



CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS) SUPPORT DOCUMENT

JUST IN TIME TEACHER SUPPORT MANUAL

ECONOMICS PAPER 2

GRADE 12

AUGUST 2021

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PERFECT MARKET: COST AND REVENUE – MARKING GUIDE

Activity 1

- 1.1.1 A ✓✓ Variable costs
- 1.1.2 C ✓✓ Explicit costs
- 1.1.3 A ✓✓ Break-even point
- 1.1.4 C ✓✓ Total revenue equals explicit costs minus implicit costs
- 1.1.5 B ✓✓ Average costs
- 1.1.6 D ✓✓ Short run
- 1.1.7 C ✓✓ Average revenue
- 1.1.8 A ✓✓ Variable costs

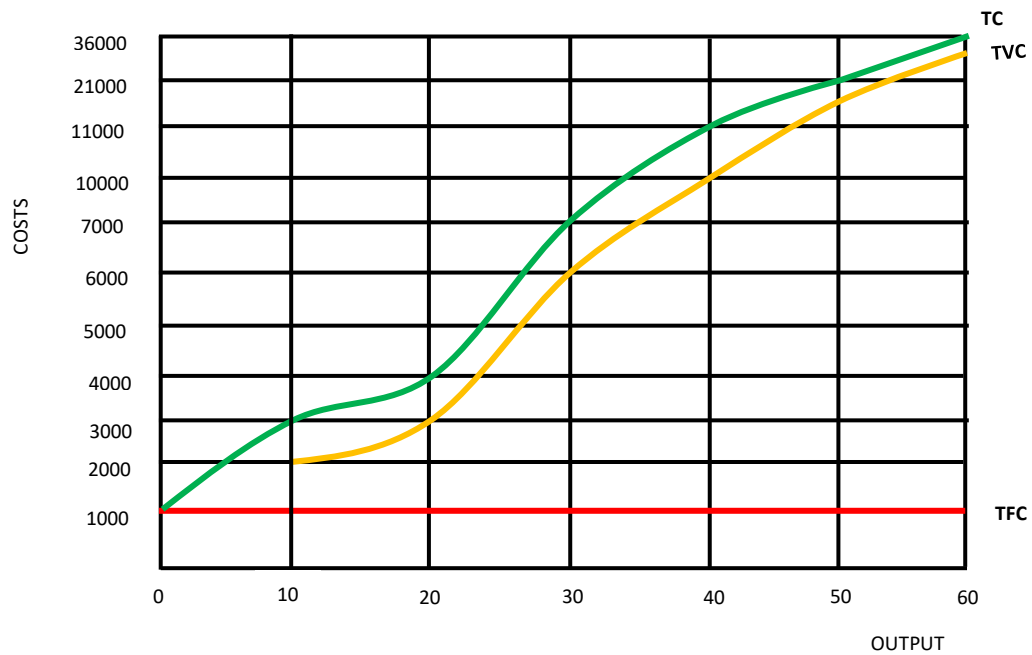
1.2 Cost schedules

(5)

Production Function			Cost Function						
Output (Q)	Fixed factor	Units of labour	TFC	TVC	TC = TFC + TVC	MC = $\Delta TC / \Delta Q$	AFC = TFC / Q	AVC = TVC / Q	ATC = TC / Q
0	10	0	R1000	R0	R1000	-	-	-	-
10	10	1	R1000	R2000	R3000	R200	R100	R200	R300
20	10	2	R1000	R3000	R4000	R100	R50	R150	R200
30	10	3	R1000	R6000	R7000	R300	R33.3	R200 (D)	R233
40	10	4	R1000	R10000	R11000 (A)	R400	R25	R250	R275
50	10	5	R1000	R20000	R21000	R1000	R20 (C)	R400	R420
60	10	6	R1000	R35000	R36000	R1500 (B)	R16.67	R583	R600 (E)

1.3 GRAPHS

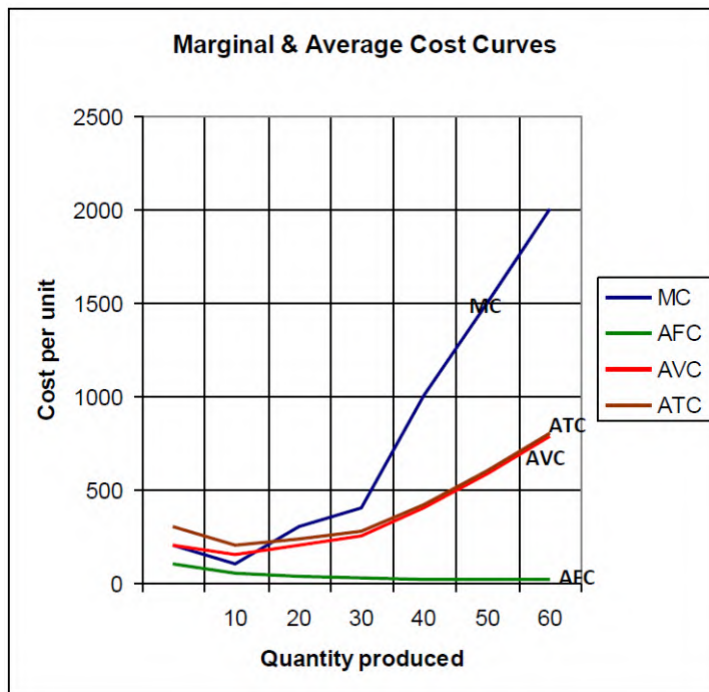
1.3.1 TC, TVC AND TFC GRAPHS



Mark allocation: Graph 1

- Labelling of axes = 1 mark
 - Shape and scale of TC = 1 mark
 - Shape and scale of TVC = 1 mark
 - Shape and scale of TFC = 1 mark
- (4)

