ECONOMICS
PAPER 2/2
GRADE 12
JUNE EXAMINATION 2014
MEMORANDUM

TOTAL: 150

SECTION A

QUESTION 1
(Bloom level 1: Remember)

1.1.1 A ✓ ✓
1.1.2 C ✓ ✓
1.1.3 B ✓ ✓
1.1.4 A ✓ ✓
1.1.5 C ✓ ✓
1.1.6 C ✓ ✓
1.1.7 A ✓ ✓
1.1.8 A ✓ ✓

(8 x 2) = (16)

1.2.1. E ✓
1.2.2. H ✓
1.2.3. I ✓
1.2.4. J ✓
1.2.5. F ✓
1.2.6. A ✓
1.2.7. B ✓
1.2.8. C ✓

(8 x 1) = (8)

1.3.1. False ✓
1.3.2. False ✓
1.3.3. True ✓
1.3.4. False ✓
1.3.5. True ✓
1.3.6. False ✓

(6 x 1) = (6)

[30]

TOTAL SECTION A: 30
SECTION B

QUESTION 2
(Bloom level 3: Application)

2.1 Any two of the following:
   ● Homogeneous or differentiated products. ✓✓
   ● Difficult entry into the market. ✓✓
   ● Considerable control over price. ✓✓
   ● Interdependence. ✓✓
   ● Only a few businesses. ✓✓

   (4)

2.2.1 Point b. ✓✓

2.2.2 Average cost (short and long term). ✓✓

2.2.3 20 – 19 = 11 ✓✓
      800 – 500 = 300 ✓✓
      11 x 300 = 3 300 ✓✓

   (6)

2.2.4 Any three of the following:
   ● Externalities. ✓✓
   ● Missing markets. ✓✓
   ● Imperfect competition. ✓✓
   ● Lack of information. ✓✓
   ● Immobility of the factors of production. ✓✓
   ● Imperfect distribution of income and wealth. ✓✓

   (6)

2.2.5 Any four of the following or similar:
   ● Eskom. ✓✓
   ● De Beers. ✓✓
   ● SANRAL. ✓✓
   ● Transnet. ✓✓
   ● South African Post Office. ✓✓

   (4)

2.3 Any four of the following:
   ● Identify and quantify all private costs. ✓✓
   ● Identify and quantify all external costs. ✓✓
   ● Calculate social costs. ✓✓
   ● Identify and quantify all private benefits. ✓✓
   ● Identify and quantify all external benefits. ✓✓
   ● Calculated social benefit. ✓✓

   (8)
2.4 The monopolist will produce less than the perfect competitor. ✓ ✓ A higher price will be set by the monopolist, i.e. more profitability. ✓ ✓ The perfect competitor can only achieve normal profits, were the monopolist will earn economic profits. ✓ ✓ The monopolist will not necessarily be at the lowest possible production costs level, but the perfect competitor is forced to produce at this level. ✓ ✓  

[40]

QUESTION 3
(Bloom level 3: Application)

3.1. Any two of the following: (not used in question 2.2.4)
- Externalities. ✓ ✓
- Missing markets. ✓ ✓
- Imperfect competition. ✓ ✓
- Lack of information. ✓ ✓
- Immobility of factors of production. ✓ ✓
- Imperfect distribution of income and wealth. ✓ ✓

(4)

3.2.1 The agreements made between different businesses in the same market to benefit both. ✓ ✓  

(2)

3.2.2 Collusion, ✓ ✓ because the glass bottle suppliers work together to put pressure on the wine industry. ✓ ✓  

(2 x 2) = (4)

3.2.3 Part of the costs associated with the production of these associated goods are paid by society and not the producers. ✓ ✓
Example: Alcohol consumption leads to socio-economic problems such as crime. ✓ ✓
The crimes committed have a monetary value attached to it, and the alcohol industry will not cover these costs. ✓ ✓  

(any 2 x 2) = (4)

3.2.4 Any three of the following:
- Cartels. ✓
- Collusion will occur in an open and formal manner. ✓
- A collective monopoly is formed. ✓
- Price leadership. ✓
- Cartels are illegal in most countries, so businesses try to achieve an informal and tacit agreement. ✓
- Example: If a business announces that it will increase its prices, the others have to do the same. ✓
- The price leader is usually the dominant force in the market. ✓  

(6)

3.2.5 Competition if prices are not taken into account. ✓ ✓
Example: Advertising campaigns ✓ or product differentiation. ✓
(Any other appropriate examples.)  

