

ECONOMICS

GRADE 12

ECONOMICS PAPER 2 ESSAYS 2024

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MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

QUESTION 5 – MICROECONOMICS

QUESTION 6 – CONTEMPORARY ECONOMIC ISSUES

ADDITIONAL PARTS ARE FLEXIBLE FOR ANY ESSAY BELOW

QUESTION 5 ESSAYS: MICROECONOMICS

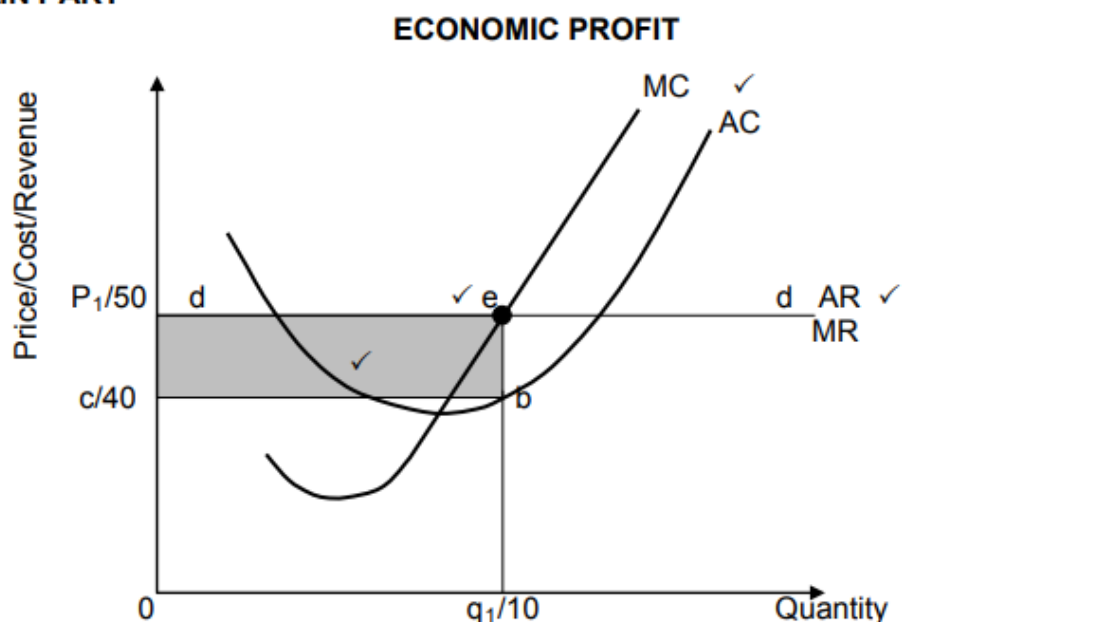
PERFECT MARKET EQUILIBRIUM POSITIONS

- With the aid of three separate graphs, explain the following short term equilibrium positions in a perfect market:
 - Economic profit (10 marks)
 - Economic loss (8 marks)
 - Normal profit (8 marks) (26 marks)
- How successful is the competition policy in promoting a more competitive economy? (10 marks)

INTRODUCTION

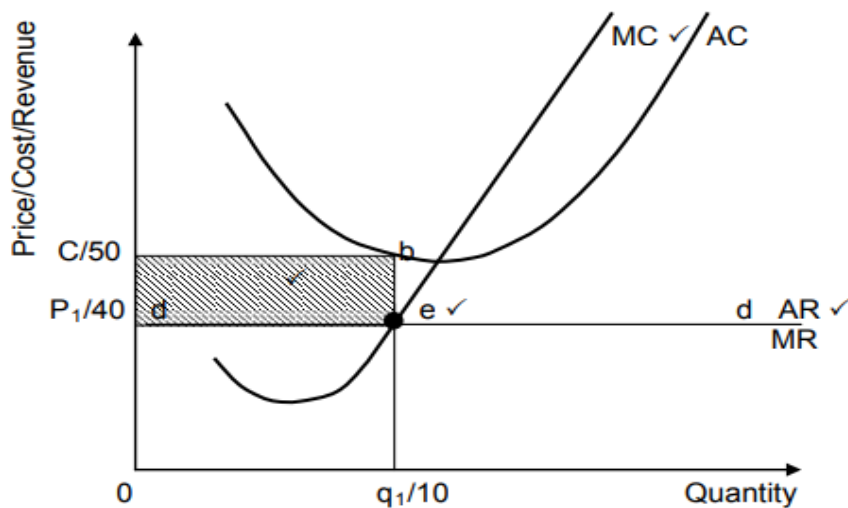
A perfect competition is a market structure with a large number of buyers and sellers
 ✓✓ (Accept any other relevant introduction) (Max 2)

MAIN PART



- The minimum point of the short-term average cost curve (AC) is lower than the market price ✓✓
- The business is in equilibrium (it is maximising profits) at point e where $MR = MC$ and the business will produce at quantity q_1 and market price P_1 ✓✓
- Total revenue is equal to $0q_1 \times 0P_1$ (50×10) and total cost is equal to $0q_1 \times 0c$ (40×10) ✓✓
- The economic profit is represented by the area cP_1eb (R100) ✓✓ (6) (Max 10)
 (Accept any other correct relevant response)

ECONOMIC LOSS



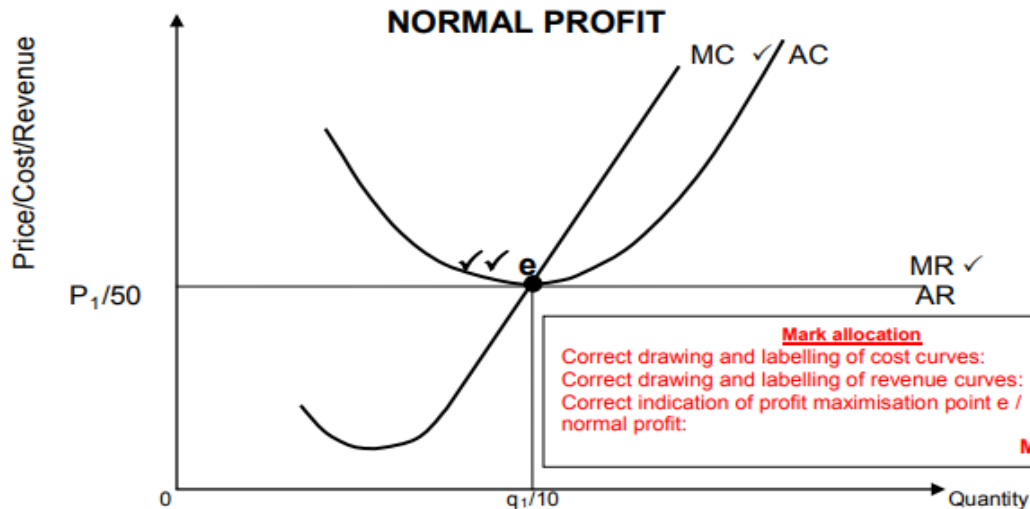
Mark allocation

- | | |
|--|--------|
| Correct drawing and labelling of cost curves: | 1 mark |
| Correct drawing and labelling of revenue curves: | 1 mark |
| Correct indication of loss minimizing point: | 1 mark |
| Correct indication of area (economic loss): | 1 mark |
| Max 4 marks | |

- The minimum point of the short-term average cost curve (AC) is higher than the market price ✓✓
- The business is in equilibrium (it is maximising profits) at point e where $MR=MC$ and the business will produce at quantity Q and market price P ✓✓
- Total revenue is equal to $0q_1 \times 0P_1$ (40×10) and total cost is equal to $0c \times 0q_1$ (50×10) ✓✓
- The economic loss is represented by the area P_1cbe (100) ✓✓
(Accept any other correct relevant response)

(4) (Max 8)

NORMAL PROFIT



Mark allocation

- | | |
|--|---------|
| Correct drawing and labelling of cost curves: | 1 mark |
| Correct drawing and labelling of revenue curves: | 1 mark |
| Correct indication of profit maximisation point e / normal profit: | 2 marks |
| Max 4 marks | |

- At point e where $MR = MC$ the business will produce at quantity q_1 and market price P_1 ✓✓
- The lowest point of AC is tangent to the AR/MR curves ✓✓
- This implies that $AC=AR$ and total cost is equal to total revenue ($0P_1eq_1/500$) ✓✓
- Normal profit is minimum earnings required to prevent the entrepreneur from leaving the market ✓✓
(Accept any other correct relevant response)

(6) Max (8)

Max 26

ADDITIONAL PART

The competition policy is successful by:

- making provision for institutions like the Competition Commission, Competition Tribunal and Appeal Court to investigate any unfair competition in the country ✓✓
- functioning as an investigator and evaluator of restrictive business practices ✓✓
- making recommendations about penalties for businesses found guilty of abuse ✓✓
- implementing the Competition Tribunal who accepts or rejects the investigation and recommendation of the Competition Commission and confirms penalty imposed ✓✓
- making it possible for businesses to appeal for a penalty imposed by the Competition Appeal Court ✓✓
- curbing the economic power of big conglomerates to arrive at a more equitable distribution of income and wealth ✓✓
- regulating mergers and takeovers to regulate market power of mergers ✓✓
(Accept practical examples where Competition policy has succeeded)
(Accept any other correct relevant response)

The competition policy is not successful because of

- frequency of investigations into collusive behaviour ✓✓ e.g. cement / steel / bread / bank industries ✓
- fines were too lenient and not acceptable to some parties ✓✓
- too many competitors still preventing affirmative action/young black industrialists entering into the market (BEE) ✓✓ (Max 10)

CONCLUSION

Businesses under perfect competition can only realise normal profits in the long-run due to the number of businesses entering in the market to share in the profits being made in the short run ✓✓ (Max 2)

(Accept any other correct relevant higher order response)

MARKET STRUCTURES- PERFECT MARKET AND MONOPOLISTIC

QUESTION 5: MICROECONOMICS

Markets are the backbone of economic activities in any country.

