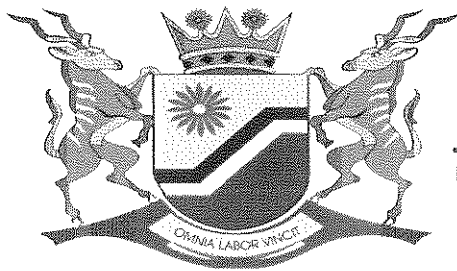




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**DEPARTMENT: EDUCATION
MPUMALANGA PROVINCE**

NATIONAL SENIOR CERTIFICATE EXAMINATION

GRADE 12

ECONOMICS P2

SEPTEMBER 2019

MARKING GUIDELINE

MARKS: 150

This marking guideline consists of 20 pages

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

- 1.1.1 B perfect competitive✓✓
- 1.1.2 A marginal cost✓✓
- 1.1.3 C Imperfect information✓✓
- 1.1.4 D $MR = 0$ ✓✓
- 1.1.5 A cultural✓✓
- 1.1.6 D petrol✓✓
- 1.1.7 C labour✓✓
- 1.1.8 B Command and Control✓✓ (8 x 2) (16)

1.2 MATCH TYPE

- 1.2.1 D The income received for selling an additional unit of a product✓
- 1.2.2 H Entry into this market is completely blocked✓
- 1.2.3 E Formal and open form of collusion✓
- 1.2.4 I A financial grant to support the production of a good✓
- 1.2.5 B Activities that are unique and only known by local people✓
- 1.2.6 G Combination of low economic growth and high prices✓
- 1.2.7 C South Africa's inflation target✓
- 1.2.8 A Businesses selling licenses to other businesses to pollute✓ (8 x 1) (8)

1.3 ONE TERM

- 1.3.1 Economic profit✓
- 1.3.2 Duopoly✓
- 1.3.3 Cost-benefit analysis✓
- 1.3.4 Repo rate✓
- 1.3.5 Transit tourist/Transit tourism✓
- 1.3.6 Environmental sustainability✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2 MICROECONOMICS

2.1 Answer the following questions:

2.1.1 Name any TWO forms of non-price competition.

- Advertising ✓
- Packaging ✓
- Product differentiation ✓
- Loyalty rewards for customers ✓
- Door-to-door deliveries ✓
- Doing business over the internet ✓

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

2.1.2 Why do all factors of production vary in the long run?

In the long run, firms are able to adjust all costs /
Firms will search for the production technology that allows it to
produce the desired level of output at the lowest cost. ✓✓
(Accept any other correct relevant response)

(1 x 2) (4)

2.2 Data response

2.2.1 Except Transnet, name any other state-owned enterprise in South Africa.

- Eskom ✓
- Denel ✓
- SANRAL ✓
- South African Airways/SAA ✓
- South African Express ✓
- SAFCOL ✓
- Alexkor ✓

(1)

2.2.2 What type of profit does a monopolist make in the long run?

Economic profits ✓

(1)

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2.2.3 Briefly describe the term *artificial monopoly*.

An artificial monopoly exists when the barriers to entry are not economic in nature e.g. patent rights or occurs when the government grants an operating license to one supplier. ✓✓
(Accept any other correct relevant response)

(2)

2.2.4 Explain the effect on the monopolist's revenue if it charges excessively high prices for its product in the long run.

The monopoly faces substitutes, although not near substitutes – the consumers may resort to such substitutes if the monopoly asks excessively high prices, the demand for the product will decrease, therefore revenue will decrease. ✓✓
(Accept any other correct relevant response)

(2)

2.2.5 Why is a monopoly regarded as productive inefficient?

- A monopoly is productively inefficient because it is not producing at the lowest point on the AC curve. ✓✓
- Since monopolies produce on the downward sloping part of their AC curves, there is excess capacity which implies productive inefficiency. ✓✓
- The output/supply is less than the maximum output capability. ✓✓
(Accept any other correct relevant response) (2 x 2)

(4)

2.3 Data response**2.3.1 Give ONE example of a private benefit to the producer.**

Profit ✓

(1)

