



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

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**ECONOMICS P2
MEMORANDUM**

MARKS: 150

This memorandum consists of 19 pages.

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

- 1.1.1 C MC = MR ✓✓
- 1.1.2 C South African Airways ✓✓
- 1.1.3 B Differentiated ✓✓
- 1.1.4 C local, exported and imported ✓✓
- 1.1.5 B Tourism Business Council of South Africa ✓✓
- 1.1.6 A clean air ✓✓
- 1.1.7 B preservation ✓✓
- 1.1.8 C Mr Derek Hanekom ✓✓ (16)

1.2 MATCHING ITEMS

- 1.2.1 F Average cost of business is greater than the market price ✓
- 1.2.2 C Redress method used to enforce redistribution of income ✓
- 1.2.3 H Measures changes in prices of manufactured goods before they are sold to the consumers ✓
- 1.2.4 B A seller is able to change the market price by changing the quantity supplied ✓
- 1.2.5 G Consumers demand more than what producers can supply ✓
- 1.2.6 D People from abroad, visiting natural areas like Drakensburg Mountains ✓
- 1.2.7 A Costs are exactly equal to revenue ✓
- 1.2.8 E Different prices charged for the same product for different groups ✓ (8)

- 1.3 1.3.1 Cost -benefit analysis ✓
- 1.3.2 Greenhouse gases ✓
- 1.3.3 Short run ✓

1.3.4 Deflation ✓

1.3.5 Indigenous knowledge system (IKS) ✓

1.3.6 Supply curve ✓

(6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICROECONOMICS

2.1 2.1.1 **List TWO types of economic costs.**

Implicit costs ✓

Explicit costs ✓

(2 x 1) (2)

2.1.2 **What is the purpose of patents in monopolies?**

- Patents are used as barriers to entry in a market thereby creating artificial monopolies. ✓✓

- The patents give the holder exclusive rights to manufacture a product using his/her unique invention. ✓✓

(1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **Identify the profit maximisation point (label) of the individual firm**

E_2 ✓

(1)

2.2.2 **At what point or label will the industry be in equilibrium?**

E ✓

(1)

2.2.3 **Explain the concept price taker.**

Price taker is the individual firm that charges the going market price. ✓✓

(2)

2.2.4 **Identify whether the individual has made economic profit or loss and write down the area for profit/loss.**

Economic profit ✓; PP_2FE_2 ✓

(2)

2.2.5 **Explain the slope of the demand curve of the individual firm.**

It has a horizontal slope. ✓✓

The demand curve is perfectly elastic. ✓✓

It is exactly at the same level of the price. ✓✓

The horizontal demand curve represents the MR and AR. ✓✓ (2 x 2) (4)

2.3 DATA RESPONSE

2.3.1 Define the term oligopoly.

An oligopoly is a market structure with a few buyers. ✓✓ (2)

2.3.2 What message is depicted in the picture above?

Pepsi and Coke are fighting for a market share by reducing prices. ✓✓
(Accept any relevant explanation.) (2)

2.3.3 What is meant by cut-throat price competition as used in the extract?

- Cut-throat competition is a situation where competitors use predatory pricing (undercutting prices) to eliminate or undermine rivals. ✓✓
- Coca-Cola and Pepsi are fighting for a share in the market by setting very low prices. ✓✓ (Any 1 x 2) (2)

2.3.4 Briefly explain ways in which Coca-Cola and Pepsi can gain market share.

Non-price competition:

- By advertising more to lure consumers ✓✓
- Branding to encourage loyalty to the product ✓✓
- Product differentiation, ranges of products to cater for the different markets ✓✓ (2 x 2) (4)

2.4 Briefly examine the role played by the Competition Commission and the Competition Tribunal.

Competition Commission

- It investigates restrictive business practices, abuse of dominant positions and mergers in order to achieve equity and efficiency in the South African economy. ✓✓
- It will make a recommendation about penalties for businesses that it finds guilty ✓✓
- The Commission's recommendations are submitted to the Competition Tribunal ✓✓ (Any 2 x 2) (4)

Competition Tribunal

The competition Tribunal's main function is to:

- Grant exemption ✓✓
- Authorise or prohibit large mergers ✓✓
- Adjudicate in relation to any conduct prohibited in terms of Chapter 2 or 3 of the Act ✓✓
- Grant an order for costs in terms of the section 57 of the Act on matters presented to it by the commission. ✓✓ (Any 2 x 2) (4)

2.5 With the aid of a table, explain the slope of the demand curve in a monopoly market.

- It is an industry demand curve. ✓✓
- Monopolies will have a pricing policy because it is the only supplier in the market. ✓✓ Each quantity supplied is associated with a unique price, and more units can be sold by reducing the price/at higher prices less will be demanded and at lower prices more will be demanded. ✓✓
- The demand curve is downward sloping; it has a negative slope. ✓✓

(2 x 2) (4)

PRICE	QUANTITY DEMANDED
16	1
14	4
12	8
10	12

Correct figures for price; ✓✓ correct figures for quantity demanded. ✓✓

(4)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

3.1 Answer the following questions.

3.1.1 **List any TWO reasons for the loss of biodiversity.**

- High rates of consumption ✓
- Habitat loss ✓
- Invasive species ✓
- Pollution ✓
- Climate change ✓

(Any 2 x 1) (2)

3.1.2 **How can green taxes promote a more sustainable environment?**

Green taxes are taxes imposed on the output (or consumption) of a good, wherever external environmental costs are generated. These taxes are aiming at reducing pollution. ✓✓

Green taxes have an effect of increasing the price of goods therefore the firms will change their behaviour and produce goods that are more environmental friendly. ✓✓

(Accept any relevant explanation.)

(1 x 2) (2)

3.2 **DATA RESPONSE**

3.2.1 **What is the range of South Africa's inflation target?**

South Africa's inflation target is 3–6%. ✓✓

(2)

3.2.2 **Explain the term inflation**

Inflation is the continuous rise in the general price level over a period of time. ✓✓

(2)

3.2.3 **What does 'pegging down inflation' mean?**

Application of certain measures to reduce /combat inflation. ✓✓

(2)

3.2.4 **How can interest rates be used to peg down inflation?**

- Interest rates rise make it more expensive to borrow money. ✓✓
- Expensive borrowing reduces consumer demand and in turn discourages greater output. ✓✓
- This slows down excessive business activity and controls the rise in prices. ✓✓

(2 x 2) (4)

3.3 DATA RESPONSE

3.3.1 Define *environmental sustainability*.

Environmental sustainability is maintaining the factors and practices that allow the quality of the environment to endure on a long-term basis. ✓✓ (2)

(Accept any relevant description.)

3.3.3 Identify, with statements from the extract, any two kinds of pollution that are caused by scrapped tyres.

Statement	Type of pollution
Abandoned tyres lying across South Africa ✓/tyres left lying in the open ✓/many of the scrapped tyres end up in landfills ✓	Land pollution ✓
Tyres are burnt for heat ✓	Air pollution ✓

(Accept any other relevant statement.) (4 x 1) (4)

3.3.3 In your opinion why is recycling so important?

- It reduces pollution. ✓✓
- Contributes towards the reduction of global warming. ✓✓
- Reduces waste products in land fields ✓✓
- Saves the earth by reducing deforestation ✓✓ (2 x 2) (4)

3.4 Explain the impact of inflation on *debtors and creditors*.

Debtors

- A period of inflation benefits debtors at the expense of creditors. ✓✓
- Contracts are drawn in advance and cannot be changed. ✓✓
- Debtors pay at the reduced buying power which reduces actual expense. ✓✓ (2 x 2)

Creditors

- Creditors receive payments with reduced buying power. ✓✓
- Creditors are disadvantaged. ✓✓ (2 x 2) (8)

3.5 Examine any TWO government intervention strategies to ensure environmental sustainability.

Granting property rights: ✓✓ ensures that people care for things that belong to them. To prevent fauna and flora species from being extinct, government allows property rights over them. ✓✓

Charging for the use of the environment ✓✓: government levies a fee on consumers and producers for the waste they produce and dump on the environment. ✓✓

Levying environmental taxes/Green tax; ✓✓ rather than charging for environmental use, a tax could be imposed on the output of good whenever external environmental costs are generated. ✓✓

Paying for environmental subsidies: ✓✓ subsidies may be provided for activities that reduce environmental damage, ✓✓ i.e., the development of new techniques or equipment; ✓✓ to encourage the production of environmentally friendly substitutes; ✓✓ encouraging recycling of waste. ✓✓

Ensuring marketable permits: ✓✓ instead of imposing taxes or emission charges on polluters, the government can assign each polluter with permitted limit. ✓✓

(Any 2 x 4)

(8)

[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 4.1.1 List any TWO international agreements on environmental sustainability.