- Compare the market structure of a monopolistic competitor to that of a perfect market. (26)
- Explain, with the aid of a graph, how economic profit is achieved for a perfect competitor. (10)

INTRODUCTION

- A market is an institution or mechanism that brings together the buyers and sellers of goods or services /
- A market structure is a framework of how a market is organised /
- Monopolistic competition is a monopolistic market structure with many buyers and sellers where entry is relatively easy but the product is differentiated /
- Perfect competition is a market structure with many buyers and many sellers ✓✓
(Accept any other correct relevant response) Max (2)

MAIN PART

Number of businesses ✓

- There is a number of sellers that are so large ✓ in the **perfect market** that individual market participants are insignificant in relation to the market as a whole ✓ An example of a **perfect market** is the Securities Exchange, or the produce market ✓
- A large number of sellers are active in the **monopolistic competitive market** ✓ Examples of monopolistic markets are producers of cleaning materials, cold drinks, toothpaste or soap ✓

Nature of the product ✓

- All products sold in the **perfect market** are homogeneous ✓ All these products are exactly the same regarding quality, appearance ✓✓ it makes no difference to a buyer where and from whom he or she buys the product. ✓✓
- Goods produced by businesses in a **monopolistic competitive market** are heterogeneous ✓ They may differ slightly in appearance, shape, size and taste ✓✓ Differences may be imaginary ✓✓ e.g. medicine may have different brand names, but contain exactly the same basic ingredients ✓✓

Entry and exit from the market ✓

- There is complete freedom of entry and exit of buyers and sellers in the **perfect market** ✓ Entry is not subject to any restrictions in the form of legal, financial, technological or other barriers ✓✓
- Entry into the **monopolistic competitive market** is easy and free ✓ There are no barriers ✓✓ such as licences, permits, patents and other restrictions ✓

Market knowledge ✓

- Both buyers and sellers have complete knowledge about prevailing market conditions in the **perfect market** ✓ It is assumed that buyers and sellers instinctively know, e.g. available quantities; price at which product is sold ✓✓
- Market information in the **monopolistic competitive market** is incomplete ✓ The many brands, variety of products or marginal difference causes a lack of information for sellers and buyers ✓✓

Control over price ✓

- There are so many businesses in the **perfect market** that the individual business is so small that no single business has control over the price of the product ✓ The price is determined through market forces. In other words, the business can be regarded as a price taker ✓✓
- The individual business in the **monopolistic competitive market** has some control over the price of a product ✓ The control over price depends entirely on the strength of brand loyalty ✓✓ The business can be regarded as a price setter ✓✓

Collusion ✓

- Collusion is not possible under **perfect market** conditions ✓ There is no need for businesses to collude because they have no control over price setting ✓✓ In addition, the market share of the individual business is so small and insignificant that it cannot manipulate the market in any way ✓✓
- Collusion does not occur in the **monopolistic competitive market** ✓ Individual businesses rely on brand loyalty to determine prices ✓✓ Prices can be manipulated by the strength of their brand loyalty ✓✓ Prices are normally higher in cases where brand loyalty is intense ✓✓ Control over the market (output) is subject to brand loyalty due to product differentiation ✓✓

Marketing ✓

- There is no need for marketing strategy in the **perfect market** due to complete market knowledge ✓✓
- Marketing strategy is applied in the **monopolistic competitive market** ✓ Deliberate advertising campaigns is launched to create brand loyalty ✓✓

Profits ✓

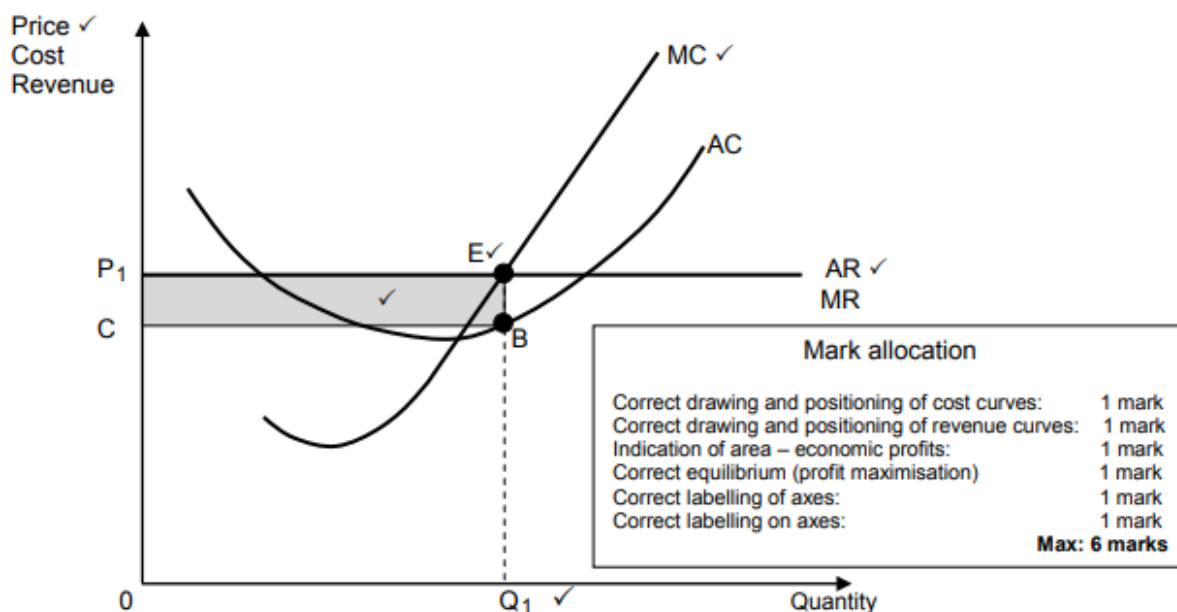
- The firm can realise economic profits in the short term, but only normal profits in the long run in the **perfect market** ✓✓
- The firm can realise economic profits in the short term as well as the long run in the **monopolistic competitive market** ✓✓

Demand curve ✓

- The demand curve for the firm in the **perfect market** is horizontal ✓✓
- $D=AR=MR$ ✓✓
- The demand curve for the firm in the **monopolistic competitive market** is downward sloping. ✓✓
- $AR=D$ (average revenue curve is also known as the demand curve) ✓✓
- The MR curve lies below AR curve ✓✓

ADDITIONAL PART

Explain, with the aid of a graph, how economic profit is achieved for a perfect competitor.



- The minimum point of the short-term average cost (AC) is lower than the market price P_1 ✓✓
- The business is maximising profit at $MR = MC$ at point E, the business will therefore produce quantity Q_1 at the market price P_1 ✓✓
- Total revenue is equal to $0P_1 \times 0Q_1$ and total cost is equal to $0C \times 0Q_1$ ✓✓
- Total revenue exceeds total cost, which means the business is making a profit that is represented by area P_1CBE ✓✓
- This profit is known as economic profit, which is profit that is made in addition to normal profit ✓✓

Max (6) for graph - Max (6) explanation

(Max 10)

CONCLUSION

Whilst perfect market does not exist, it serves as a standard that imperfect markets, such as monopolistic competition, should strive to achieve ✓✓
(Accept any other correct relevant response)

Max (2)

OLIGOPOLY

- Discuss in detail, without the use of graphs, the market structure of an oligopoly. (26 marks)
- How effective is the competition policy in regulating mergers and takeovers in South Africa? (10 marks)

INTRODUCTION

An oligopoly exists when a small number of large companies are able to influence the supply of a product or service to a market ✓✓

(Accept any other correct relevant introduction)

Max (2)

MAIN PART

Number of businesses ✓

- The market consists of few firms that dominate the market ✓✓ e.g. banks ✓
- Each firm is aware of the actions of the others in the market and this has an impact on decision-making ✓✓
- This means each producer not only influences others but he also has to consider them ✓✓
- If there is two firms in the market, it is called a duopoly ✓✓

Nature of the product ✓

- Products sold may be homogeneous or heterogeneous ✓✓
- When product are homogenous, the market is called a pure oligopoly ✓✓ e.g. petrol ✓
- When products are different, the market is referred to as a differentiated oligopoly ✓✓ e.g. motor cars ✓

Entry into the market ✓

- It is difficult to enter the market due to various barriers ✓✓
- A large amount of capital is usually required to enter the market ✓✓
- It is often difficult to overcome barriers imposed by consumer preferences brands ✓✓
- Firms usually spend a lot of money on advertising to create brand loyalty ✓✓
- The existing firms may often be enjoying economies of scale and this may be a further barrier ✓✓

Control over price ✓

- Oligopolists have influenced the price but not as much as the monopolist does ✓✓
- Price wars is often a feature when the existing firms want to limit entrance in the market ✓✓

Demand curve of the oligopoly ✓

- An oligopoly faces a kinked demand curve. This demand curve consists of two sections ✓✓
- The top section that relates to high prices has a very elastic slope (i.e. demand is very sensitive to a price change) ✓✓
- The bottom section that relates to lower prices is very inelastic (i.e. demand is not sensitive to a price change) ✓✓

Collusion ✓

- Firms often cooperate instead of competing with one another ✓✓
- This may be by forming cartels (explicit collusion), which are formal agreements for firms to work together ✓✓
- At times collusion can be in the form of price leadership, which is an unspoken agreement among firms ✓✓
- Price leadership (tacit/implicit collusion) involves one firm serving as a price leader while others follow ✓✓
- When the price leader changes its price the other do the same ✓✓
- Collusion is illegal in South Africa, may not negotiate agreements that can limit competition. Behaviour is liable to large fines by the Competition Commission ✓✓

Market information ✓

- Buyers and sellers have incomplete information about market conditions ✓✓
- Even though the oligopolists monitor one another's actions, they do not always know how the competitor will react to their actions ✓✓

Price and profits ✓

- Prices are higher in general than under perfect competition ✓✓
- Oligopolists develop brand loyalty among consumers to generate economic profit ✓✓

Mutual dependence ✓

- There are only a few businesses that sell that particular product – each business is influenced by the action of others ✓✓ (Max 26)
(Accept other correct relevant responses)

ADDITIONAL PART

The competition policy is effective in:

