Province of the EASTERN CAPE EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

ECONOMICS P2

COMMON TEST

JUNE 2014

MARKS: 150

TIME: 1½ hours

This question paper consists of 9 pages.

ECONE2

INSTRUCTIONS AND INFORMATION

1. Answer FOUR questions as follows:

- SECTION A: COMPULSORY
- SECTION B: Answer BOTH questions.
- SECTION C: Answer any ONE of the two questions.

2. Answer only the required number of questions. Additional answers will NOT be marked.

3. Number the answers correctly according to the numbering system used in this question paper.

4. Write the question number above each answer.

5. Read ALL the questions carefully.

6. Start EACH question on a NEW page.

7. Leave 2–3 lines between subsections of questions.

8. Answer the questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.

9. Use only black or blue ink.

10. Non-programmable pocket calculators may be used.

11. Write neatly and legibly.

SECTION A (COMPULSORY)

QUESTION 1　　　　　　　　　　　　　　　　**(30 MARKS – 15 MINUTES)**

1.1　Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–C) next to the question number (1.1.1 – 1.1.8) in the ANSWER BOOK.

1.1.1　The monopolist is described as a …

　　　A　market leader.
　　　B　price-maker.
　　　C　price-taker.

1.1.2　In the long-run firms in a perfectly competitive market make … profit.

　　　A　zero economic
　　　B　minimum
　　　C　economic

1.1.3　A kinked demand curve is associated with a/an …

　　　A　perfect market.
　　　B　monopolistic competitor.
　　　C　oligopoly.

1.1.4　The monopolist makes … profit in the long-term.

　　　A　normal
　　　B　economic
　　　C　accounting

1.1.5　The price charged by the monopolist is the same as … revenue.

　　　A　marginal
　　　B　total
　　　C　average

1.1.6　Entry into a monopolistically competitive market is …

　　　A　blocked.
　　　B　free.
　　　C　differentiated.

1.1.7　A private good is … in nature.

　　　A　rival but not excludable
　　　B　not rival but excludable
　　　C　both rival and excludable

1.1.8 Monopolies produce goods that are … in nature.

    A   unique
    B   identical
    C   homogeneous   (8 x 2) (16)

1.2 Choose a description from COLUMN B that matches an item in COLUMN A.
Write only the letter (A – I) next to the question number (1.2.1 – 1.2.8) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.2.1	Marginal revenue	A	their consumption is not limited to those who can pay only
1.2.2	Internal rate of return	B	output sacrificed due to underutilisation of resources
1.2.3	Economies of scale	C	production at the lowest possible cost
1.2.4	Excess capacity	D	extra revenue gained by selling one more product
1.2.5	Public goods	E	do not change when output changes.
1.2.6	Productive efficiency	F	the ratio between sum of expected benefits and costs
1.2.7	Shut-down point	G	a decrease in the average cost of production per unit as output increases
1.2.8	Fixed costs	H	found where the price is less than the average variable cost
		I	production of a monopolist

(8 x 1) (8)

1.3 Give the economic term/concept for each of the following descriptions.
Write only the term/concept next to the question number (1.3.1–1.3.6)
in the ANSWER BOOK.

1.3.1 The sum total of private benefits and external benefits.

1.3.2 A group of businesses that produce a similar product e.g. cement.

1.3.3 The price where the quantity demanded is equal to the quantity supplied.

1.3.4 An alternative concept for the point where a firm in a perfect market makes a normal profit.

1.3.5 A special right given to a person to protect something he invented.

1.3.6 Costs that increase as output increases.   (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

Answer BOTH questions in this section.