- Earth Summit in Rio de Janeiro (UNCED) ✓
- World Summit on Sustainable Development (WSSD) ✓
- Rio + 20 summit ✓
- Kyoto Protocol ✓
- United Nations Framework Convention on Climate Change
- (COP 17) ✓
- Conference of the Parties ✓

(Accept any other relevant agreement.)

(Any 2 x 1)

(2)

4.1.2 How will minimum wages reduce inequalities in South Africa?

(2)

Inequalities are reduced because workers are paid a wage that is above market price. ✓✓

(Accept any relevant explanation.)

(1 x 2)

(2)

4.2 DATA RESPONSE

4.2.1 Close to which city is Robben Island situated?

Cape Town ✓

(1)

4.2.2 **Robben Island can be categorised as a ... site.**

World Heritage site ✓ (1)

4.2.3 **Why is Robben Island labelled as 'an experience like no other'?**

- The beauty of the island. ✓✓
- This where the late former State President Nelson Mandela was held together with other political prisoners. ✓✓
- Museum (political history of South Africa is captured). ✓✓
(Accept any relevant response.) (2 x 2) (4)

4.2.4 **Explain any TWO ways in which tourism can be promoted.**

- Improving marketing strategies (price, product, promotion and place). ✓✓
- By improving and extending supporting services, i.e. transport and curio shops. ✓✓
- Access to personal facilities for convenience, i.e. car rentals, banking facilities. ✓✓
Accept any relevant answer. (2 x 2) (4)

4.3 **DATA RESPONSE**

4.3.1 **Identify the company illustrated above.**

Eskom ✓ (1)

4.3.2 **Name ONE of the new power stations under construction?**

Medupi power station ✓/, Kusile power station ✓ (1)

4.3.3 **Describe any possible effects of the increase in electricity prices.**

- Large consumers of electricity would not want to do business in South Africa/Industries will not be attracted to South Africa. ✓✓
- Production of many goods that depend on electricity will be low. ✓✓
- Households will use less of electricity and opt for other alternatives. ✓✓
(Accept any relevant response.) (Any 1 x 2) (2)

4.3.4 **Explain the 'uniqueness of a product' as a feature of monopoly**

There are no close substitutes. ✓✓
Buyers can only buy from the monopoly or go without the product. ✓✓
(Accept any relevant response.) (1 x 2) (2)

4.3.5 Explain why monopoly industry is regarded as inefficient.

- The monopoly industry produces less output at higher prices. ✓✓
- Some consumers are excluded from the market because they are not able or willing to pay the higher price. ✓✓
- It is not productive efficient when producing below the profit maximising output. ✓✓
- It produces its output at a higher AC, and it does not make the most efficient use of society's scarce resources. ✓✓
(Accept any relevant response.)

(Any 2 x 2) (4)

4.4 Explain any TWO ways in which households benefit from tourism.

- Income: ✓✓ Spending by tourists means income to the households because of the salaries and wages that they earn. ✓✓
- Infrastructure: ✓✓ Most of the infrastructure created for by tourists becomes available for use by local people. ✓✓
- Skills: ✓✓ A variety of skills is required by the tourism industry. ✓✓
- A spin-off of tourism is the exposure to foreign cultures. ✓✓
- It impacts on cultural and social knowledge and enjoyment. ✓✓

(Any 2 x 4) (8)

4.5 Compare a perfect market with a monopolistic market in terms of price, output and profit.**Price**

The equilibrium price is higher in monopolistic than in the perfect market. ✓✓
The consumer therefore pays less in perfect market and more in a monopolistic market. ✓✓

Output

The monopolistic competitor does not produce at the minimum of the LAC whereas the perfect competitor does. It is less efficient. ✓✓ The perfect competitor produces more at a lower price while the monopolistic competitor produces less at a higher price. ✓✓

Profit

Both firms make normal profit in the long run. ✓✓

(8)
[40]**TOTAL SECTION B: 80**

QUESTION 5: MICROECONOMICS

If a firm or an industry is operating inside its production possibility curve, then it is not using all its resources efficiently.