- putting in place the competition commission, competition tribunal and competition appeal court to investigate and approve mergers and takeovers, investigating whether it is going to substantially prevent or lessen competition ✓✓
- taking into account the public interest effects such as its impact on employment ✓✓
- considering the ability of small businesses owned by disadvantaged to become competitive ✓✓
- the merger of Massmart and Walmart where they ensured that no job losses will occur for a certain period of time ✓✓
- providing services to local businesses to ensure sustainability of local producers ✓✓
- ensuring that mergers are not for the sake of creating market power ✓✓
- looking into the details of each case and come to a suitable decision ✓✓
- declining the merger where Air Link wanted to acquire SAfair in 2018, to limit competition due to a few firms in that market ✓✓
- approving mergers with conditions, e.g. between Regent and Hollard insurance companies in 2017 ✓✓ The condition was that no employees may be retrenched for a period of 3 years after the merger ✓✓
- approving a successful merger with no conditions attached, in the Mondi acquiring Excelsior technologies in 2017 ✓✓ (Max 10)
(Accept other correct relevant higher order response)
(Allocate a maximum of 2 marks for mere listing of facts or examples)

CONCLUSION

The correct application of the Competition Policy is crucial for ensuring that imperfect markets such as oligopoly operate fairly ✓✓ (Max 2)
(Accept other correct relevant higher order responses)

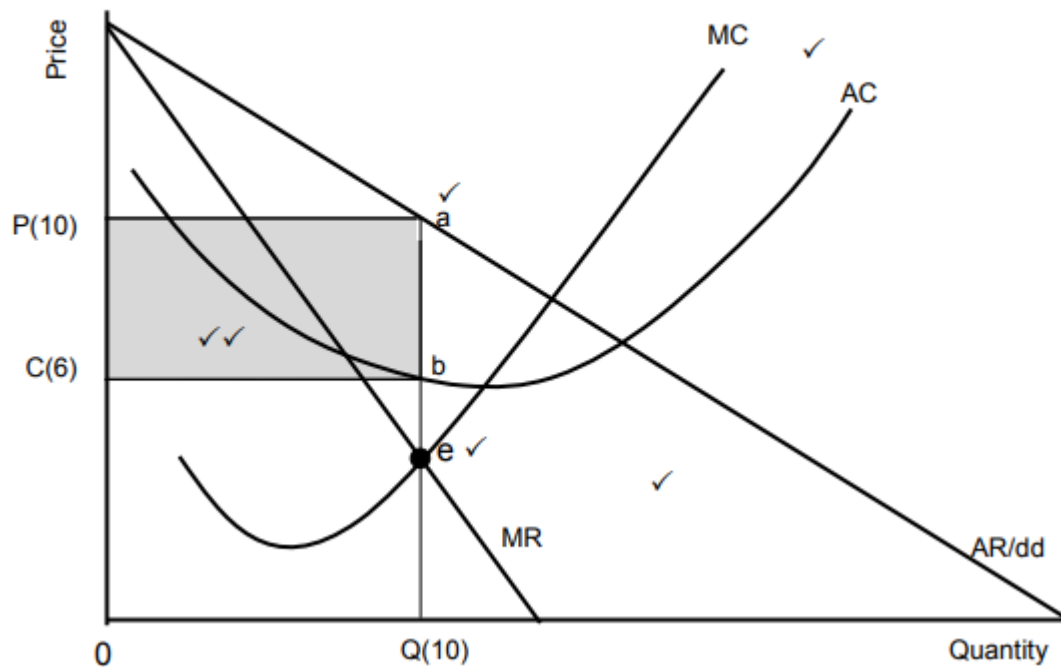
ESSAY 4: MONOPOLY EQUILIBRIUM POSITIONS

- With the aid of graphs, discuss how economic profit and economic loss is determined in a monopoly market. (26 marks)
- Why does the performance of natural monopolies contradict (deny) the long-run equilibrium position of a monopoly? (10 marks)

INTRODUCTION

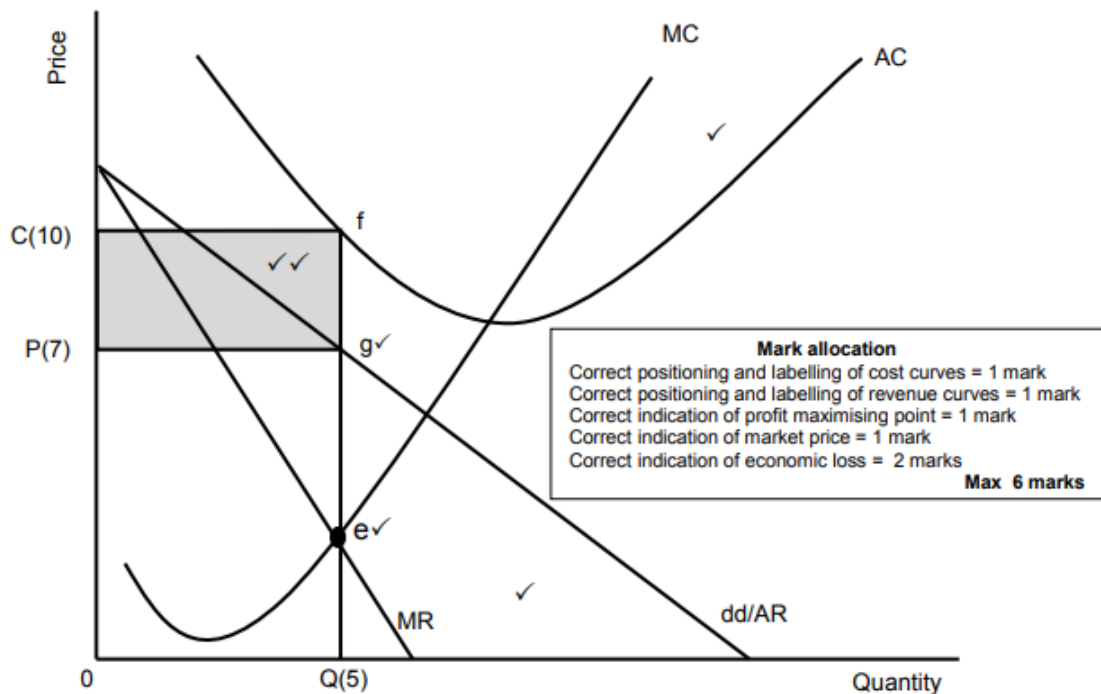
A monopoly is a market structure where only one seller operates. Entry is blocked and the product has no close substitutes ✓✓
(Accept any other correct relevant response) (Max 2)

Economic profits



- 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 = $OP(10) \times OQ(10) = OPaQ$ (100) } ✓✓
 Total cost = Cost x Quantity = $Oc(6) \times OQ(10) = OCbQ$ (60)
 Economics profit = Income – Cost = $100 - 60 = CPab$ (40) ✓✓ (Max 10)

Economic losses



- 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 f 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 = $OP(7) \times OQ(5) = OPgQ (35)$
 Total cost = Cost x Quantity = $OC(10) \times OQ(5) = OCfQ (50)$
 Economic loss = $(PCfg)15$ ✓✓

(Max 10)
(Max 26)

ADDITIONAL PART

Why does the performance of natural monopolies contradict the long-run equilibrium position of a monopoly? (10 marks)

Natural monopolies' performances are not always in line with the long-run equilibrium position of a monopoly because:

- compared to a typical monopoly where economic profit always prevails over the long run, natural monopolies do not enjoy the benefits experienced by other monopolies ✓✓
- natural monopolies require high development cost which prevent others from entering the market ✓✓
- natural monopolies supply goods and services to the nation as a whole and therefore it is difficult to set very high prices ✓✓
- Eskom is subjected to the National Energy Regulator in South Africa (NERSA) that determines the selling price of electricity in South Africa ✓✓
- a natural monopoly has experienced high maintenance cost compared to artificial monopolies, that compromises profits ✓✓
- natural monopolies cannot manipulate its quantities to increase prices ✓✓
- revenue seems to be less than cost due to corruption, non-payment by a large number of electricity users ✓✓
- under normal circumstances, a monopoly will shut down if average cost exceeds average revenue in the long run, but natural monopolies like SAA are often bailed out by the government due to its strategic position in the country ✓✓
- the internal (private cost) structure of natural monopolies have increased, but the private benefits (revenue of sales) stagnated due to poor maintenance of infrastructure ✓✓

(Accept any other correct relevant response)

(Max 10)

CONCLUSION

The monopoly can continue to earn economic profit for as long as the demand for its product continues and its production costs stay the same ✓✓

(Accept any other higher order conclusion)

Max (2)

MONOPOLY MARKET STRUCTURE

INTRODUCTION

Monopoly exists when there is only one seller of a product, when the product has no close substitutes, and when barriers block entry into the market completely ✓✓

(Max. 2)

BODY

MAIN PART

MAIN PART

- **Number of producers** ✓
 - The monopolist has full control over the supply of a product, because it is the only seller ✓✓
 - The monopoly also represents the total industry e.g. De Beers, Eskom ✓✓
- **Nature of the product** ✓
 - The product is unique and has no close substitutes ✓✓
 - E.g. electricity and rail transport ✓
- **Economic profit** ✓
 - The monopoly makes a short-term loss or profit ✓✓
- **Technical superiority** ✓
 - A monopoly has technical advantage over potential competitors and their access to resources and technical superiority make it difficult for others to compete ✓✓
- **Access to scarce resources** ✓
 - A single firm owns and controls a specific scarce resources and excludes other companies from entering the market ✓✓
- **Demand curve** ✓
 - Monopolists are also confronted with a demand curve for their product but because they are the only supplier of the product they can decide at what point on the demand curve they wish to be ✓✓
 - The monopolist is the only supplier of the product in the market - the demand curve that confronts the monopolist is that of the market as a whole ✓✓
 - The market demand curve which slopes downwards from left to right / graph ✓✓
- **Production level** ✓
 - Once the monopolist has decided on a price, the quantity sold is determined by market demand - by reducing the price, monopolists can sell more units of the product and vice versa ✓✓
 - Monopolists influence the product-price combination of the product they sell without any reaction from other market participants ✓✓
 - Other participants cannot act because a basic requirement for the existence of a monopoly is that entry to the market is blocked ✓✓
- **Market forces** ✓
 - Although the monopolist is the only supplier of a product, the product is still influenced by market forces in the economy ✓✓
 - Consumers have limited budgets and a monopoly can therefore not demand excessive prices for the product and the monopolist product has to compete for consumer's favour with all the other products available in the economy ✓✓
 - E.g. Transnet competes road, air etc. means of transport ✓✓