1.3.2



Mark allocation: Graph 2

- Shape and scale of MC = 1 mark
- Shape and scale of AC = 1 mark
- Shape and scale of AVC = 1 mark
- Shape and scale of AFC = 1 mark

(4)

Activity 2

2.1.1 Identify fixed cost curve from above.

(1)

- C✓

2.1.2 What formula is used to calculate average cost?

(1)

- TC/Q ✓

2.1.3 Briefly describe the term marginal cost.

(2)

- Marginal cost is the amount by which total cost increases when one extra product is produced.✓✓

2.1.4 Explain why fixed cost always remain the same.

(2)

- Because it's the cost that does not change and it is paid even if nothing has been produced. ✓✓

2.1.5 Calculate the total production if 100 units were produced. (4)

- $P \times Q$
 50×100
 500

Activity 3

Study the table below representing the cost of production for ice cream firm and answer the questions that follow.

Quantity of ice cream	Labour units	Fixed costs (FC)	Variable costs (VC)	Total costs (TC)
0	0	500	0	500
10	1	500	150	650
20	2	500	300	B
30	3	500	A	950
40	4	500	600	1100
50	5	500	750	1250

3.1.1 Fill in the missing values of A and B. (2)

- $A = 450$ ✓
- $B = 800$ ✓

3.1.2 Describe the term *fixed costs*.

- It refers to the cost that does not change with output ✓✓ (2)

3.1.3 Explain why average revenue (AR) and price are the same curve. (2)

- It is because AR is the income received for every unit of output sold, which is similar to the price of each unit sold ✓✓

3.1.4 Calculate MC for the last unit of labour (4)

$$MC = \frac{\text{CHANGE IN TC}}{\text{CHANGE IN QUANTITY}}$$

$$\frac{150}{10} = 10$$

3.4 Differentiate between *short run* and *long run* period of a firm. (2x4) (8)

- *Short run* refers to the period of time during which at least one factor of production is fixed.
- The time period is too short to permit the number of firms in the industry to change. ✓
- Long run refers to the period of time during which all factors of production can be changed. ✓✓
- It allows enough time for new firms to enter the industry. ✓✓

3.5 How will producers benefit by producing at a level that allows them to experience economies of scale? (2x4) (8)

- It reduces costs of production enabling businesses to improve their quality competitiveness. ✓✓
- It allows businesses to improve their price competitiveness. ✓✓
- Leads to increased profits, generating a higher return on investment and growth. ✓✓
- The businesses become less vulnerable to external threats such as takeovers. ✓✓

Activity 4

4.1 Study the table below and answer the questions that follow

Price	Quantity	Total revenue	Marginal revenue	Total cost	Profit / Loss
15	1	15		20	
15	2	30	A	25	
15	3	45		28	
15	4	60		30	B
15	5	75		35	

4.1.1 Identify the market structure which is represented in the table above (1)

- Perfect market ✓

4.1.2 What is the formula used to calculate profit/loss (1)

- Profit/(Loss) = TR - TC ✓

4.1.3 Briefly describe the term *marginal cost* (2)

- Marginal cost refers to the cost of producing one extra unit of a product. ✓✓

4.1.4 Why is the value of the average revenue R15? (2)

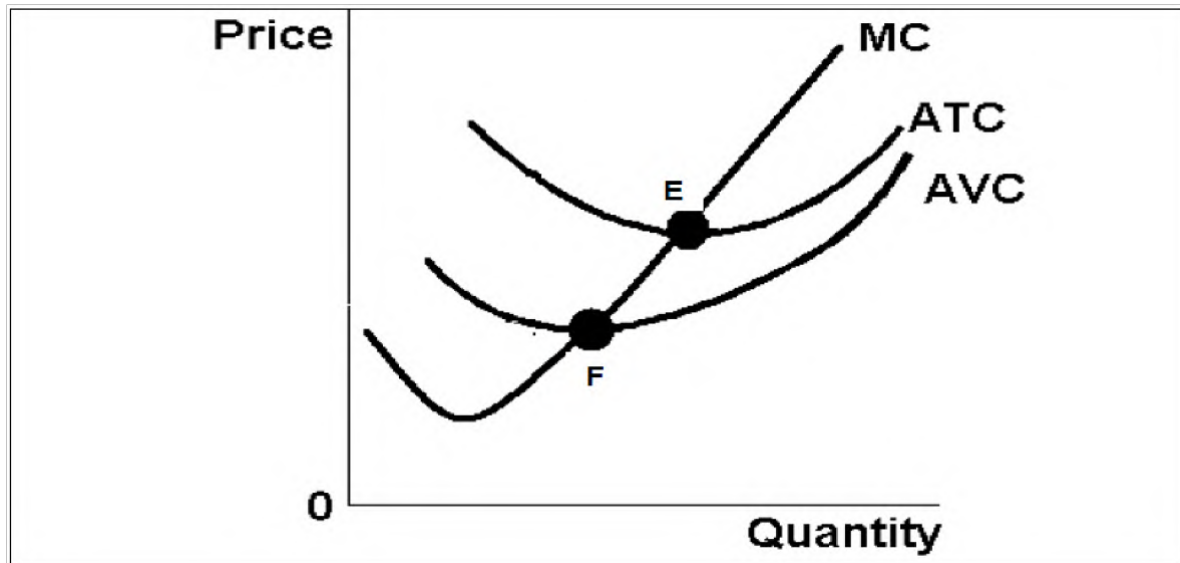
- Under perfect market conditions, price is equal to average revenue. ✓✓

