candidates can earn a maximum of 2 marks for listing of facts)

- 3.5
- Tourists visit countries for different reasons, but mainly, they seek authenticity. ✓✓
 - Cultural villages can be improved to facilitate and promote tourism ✓✓
 - Advertising campaigns domestically and internationally can focus on promoting heritage sites- this will make tourists more aware of these attraction ✓✓
 - Tourists can be encouraged to experience different cultures and townships- experience life at home with a household and eat at a shebeen ✓✓
 - Arts and culture festivals e.g. the National Arts Festival, Macufe African Cultural Festival should be widely advertised to encourage tourists to attend ✓✓

(Accept any other correct relevant response)

(Any 4 x 2)

(8)

[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

- 4.1 4.1.1
- Products are differentiated ✓
 - It is a hybrid structure ✓
 - Little control over price ✓
 - Exit and entry are relatively easy ✓
 - Buyers and sellers have incomplete information ✓
 - Absence of a firms interdependence ✓
 - Non-price competition ✓
- (Accept any other correct relevant response) (Any 2 x 1) (2)
- 4.1.2
- To ensure our environment is unharmed e.g. our beaches and all organisms living in it. ✓✓
 - To foster respect for different cultures and human rights ✓✓
 - Promotion of recycling, energy efficiency, water conservation. ✓✓
- (Accept any other correct relevant response) (2)
- 4.2 **Data Response**
- 4.2.1 The country is basic ✓ and unspoilt ✓ (2 x 1) (2)
- 4.2.2
- Tourists pollute the environment ✓✓
 - Tourists exploit nature, ✓✓
- (Accept any relevant response) (Any 1 x 2) (2)
- 4.2.3
- Tourists may benefit by using a strong currency from their country of origin to enjoy a luxurious holiday ✓✓
 - Tourists will be able to buy cheap products ✓✓
- (Accept any other correct relevant response) (Any 1 x 2) (2)
- 4.2.4
- South Africa gains more foreign earnings because of cheap products ✓✓
 - The country is a cheap holiday destination where tourists spend more and enjoy longer holidays due to the low value of the rand ✓✓
 - The demand for locally produced products will increase creating jobs in various sectors ✓✓
 - South African businesses enjoy bigger exposure to the demands of foreigners and try to fulfil their needs ✓✓
- (Accept any other correct relevant response) (Any 2 x 2) (4)
- 4.3 4.3.1 An oligopoly ✓ (1)
- 4.3.2 Price – 10 ✓ (1)
- 4.3.3
- An oligopoly has little to gain from reducing prices and much to lose from raising prices ✓✓
 - The demand curve has two segments, one for higher prices that is elastic and one for lower prices that is inelastic. ✓✓
 - The demand curve is kinked ✓✓
- (Accept any relevant response) (Any 2 x 2) (4)

- 4.3.4
- Firms practice product differentiation (physical appearance of the product) when each firm produces a product that is slightly different from the product produced by others ✓✓
 - A product is given a particular image which is appealing to consumers ✓✓
 - Firms use advertising and marketing to build brand loyalty ✓✓
 - Loyalty rewards and door to door deliveries are examples of non-price competition ✓✓
 - Product are differentiated in terms of packaging ✓✓
- (Accept any other correct relevant response) (Any 2 x 2) (4)
- 4.4
- Salary and wage earners** ✓ – affects people whose incomes are relatively fixed, incomes that do not change as prices in the market increase ✓✓ e.g. pensioners and the poor. ✓
 - Investors and savers** ✓ – investors tend to benefit if they invest in assets with a flexible market value ✓✓ but they will be negatively affected if they invested in assets with fixed nominal values ✓✓ On the other hand savers who invested in fixed deposits tend lose, cause a decline in the real value of money. ✓✓
 - Creditors and debtors** ✓ – debtors benefit from price increases because they pay their debts back with money with a low purchasing power. ✓✓ Creditors tend to lose because when they receive money back overtime when it has lost its value or purchasing power. ✓✓
 - Industrial peace** ✓ – wage bargaining is sometimes accompanied by strikes and mass action ✓✓ which sometimes run into violence which might affect the society at large. ✓✓
 - Taxpayers** ✓ – taxpayers tend to be pushed in a higher income tax bracket because they are taxed on their nominal wages ✓✓ the standard of living is however determined by their real wage (they earn more, pay more tax and buy less) this is called bracket creep ✓✓
- (Accept any other correct relevant response) (Any 2 x 4) (8)
- 4.5
- The government can **reduce negative externalities** ✓✓
 - The government has carried out campaigns in order to change/persuade people from causing negative externalities. ✓✓
 - Levying taxes on goods that cause negative externalities ✓✓ e.g. taxes are levied on cigarettes and alcohol. ✓
 - Passing laws and regulations to prevent activities that cause negative externalities ✓✓ e.g. tobacco companies are not allowed to advertise. ✓
 - The government introduced laws that regulate the amount of air pollution and waste. ✓✓
- (Accept any other correct relevant response) (Max 4)