- **Control over the price** ✓
 - A monopolist has considerable control over the market price – but demand limits it ✓✓
 - A monopoly does not have control over demand, so demand will influence the final market price ✓✓
 - A monopoly can only decide at which point on the demand curve it wants to produce ✓✓
- **Substitutes** ✓
 - There are few products that have no close substitutes whatsoever ✓✓
 - For many years even though there was no competition for telephone services in South Africa, consumers could still use alternative forms of communication such as letters and telegrams ✓✓
- **Favourable circumstances** ✓
 - Sometimes entrepreneur may enjoy favourable circumstances in a certain geographic area ✓✓
 - E.g. there may be only one supplier of milk in a particular town, a hardware store or hotel ✓✓
 - There may even be laws that protect them, e.g. Post Offices in South Africa ✓✓
 - Pure monopolies are a common rarity in South Africa ✓✓
 - Not only are substitutes available, but there is often nothing to prevent other entrepreneurs from entering the market hence what may be called a quasi-monopoly ✓✓
- **Market information** ✓
 - All buyers and the single seller have full knowledge of all the current market conditions ✓✓
- **Exploitation of consumers** ✓
 - The monopolist may produce fewer products at a higher price compared to businesses under perfect competition ✓✓
 - E.g. De Beers, because the monopolist is the only producer of the product in the market, there is always the possibility of consumer exploitation. Most governments take steps to guard against such practices and new and existing monopolies are usually well monitored ✓✓
- **Market entry** ✓
 - The barriers prevent other producers from entering the market to supply the same type of product ✓✓
 - **Natural monopolies** ✓
 - High development cost are frequently a reason - the provision of electricity is often used as an example
 - To build a nuclear power station and transmission lines to distribute electricity costs billions of rands ✓✓
 - E.g. Eskom as a single business in the country that supplies electricity ✓ operates as a natural monopoly and is frequently owned and regulated by the government ✓
 - **Artificial monopolies** ✓
 - The barriers to entry are not economic in nature but artificial like patent rights which are legal and exclusive rights of a patent holder to manufacture a product using his or her unique invention ✓✓
 - Patents are also frequently encountered in the pharmaceutical industry ✓✓
 - Licensing is another way in which artificial monopoly is applied, e.g. TV and radio licenses ✓✓
 - licences protect operators against entry of other competitors ✓✓

- **Economies of scale ✓**

- These give advantages to large existing companies ✓✓
- Occur when the cost per unit decreases when the output increases ✓✓
- Large businesses production costs per unit are lower than those of small businesses, e.g. Eskom ✓✓

- **The geographical area ✓**

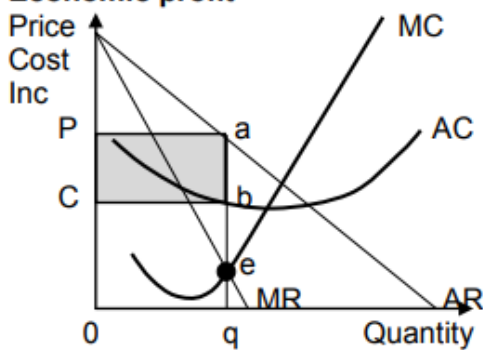
- This can cause a natural barrier as well, e.g. only one holiday resort can fit on the seafront as an exclusive beach ✓✓

- **Size of the market ✓**

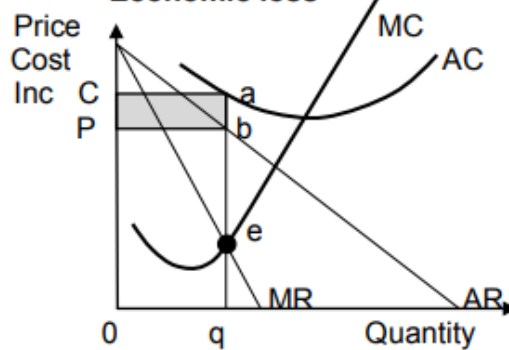
- Sometimes a business enjoys favourable circumstances in a certain small market ✓✓
- E.g. there may be only one hardware store in a particular small town ✓✓

(Accept any other relevant facts)

Economic profit



Economic loss



(Allocate a maximum of 8 marks for graphs)

(Max 26 marks)

- **Three institutions were created to achieve these objectives:**
 - Competition Commission: ✓ to investigate, control and evaluate restrictive business practices, ✓✓ abuse of dominant positions and mergers to achieve equity and efficiency in the South African economy. ✓✓
 - Competition Tribunal: ✓ grant exemptions, authorise or prohibit large mergers, adjudicate, grant an order for costs on matters referred by the Commission ✓✓
 - Competition Appeal Court: ✓ consider any appeal from or review a decision of the Competition Commission; ✓✓ confirm, amend or set aside a decision by the Competition Tribunal ✓✓ confirm an order for the disinvestment of assets of parties that merged without following the Act. ✓✓
- **Examples of cases investigated by the Competition Commission and/or Competition Tribunal or Appeal Court:**
 - BMW ✓ over-pricing cars ✓✓ (outcome fined) ✓✓
 - Tyre industry ✓ collusion amongst tyre manufacturers ✓✓ (outcome fined) ✓✓
 - Construction industry ✓ collusion of bidding prices for building stadiums in 2010 ✓✓ (outcome fined) ✓✓
 - Bread (Tiger Brands) ✓ collusion of bread companies to fixing prices ✓✓ (outcome fined) ✓✓
 - Cell phone companies ✓ (rates) as well as interconnection rates ✓✓ (outcome reducing interconnection fees over a few years ✓✓
 - Telkom ✓ monopolising communication towers ✓✓ (outcome fined) ✓✓

CONCLUSION

Any relevant higher order conclusion that should include:

- A summary of what has been discussed without repeating facts already mentioned in the body /
- An opinion or valued judgement on the facts discussed /
- Additional support information to strengthen the discussion /
- A contradictory viewpoint with motivation /
- Recommendations.

REASONS FOR MARKET FAILURE / MISALLOCATION OF RESOURCES

QUESTION 5: MICROECONOMICS

- Discuss the causes of market failure in detail. (26 marks)
- How effective has government spending been, in addressing market failure? (10 marks) [40]

INTRODUCTION

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

(Accept any other correct relevant response)

BODY/MAIN PART

BODY/MAIN PART

Externalities ✓

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

Negative externalities ✓

- Negative externalities are costs to third parties that are not included in the market price ✓✓ e.g. pollution, ✓
- The costs of negative externalities such as ill health are not paid by the producers. ✓✓
- Harmful these goods are often over produced in the economy which is not socially desirable. ✓✓

Positive Externalities ✓

- A positive externality occurs when a benefit to a third party from the action or decision of another party. ✓✓ e.g., Education ✓
- These goods are often under-produced by the market and government steps in to provide for the shortfall. ✓✓

(A maximum of 4 marks will be allocated for graphical illustration)

Public goods/Missing markets ✓

- can only form under certain conditions and when these conditions are absent, markets struggle to exist. ✓✓
- Public goods are not provided for by market mechanism because producers cannot withhold the goods for non-payment and since there is often no way of measuring how much a person consumes, there is no basis to establish a market price. ✓✓
- Markets measuring how much a person consumes, there is no basis for establishing a market price
- lightning, flood control, storm water drainage and lighthouses. ✓✓

- **Collective goods:** these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals. ✓✓
- **Community goods:** these are goods such as defence, police services, prison services, streetlights: these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals. ✓✓

Merit goods and demerit goods: ✓✓

- **Merit goods:** Some goods are highly desirable for the general welfare of the people of the country and are often not highly rated by the market. ✓✓
- If people have to pay market prices for them, relatively little would be consumed. ✓✓
- **Demerit goods:** Items such as cigarettes, alcohol, and non-prescriptive drugs are example of demerit goods. ✓
- In a free market economy, these goods are over-consumed. ✓✓
- Government can ban their consumption or reduce it by means of taxation such as excise duties ✓✓ and by providing information about their harmful side effects. ✓✓

Imperfect competition ✓

- In market economies, competition is often impaired by power. ✓✓
- Power often lies to a greater extent with producers than with consumers. ✓✓
- Most businesses operate under conditions of imperfect competition that allow producers to restrict output, raise prices and produce where price exceeds marginal cost. ✓✓

Lack of information ✓

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

Immobility of the factors of production: ✓

- Most markets do not adjust rapidly to changes in supply and demand. ✓✓
- **Labour:** may take time to move into new occupations and geographically to meet the changes in consumer demand. ✓✓
- **Physical capital:** Factory buildings and infrastructure such as telephone lines, bridges, rail links and airports are not moveable at will. ✓✓
- This capital last for many years but cannot be moved to fit change in demand. ✓✓
- **Technological applications change production methods:** Technology used in the production may change such as the use of robots rather than labour in mines. ✓✓
- It takes time for most industries to adapt - with greater technological changes ✓✓
- Workers need to be flexible, upskilled and be able to change employment, as well as work patterns. ✓✓

Imperfect distribution of income and wealth: ✓

- The most important shortcoming of market systems is that it is neutral in the issue of income distribution. ✓✓
- If the initial distribution is unequal, the final distribution will be too. ✓✓
- For this reason, it is often argued that the market fails. ✓✓ (max 26)

(Accept any other correct relevant response)

ADDITIONAL PART**How effective has government spending been in addressing market failure?**

Government spending is effective in addressing market failure by:

- transferring income directly to the poor such as child support grants, unemployment benefits and thereby reducing income inequalities. ✓✓
- providing goods free of charge e.g. community goods, education etc. ✓ and allowing access to basic needs to all citizens. ✓✓
- implementing employment creation programmes, which will create jobs and improve skills for all types of labour ✓✓ e.g. public works programme, subsidising producers to encourage production of merit goods as they are beneficial to the society. ✓
- spending on campaigns that will inform public about policies and legislation that protects them against exploitation. ✓✓
- investing on infrastructure development such as roads, railways and communication networks as private sector find these unprofitable or difficult to finance. ✓✓ (Max 10)

(Accept the negative evaluation of government spending)

CONCLUSION

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

(Accept any other correct relevant higher order response)

[40]