4.1.5 Calculate the values of **A** and **B**. Show all calculations. (2x2) (4)

- A = 15
- B = 30

Activity 5

5.1 Study the graph below and answer the questions that follow



5.1.1 What is represented by point F on the graph above? (1)

- Shut-down point✓

5.1.2 Identify the curve that represent the average production cost (1)

- ATC✓

5.1.3 Briefly describe the term economies of scale. (2)

- Economies of scale is achieved by the producer when cost of production decreases as more output is produced✓✓

5.2. Explain the shapes of the ATC, AVC and MC. (2)

- The MC, AVC and ATC are U-shaped.✓✓
- As the number of units increase from zero, they start at high values✓✓ decline at a decreasing rate, reach minimum points and then increase at increasing rates.✓✓

5.3. Why is the AVC always below the ATC? (4)

- ATC is Average Total Cost and includes average fixed cost and average variable cost✓✓
- Marginal cost also cuts average total cost and average variable cost at their minimum values.✓✓

PERFECT MARKET

Activity 1

Section A

Multiple Choice

1.1. Various options are provided as possible answers to the following questions.

Choose the correct answer and write only the letter (A-D) next to the question number (1.1.1-1.1.8) in the ANSWER BOOK, for example 1.1.9. D

1.1.1. In a perfect market the price will be determined by

- A. Individual firm
- B. Individual customer
- C. Industry
- D. Price mechanism

1.1.2. The slope of a perfectly competitive individual firm is

- A. Elastic
- B. Inelastic
- C. Perfectly inelastic
- D. Perfectly elastic

1.1.3. A point at which the TR and TC intersect each other is called

- A. Profit maximization point
- B. Break-even point
- C. Shutdown point
- D. Equilibrium point

1.1.4. A perfectly competitive firm maximise profits where

- A. $TR = TC$
- B. $MC = MR$
- C. $TC > TR$
- D. $MC < MR$

1.1.5. When one of the following happens a perfectly competitive firm should increase output.

- A. $MR > MC$
- B. $MR = MC$
- C. $MR > MC$

D. $AR < AC$

1.1.6. The value of input owned by an entrepreneur and used in the production process.

A. Explicit cost

B. Implicit cost

C. Fixed cost

D. Marginal cost

1.1.7. The short run economic profit of a perfectly competitive firm will result to.....in the long run

A. Economic profit

B. Economic loss

C. Normal profit

D. Maximised profit.

1.1.8. The supply curve for the individual firm under perfect conditions is.....sloped.

A. negatively

B. positively

C. horizontally

D. vertically

CONCEPTS

1.2 Give ONE term for each of the following descriptions. Write only the term next to the question numbers (1.2.1 to 1.2.6) in the ANSWER BOOK. Abbreviations, acronyms and examples will NOT be accepted.

1.2.1 Actual expenditure that the business incurred during the production process.

Explicit cost

1.2.2 The type of profit made by the firm in the perfect market in the long run.

Normal profit

1.2.3 Income received from selling one extra unit of a product.

Marginal revenue

1.2.4 The period in which at least one of the factors of production is fixed.

Short run

1.2.5 Products which are similar in nature.

Homogenous

1.2.6 Sum of all individual businesses producing a similar kind of products.

Industry

1.2.7 The costs that remains the same even if output changes.

Fixed cost

1.2.8 A market structure where individual firms are price takers.

Perfect market

1.2.9 A point where MC equals MR yet the business is making an economic loss.

Loss minimising point

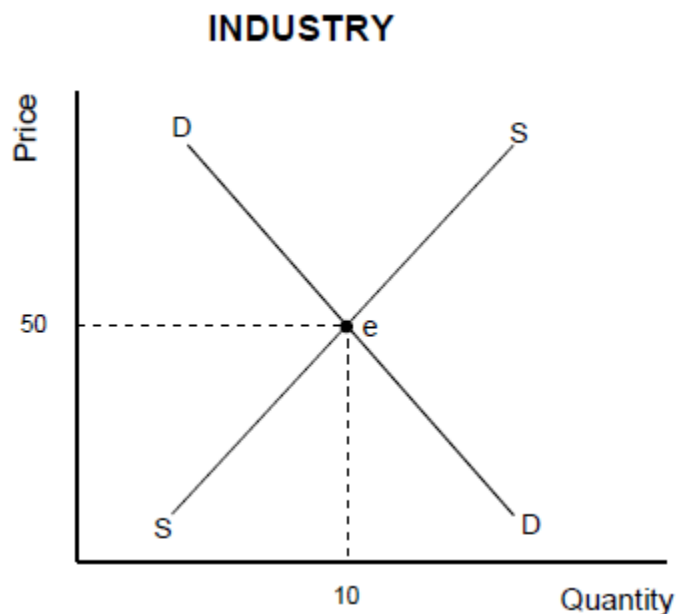
1.2.10 The situation where total revenue is equal to total costs.