2.3.2 What is indicated by the shaded area?

Market failure/Deadweight loss ✓

(1)

2.3.3 Briefly describe the term *marginal social cost*.

Marginal social cost (MSC) is the change in society's total cost brought about by the production of an additional unit of a good or service. ✓✓
(Accept any other correct relevant response)

(2)

Marking Guideline

2.3.4 Why can education be regarded as a merit good?

- It is regarded as a socially desirable merit good because society deem valuable so that everybody should have them. ✓✓
- Education have significant external benefits to society. ✓✓ (2)
(Accept any other correct alternative response)

2.3.5 How does the above externality lead to market failure?

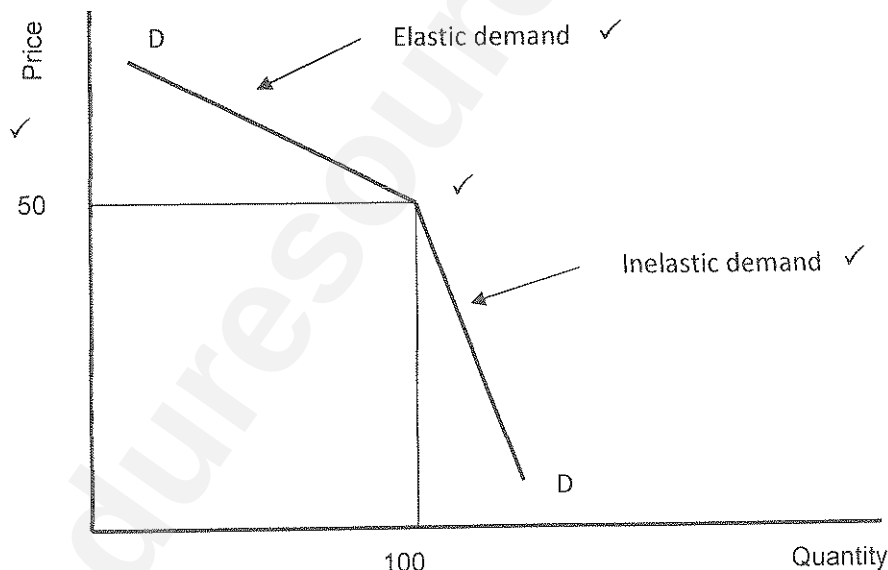
In the market, consumption will be at Q_1 because demand = supply (private benefit = private cost) ✓✓

However, this is socially inefficient because at Q_1 , marginal social cost < marginal social benefit. Therefore, there is under-consumption of the positive externality. ✓✓

Social efficiency would occur at Q_1 where social cost = social benefit. ✓✓

(Accept any other correct relevant response)

(4)

2.4 With the aid of a graph, explain the kinked demand curve.

Mark allocation	
Elastic demand segment	1 mark
Inelastic demand segment	1 mark
Kinked demand curve	1 mark
Labelling of axes	1 mark
Max	4 marks

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- The segment above the prevailing price level (R50) is highly elastic, segment below the prevailing price level is inelastic. ✓✓
- The elasticity of the upper portion of the demand curve shows that if a firm raises the price of a product, then it experiences a large fall in sales. ✓✓
- When an oligopolist lowers the price of his product, the competitors feel that if they don't follow the price cut, then their customers will leave them and buy from the firm who is offering a lower price. ✓✓
- Therefore, they lower their prices too in order to maintain their customers. Hence, the lower portion of the curve is inelastic. ✓✓
- It implies that if an oligopolist lowers the price, he can obtain very little sales. ✓✓
- Hence, no firm in an oligopolistic market will try to increase the price and a kink is formed at the prevailing price. ✓✓
(Accept any other correct alternative response)

(8)

2.5 Evaluate the impact of minimum wages in South Africa.**Positive effect****The impact of a national minimum wage**

- can achieve the central objectives of reducing working poverty and inequality in South Africa. ✓✓
- The result would be a rise in household income, particularly for low-wage workers, with the household-income growth rate potentially doubling. ✓✓
- This would spur greater consumer spending, increase output and raise levels of growth, together with a rise in productivity. ✓✓
- This will improve standards of living as more people are able to satisfy their needs and wants ✓✓
- Income distribution will be improved to those people who received very low wages in the past ✓✓
- Vulnerable workers will be protected by the law from exploitation e.g. farm workers ✓✓
- a national minimum wage could benefit young people who have jobs and that it could stimulate those who have given up trying to find work to do so. ✓✓