- Discuss causes/ reasons of market failures. (26)
- Use a graph and explain how the government intervenes in the economy through setting maximum prices. (10)

INTRODUCTION

Market failure occurs when the forces of demand and supply fail to allocate resources efficiently. ✓✓

(Accept any relevant introduction.)

(2)

BODY**Externalities ✓**

Externalities are costs not included in the pricing of goods/services, and consequently there is a difference between the private costs/benefits and the social costs/benefits of production. ✓✓

- Private costs: the cost of producing the good or service which translates into the prices that consumers pay. ✓✓ They are also called internal costs. ✓✓
- Private benefits: Internal benefits that accrue to those who produce goods and buy these goods, ✓✓ e.g. producing a bicycle (for producer) and using the bicycle (consumer). ✓
- Social costs: these are total costs incurred by society as a whole. ✓✓ For example the social cost of electricity includes the cost of capital, labour, inputs and the cost of the externalities such as dirty water and air. ✓
Social cost = private costs plus external costs ✓✓
- Social benefits: this includes the total benefit experienced by society as a whole. ✓✓ For example, municipalities provide clean water to society which results in fewer illnesses. ✓
Social benefits = private benefits plus external benefits. ✓

Negative externalities are things like pollution, tobacco smoking and alcohol abuse. ✓✓ The costs of negative externalities are paid by society rather than by the producers. ✓✓ For example, many illnesses are related to smoking. The treatment for these illnesses is paid for by society. ✓

Negative externalities are often over-produced. ✓✓ This leads to market failure.

Positive externalities are the positive effects of products to third parties which are not paid for. ✓✓

Positive externalities are under-produced. ✓✓ This leads to market failure.

Missing markets ✓

Markets are incomplete because they cannot meet the demand for certain goods. ✓✓

Public goods (community and collective goods) are in high demand but are not supplied by the market because of the low profit gained from them and the high cost of capital needed to supply them. ✓✓

Since private producers cannot withhold these goods for non-payment, they are reluctant to provide these goods. ✓✓

The government thus provides these goods and services. ✓✓

Public goods ✓

This includes community and collective goods and has two features:

- Non-rivalry: Consumption by one person does not reduce consumption by another individual, e.g. a lighthouse. ✓✓
- Non-excludability: Consumption can't be confined to those who pay for it (free riders can use them), e.g. radio and television. ✓✓

In addition:

- Social benefits outstrip private benefits: e.g. health care and education. ✓✓
- Non-rejectability: Individuals are not able to abstain from consumption, e.g. street lighting. ✓✓
- Continuous consumption e.g. traffic lights. ✓

Community goods ✓

These are goods such as, defence, police services, prison services, street lighting, flood control, storm water drainage and lighthouses. ✓

Collective goods ✓

These are goods such as parks, beach facilities, streets. ✓

Markets are incomplete and cannot meet the demand for all goods. ✓✓

Government provides public goods, which consist of:

Merit and demerit goods ✓✓

- Merit goods: These are highly desirable for general welfare, but not highly rated by the market, e.g. health care, education and safety. If people had to pay the market price for them, very little would be consumed. ✓✓
- The market fails because the market produces less than the desired quantity. ✓✓
- Demerit goods: These are over-consumed goods, e.g. cigarettes, alcohol and drugs. Thus more of the good is produced than is socially desirable. ✓✓
- The government bans or reduces consumption of these products through taxation, and provides information to the population on their harmful effects. ✓✓

Imperfect competition ✓

- Most businesses operate under conditions of imperfect markets ✓✓ that allow them to restrict output, raise prices, and produce where price exceeds marginal cost. ✓✓
- They can prevent new businesses from entering the industry. ✓✓
- This leads to the prevention of full adjustments to changes in consumer demand. ✓✓