- The government **encourages positive externalities** by: ✓✓
 - Advertising on the radio or television encouraging South African citizens to use scarce resources supplied by government in a specific way ✓✓
 - Providing education, health care and other services at a low cost or free to previously disadvantaged communities ✓✓
 - Providing consumer subsidies to poor communities ✓✓
- (Accept any other correct relevant response)

(Max 4) (8)
(40)

SECTION C

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction • A good starting point would be to define a concept or key word that appears in the question. • Include other sentences to support the topic. • Do not include in your introduction any part of the question. • Do not repeat any part of the introduction in the body. • Avoid saying in the introduction what you are going to discuss in the body	Max. 2
Body Main part: Discuss in depth/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Explain/Assess/Debate	Max. 26
Additional part: Give own opinion/Critically discuss/Evaluate/Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/Compare/Explain/Distinguish/Interpret/Briefly debate	Max. 10
Conclusion Any relevant higher order conclusion that should include: • A brief summary of what has been discussed/analysed without repeating facts already mentioned in the body • An opinion or valued judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if so required • Recommendations	Max. 2
TOTAL	Max. 40

QUESTION 5: MICROECONOMICS

Discuss the three equilibrium positions in the short run under perfect markets with the aid of well labelled graphs.

Why are equilibrium positions in the short-term not sustainable in the long-run?

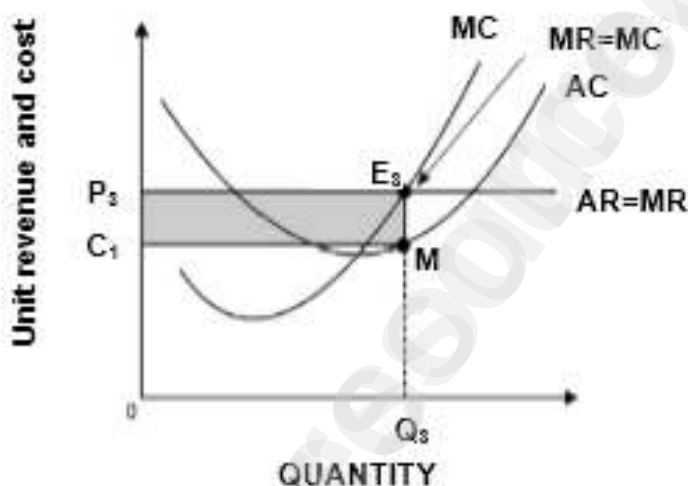
INTRODUCTION

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. ✓✓
(Accept any other correct relevant response)

(2)

BODY**Economic profit** ✓

A firm makes economic profit when average revenue is greater than average cost. ✓✓

**Mark allocation**

- Correct labelling of axes **1 mark**
- Correct Cost curves **1 mark**
- Accurate Revenue curves **1 mark**
- Profit maximisation point **2 marks**
- Economic profit area **2 marks**
- Max = 4**

Given a market price of P_3 , profit is maximised where $MR = MC = P_3$. ✓✓

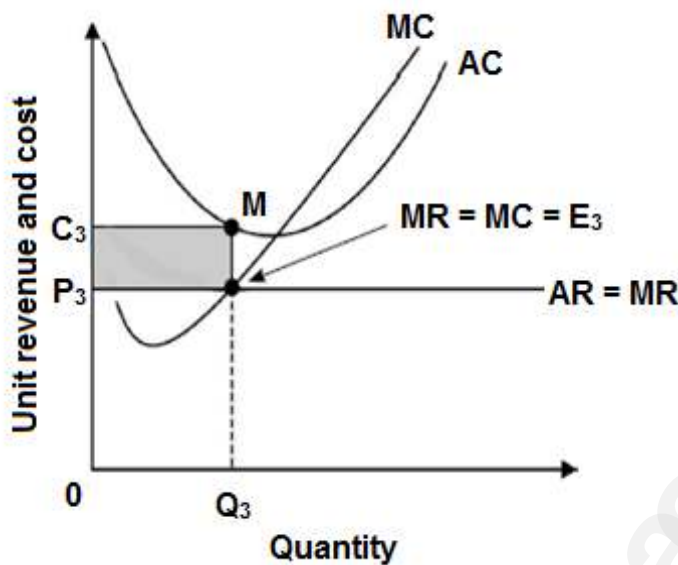
- This occurs at a quantity of Q_3 . ✓
- At Q_3 the firm's average revenue (AR) per unit of production is P_3 . ✓
- The average cost per unit is C_1 which is lower than the price of P_3 . ✓
- The firm is making an economic profit per unit of production of $P_3 - C_1$. ✓