**QUESTION 2**   **(40 MARKS – 20 MINUTES)**

2.1   Answer the following questions appropriately.

      2.1.1   Name TWO kinds of collusion that characterise oligopolies.   (2 x 1) (2)

      2.1.2   Explain why you would regard Eskom as a natural monopoly.   (2)

2.2   Study the graph below and answer the questions that follow.
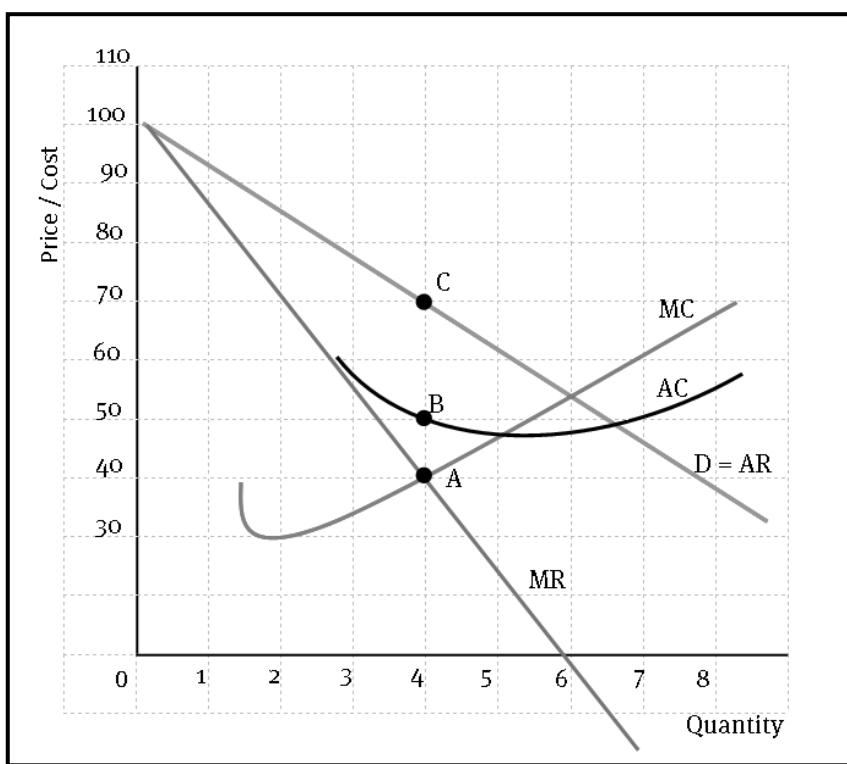
      2.2.1   Identify the price the firm above should charge.   (2)

      2.2.2   Indicate the profit maximisation point in the graph.   (2)

      2.2.3   Explain why the marginal revenue (MR) lies below the demand
            curve in the above graph.   (2)

   2.2.4   Calculate the economic profit in the above scenario. Show your
            calculations.   (4)

2.3   Study the cartoon below and answer the questions that follow.

[Source: http://www.zapiro.com/cartoon/822337-120429st#.U0NsyCyKDml]
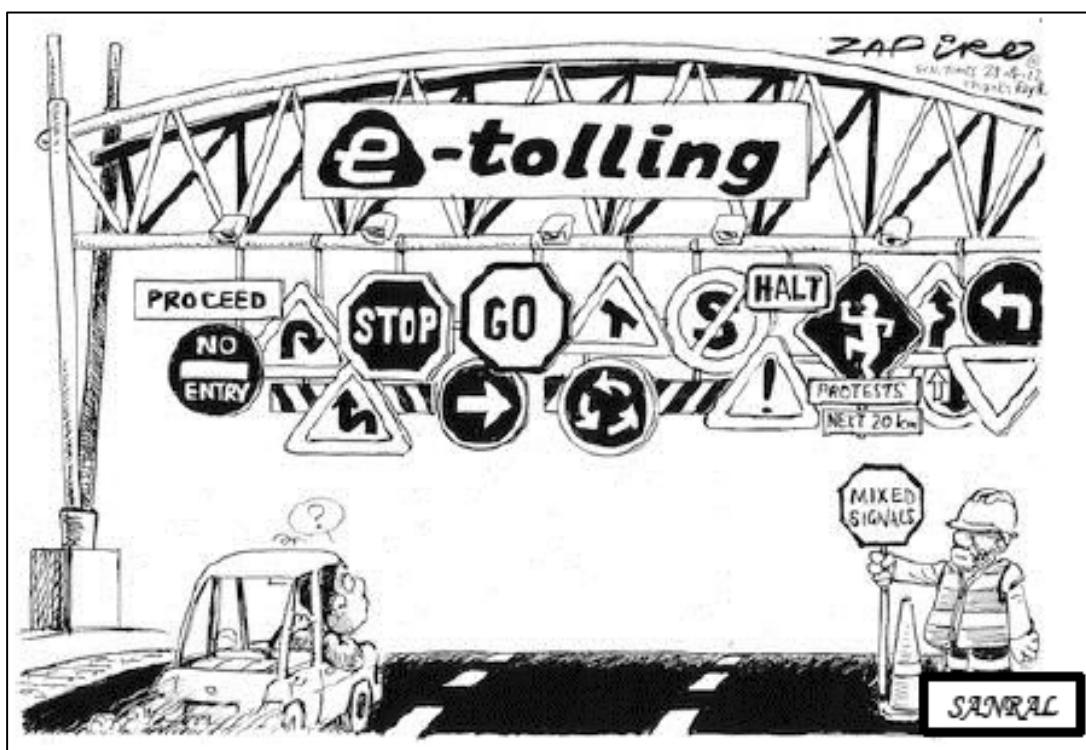
    2.3.1   What is the name of the agency that is responsible for road
         construction in South Africa?   (2)