Lack of Information ✓

- Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make decisions ✓✓
- Producers and consumers need full information to make decisions so that so that the market can operate efficiently. ✓✓
- Incorrect information leads to incorrect decision-making about what, for whom and how to produce, this leads to wastage of resources. ✓✓
- Advertisements also lead to incorrect decision-making, based on false information. ✓✓

Immobility of factors of production ✓

- Markets may not be able to respond to changes in consumer demand, if factors of production cannot respond and move around easily. ✓✓
- Resources tend not to be very mobile, so most markets do not adjust rapidly to changes in supply and demand. ✓✓
- Labour may take time to move from one job to another or one place to another, and the same is true for physical capital. ✓✓
-

Imperfect distribution of income and wealth ✓

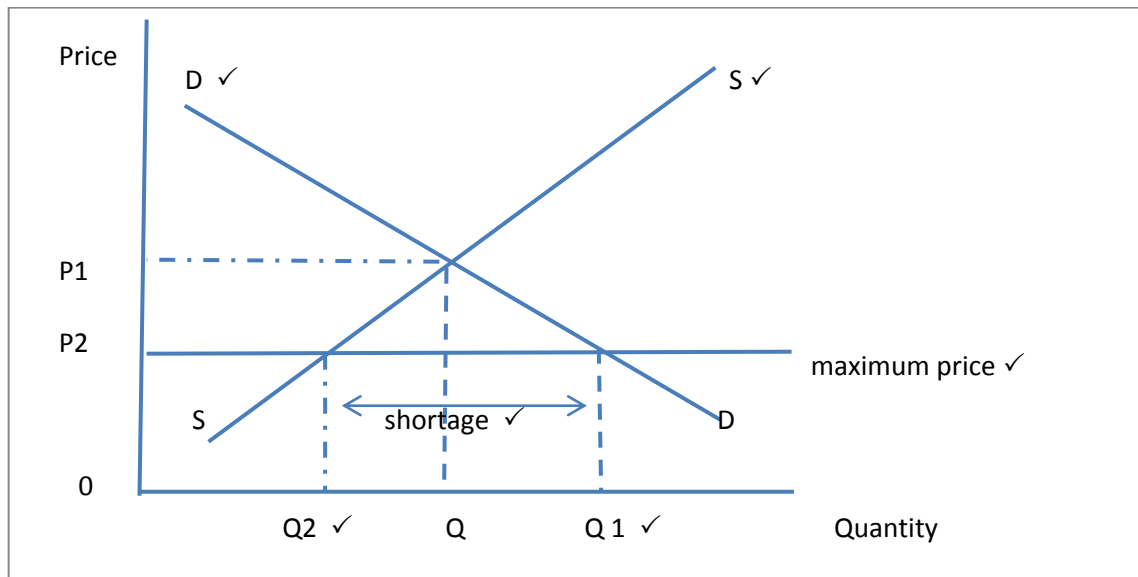
- Free markets tend to generate unequal distribution of income and wealth, some participants are rewarded better than others ✓✓
- This is caused by:
 - A difference in market power ✓
 - The initial distribution of wealth ✓
 - Unequal access to markets and educational opportunities ✓
 - Discrimination ✓

(Max. 8 marks for sub-headings ; 18 marks discussion)

(26)

ADDITIONAL PART**Setting maximum prices/price ceilings**

- The government sets a maximum price ceiling **below the market price to make goods more affordable.** ✓✓
- Maximum prices allow the poor greater access to certain goods and services. ✓✓
- A maximum price is set on goods such as basic foods, housing and transport. ✓✓
- In South Africa the price of petrol, diesel fuel and paraffin are controlled at their maximum prices. ✓✓



(Graph = 6 marks)

Initially the market equilibrium price is P_1 and equilibrium quantity is Q . ✓

- The government intervenes and passes a law that milk cannot be sold for more than P_1 . ✓
- The effect of this maximum price is that quantity supplied decreases to Q_1 and quantity demanded increases to Q_2 . ✓
- There is a shortage of milk equal to the difference between Q_1 and Q_2 . ✓
- A shortage creates a problem of how to allocate milk to consumers. ✓
- Black markets often develop where people can obtain milk. A black market is an illegal market in which either illegal goods are bought and sold or illegal prices are charged. ✓
- Maximum prices may cause a shortage of goods but they do improve the welfare of some consumers since goods can be purchased at lower prices. ✓