Break-even point

SECTION B

ACTIVITY 2

2.1 Study the diagram below and answer the questions that follow



2.1.1 Identify the market structure depicted by the above diagram. (1)

- Perfect market ✓

2.1.2 What is represented by a point where demand and supply intersect? (2)

- Equilibrium ✓

2.1.3 Briefly describe the concept industry. (2)

- An industry is a group of businesses that are selling the same type of products. ✓✓

2.1.4 What determines the price in the industry? (2)

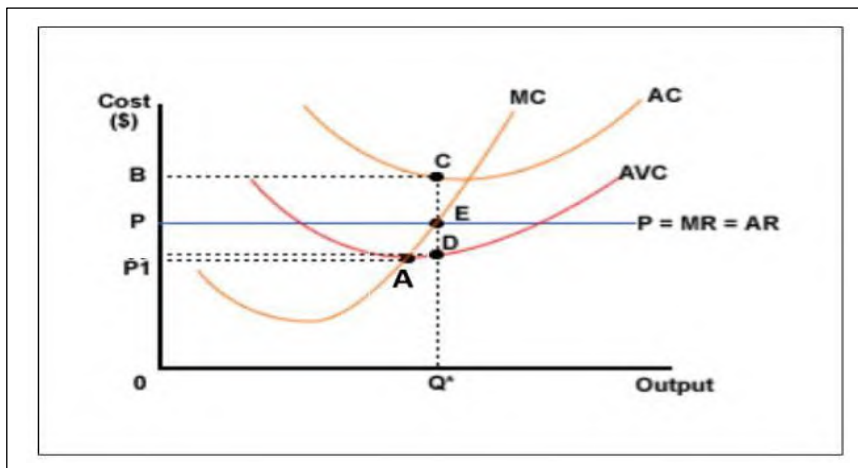
- It is an equilibrium point where demand equals to supply. ✓✓
- It is determined by the market forces of supply and demand. ✓✓

2.1.5 How will freedom of entry influence the short run position of the industry? (4)

- New firm will attracted by economic profit and enter the market, quantity of goods will increased. ✓✓
- An increased quantity will result in the market price dropping. ✓✓
- This will results to a shift of supply curve from left to right to show an increased. ✓✓

ACTIVITY 3

3.1 Study the diagram below and answer the questions that follow



3.1.1 Identify the market price from the above graph. (1)

- P ✓

3.1.2 Name the equilibrium position shown by the diagram. (1)

- Economic loss ✓

3.1.3 Briefly describe the shut-down point. (2)

- It is a point where average variable cost equals to price. ✓✓
- It is where marginal costs intersect average variable cost. ✓✓

3.1.4 Explain the impact on the business if the price drop below P1. (2)

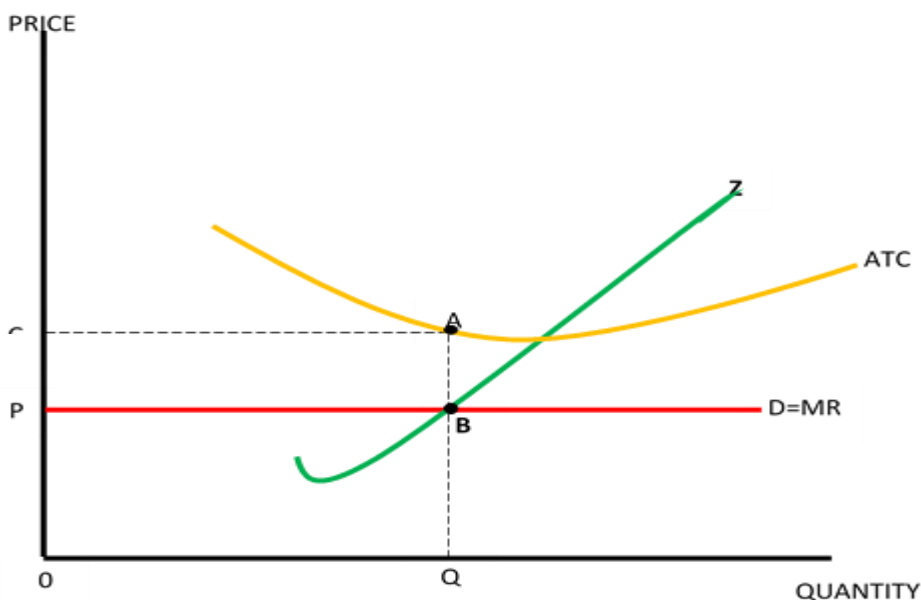
- The business will have to stop producing because average variable cost will be above the price. ✓✓

3.1.5 Why the portion of MC above point A represent supply curve? (4)

- It is because the revenue collected is able to cover the average variable costs. ✓✓
- The quantity the firm produce is still supplied in the market. ✓✓
- The business won't produce below point A as it will fail to cover its variable costs. ✓✓

ACTIVITY 4

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



4.1.1 Identify the curve labelled Z in the above graph? (1)

- Marginal cost ✓

4.1.2 Name any one example of variable cost for the business. (1)

- Raw-material✓/water and electricity✓, etc.

4.1.3 Briefly describe the concept economic loss. (2)

- Economic loss is where the firm's total revenue is less than the total cost. ✓✓