    2.3.2   Comment on the message portrayed by the cartoon above.   (2)

    2.3.3   Why would one think that a cost-benefit analysis was not done
         with regards to e-tolls?   (6)

2.4   Outline the ways in which government regulations can create barriers
        to entry in the monopoly market.   (8)

2.5   How can merit and demerit goods be regarded as a cause of market failure?   (8)
                                                                              [40]

QUESTION 3 **(40 MARKS – 20 MINUTES)**

3.1 Answer the following questions appropriately.

    3.1.1 Name TWO kind of businesses that are monopolistically competitive.

                                                                     (2 x 1) (2)

    3.1.2 Explain the concept "*product differentiation*". (2)

3.2 Study the graph below and answer the questions that follow.

The cell phone industry
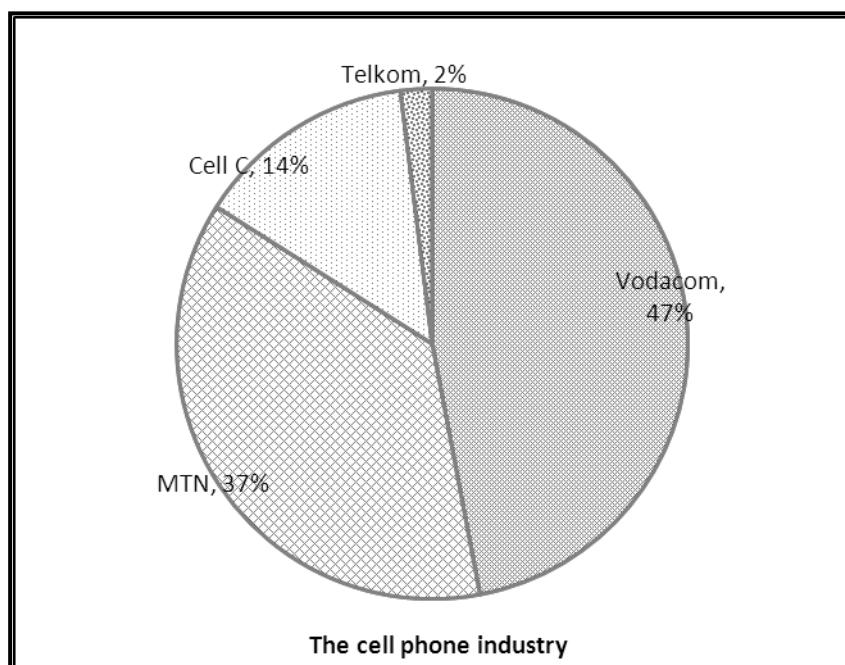
    3.2.1 Identify the market structure depicted by the pie graph above. (2)

    3.2.2 Provide a term that would describe the above industry if it consisted of two firms only. (2)

    3.2.3 Advise the director of Telkom how they can increase their market share. (6)

3.3   Study the cartoon below and answer the questions that follow.

Construction company Aveng alleged that "during or about 2006", Grinaker-LTA, WBHO, Murray & Roberts, Group Five, Concor and Basil Read met twice and reached an agreement in respect of the construction of the 2010 World Cup stadiums. Because the construction companies violated The Competition Act, they were fined a total of R1.46 billion rand.

[Source: Stidy 5 February 2013, *The Witness*]

3.3.1   In what way did the companies violate the Competition Act?   (2)

3.3.2   What is the message suggested by the cartoon?   (2)

3.3.3   How can the construction companies get their fines reduced if they believe it was unfair?   (2)

3.3.4   Explain how the authorities in South Africa regulate anti-competitive behaviour.   (4)

3.4   Briefly compare *monopoly* with *perfect competition*.   (8)

3.5   Explain why it is difficult for the oligopolists to compete with the price.   (8)
                                                                          [40]

                                                        TOTAL SECTION B: 80

SECTION C

Answer any ONE question from this section.

MARK ALLOCATION FOR ESSAY RESPONSES

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max. 2
Body: (make use of headings and sub-headings) ▪ **Main part:** ▪ **Additional part:**	Max. 26 Max. 10
Conclusion	Max. 2
TOTAL	**40**

QUESTION 4   **(PERFECT COMPETITION)**   **(40 MARKS – 40 MINUTES)**

> "***Perfect competition is an ideal market structure to which all economies aspire***".

- Discuss the characteristics of a perfect market in detail. (26)

- With the aid of a graph explain why marginal revenue must be equal to marginal cost for profits to be maximised. (10)
[40]

QUESTION 5   **(MARKET FAILURES)**   **(40 MARKS – 40 MINUTES)**

> *"No matter how perfect the market economy may seem to be, however, it has its own flaws."*

- Discuss the various causes of market failure. (30)

- Explain with the aid of a graph why the government uses price ceilings to correct market failures. (10)
[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150