Negative effect**The impact of a national minimum wage can**

- decrease employment and working hours could be reduced ✓✓
 - higher wages may also have some impact on the cost of living in the medium-term if firms respond to higher labour costs by raising the price of goods and services. ✓✓
 - higher wages could encourage companies to become more mechanised. ✓✓
 - agricultural sector could be severely affected, the sectoral minimum wages in the past have resulted in massive retrenchment. ✓✓
- (Accept any other correct relevant response) (4 x 2)

(8)
[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

3.1 Answer the following questions:

3.1.1 Name TWO criteria to measure tourism.

- There must be a purpose for the visit or activity ✓
 - There must be no remuneration earned in the visited place ✓
 - A minimum stay of at least one night and a maximum of one year ✓
 - The distance travelled must be 60km from the tourist home environment ✓
- (2 x 1)

3.1.2 Why must government manage pollution levels?

Pollution needs to be managed because:

- A clean environment is essential for healthy living. ✓✓
 - Air pollution can cause respiratory diseases and cancer, among other problems and diseases. ✓✓
 - Reduces the effect of climate change ✓✓
 - destruction of the physical environment - extinction of certain species (destruction of fauna and flora). ✓✓
- (Accept any other correct relevant response) (1 x 2) (4)

Marking Guideline

3.2 Data response**3.2.1 Name ONE reason for the growth of foreign tourism to South Africa.**

- Business and professional✓
- Leisure and recreation✓
- Study✓
- Visiting friends and relatives✓
(Accept any other correct relevant response)

(1)

3.2.2 Name ONE World Heritage Site in South Africa.

- Mapungube Cultural Landscape✓
- Vredefort Dome✓
- Sterkfontein caves✓
- Robben Island✓
- Richersveld Cultural and Botanical Landscape✓
- Cape Floral Region Protected Areas✓
- Isimangaliso Wetland Park✓
- uKhahlamba Drakensberg Park✓
- Barberton Makhonjwa Mountains✓
- Khomani Cultural Landscape✓

(1)

3.2.3 Briefly describe the term *inbound tourism*.

Tourists from other countries (foreign tourists) visit and stay for more than a day but less than a year in another country.✓✓
(Accept any other correct alternative response)

(2)

3.2.4 Why do governments levy tax on tourism?

- To recover external costs – cost of providing tourist facilities e.g. roads etc.✓✓
- To raise revenue – tourists are seen as part of the overall tax base, ✓✓ e.g. Airport departure taxes and hotel tourism levies increase the amount of taxes collected by government.✓✓
(Accept any other correct alternative response)

(2)

3.2.5 How would the Sho't Left campaign impact on tourism in the South Africa?

- The Sho't Left campaign aims to promote a culture of local holiday travel. ✓✓
 - This campaign targets ordinary people in SA and their families who have a desire to see more of the country but do not know where to go. ✓✓
 - The website has been designed to help more South African taking a holiday. ✓✓
 - The site offers advice on budgeting for, booking and paying for a holiday as well as the documents needed. ✓✓
- (Accept any other correct alternative response)

(4)

3.3 Data response

3.3.1 What type of pollution is depicted the cartoon?

Water pollution ✓

(1)

3.3.2 Provide a synonym for the term *environmental taxes*.

Green taxes ✓

(1)

3.3.3 Briefly describe the term *preservation*.

Preservation means the act of keeping something the same or of preventing it from being damaged, e.g. ecological systems, heritage sites. ✓✓

(Accept any other correct relevant response)

(2)

3.3.4 How does self-interest impact on pollution?

Many businesses tend to disregard the impact of pollution during the production process, profits are more important than a healthy environment ✓✓

Many people are inconsiderate about their consumption patterns and disposal of their litter, which aggravate the pollution levels. ✓✓

(Accept any other correct relevant response)

(2)