4.1.4 Explain the significance of point B in the graph. (2)

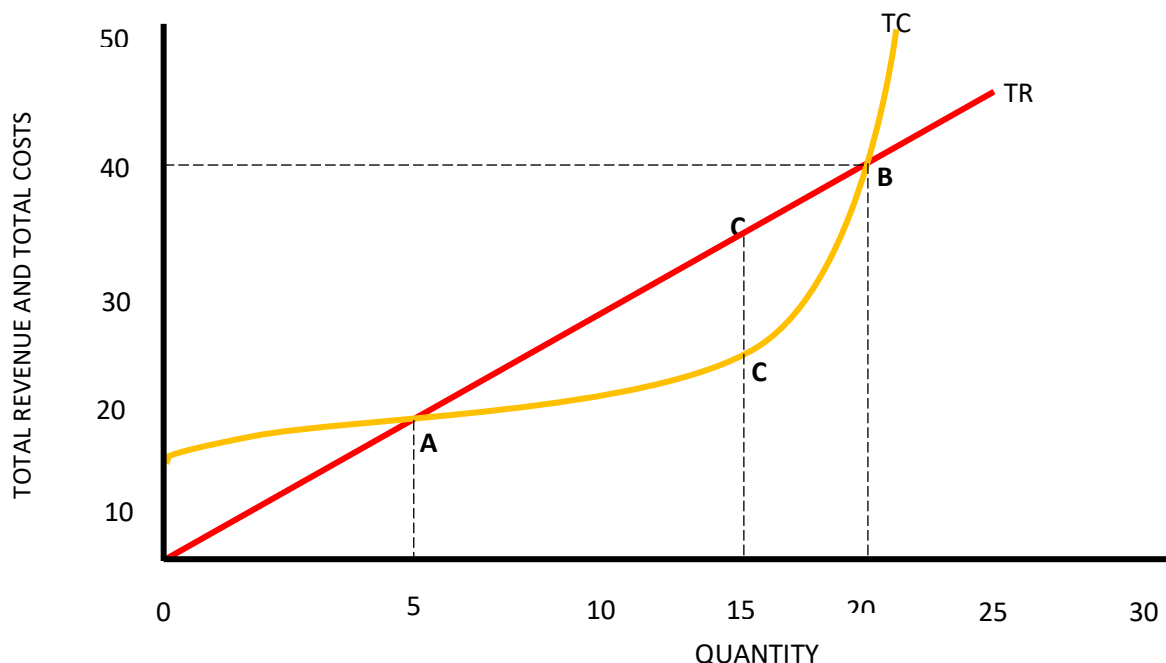
- Point B is showing a loss minimising point. ✓✓

4.1.5 Calculate the economic loss from the graph. (4)

- $EL = TR - TC$ ✓
 $= (P \times Q) - (C \times Q)$ ✓
 $= PBQO - CAQO$ ✓
 $= \underline{PBCA}$ ✓

ACTIVITY 5

5.1 Study the diagram below and answer the questions that follow



5.1.1 Identify the profit maximisation point in the diagram. (1)

C ✓

5.1.2 What type of profit is made by the firm in point B? (1)

Normal profit ✓

5.1.3 Briefly describe the concept average cost. (2)

An average cost is the cost of production per unit. ✓✓

5.1.4 Explain why is TR curve starting at zero. (2)

It is because at zero quantity sold no revenue is made. ✓✓

5.1.5 Why is it not ideal for a firm to produce beyond point B? (4)

- Beyond point B total cost is greater than total revenue. ✓✓
- The firm is making a loss beyond point B. ✓✓

ACTIVITY 6

6.1 Study the picture below and answer the questions that follow



6.1.1 Identify the market structure that is represented above. (1)

- Perfect market ✓

6.1.2 Name one example of a fixed cost. (1)

- Rent✓/insurance✓

6.1.3 Briefly describe the term homogenous product. (2)

- Homogenous products are good that are identical in all respect in size, shape and the utility that they provide. ✓✓

6.1.4 Explain the implication of charging a price above the market price for a firm operating in this market structure. (2)

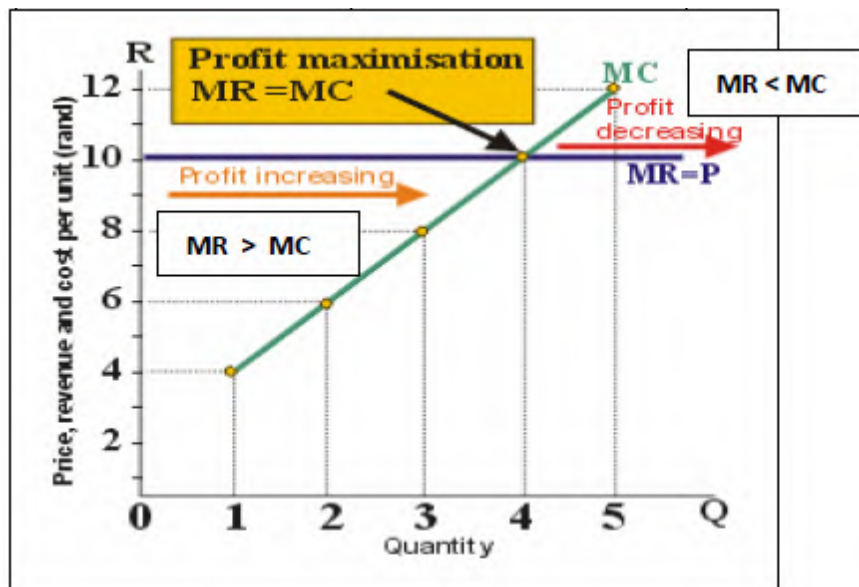
- The firms demand will fall to zero as consumers will buy from the next seller. ✓✓

6.1.5 Why the firm operating in this market structure cannot keep the economic profit made in the short run? (4)

- Freedom of entry will allow new firms to join the market attracted by economic profits. ✓✓
- The price will reduce as supply increased which result to a normal profit in the long term. ✓✓

ACTIVITY 7

7.1 With an aid of a graph explain why marginal cost must be equal to marginal revenue for the profit to be maximised. (8)



Mark allocation

Correct labelling of and on axes	= 1
Correct positioning and labelling of MC and MR curve	= 1
Correct indication of Profit maximisation point	= 1