CONSEQUENCES OF MARKET FAILURE

QUESTION 5: MICROECONOMICS

- Discuss, in detail, without drawing graphs, state intervention as a consequence of market failure. (26 marks)
- How can market inefficiency be reduced by global markets (globalisation)? (10 marks)

INTRODUCTION

When market failure occurs, consequences such as inefficiencies, spill-over effects, imperfect competition and government intervention are likely to prevail ✓✓ (Max 2)
(Accept any other correct relevant introduction)

BODY: MAIN PART

State intervention as a consequence of market failure

Direct control ✓

- The state can pass laws or use existing legislative frameworks to control businesses and industries, individuals who generate negative externalities ✓✓
- Thus in South Africa, emissions of potentially dangerous chemicals, air and scenic pollution, environmental preservation are controlled through various Acts regulations ✓✓
- Advertising by the tobacco industry is prohibited and alcohol may not be sold on Sundays or to persons under the age of 18 years ✓✓

Imperfect markets ✓

The government can deal with imperfect competition by:

- Formulating or implementing a competition policy to increase the level of competition ✓✓
- Using laws on competition to prevent exorbitant prices charged by firms, to ensure that entry to the market is free, prevent harmful collusion and encourage foreign competition which helps to keep prices low ✓✓
- Granting licences to more business in the case of state monopolies ✓✓
- Imposing price controls to decrease prices of goods and services ✓✓

Levying of taxes ✓

- The government will intervene in the market by levying taxes to recover external costs ✓✓
- These taxes will increase the price and will result in a decrease in production of a certain good ✓✓
- Levying taxes could be used as a strategy of reducing production and consumption of demerit goods as well as generating revenue for the state ✓✓
- Firms and consumers will then be allocating resources in a more efficient way ✓✓

Providing producer subsidies ✓

- The government provides subsidies to producers to encourage them to produce more goods and services ✓✓
- Subsidies increase supply of specific goods and services such as milk, wheat and maize ✓✓
- Subsidies lower the cost of producing goods and thus the market price of these goods is lowered, increasing consumption ✓✓

Minimum wages ✓

- A minimum wage is the lowest remuneration that employers are required by law to pay their workers ✓✓
- Income for the workers will increase and as a result their standard of living will improve (improve welfare and ensure basic needs are met) ✓✓
- If a minimum wage is set above the equilibrium market wage, supply of labour will exceed the demand for labour ✓✓
- This will increase the cost of labour, resulting in higher cost of production for businesses ✓✓
- Some workers may be retrenched and increase unemployment and while production decreases ✓✓
- Minimum wages will lead to more bargaining power of workers ✓✓

Minimum prices ✓

- The government is obliged to intervene to ensure sufficient supplies of staple food in the market ✓✓
- The approach of setting minimum prices or price floors will be used so that it will be worthwhile for producers (to make a comfortable profit) to produce essential goods in desired quantities ✓✓
- These are prices that are set above the market price by the government ✓✓
- Minimum prices however have unwanted side-effects as they cause a surplus in the market ✓✓
- Surplus products become a challenge to dispose as they should rather be sold at lower costs, dumped to other countries which is prohibited by the WTO or be destroyed ✓✓

Maximum prices ✓

- The government will set a maximum price if the price is deemed to be too high for essential goods (basic goods) ✓✓
- The maximum price that is set by the government below the market price is known as a *price ceiling* or maximum price ✓✓
- The government will intervene in the market by passing law that suppliers may not charge more than a maximum price ✓✓
- The immediate effect of maximum prices in the market is that the quantity supplied drops thus causing shortages ✓✓
- Shortages in supply for certain goods in the market will result to the establishment of the '*black markets*' ✓✓

Redistribution of wealth ✓

- The South African government uses a progressive income tax system to redistribute income and wealth ✓✓
- Traditional methods such as levying various taxes, provisioning of free services, benefits in kind and cash benefits, are used to reduce the income gap ✓✓
- The government can also implement redress methods such as BBBEE, affirmative action, land restitution, land redistribution and property subsidies to redistribute wealth among the population ✓✓

Government involvement in production ✓

- Subsidising merit goods to increase production ✓✓
- Imposing taxes on demerit goods to reduce production ✓✓
- Levying income taxes, indirect taxes and wealth taxes to provide community goods free of charge ✓✓
- Providing collective goods such as refuse removal, waste disposal and sewerage drainage for a user fee ✓✓ (Max 26)

(Accept any other correct relevant response)

(A maximum of 8 marks may be allocated for mere listing of facts/examples)

BODY: ADDITIONAL PART**How can market inefficiency be reduced by global markets (globalization)?**

- allowing foreign direct investment in the economy to increase supply of goods and services. ✓✓
- increasing competition in local market and reducing the existence of monopolies ✓✓
- increasing the accessibility of information to both consumers and producers for them to make rational or informed decision. ✓✓
- ensuring efficiency allocation of resources by allowing countries to specialize in production of goods that they have comparative advantage in. ✓✓
- increasing mobility of factors of production between different countries. ✓✓
- encouraging businesses to be innovative and produce goods and services of better quality for consumers. ✓✓
- increasing consumers' choice on goods and services ✓✓

(Accept any other relevant and correct higher order response)

(Max 10)

(A maximum of 2 marks will be allocated for mere listing of facts)

CONCLUSION

Market failure may also result in inefficiencies in the way resources are allocated and used in producing goods and services ✓✓ (Max 2)

(Accept any other correct relevant higher order conclusion)

[40]

CONSEQUENCES OF MARKET FAILURE WITH GRAPHS

QUESTION 5: MICROECONOMICS

- Discuss the consequences of market failure with the aid of graphs under the following headings:
 - Producer Subsidies (8)
 - Maximum prices (8)
 - Minimum wages (10) (26 marks)
- With reference to the graph below, analyse how a negative externality result in the misallocation of resources.

INTRODUCTION

Market failure is when the market fails to produce sufficient (optimum) quantities that people want. ✓✓

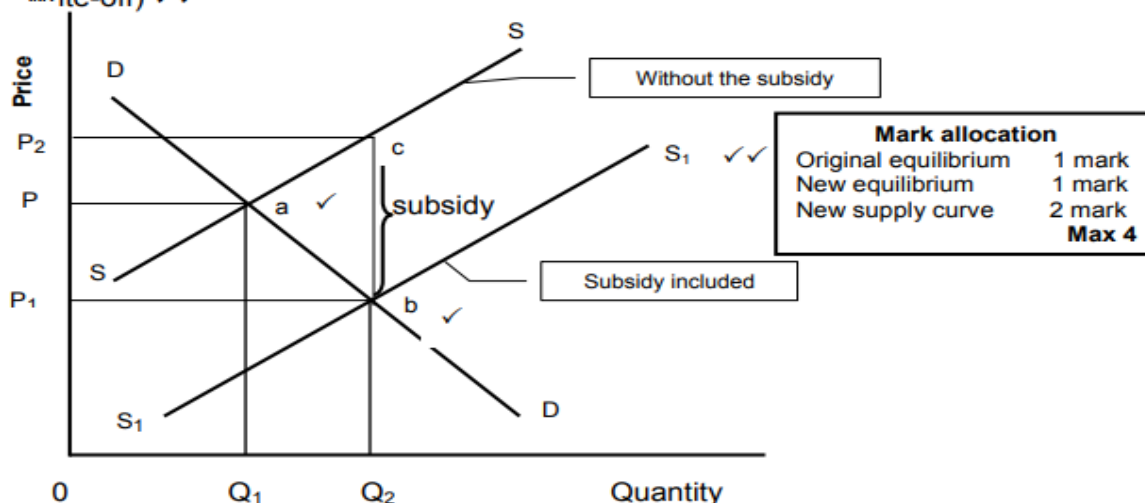
(Accept any other relevant introduction)

Max (2)

MAIN PART

Producer Subsidies

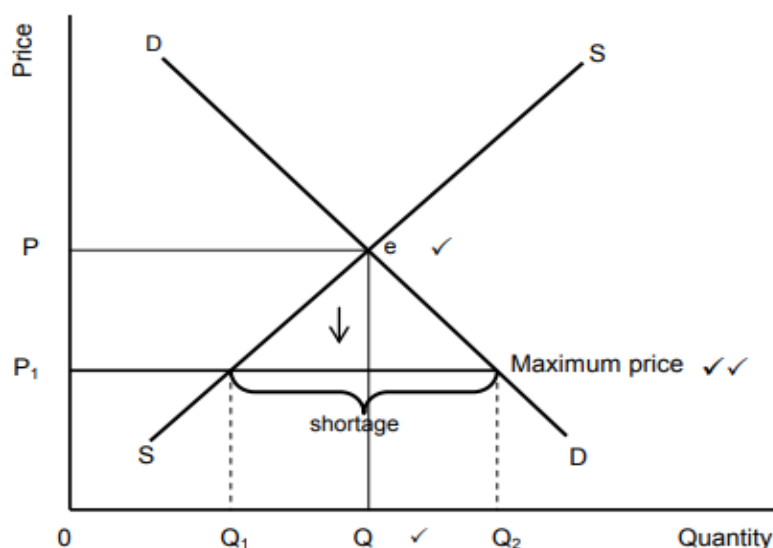
- A subsidy is a form of financial grant to support the production of a good or service by the government by lowering the cost of production ✓✓
- Subsidies can be direct (e.g. cash grants) or indirect (e.g. depreciation write-off) ✓✓



- The market price decrease from P to P_1 , and the quantity consumed will increase from Q to Q_1 due to the subsidy paid by government ✓✓
- The producer benefits from a subsidy/producer's profit increases (the difference between P and P_2) ✓✓
- The consumer benefits from a subsidy by paying less (price decreased from P to P_1) ✓✓
- Producer subsidies are often given to suppliers of agricultural products such as milk, wheat and maize ✓✓ (Max. 6)