Marking Guideline

3.3.5 What effect does deforestation have on the environment?

- One of the most dangerous and unsettling effects of deforestation is the loss of animal and plant species due to their loss of habitat. ✓✓ Some of them are even pushed to extinction. ✓✓
- The lack of trees also allows a greater amount of greenhouse gases to be released into the atmosphere. ✓✓
- The trees also help control the level of water in the atmosphere by helping to regulate the water cycle. With fewer trees left, due to deforestation, there is less water in the air to be returned to the soil. ✓✓ In turn, this causes dryer soil and the inability to grow crops. ✓✓
- Trees also function to retain water and topsoil, which provides the rich nutrients to sustain additional forest life. Without them, the soil erodes and washes away. ✓✓ The barren land which is left behind is then more susceptible to flooding, specifically in coastal regions. ✓✓
(Accept any other correct relevant response)

(4)

3.4 Discuss *granting property rights and environmental subsidies* as measures to ensure sustainable use of the environment.

Granting property right

- Owners of properties tend to be more protective over their resources; people care for the things that belong to them. ✓✓
- To prevent fauna and flora species from becoming extinct, allow people property rights over it, with little or no cost to government or taxpayer. ✓✓
- Property rights empowers owners to negotiate contracts with businesses who wish to exploit the area's resources. ✓✓
- By granting property rights the task of protecting the environment will not only be that of the government but of citizens as well. ✓✓ (Max 4)

Environmental subsidies

- Subsidies can be awarded to businesses that are willing to reduce pollution and waste.
- Waste and pollution can be reduced by the development of new techniques or equipment.
- The cost of research could be covered by subsidies provided to businesses. ✓✓
These subsidies can lead to:
- improving techniques or equipment, such as solar geyser systems to

Marking Guideline

save energy.✓✓

- producing environmentally friendly substitutes, such as unleaded petrol.✓✓
- supporting and encouraging recycling of waste, for example, bottles and papers.✓✓

(Accept any other correct relevant response)

(Max 4)

(8)

3.5 Evaluate the contribution of tourism to alleviate poverty in South Africa.

Tourism has been able to alleviate poverty because:

- tourism provide opportunities to diversify sources of income for poor people. ✓✓
- it provides poor people opportunities to start small scale businesses around tourists' attractions; establish SMMEs to provide services to the tourism industry, e.g. retail, transport and accommodation.✓✓
- They become empowered by receiving on the job and other training.✓✓
- Local people are forming business partnerships with mainstream tourism businesses supplying goods and services.✓✓

Tourism has not been able to alleviate poverty because:

- Inbound tourism is specifically focused on the formal sector, such as accommodations, transport etc. local and especially informal sector involvement is limited, thus limiting the impact on poverty levels. ✓✓
- Tourism has raised prices of some local goods and services making them less affordable to the local people. ✓✓
- Tourism may raise government revenue, but the distribution or plough back is uncertain. Infrastructural development spending is preferential to certain regions; resulting in unequal regional development that impact negatively on tourism and poverty linkage. ✓✓
- Jobs are seasonal because some of the tourist attractions are visited during specific seasons. ✓✓

(Any other correct relevant response)

(8)

[40]

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QUESTION 4 MACROECONOMICS & ECONOMIC PURSUITS

4.1 Answer the following questions:

4.1.1 Name any TWO institutions which was legislated in 1998 to regulate competition in South Africa.

- Competition Commission, ✓
 - Competition Tribunal, ✓
 - Competition Appeal Court ✓
- (2 x 1)

4.1.2 Why is the demand curve for a monopoly downward-sloping?

A monopoly faces a downward-sloping demand curve because the monopolist searches the demand curve for the profit-maximizing price where the marginal cost = marginal revenue. The monopolist will decrease prices and increase output until the profit maximizing output is achieved. ✓✓

(Accept any other correct alternative response) (1 x 2) (4)

4.2 Data response

4.2.1 Who benefit from the implementation of minimum price?

Producers ✓ (1)

4.2.2 Name ONE product on which minimum prices are applicable.

Essential goods – e.g. agricultural products ✓
(Accept any other correct alternative response) (1)