Correct indication of effect on profit

=1

Total

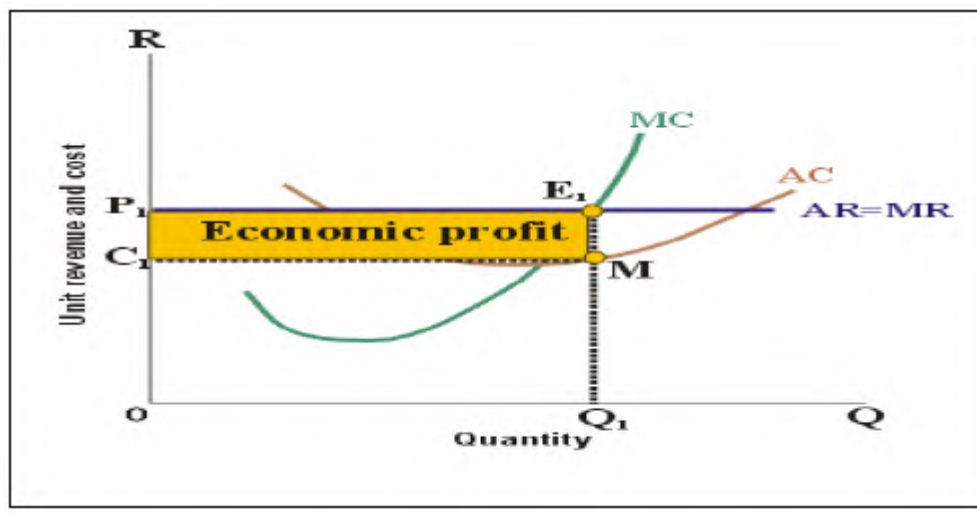
= 4

- When the marginal revenue is greater than the marginal cost ($MR > MC$), the business will expand its output. This is because the profit of the business is increasing, the benefits of adding an extra unit are more than the cost of producing it. ✓✓
- When marginal revenue is less than marginal cost ($MR < MC$), the business will reduce its output. This is because the benefits of adding an extra unit is less than the costs. i.e. the profit of the business is decreasing. ✓✓
- When the marginal revenue is equal to marginal cost ($MR = MC$), the business will have to decide to stop adding an additional unit of a product because the profit is maximised. ✓✓

max. 4

7.2 With the aid of a graph explain how a perfectly competitive firm achieve economic profit.

(8)



Mark allocation

Correct positioning and labelling of revenue curves = 1

Correct positioning and labelling of costs curves = 1

Correct indication of economic profit = 1

Correct indication of market price and cost price = 1

TOTAL

= 4

- The firm in the perfectly competitive firm will achieve profit when average revenue is greater than average cost ($AR > AC$). ✓✓

- The profit is maximised where Marginal revenue is equal to marginal costs ($MR = MC$), that is point E1 in the graph. ✓✓
- The market price charged by the firm is price P1 which is equal to MR and AR. ✓✓ Max. 4

7.3 Without using a diagram explain how the price is determined in a perfect market. (8)

- Under perfect competition, the market's demand and supply curve determines the market price. ✓✓
- The market price is established at the point of equilibrium. ✓✓
- The individual producer is a price taker and sells goods at the market price. ✓✓
- A price higher than a market price cannot be charged as customers will be lost to other producers. ✓✓
- A lower price than market price cannot be charged as a small profit will be made. ✓✓

7.4 Briefly explain price control and nature of a product as characteristics of a perfect market. (8)

Control over price

- The sellers in the market have no control over the market price, they are price takers ✓✓
- The price is determined by market demand and supply. ✓✓

Nature of the product

- The products sold in the market are homogenous. ✓✓
- They are 100% identically the same, all firms selling same products. ✓✓

TOPIC 2 IMPERFECT MARKETS

2.1 MONOPOLY

SECTION A

Activity 1

1.1.1 Monopoly is also known as an _____

A. Industry

B. Market

C. Shop

D. None of these

1.1.2 A monopolist will be earning maximum profits when.....

A. $TR = TC$

B. $TR > TC$

C. $TR < TC$

D. When difference between TR & TC is maximum

1.1.3 A monopolist will be at equilibrium where.....

A. $MR = MC$

B. $MR > MC$

C. $MR < MC$

D. $MR = MC$ and MC curve cuts MR from below

3x2 (6)

1.2 Choose the description from COLUMN B that matches an item in COLUMN A. write only the correct letter (A-C) next to the question number (1.2.1 -1.2.3) in the answer book. For example, 1.2.3 – A.

COLUMN A	COLUMN B
1.2.1 Patent	A. Period where all factor inputs can be varied.
1.2.2 Long run	B. Where barriers to entry are not of an economic nature.
1.2.3 Artificial monopoly	C. The Exclusive legal right for producing a product.

1.2.1 - C

1.2.2 - A

1.2.3 - B

3x1 (3)

1.3 Give ONE term/word for each of the following descriptions. Write only the term next to the question number. (1.3.1)

Abbreviation, acronyms and examples will NOT be accepted.

1.3.1 A market structure where high development costs prevent entry of other firms.

- Natural monopoly

1x1(1)

1.3.2 The monopolist chooses the price quantity combination where the MR is..... (1)

positive

1.3.3 When a firm holds a technologically superior position that other firms cannot compete with, the firm is said to be a _____monopoly (1)

technological

1.3.4 When a firm has power to charge any price for its product. (1)

Price maker

1.3.5 A monopoly that does not exist in real world. (1)

Pure monopoly

1.3.6 The main condition which give rise to monopoly. (1)

Barriers

SECTION B (Short Questions)

2.1.1 Name TWO types of monopoly (2 x 1) (2)

- Natural monopoly

- Artificial monopoly

2.1.2 Why do monopolies become inefficient and less innovative overtime? (2 x 1) (2)

- Monopolies become inefficient and less innovative overtime because they have no competition.

- They want to enjoy higher profits.