(Any 4) (10)

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

Recommendation

E.g. in dealing with the market failures the government can use taxes and subsidies to influence the market. It can also regulate the production or consumption of output. ✓✓

(2)
[40]

QUESTION 6

South Africa is a land of beauty with contrasting landscapes, which is typical of Africa. South Africa has become a major tourist destination because of its rich political history.

**In light of the above statement discuss the effects of tourism
Briefly explain ways by which tourism can be promoted in the rural areas.**

INTRODUCTION

The tourism sector is one of the service sectors in South Africa that has grown in leaps and bounds. It is one of the greatest revenue generators and has become a force to be reckoned with. For South Africa the effects of tourism are positive than negative. ✓✓

BODY**Preserving culture and heritage ✓**

- Tourism, especially rural and cultural tourism, contributes to preserving our indigenous knowledge systems. ✓✓
- Indigenous knowledge refers to the knowledge belonging to a specific ethnic group, culture or society. ✓✓
- It forms the basis for local level decision-making in agriculture, health care, food preparation, education, natural resource management and many other activities in rural communities. ✓✓

Establishing the character of our society ✓

- If foreign visitors to our country have a pleasant experience, this can contribute to strengthening international relations and building socio-economic and political networks that may benefit the country in future ✓✓
- Investment in tourism is also an investment into the image of our country. A country with a positive image finds it easier to secure investment. ✓✓
-

Contribution to GDP ✓

- Tourism is a great contributor to GDP ✓✓
- World tourism was affected by the global economic crisis in 2007, but it has proved to be the most resilient sector in the economy. ✓✓
- Despite dropping by 4,8% by 2009, in 2010, it increased again by nearly 7%. ✓✓
- Therefore tourism has the potential to bring the economy out of an economic slump. ✓✓

Impact on the environment ✓

- Tourism involves transport which is a major contributor to pollution ✓✓
- Tourists should be transported in the most environmentally friendly way, while still preserving their comfort. ✓✓
- Tourists interested in a more culturally authentic experience, may prefer environmentally means of transport, i.e. horses, cycling, canoeing etc. ✓✓

Impact on infrastructure ✓

- A high number of tourists can put pressure on existing infrastructure. ✓✓
- Sanitation, electricity, services, roads and railways may be inadequate to provide for the needs of locals as well as tourists, these services can be updated and increased if it is believed that it will contribute increasing tourism. ✓✓
- The additional income created by the tourism industry can finance these upgrades ✓✓
- Before the 2010 FIFA World Cup, the National Treasury allocated R574,9 million to the South African National Parks to develop infrastructure and improve facilities at the country's nature reserves. ✓✓

(Max 5 for sub-headings; 21 marks for discussion)

(26)

ADDITIONAL PART**Suggestions on promoting rural tourism**

- Establish the economic viability of a particular project in a rural area ✓✓, after that has been confirmed, the development of such a project will the following integrated approach:
 - The cooperation of local population must be gained. ✓✓ Local people need to understand the advantages of the tourism project, the efforts required, and the consequences ✓✓
 - The local communities should agree to these projects before they commence. ✓✓
 - Products and services created need to be suitable for that particular area. When services are developed, they should meet the objectives of poverty alleviation, redistribution of income and poverty alleviation ✓✓
 - Access to funding should be organised in such a way that people living in rural areas should benefit from the funding, if they have ideas that tourists would be interested in ✓✓
 - People in the rural areas should be educated and trained, even if they are not in the tourism setup, because their behaviour will affect tourists ✓✓
 - A marketing effort needs to be developed to make the global community aware of the destination. ✓✓

(Any 5 x 2) (10)

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

Recommendation

E.g. Tourism has advanced tremendously in South Africa, but there is still room for improvement. More still needs to be done especially in marketing the rural destinations locally and world-wide, because they have a lot of potential. ✓✓

(2)
[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150