4.2.3 Briefly describe the term *minimum price*.

The minimum price is the lowest price that by law the producer may charge for its product. ✓✓ (2)

4.2.4 Determine/calculate the surplus of goods that resulted from the implementation of minimum price?

$(240 - 160)✓ = 80✓$ (2)

Marking Guideline

4.2.5 What are the negative effects of minimum price on the economy?

- Consumers have to pay a higher price for that good because the minimum price is set higher than the market price. ✓✓
- It leads to waste and market inefficiency. ✓✓ Suppliers will increase output (oversupply) due to the artificial high price for their produce. These surpluses are normally be destroyed without any benefit to society. ✓✓
- Because of the higher prices, the producers will oversupply goods. $249-160=80$. ✓✓

(4)

4.3 Data response

4.3.1 Name an international agreement that aims to limit hazardous waste.

- Stockholm Protocol✓
- Rotterdam Convention✓
- Basel Convention✓

(1)

4.3.2 Name ONE negative effect of chemical waste on human beings.

- It can lead to respiratory diseases in humans✓
 - Behaviour abnormalities✓
 - Cancer✓
 - Physiological malfunctions✓ (e.g., kidney failure, reproductive impairment) ✓
 - Genetic mutations✓
 - Physical deformations✓
 - Birth defects✓
 - It can also lead to death✓
- (Any other correct relevant response)

(1)

4.3.3 Describe the term *toxic waste*.

It refers to harmful chemicals that are poisonous for living things✓✓
(Any other correct relevant response)

(1)

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4.3.4 How does the decomposition rate of toxic waste affect the environment?

- Toxic waste has a low decomposition rate (it stays poisonous for a long period of time) ✓✓
 - It has a potential of causing permanent destruction to the environment. ✓✓
- (Accept any other correct relevant response)

(2)

4.3.5 How can the problem of inappropriate disposal of toxic waste be solved?

- Legislation that will ensure appropriate disposal of toxic waste. ✓✓
 - Take punitive measures against businesses that dump toxic waste in an illegal manner. ✓✓
 - Encourage the use of non-toxic production methods by businesses. ✓✓
- (Any other correct relevant answer)

(2)

4.4 Discuss employment and investment as effects of tourism?

Employment

- Directly and indirectly, about 9% of South Africa's labour force was employed in the tourism industry. ✓✓
 - Tourism is very labour intensive and supplies employment for unskilled as well as skilled labour. ✓✓
 - A variety of skills are required in the tourism industry, which makes it easier for a variety of people to find employment ✓✓ such as tourist guides, hotel staff etc. ✓
 - It also provides people with immediate employment. ✓✓
 - It provides entrepreneurial opportunities/many businesses in the informal sector benefit from tourism, ✓✓ such as local arts and crafts, street vendors etc. ✓
- (Max 4)

Investment

- An adequate and basic services infrastructure is essential for tourist destinations. ✓✓
 - The government should invest in the following:
 - Transport infrastructures such as airlines, roads, parks etc. ✓✓
 - Communication infrastructure such as telephone lines, electronic signal stations, television services etc. ✓✓
 - Energy infrastructure – for example, electricity and liquid fuels. ✓✓
 - Basic services infrastructure – for example, clean water, refuse removal, sewerage system and storm water drainage. ✓✓
- (Max 4) (8)

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4.5 Evaluate the success of the South African government interventions to discourage the consumption of demerit goods.

Successes

The government has been able to discourage the consumption of demerit goods:

- The government may use various forms of regulation (laws) to prohibit or control the use of undesirable goods. ✓✓
- an age limit is legislation to persons to whom such goods can be sold ✓✓ e.g. 18 years to purchase alcohol and cigarettes. ✓
- Legislation prohibit people to smoke in public places. ✓✓
- In its most extreme form, regulation could be used to impose a complete ban on a demerit good, such that its consumption is made illegal; ✓✓ for example, selling or consumption of heroine. ✓
- higher taxes are imposed on demerit goods to discourage the use of demerit goods, ✓✓ e.g. sin taxes on cigarettes and alcohol.
- negative advertising campaigns emphasize the dangers of alcohol and drug abuse ✓✓
- awareness programmes such as don't drink and drive are publicized in the media. ✓✓
- information leaflets on the negative effects are available at clinics and hospitals for drug abuse and other substances. ✓✓
- people may be disbarred from smoking in their place of work, on public transport and in cinemas and restaurants. ✓✓