(4)
3.3 Any eight of the following:
- Non-competitiveness ✓ – the consumption by one person will not in any way reduce the use of the same goods or services for another person. ✓ E.g. street lights. ✓
- Non-excludable ✓ – the consumption of goods or services are not limited to those who pay for it. E.g. SABC/RSG. ✓
- Public goods and services are not provided according to the price mechanism, because producers may not withhold goods and services if it is not paid for, ✓ ✓ and since the measurement of the consumption is impossible, ✓ ✓ there can be no market price for these goods. ✓ ✓ (8)

3.4 Any eight examples of the following:
Minimum wages: ✓
- To enforce redistribution of income. ✓
- A minimum amount of money that workers should be paid for work rendered. ✓
Maximum prices: ✓
- Lower than the market price in order to make certain goods and services more affordable. ✓
- The amount of goods and services that will be provided will immediately drop, demand will rise and so inevitably black markets will form to fulfil demand. ✓
Minimum prices: ✓
- A price higher than the market price in order for the producers to keep producing certain goods and services that are regarded as important. ✓
- Usually an oversupply will take place. ✓ (8)

QUESTION 4
(Bloom level 3: Application)
4.1 Any two of the following:
- Many producers in the market. ✓ ✓
- Product is differentiated. ✓ ✓
- Entry to the market is free. ✓ ✓
- Little control over prices. ✓ ✓
- Incomplete information. ✓ ✓ (4)

4.2.1 Monopolistic competitor. ✓ ✓ (2)
4.2.2 Competition Appeal Court. ✓ ✓ ✓ (3)
4.2.2.1 The tribunal is there to make sure that all facts and fines are correct and fair, not to create greater harm to the consumer or producer than the penalty provided. ✓ ✓ ✓ (3)
4.2.3 To improve competitiveness between businesses. ✓ ✓
To protect consumers against unfair prices. ✓ ✓

(2 x 2) = (4)

4.2.5 **Turnover** is the business' (section) buying and selling volumes of
merchandise. ✓ ✓

**Penalty** means that a percentage of the amount of money (revenue) is payable to
the Competition Commission. ✓ ✓

4.2.6 Any four of the following or similar:

- Edgars. ✓
- Pep. ✓
- Jet. ✓
- KFC. ✓
- Steers. ✓
- Wimpy. ✓
- Mr Price. ✓
- American Swiss. ✓

(4)

4.3

![Graph](image)

LMC 2 marks ✓ ✓
LAC 2 marks ✓ ✓
D (AR) 2 marks ✓ ✓
MR 2 marks ✓ ✓
X-axis 2 marks ✓ ✓
Y-axis 2 marks ✓ ✓

(Any 4 x 2) = (8)

4.4 Any four of the following:

- A large number of producers in the market. ✓ ✓
- The nature of the product is differentiated. ✓ ✓
- Entry to the market is free. ✓ ✓
- The business has little control over the price. ✓ ✓
- Information to buyers and sellers is incomplete. ✓ ✓
- Non-price competition. ✓ ✓
• Hybrid structure. ✓ ✓
• It is often found in local (small) markets. ✓ ✓
• Diverse businesses. ✓ ✓
• Collusion will occur. ✓ ✓

TOTAL SECTION B: 80

SECTION C

QUESTION 5
(Bloom level 6: Create)

INTRODUCTION
Market failure means that the best available or optimal production outcome was not achieved. We can say markets fail to optimally allocate resources. Markets fail for different reasons. ✓ ✓ ✓

Any suitable introduction. (3)

CONTENT

Externalities: ✓
Externalities are costs and benefits that convert private costs and benefits into social costs and benefits. ✓ ✓