Another explanation

- Total revenue equals $P_3 \times Q_3$, therefore total revenue is represented by the area $0P_3E_3Q_3$. ✓✓
- Total cost equals $C_1 \times Q_3$, this is represented by the area $0C_1MQ_3$. ✓✓
- The difference between these two areas is the economic profit which is represented by the light grey shaded area $C_1P_3E_3M$. ✓✓ (Max 4 for explanation)

Economic loss ✓

A firm makes economic loss when average revenue is less than average cost. ✓✓

**Mark allocation**

- Correct labelling of axes **1 mark**
- Correct Cost curves **1 mark**
- Accurate Revenue curves **1 mark**
- Profit maximisation point **2 marks**
- Economic profit area **2 marks**
- Max = 4**

- Given a market price of P_3 , profit is maximised where $MR = MC$ at point E_3 . ✓✓
- This occurs at a quantity of Q_3 . ✓
- At Q_3 the firm's average revenue (AR) per unit of production is P_3 . ✓
- The average cost per unit is C_3 which is higher than the price of P_3 . ✓
- The firm is making an economic loss per unit of production which is equal to the difference between C_3 and P_3 . ✓✓

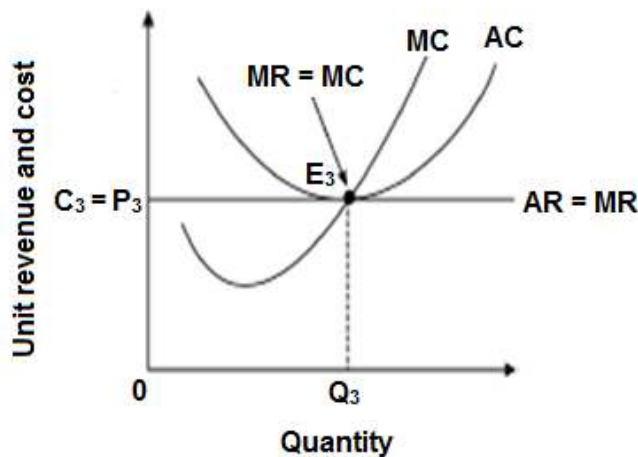
Another explanation.

- Total revenue equals $P_3 \times Q_3$, therefore total revenue is represented by the area $0P_3E_3Q_3$. ✓✓
- Total cost equals $C_3 \times Q_3$, this is represented by the area $0C_3MQ_3$. ✓✓
- The difference between these two areas is the economic loss which is represented by the light grey shaded area $C_3P_3E_3M$. ✓✓
- Whether the firm should continue production would depend on the level of AR (that is P_3) relative to the firm's average variable cost. ✓✓ (Max 4 for explanation)

Normal Profit ✓

A firm makes normal profits when total revenue (TR) equals total costs or when average revenue (AR) equals average cost (AC). ✓✓

Normal profit is the maximum return the owner of a firm expects to receive to keep on operating in the industry. ✓✓

**Mark allocation**

- Correct labelling of axes **1 mark**
- Correct Cost curves **1 mark**
- Accurate Revenue curves **1 mark**
- Profit maximisation point **2 marks**
- Economic profit area **2 marks**
- Max = 4**

- Given a market price of P_2 , profit is maximised where $MR = MC = P_2$. ✓✓
- This occurs at a quantity of Q_2 . ✓
- At Q_2 the firm's average revenue (AR) per unit of production is P_2 , which is also equal to the average cost per unit C_2 (AC). ✓
- Since $AR = AC$, the firm earns a normal profit since all its costs are fully covered. ✓✓
- Point E_2 is usually called the break-even point. ✓✓

Another explanation

- Total revenue equals $P_2 \times Q_2$, therefore total revenue is represented by the area $OP_2E_2Q_2$. ✓✓
 - Total cost equals $C_2 \times Q_2$, this is represented by the area $OP_2E_2Q_2$. ✓✓
 - Since Total revenue equals Total Cost the producer makes a normal profit. ✓✓
- (Max 4 for explanation) (26)