Maximum Prices

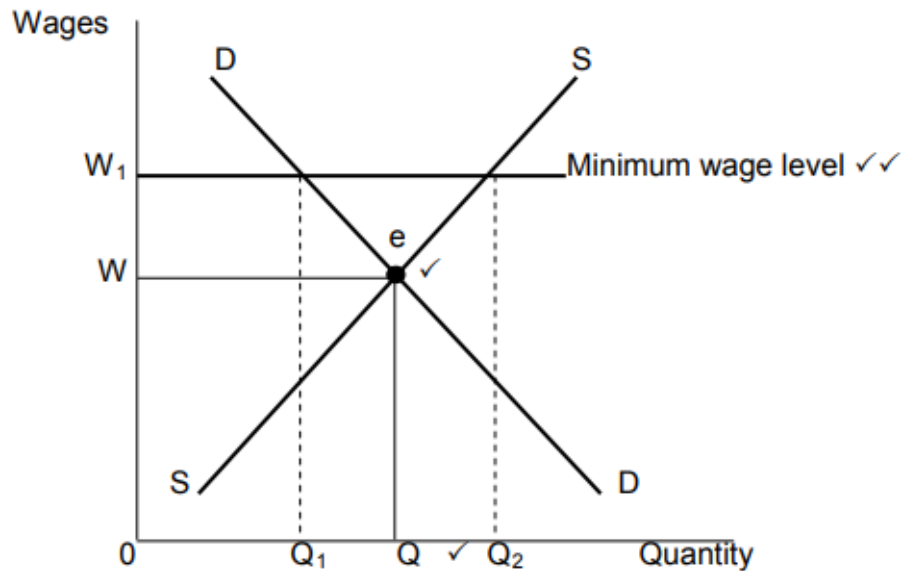
- Sometimes the government will set the price of a good or service at a maximum price that is below the market price/The government intervenes and passes a law that suppliers may not charge more than the maximum price ✓✓
- Maximum price are usually set on basic goods, such as food and transport so that citizens have access to certain goods and services and achieve a certain minimum standard of living ✓✓



- In the figure above, the maximum price is set at P_1 , while the market price is at P ✓✓
- The immediate effect would be that the quantity supplied will drop from Q to Q_1 ✓✓
- The shortage caused by the price ceiling creates a problem of how to allocate the good since the demand will exceed the supply ✓✓
- Black markets often develop where illegal goods are bought or sold ✓✓ (Max 6)

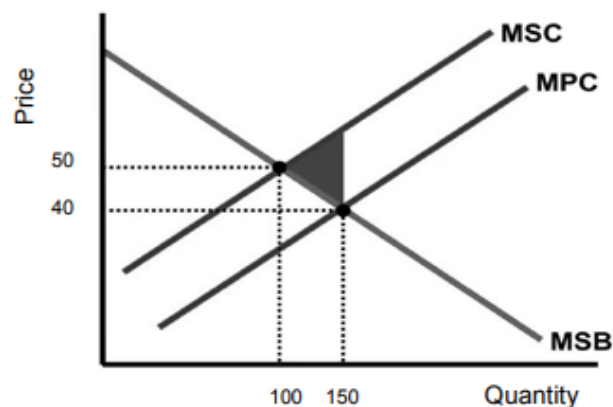
Minimum Wages

- When the government enforces a minimum wage, it means workers have to be paid a certain minimum remuneration that will lead to a higher standard of living / increased satisfaction of wants ✓✓



- The graph shows that if the wage rate is set at W , the corresponding demand and supply of labour will be Q ✓✓
- If a minimum wage of W_1 is set, the demand for labour will decrease from Q to Q_1 . Some people may become unemployed ✓✓
- However, the supply of labour will increase from Q to Q_2 . As more people will offer their labour because of a higher income ✓✓
- Minimum wages will lead to more bargaining power of workers ✓✓ (Max 8)
(Accept any other correct relevant response)
(Allocate a maximum of 8 marks for the mere listing of facts/examples) (Max. 26)

ADDITIONAL PART



A negative externality results in the misallocation of resources :

- Because external costs are not included in the price when the market produces 150 units ✓✓
- If external costs are included the supply will decrease and market will produce at 100 units at a higher price of R50, that is socially desirable ✓✓
- Since the market does not take external cost into account it over-produces thus more resources than it socially desirable is used ✓✓
- harming other producers or consumers through the behaviour of certain producers that impact negatively on the cost structure of other participants ✓✓
- charging a price of R40 for quantity 150 sold, that represents only private cost (MPC) ✓✓
- reaching the socially optimal point of production if social cost is taken into account, that will lead to a price increase to 50 and the quantity reducing to 100 ✓✓
- producing too much of a good which has a negative externality (welfare loss) indicated by the shaded area on the graph ✓✓
- at R40 if the market is left to its own devices, a quantity of 150 will be produced (socially insufficient) ✓✓ (Max 10)

CONCLUSION

Government involves itself directly in the market when the market does not act in the interest of society ✓✓

(Accept any other correct relevant higher order response)

Max (2)

QUESTION 6 ESSAYS: CONTEMPORARY ECONOMIC ISSUES

INFLATION: MEASURES TO COMBAT INFLATION

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 40 MINUTES

- Discuss in detail the measures to combat inflation. (26 marks)
- How do inflationary expectations affect the various role players in the economy? (10 marks) [40]

INTRODUCTION

Inflation refers to a sustained and significant increase in the general price level over a period of time; and a simultaneous decline in the buying power of money. ✓✓

BODY

MONETARY POLICY MEASURES ✓

Monetary policy measures to combat inflation are taken by the South African Reserve Bank (SARB) and government through the implementation of one or more of the following instruments:

Interest rates ✓

- The SARB curbs inflation by increasing the repo rate which makes it expensive to borrow money. ✓✓
- Banks pass on the increased cost of borrowing (repo rate) to their clients by increasing the interest rate. ✓✓
- High interest rate discourages consumers from taking unnecessary credit, discouraging consumer spending. ✓✓
- A decrease in credit creation results to a reduction of money supply thereby reducing demand-pull inflation. ✓✓
- The increase in interest rates stabilises the value of the currency which helps to reduce cost-push inflation through lower import cost. ✓✓

Open market transactions ✓

- The SARB can directly decrease the supply of money by selling government securities in the open market. ✓✓
- When banks buy these securities money flows from banks to the SARB which reduces money supply. ✓✓
- Reduction in money supply will reduce aggregate demand controlling demand-pull inflation. ✓✓

Cash Reserve Requirements ✓

- Commercial banks are required to hold a certain minimum cash reserve with the central bank. ✓✓
- An increase in the cash reserve requirement limits the amount of money that banks can give out as credit and helps to curb inflation. ✓✓

Moral suasion ✓

- The SARB can persuade commercial banks to act in a responsible manner when granting credit under inflationary conditions. ✓✓
- Moral suasion helps to reduce inflation because credit will be granted to fewer consumers. ✓✓

FISCAL POLICY MEASURES ✓

Inflation can be combated through fiscal changes in taxation and government expenditure. ✓✓

The following are actions that can be taken:

Government expenditure ✓

- The state can reduce expenditure by postponing some government projects such as roads, hospitals and schools. ✓✓
- Aggregate demand will decrease thereby reducing demand-pull inflation. ✓✓
- The government may finance a budget deficit from the non-banking sector to limit inflation. ✓✓

Taxation ✓

- Government can increase direct taxation such as personal income tax to decrease demand. ✓✓
- An increase in indirect taxation (VAT) causes spending to decrease because goods become more expensive. ✓✓
- The state can impose surcharges on imported goods which will increase their prices, discouraging consumer spending. ✓✓
- A loan levy can be used to reduce disposable income of consumers. ✓✓
- The government may reduce taxes on savings or introduce tax-free savings accounts to encourage saving and reduce spending. ✓✓

OTHER MEASURES

Additional measures that can be used to combat inflation include:

- **Increase productivity.** ✓
Improved education and training allow for more people to be employed and ensure that they are more productive. ✓✓
- **Price Control:** ✓
The government ensures that certain essential goods remain affordable by fixing their price. ✓✓
- **Wage Policy:** ✓
A wage policy should keep wage increases in line with inflation rate. ✓✓
- **Stricter conditions for consumer credit:** ✓
The National Credit Regulator may impose strict requirement on consumer credit which will reduce aggregate demand. ✓✓
- **Import controls are relaxed:** ✓
More imports may help to supplement local supply of goods and services, reducing inflation caused by product shortages. ✓✓
- **Floating exchange rate:** ✓
Prices are automatically adjusted to international conditions which allow free operation of the price mechanism (real prices). ✓✓
- **Indexation:** ✓
Refers to a policy of linking prices of items such as wages, pensions and mortgage bond interest rates to price indices to eliminate the effects of inflation. ✓✓
(Accept any other correct relevant response)
Allocate a **maximum of 8 marks** for mere listing of headings and examples)

(Max. 26)

ADDITIONAL PART

Various role players are affected by high inflation expectations in the following ways:

- Inflation expectations play a major role in the process that transmits expectations of price increases through to the actual increase in prices. ✓✓
- Consumer spending may increase when consumers expect prices to increase in the near future, without market signals. ✓✓
- More consumer goods and capital good are bought before the price increase thus increasing aggregate demand. ✓✓
- Labour unions demand higher wages to protect purchasing power for their members when they anticipate rise in inflation. ✓✓
- When wages increase, businesses raise their prices to compensate the increase in labour costs thereby fuelling inflation. ✓✓
- When businesses expect inflation to rise, they tend to increase their prices in advance which increase their profit margins. ✓✓
- The SARB uses inflation expectations to adjust monetary policy instruments that control money supply. ✓✓
(Accept any other correct relevant response)
(Allocate a **maximum of 2 marks** for mere listing of facts)

(Max. 10)

CONCLUSION

A high rate of inflation will always cause instability in the economy hence various measures are applied to combat it. / Inflation expectations are self- fulfilling because higher expectations lead to higher inflation and the vice versa is true. ✓✓
(Accept any other correct relevant conclusion)

(Max.2)

[40]

TOTAL SECTION C: 40

INFLATION: CONSEQUENCES OF INFLATION

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

- Discuss the consequences of inflation. (26 marks)
- How does foreign direct investment influence inflation in the economy? (10 marks)

INTRODUCTION

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

(Accept any other correct relevant response)

(Max. 2)