Failures

The government has not been able to discourage the consumption of demerit goods because:

- many people are ignoring the negative publicity on demerit goods, large quantities of demerit goods are still consumed ✓✓
- people settle into taxes on demerit goods because the consumption has become a habit or they have become addicted. ✓✓
- the will to maximise profits result in some suppliers of goods such as cigarette and alcohol not to adhere to the age limit restrictions. ✓✓
- a ban on a demerit good usually results in black markets to ensure a supply of these goods. ✓✓

(Accept any other correct relevant response)

(4 x 2)

(8)
[40]

Marking Guideline

SECTION C

Answer ONE of the two questions from this section in the ANSWER BOOK

QUESTION 5 MACROECONOMICS

- **Compare perfect competition and monopolistic competition in detail in terms of the following:** (26)
 - **Number of businesses** (6 marks)
 - **Nature of the product** (8 marks)
 - **Entrance** (6 marks)
 - **Control over price** (6 marks)
- **Why is competition in the marketplace good for the economy?** (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 organized ✓✓
(Accept any other correct relevant introduction) (Max. 2)

MAIN PART

Number of businesses

- A large number of buyers and sellers operate under both market structures. ✓✓
- Individual market participants under perfect markets are insignificant in relation to the market as a whole to exert any influence on the market, but monopolistic competitors exert some control over the market. ✓✓
- An example of a perfect market is the Securities Exchange, or the produce market. ✓
- Examples of monopolistic markets are producers of cleaning materials, cold drinks, toothpaste or soap. ✓ (Max. 6)

Nature of the product

- In perfect competition, all products sold in the market are homogeneous while products in a monopolistic market are differentiated. ✓✓
- In perfect competition, products are (homogeneous) exactly the same regarding quality and appearance ✓✓ - it makes no difference to a buyer where and from whom he or she buys the product ✓✓
- Whereas goods produced by businesses in a monopolistic competitive market are differentiated ✓✓ - product may differ slightly in appearance, shape, size and taste - differences may be imaginary ✓✓ for example, medicine may have different brand names, but contain exactly the same basic ingredients ✓
(Max. 8)

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Entry and exit to the market

- There is complete freedom of entry and exit of buyers and sellers in both market structures ✓✓ -
- entry is not subject to any restrictions in the form of legal, financial, technological ✓✓
- There are no barriers such as licenses, permits, patents and other restrictions in both perfect and monopolistic competition ✓✓ (Max. 6)

Control over price

- In perfect competition, there are many businesses and the individual business is so small that no single business has control over the price of the product while in monopolistic competition, an individual business has some control over the price of the product. ✓✓
- In perfect competition, the price is determined through market force of demand and supply ✓✓ hence the business can be regarded as a price taker ✓✓ - in monopolistic competition, control over price depends entirely on the strength of the brand loyalty ✓✓ hence the business is regarded as a price setter. ✓
(Accept any other correct relevant response) (Max. 6)

(Max. 26)

(A maximum of 8 marks must be allocated for examples)

ADDITIONAL PART

Why is competition in the marketplace good for the economy?

- When firms compete with each other, consumers get the best possible prices, quantity and quality of goods and services. ✓✓
- Low prices and good quality products will lead to an increase in aggregate demand. ✓✓
- As a result, firms will expand and produce more goods and services and boost the economy in general. ✓✓
- Competition encourages firms to invent low-cost manufacturing processes which can increase their profits and help them to compete internationally. ✓✓
- It can also encourage businesses to conduct a need analysis for their consumers in order meet their needs. ✓✓
- Increasing competition opens business opportunities and improves a country's performance. ✓✓
- Competition can also lead to higher productivity and efficiency in the market. ✓✓
(Accept any other correct relevant response) (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 conclusion) (Max. 2)

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[40]