ADDITIONAL PART

- Profits are signals for the entry of new businesses and extension of current businesses ✓✓
 - New technology develops daily leading to increased supply in the market ✓✓
 - The quantity offered by businesses in the market increases (indicating mass production) ✓✓
 - The increase in the supply leads to a decrease in price due to lower cost per unit ✓✓
 - All businesses in the industry will make normal profit and produce at the minimum of the long term average cost curve ✓✓
 - The economic loss will lead to some businesses leaving the market and the supply will decrease. ✓✓
 - The decrease in supply will lead to an increase in price until it is at the same level as the long run average cost. ✓✓
 - If businesses are able to turn their losses to profits they will make normal profits over the long run ✓✓
- (Max 10) (10)

CONCLUSION

In reality there are few perfect markets in some sectors such as mining and agriculture where conditions are met. These sectors illustrate the way in which the market mechanism works. ✓✓

(Accept any relevant conclusion.)

(2)

[40]

QUESTION 6: CONTEMPORARY ECONOMICS

- Discuss public sector control as measures to ensure environmental sustainability.
- How effective are the South African government's interventions with regard to environmental sustainability?

INTRODUCTION

The environment brings life to every living organism, it is important that we take care of it making sure that we keep it safe for future generations. ✓✓

(Accept any other relevant introduction)

(2)

BODY**Granting property rights** ✓

- This means that the government gives people rights to own certain areas i.e. portions of streams, forests etc. this has positive conservation effects, because it ensures that people take care of the property they own. ✓✓

Charging for the use of the environment ✓

- Consumers and producers are charged for using and abusing the environment. ✓✓
- They are charged a monthly fee to the government for the waste they produce, such as municipal charges. ✓✓
- The government also levies emission charges on industries and vehicle owners. ✓✓

Environmental taxes ✓

- These are also known as green taxes or eco taxes. ✓✓
- The government imposes these taxes on consumption of a good that has a negative effect on the environment and is not for the good of the environment ✓✓ e.g. the levy on plastic bags. ✓

Environmental subsidies ✓

- The government subsidises activities that reduce environmental damage. ✓✓
- These activities include improving techniques and equipment such as solar energy, and wind power to reduce air pollution ✓✓
- Producing environmentally friendly substitutes, such as unleaded petrol supporting and encouraging recycling of waste ✓✓

Command and Control (CAC) ✓

- The government enforces policy by setting maximum levels of the emission of pollution. ✓✓
- Most developed countries have regulations that control air and water pollution. ✓✓

There are 3 approaches in CAC systems:

- Quantity standards: These focus on the amount of pollution emitted. ✓✓
- Quality standards: These focus on the environmental impact of the pollution emitted. ✓✓
- Social impact standards: These focus on the effect on people of the pollution emitted. ✓✓

Education ✓

- People need to be made aware of environmental issues and the consequences of their actions education plays an important role in improving people's ability to manage the environment. ✓✓
- It can be done by taking it to schools, and re-energising traditional agricultural systems. ✓✓

Voluntary measures ✓

- Government tries to enter into voluntary agreements with businesses to cut pollution, rather than imposing laws and regulations ✓✓
- The agreements include formal contracts or informal commitments that businesses negotiate to suite their own circumstances ✓✓

A maximum of 8 marks for headings.

(Max 26) (26)

ADDITIONAL PART**How successful has the South African government been in addressing environmental issues?**

- In an attempt to control the environmental problems posed by plastic shopping bags, the South Africa government introduced a levy per bag to discourage consumers in their use thereof ✓✓
- The levy charged had only short run success. The effectiveness of the levy has continued declining despite its comprehensive application at checkout points as there are many plastic bags that are polluting the environment. ✓✓
- A tyre levy was introduced to encourage reuse, recycling and recovery of waste due to South Africa generating millions of waste each year ✓✓
- Electric filament lamps (i.e. non energy-saving light bulbs✓) are subjected to the payment of an Environmental Levy if used in the RSA ✓✓
- To encourage use of energy saving light bulbs the government subsidized residents in rural areas by exchanging their non-saving light bulbs with free energy saving bulbs ✓✓
- A motor vehicle CO₂ emission levy was introduced where new passenger vehicles are taxed based on their certified CO₂ emissions. ✓✓
- The objective of the levy is to influence the composition of South Africa's (SA) vehicle fleet to become more energy efficient and environmentally friendly. ✓✓

(Accept any relevant response)

(Any 5 x 2) (10)

CONCLUSION

It is obvious that the environment is a precious resource, and the government is doing all it can to take care of it, therefore all man should follow suit. ✓✓

(Accept any relevant conclusion)

(2)

[40]

TOTAL SECTION C: 40

GRAND TOTAL: 150