2.1.3 How do monopolies exploit consumers? (2 x 1) (2)

- Monopolies exploit consumers by charging high prices.

- By Limiting quantities.

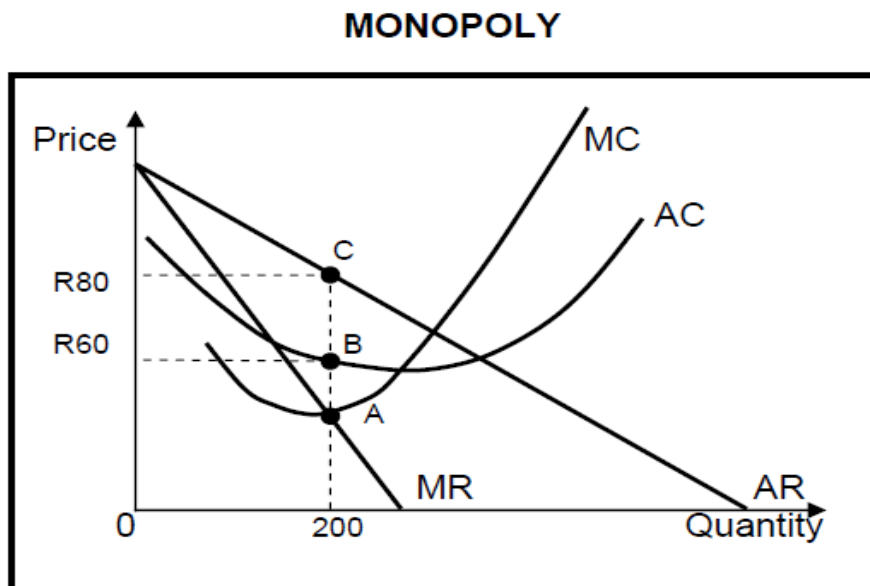
2.1.4 Why would governments not allow monopolies to supply essential goods? (2 x 1) (2)

- Governments would not allow monopolies to supply essential goods because it would become unaffordable by the poor

Data Response Questions

ACTIVITY 3

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



3.1.1 Identify optimum production point on the graph (1)

- Point A where $MR=MC$

3.1.2 Which curve represents the demand curve in the graph above? (1)

- AR

3.1.3 Briefly describe the term surplus capacity (2)

- Surplus capacity is the difference between the ideal output produced by a perfect competitor and the output produced by a monopolist.

3.1.4 Why would government grant patents to producers? (2)

- To protect their intellectual property.

- To protect strategic industries.

3.1.5 Calculate economic profit earned by this firm. Show all calculations

(4)

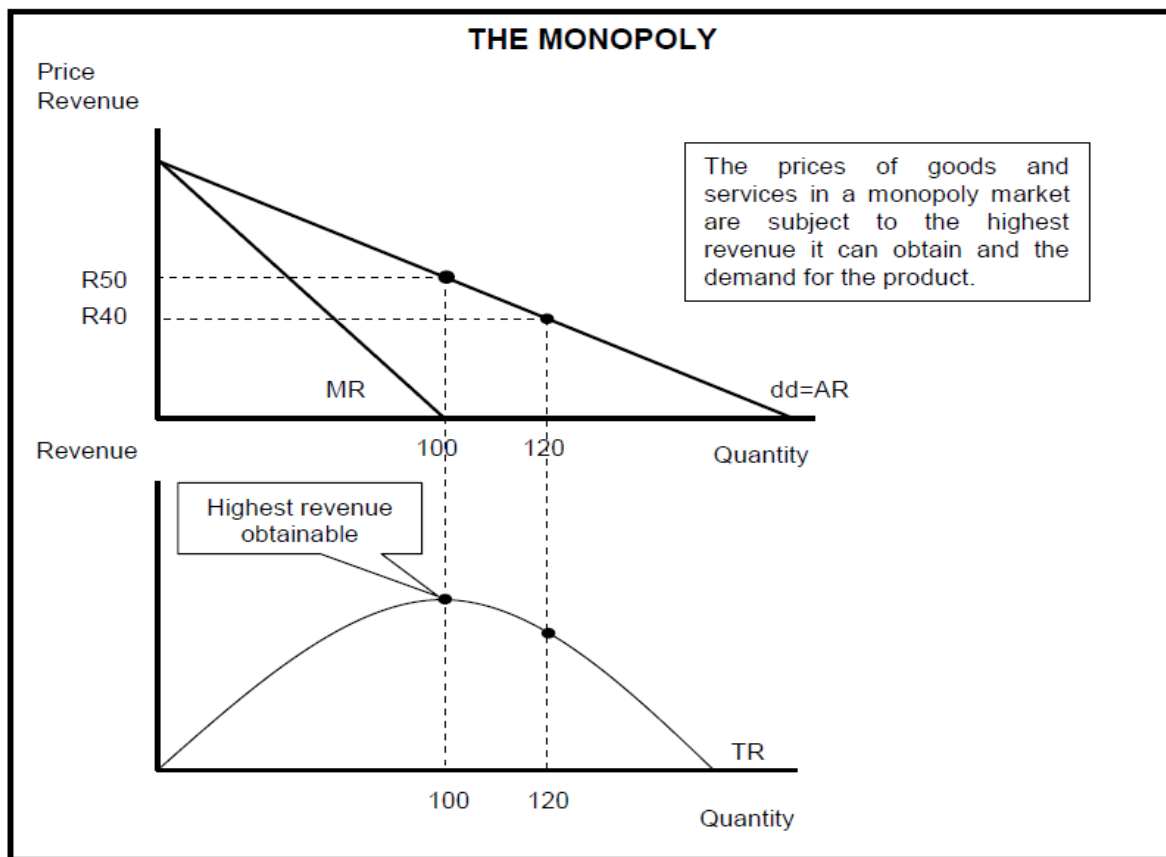
$$\text{Price R80} - \text{Cost R60} = \text{R20 Profit} \times 200 = \text{R4 000}$$

$$\text{R80} \times 200 = \text{R16 000}$$

$$\text{R60} \times 200 = \text{R12 000}$$

$$\text{R16 000} - \text{R12 000} = \text{R4 000 Profit}$$

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



3.2.1 Identify any factor that influence the prices of goods and services for the monopoly.

(1)

- Demand for product.