BODY: MAIN PART

Creditors ✓

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

Debtors ✓

- Debtors (borrowers) receive money with a high buying power and pay back with money with a lower buying power ✓✓
- Borrowers benefit from price increases ✓✓
- During periods of rising prices, debtors gain in real terms because the contract was signed in advance and cannot be changed ✓✓
- Debtors receive the money with a relatively high purchasing power and repay their loans with low purchasing power, unless interest rates are sufficient to prevent the situation ✓✓

Salary and wage earners ✓

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

Investors and savers ✓

- Assets with a fixed nominal value have a fixed return and lower purchasing power as prices increase ✓✓
- Purchasing power is reduced unless the interest rate is above the inflation rate ✓✓
- People who invest in negotiable instruments such as shares, often benefit from inflation, because during periods of inflation, interest rates are increased to encourage savings ✓✓
- Investors in assets with flexible market value gain when prices increase, because their assets with a flexible market value increase at least proportionately to the rate of inflation ✓✓
- Often, the prices of these assets increase more rapidly than increases in the general price level ✓✓
- People save money for long periods with the aim of using these funds to meet future expectations, these savings may be invested as fixed deposits, in the money market, as life policies or in pension funds ✓✓

Tax payers ✓

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

Industrial peace ✓

- Wage bargaining is accompanied by strikes and mass action ✓✓
- These actions can sometimes spill over into violence which affects society at large ✓✓
- Inflation leads to demands for increased wages as trade unions put increasing pressure on employers to raise wages and salaries ✓✓
- In extreme situations, in the presence of exceptionally high inflation together with a government that is determined not to yield to wage increase demands (which can push inflation to even higher levels) widespread civil unrest would follow ✓✓

Inflation has an adverse effect on a country's balance of payments ✓

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

Unemployment and poverty ✓

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

Psychological influence (2021 EGs)

• Low inflation expectations

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

• High inflation expectations

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

(Accept any other correct relevant response)

(A maximum of 8 marks may be allocated for headings/examples)

(Max 26)

BODY: ADDITIONAL PART

Foreign direct investment influences inflation in the economy by:

- increasing the production of goods and services which will increase aggregate supply thus stabilizing prices ✓✓
- bringing more efficient production techniques that will reduce production costs, slowing down cost push inflation ✓✓
- increasing competition in local markets which will keep local prices low ✓✓
- strengthening the rand through higher export volumes which helps to reduce the cost of importing production inputs such as crude oil ✓✓
- improving technology in production which increases productivity thereby reducing cost push inflation ✓✓
- creating more employment opportunities thereby stimulating consumer spending which contributes to demand pull inflation ✓✓
- increasing expenditure on capital goods such as machinery and equipment resulting in increased aggregate demand ✓✓
- increasing real wages more than domestic investment, leading to cost push inflation ✓✓

(Accept any other correct relevant higher order response.)

(Max 10)

(A maximum of 2 marks may be allocated for mere listing of facts)

CONCLUSION

Unacceptably high inflation rates cause hardships among the poor, the unemployed, low-income earners; proper measures to control it have to be put in place ✓✓ (Max 2)

(Accept any other correct relevant higher order response)

[40]

TOTAL SECTION C: 40

TOURISM: EFFECTS OF TOURISM

- **Examine the effects of tourism on the following:**
 - **Poverty**
 - **Employment**
 - **Externalities**
 - **How can South Africa promote domestic tourism?**
- (26)
(10) [40]

INTRODUCTION

Tourism is the activities of people travelling to places outside their usual environment for not more than one consecutive year, for leisure, business and other purposes ✓✓
(Max. 2)

MAIN PART

Poverty

- Tourism is one of the fastest and most efficient redistribution mechanisms in development ✓✓
- Tourism stimulates economic growth and brings development to the poor in rural areas ✓✓
- Tourism offers opportunities to diversify sources of income for poor people ✓✓
- **Allowing them a stake** ✓ for example, to start and operate small-scale tourism businesses around community assets and to establish SMMEs to provide services ✓✓
- **Empowerment** ✓ for example, to exploit opportunities of on-the-job and other training ✓✓
- **Creating partnerships** ✓ linking up with mainstream tourism businesses supplying goods and services ✓✓
(Max 10)

Employment

- Tourism sector directly and indirectly employ people ✓✓
- The sector is the largest creator of jobs (employs 7% of the workforce in SA) ✓✓ for the following reasons:
- **Tourism is labour intensive** ✓ It has the lowest ratio of investment to employment creation ✓✓ This means that more jobs can be created with every unit of capital invested in tourism ✓✓ Many tourist activities are therefore within the reach of small tour operators ✓✓
- **Tourism employ many skills** ✓ Various skills are employed in the tourism sector ✓✓ for example, tour guides, hairdressers, accountant ✓ It also offers a huge potential for on-the-job training ✓✓
- **Tourism provides immediate employment** ✓ If it is properly organised and focused, the tourism sector can create many jobs within a short period of time ✓✓
- **Tourism provides entrepreneurial opportunities** ✓ The tourism industry accommodates informal sector enterprises ✓✓ from craft and fruit vendors to pavement vendors, chair rentals and others ✓
(Max 10)

Externalities

The rapidly expanding tourism industry could have both positive and negative impacts that extend well into the future:

- Attracts large amounts of revenue, but can cause undue environmental damage (uses resources and produces waste) ✓✓
- Rapid growth aimed at short-term benefits has more negative than positive effects: degeneration of traditions and cultural values, environmental damage to sites and natural settings – pollution and waste ✓✓
- Global tourism will grow due to increased population, improved living standards, increased free time and expansion of transportation systems, but put unnecessary pressure on tourist sites ✓✓
- Economic effect on individuals: new transport systems, recreation, shops and increase in property value compared to an increased inflation rate ✓✓
- Economic effect on government: more direct and indirect tax compared to conservation of infrastructure and tourist attractions ✓✓
- Social effect on individuals: improved health care and education compared to traffic congestion, crime ✓✓
- Social effect on government: an increased value put on culture, less migration compared to policing, sanitation, and health services ✓✓ (Max 10)

(Accept any other correct relevant response)

(Max 26)

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

ADDITIONAL PART

South Africa can promote domestic tourism by

- **Improving its marketing and advertising** ✓✓
 - Domestic tourism is encouraged through increased advertising ✓✓
 - TV magazine programmes like *Shot'left* inform people about local places of interest ✓✓
- **Promoting special holiday packages** ✓✓
 - Special off-season rates make it possible to enjoy cheaper holidays ✓✓
- **Enhancing efficiency of tourist information outlets** ✓
 - Many towns have information outlets that supply pamphlets and information about a specific area. ✓✓
- **Distributing information booklets (awareness) and offer transport** to visit places of interest. This is mostly done by hotels and other accommodation resorts ✓✓
- **Improving infrastructure** ✓ a greater variety, using new technology to provide reliable infrastructure ✓✓
- **Government effectively managing its tourist sites and other tourist attractions** ✓✓ e.g. maintenance, upgrading, security etc. ✓

(Accept any other correct relevant response)

(Max.10)

CONCLUSION

Tourist expenditure is as real as any other consumer expenditure and international tourism can in addition be seen as an invisible export product ✓✓ (Max. 2)

[40]

BENEFITS OF TOURISM

Discuss the benefits of tourism for:

- Business (10)
 - Infrastructure development (8)
 - Households (8) (26 marks)
- How can tourism attractions in less popular destinations be successfully marketed? (10 marks)

INTRODUCTION

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

(Accept any other correct relevant response)

MAIN PART

Business sector

- Tourism stimulates business in areas such as accommodation and entertainment ✓✓
- The construction industry, in private-public partnership with the government to provide the infrastructure, manufacturing sector and recreation sector all benefits from increased demand due to tourism ✓✓
- The previously disadvantaged communities get entrepreneurial opportunities through the black economic empowerment schemes ✓✓
- A large number of people get business opportunities in the informal sector ✓✓ e.g. selling of artefacts ✓
- Local retailers may have an increase in sales (and profits) because of increased demand from tourists ✓✓
- Private businesses and government work in partnership to provide the infrastructure needed for tourism ✓✓
- This increases the market share of and income of the these businesses ✓✓
- Allow existing businesses to improve the quality and variety of their products ✓✓
- Allow natural monopolies e.g. Table Mountain Cableway to achieve abnormal profits ✓✓
- The public sector also provides a range of financial incentives for private sector tourism investment (grants, subsidies, loans, tax rebates) ✓✓ (10)

Infrastructure development

- Adequate and well-maintained infrastructure is essential for tourist destinations ✓✓
- Locals share this infrastructure with tourists ✓✓
- Government often prioritises economic infrastructure such as ports and beaches ✓✓
- In addition to physical and basic infrastructure, social infrastructure is also important for the growth of tourism ✓✓
- Most of the SDIs and development corridors also have tourism as an important focus ✓✓ (8)

Households

- Members of households earn income from the tourism sector as tour operators, travel agents etc. ✓✓
- Many households are indirectly involved in tourism as employees ✓✓ e.g. in hotels, transport sector ✓
- Entrepreneurs from households that operate as curio producers or musicians can earn income from tourism ✓✓
- A large number of households acquire skills in the tourism industry ✓✓
- School curriculum and learnership offer opportunities to acquire these skills ✓✓
- Encourages rural development because many tourist attractions are located in rural areas ✓✓ (8)

(Accept any other correct relevant response)

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

(Max. 26)

ADDITIONAL PART

Tourism can be successfully marketed in less popular destinations by:

- advertising the firms' attractions in a variety of media including social media and internet which may reach both local and international potential tourists ✓✓
- focusing on a clear message that concentrates on the strength of the attraction/ uniqueness of the destination ✓✓
- using the indigenous knowledge systems of that particular area where possible ✓✓
- describing the service offered in the best possible way to catch the interest of the likely tourist ✓✓ E.g. the use of slogans ✓
- charging a price that is competitive and money well spent for the service offered ✓✓
- helping the tourist to view the entire service as value for money – deliver a world-class visitor experience ✓✓
- highlighting other places of interest in the vicinity of the attraction as part of a package ✓✓
- focusing on proudly South African products/services / Sho't Left campaign ✓✓
- help disadvantaged South Africans to benefit from tourist attractions in the less popular destinations ✓✓

(Accept any other correct relevant response)

(Max. 10)

CONCLUSION

A weaker exchange rate has been a major contributing factor to South Africa's tourism industry growth over many years ✓✓