• **Private costs**: Internal costs are private costs, and it is the normal price consumers pay. ✓ ✓
• **Private benefits**: Also called internal benefits, it is the advantage gained by the use of goods or services, or the income derived from the sale of goods or services. ✓ ✓
• **Social costs**: It is the cost of goods and services to those who put them there, and for society as a whole, for example, a car contributes to pollution, etc. ✓ ✓
• **Social benefits**: The benefit obtained for the payment of a good or service, for example, consumers pay for the use of municipal swimming pools, but the enjoyment is only gained during the summer months. ✓ ✓

Missing markets: ✓
Markets are often incomplete in the sense that they cannot provide certain goods that are demanded. Due to their nature they will fail. ✓ ✓

• **Community goods**: Goods and services such as the army, police, correctional services, street lights, flood control, etc. ✓ ✓
• **Collective goods**: Goods and services such as parks, beaches, sidewalks, bridges, public transportation, etc. ✓ ✓
• **Public goods**: Non-rival and non-excludable. ✓ ✓
• **Merit and demerit goods**: Merit goods are goods that are beneficial to the general welfare of residents. Non-merit goods are considered detrimental to society. ✓ ✓
Imperfect competition: ✓
Competition is often hampered by power. The producers usually have power, not the consumers. ✓✓ This means producers can influence the market to benefit themselves and not reflect certain market demands or trends. ✓✓

Immobility of the factors of production: ✓
Markets cannot adapt quickly to changes in supply and demand. ✓✓ This is due to the immobility of the factors of production, namely:
- Labour.
- Capital.
- Raw materials
- Entrepreneurship
  and technology's ✓ applications. ✓

Imperfect distribution of income and wealth: ✓
The market system is neutral towards the issue of income distribution. If the initial distribution is uneven, the ultimate distribution will also be like that. ✓✓

Lack of information: ✓
Consumers, workers and entrepreneurs do not always have the information they need to make rational decisions. ✓✓ (max. 30)

CONCLUSION
We can see that the reasons for market failure are undoubtedly part of the market, but with right planning, we can ensure that the market is functioning correctly. ✓✓
Any appropriate conclusion. (2)

CANDIDATE ACHIEVED 0  0
CANDIDATE ACHIEVED 1 – 15  1
CANDIDATE ACHIEVED 16 – 22  3
CANDIDATE ACHIEVED 23 – 30  5

(5)
[40]

OR
QUESTION 6
(Bloom level 6: Create)

INTRODUCTION
Economic profit is the surplus of revenues over expenses of the business. Normal profit is the break-even point at which income and expenses are equal. Economic loss is if expenses exceed income. Any suitable introduction/definition.

CONTENT
Economic profit:
Economic profit is where the income of the business exceeds the expenses.

\[\text{MC} \quad \text{is the demand curve.} \quad \checkmark \checkmark\]
\[\text{AC} \quad \checkmark \checkmark\]
\[\text{P} = \text{MR} = \text{AR} \quad \checkmark \checkmark\]
\[\text{MC} = \text{MR} \quad \checkmark \checkmark \quad \text{The point where profit is maximised.} \quad \checkmark \checkmark\]
Economic loss:
Economic loss is the situation where the expenses of the business are greater than the income of the business. It is important to know that the business will not necessarily have to close down, but there will have to be changes in the outputs, either prices or quantities. Over the long term, the business will have to close down if this continues.
Normal profit:
Where the business’s income and expenses are equal. ✓✓ It is important to note that the business will not necessarily close down, but profits will not be maximised. ✓✓

CONCLUSION
As seen in the graph above, it is clear that the business will be able to achieve and measure its objectives and either maximise its profit or not. ✓✓
Any appropriate conclusion.

<table>
<thead>
<tr>
<th>CANDIDATE ACHIEVED</th>
<th>Score</th>
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<tbody>
<tr>
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<td>1 – 15</td>
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<td>3</td>
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<td>23 – 30</td>
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TOTAL SECTION C: 40
GRAND TOTAL: 150