QUESTION 6 ECONOMIC PURSUITS

- Discuss in detail the causes of cost push inflation. (26)
- How does consumers' inflation expectation influence their consumption patterns? (10)

INTRODUCTION

Inflation is a sustained and significant increase in general price level over a period of time and a simultaneous decrease in the purchasing power of money. ✓✓
(Accept any other correct relevant introduction) (Max. 2)

BODY: MAIN PART

CAUSES OF COST-PUSH INFLATION

Increase in Wages ✓

- In South Africa, increase in wages constitutes more than 50% of Gross Value Added at basic prices. ✓✓
- If the increase in wages is not accompanied by an increase in production, the cost of production will rise. ✓✓
- Producers will increase the prices of their products to offset the high cost of production. ✓✓
Trade unions demand higher wages as a compensation against inflationary price rise. ✓✓
- Strikes and stay-aways/labour union activities cause a loss of manpower and production. ✓✓

Key inputs/ increase in prices of imported capital goods ✓

- When the prices of key inputs that are imported increase, domestic cost of production increases especially in the manufacturing sector. ✓✓
- Supply shocks e.g. sudden increase of oil causes a knock-on effect. ✓✓

Exchange rate depreciation ✓

- A decrease in the value of the rand will result in an increase in prices of imports. ✓✓
- E.g. if the rand depreciates against the US dollar, all imported goods and services become more expensive. ✓✓

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Profit margins✓

- If producers decide to raise profit margins, then the cost of production will increase and the products will be more expensive.✓✓
- Forward linked businesses will recover the higher input prices they had to pay by increasing their prices✓✓
- Sometimes (dominant) firms use their market power to push up prices.✓✓
- Smaller firms also tend to mark-up their profit margins following the example of the leading firm. ✓✓

Productivity✓

- If the various factors of production become less productive while still receiving the same remuneration, the cost of producing each unit of output increases. ✓✓
- Decrease in productivity of the factors of production will lead to increased cost per unit.✓✓
- E.g. A given number of workers producing less quantities while receiving the same salaries than what they can actually produce a day.✓✓
- Strikes and stay-aways often reduce production output and can result in price increases.✓✓

Natural disasters✓

- Natural disasters such as drought, flood and global warming can impact on the cost of production✓✓
- This is often the case in relation to food prices.✓✓

Interest rates✓

- An increase in interest rates results in businesses paying higher premiums for loans. ✓✓
- Firms recover these costs by increasing the prices of their products.✓✓

Increase in taxation✓

- Increase in direct tax like company income tax may lead to businesses increasing their prices to offset the extra burden.✓✓
- Increase in indirect tax such as custom duty will lead to increase in costs of supplying a particular product, therefore the price will increase.✓✓

Administered prices increase✓

- Administered prices are prices that are controlled or regulated by government, e.g. if government may hike the price of petrol or diesel, firms buy these inputs now at higher prices, it will cause an upward pressure on cost of production✓✓

Shoplifting and losses✓✓

- Shoplifting by customers and theft of employees are added to the prices of products.✓✓

(Accept any other correct relevant response)

(Max. 26)

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(A maximum 8 marks will be awarded for headings and examples.)

ADDITIONAL PART

- Inflation expectation is rate of inflation that people think will prevail in the future, and it influences their decision making.✓✓
- When consumers expect inflation to increase, they also decide to increase their current spending.✓✓
- The reason is that consumers seek to buy goods and services at the lowest possible price.✓✓
- If consumers expect a lower rate of inflation in the future, then they decrease their demand in the present.✓✓
- Lower rate of inflation means that the general price level on goods and services will decrease.✓✓
- Therefore, there is a positive relationship between inflationary expectation and the patterns of consumption.✓✓
- An increase in inflationary expectations increase aggregate demand while a decrease in inflationary expectations cause a decrease in aggregate demand.✓✓
(Accept any other correct relevant response) (Max. 10)

CONCLUSION

Inflation can be a threat to the normal functioning of the economy; therefore, measures like monetary and fiscal are vital to keep the phenomenon under control.✓✓
(Accept any other correct relevant conclusion) (Max. 2)

40

TOTAL SECTION C: (40)

GRAND TOTAL : 150