(Accept any correct relevant response)

(Max 2)

[40]

ENVIRONMENTAL SUS - INTERNATIONAL PROBLEMS

- **Discuss the FIVE major environmental problems and the international measures taken to solve these problems to ensure a sustainable environment.** (26 marks)
- **How does South Africa use conservation to ensure a sustainable environment?** (10 marks)

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 five environmental problems are areas of concern ✓✓ (Max 2)

(Accept any other correct relevant response)

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 transplant 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 6)

Chemical wastes ✓

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

Hazardous waste ✓

- Hazardous waste is more than a chemical waste and it includes toxic metal waste such as lead ✓✓
- Hazardous waste has a slow decomposition rate (It stays poisonous for a long time) ✓✓
- Hazardous waste can endanger all life forms and entire ecosystem ✓✓
- The **Basel Convention** on the control of Trans boundary Movement of Hazardous waste allows trade between countries that have signed the convention ✓✓
- Hazardous waste is dumped illegally because it is convenient and cheap ✓✓ (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 in to the atmosphere, which leads to global warming ✓✓
- Effects of climate change include change in temperature and weather patterns ✓✓
- The **United Nations' Framework Convention on Climate Change (UNFCCC)** sets objective to reduce greenhouse gases ✓✓
- **Kyoto Protocol** was signed as an agreement in which greenhouse gases emission level for developed countries were agreed upon ✓✓
- The objectives of the agreement were not achieved ✓✓ (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 of the environment beyond their traditional life style and experiences ✓✓
- **UNESCO's** management of social transformation programme (MOST) is a global effort to document local/indigenous knowledge before it is lost for ever ✓✓
(Accept any other correct relevant response) (Max 6)
(Allocate a maximum of 8 marks for mere listing of facts/examples)
(At least **TWO** marks should be allocated for the **international measure** used to solve each problem)
(Accept other major environmental issues) (Max 26)

ADDITIONAL PART

Conservation in South Africa can ensure a sustainable environment by:

- bringing a balance in the ecosystem ✓✓ as animals and plant interacts and depends on one another for continued survival ✓✓
- protecting forests, as they are important for producing oxygen and absorbing greenhouse gases ✓✓
- reducing the amount of greenhouse gases that reach the atmosphere thereby decreasing global warming ✓✓
- using water wisely, as it is basic to plant and animal existence ✓✓ Various local municipalities impose restrictions on water consumption to ensure conservation ✓✓
- reusing, reducing and recycling people use fewer resources and production of things such as plastics can decrease ✓✓
- policies help to conserve renewable stocks (e.g. trees) and non – renewable stocks (e.g. Fossil fuels) ✓✓
- a market economy has an interest in conservation as it helps maintain renewable stocks e.g. timber and fishing ✓✓
- achieving sustainability of industries through forces of demand and supply ✓✓
- direct controls: the government maintains the stock level of environmental resources through the issuing of permits and quotas ✓✓
- e.g. setting quotas for fishing by government, to stop catches being so large that they exceed the growth of the fish population ✓✓
- setting quotas for cutting down trees to ensure deforestation does not exceed the rate renewal ✓✓ (Accept any other correct relevant response) (Max 10)

CONCLUSION

The success in protecting the environment will take a united effort from consumers, businesses and governments ✓✓ (Max 2)
(Accept any other correct higher order conclusion)

ENVIRONMENTAL SUSTAINABILITY: STATE INTERVENTION TO ENSURE SUSTAINABLE DEVELOPMENT

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

- Discuss in detail the measures taken by the government to ensure environmental sustainability. (26 marks)
- Evaluate the success of international agreements in reducing climate change. (10 marks)

INTRODUCTION

Environmental sustainability refers to the ability of the environment to survive its use for economic activity / Environmental sustainability means meeting the needs of the present generation without compromising the needs of future generations. ✓✓
(Accept any other correct relevant introduction) (Max. 2)

BODY: MAIN PART

Granting property rights ✓

- Property rights are legal titles to the ownership, use and disposal of factors of production and goods and services. ✓✓
- Property rights have a conservationist effect whereby people will take care of resources that belong to them. ✓✓
- Property rights promote collective responsibility towards the environment while at the same time preventing overexploitation. ✓✓
- To prevent fauna and flora species from becoming extinct, people are granted property rights if they agree to preserve the flora and fauna. ✓✓
- Property rights can be expanded to common resources such as clean air. ✓✓

Charging for the use of the environment ✓

- The government levies fees for waste produced and disposed of in the environment. ✓✓
- In South Africa, local authorities levy charges on rubbish collection and sewage disposal. ✓✓
- The best results are achieved when charges are proportional (related to) to waste produced. ✓✓
- Emission charges are used when the government sets a price per unit of pollution. ✓✓

Levying environmental taxes ✓

- Environmental taxes are taxes imposed on the output of goods that generate external environmental costs (pollution). ✓✓
- When environmental taxes are levied it ensures that practices that are harmful to the environment are reduced. ✓✓
- The government can use the income generated through environmental taxes to plough back into environmental issues. ✓✓
- In South Africa, carbon tax is levied on carbon dioxide emissions from industrial process, fuel burning and vehicle tyres. ✓✓
- The rate of environmental tax should be equal to the marginal external cost. ✓✓

Paying environmental subsidies ✓

- Environmental subsidies refer to the payment made by the government to businesses to reduce activities that negatively affect the environment. ✓✓
- Subsidies are granted to; -
 - encourage businesses to develop new technologies or equipment such as LED light bulbs and solar geysers. ✓✓
 - promote production of environmentally-friendly substitutes such as reusable shopping bags and rechargeable batteries. ✓✓
 - encourage recycling waste material such as bottles and cans. ✓✓
 - encourage businesses to use environmentally-friendly sources of energy such as solar and wind. ✓✓
- Environmental subsidies can be recovered from the levying of taxation. ✓✓

Issuing marketable permits ✓

- Marketable permits are licenses that are sold by the government to businesses which allow them to pollute to a certain degree. ✓✓
- The government decides on a maximum desired level of pollution in a particular area. ✓✓
- When businesses managed to reduce pollution below their maximum allocated quota, they can sell the remaining part to other businesses that pollute more than their allocated quotas. ✓✓
- In South Africa, marketable permits are granted by the Department of Mineral Resources and Energy. ✓✓

Command and Control (CAC) ✓

- CAC refers to regulations set by the government to enforce environmental limits and standards. ✓✓
- The government enforces policy by setting maximum levels of the emission of pollution. ✓✓
- The Department of Environmental Affairs assigns inspectors to monitor the environmental activities of businesses and impose fines if the legal limits are not adhered to. ✓✓
- 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. ✓✓

Voluntary agreements ✓

- Voluntary agreements refer to formal and informal arrangements, rather than imposing regulations, between the government and businesses to reduce pollution. ✓✓
- The government may conclude agreements with businesses on a voluntary basis to cut pollution. ✓✓
- These agreements often work well because businesses are empowered to negotiate arrangements that suit their own circumstances and create better platform for planning. ✓✓
- This ensures commitment by businesses as they uphold to agreements that they have negotiated since they are directly involved. ✓✓

Education ✓

- This refers to methods used to create awareness and change people's attitudes towards the environment. ✓✓
- Education is used to try to change people's attitudes towards the environment. ✓✓
- When the society is made aware of environmental issues and how their actions impact on the environment, it will ensure that better decisions are made. ✓✓
- When children are educated to be conscious of the effects of their actions on the environment, they will become more environmentally aware and empowered adults. ✓✓
- Innovative approaches have been tried in the developing countries to educate people. ✓✓ e.g. setting up community wildlife reserves. ✓
(Accept any other correct relevant response)

(A maximum of 8 marks may be allocated for mere listing of facts/examples)
(Max. 26)

ADDITIONAL PART

- United Nations Framework Convention on Climate Change (UNFCCC) was established to reduce greenhouse gas emissions in the atmosphere. ✓✓
 - Most countries agree on taking measures to protect the environment, but they differ on who is most responsible for the damage and how to set emissions-reduction goals. ✓✓
 - The UNFCCC did not succeed because it was voluntary for individual countries. ✓✓
 - Kyoto Protocol was an improvement on the UNFCCC as it attempted to get developed countries to commit to reducing their emission of greenhouse gases. ✓✓
 - Kyoto protocol established binding targets whereby industrialised countries agreed to reduce their emissions. ✓✓
 - The major shortcoming of Kyoto protocol was its focus on developed countries only and developing countries were excluded from the agreement. ✓✓
 - Kyoto protocol failed as countries that did not meet targets were not penalised. ✓✓
 - Major polluters like the USA pulled out and this impacted negatively on the success of the agreement. ✓✓
 - The Paris Agreement was an improvement on the Kyoto protocol as its goal is to limit global warming to well below 2, preferably to 1,5 degrees Celsius, compared to pre-industrial levels. ✓✓
 - Assistance in the form of subsidies was pledged to developing countries to reduce greenhouse emissions ✓✓
- ✓
- The success of Paris Agreement will be determined by the financial, technical, and capacity building support offered to countries who need it. ✓✓
 - Although international agreements had limited success thus far, it has created an awareness to address the problem seriously. ✓✓
 - Global warming targets are not met as we are fast approaching an increase in global temperatures of 2 degrees Celsius. ✓✓
 - Poorer countries still rely on coal to produce energy because using more environmentally friendly methods of production are too expensive. ✓✓
 - Emission targets are not met, and the effects of climate change is more visible than before, leading to a loss in GDP and a decrease in employment. ✓✓
 - It is difficult to identify organisations responsible and holding these countries responsible for their actions. ✓✓
 - There is a lack of strict law enforcement where penalties were not imposed on those who did not meet the targets. ✓✓
 - Big polluters (like the USA) failed to meet the targets set by Kyoto protocol and still contribute to global warming and are less interested in solving the crises due to expensive technology to reduce pollution. ✓✓

(Accept any other correct relevant response)

(A maximum of 2 marks may be allocated for mere listing of facts/examples)

(Max. 10)

CONCLUSION

People continue to damage the environment (with or without their knowledge) and leaving the future generations to suffer the consequences. ✓✓

(Accept any other correct relevant high order conclusion)

(Max. 2)

[40]