- Highest revenue it can obtain.

3.2.2 Which price must be charged by a monopolist to obtain maximum revenue?

(1)

- R50

3.2.3 Briefly describe profit maximisation. (2)

- Profit maximisation is where a business obtains the highest revenue.

- it is found at a point where $MR=MC$

3.2.4 Explain why MR curve runs below AR curve? (2)

- If the monopolist wants to sell an extra unit it must decrease the price, that is why MR is running below AR.

3.2.5 How does the slope of a monopolist demand curve differ from that of a perfect competitor? (4)

- Monopolists are faced with normal demand curve.

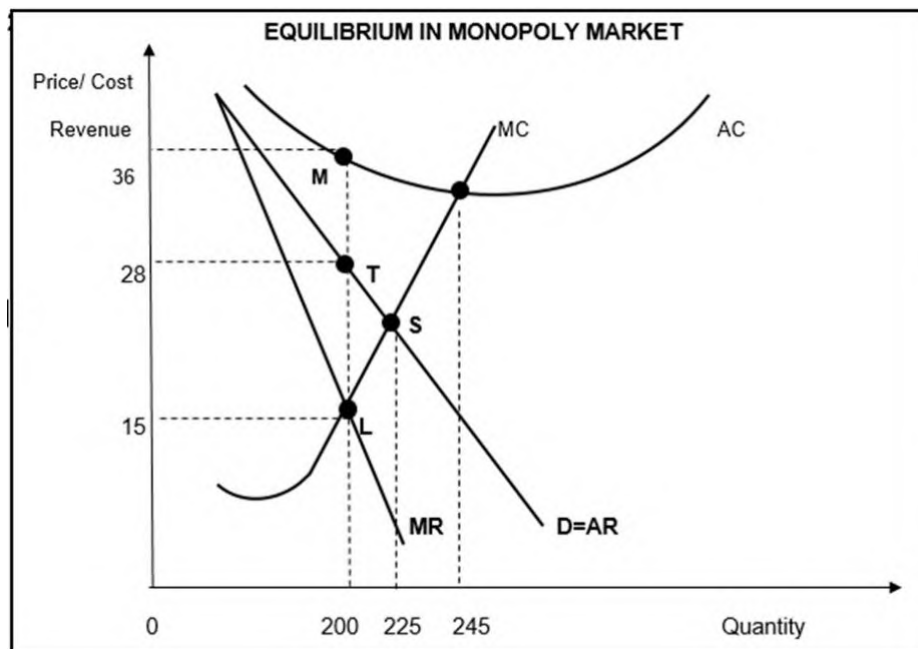
- a downward sloping demand curve

- negative sloping demand.

- which allows price changes

Activity 4

4.1 Study the graphs below and answer the questions that follow.



4.1.1 Identify the quantity that will be produced by this monopolist. 200 (1)

- 200

4.1.2 What is the shape of a demand curve in this market structure? (1)

- The shape of the demand curve is downward sloping from left to right.

4.1.3 Briefly describe the term marginal cost.

(2)

- Marginal cost is the cost of producing an additional unit.

4.1.4 Why the Marginal Revenue (MR) curve lie below the Demand (D) curve in this type of market.

- If the monopolist wants to sell an extra unit it must decrease the price, that is why MR is running below AR.

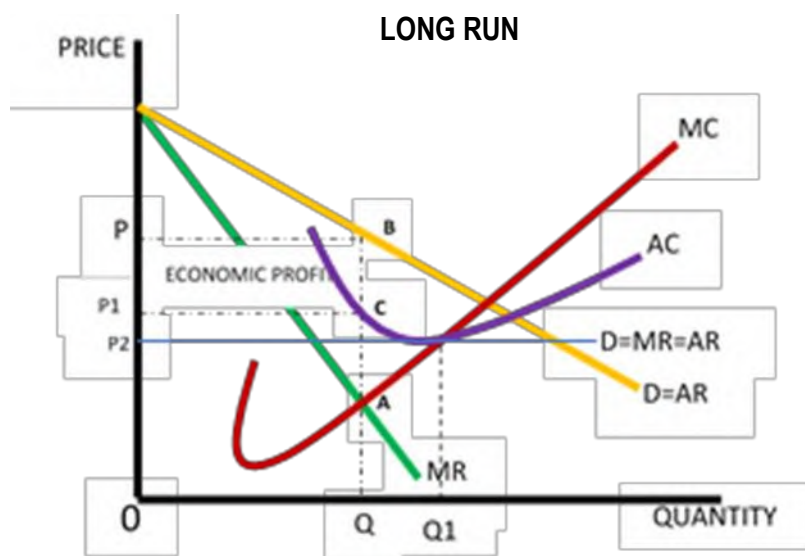
4.1.5 Calculate the profit or loss that the above firm will make. Show your calculations (2x2) (4)

Economic loss = $P - C \times Q$

$28 - 36 = -8$

$-8 \times 200 = -R1600$

4.2 Study the graphs below and answer the questions that follow



4.2.1 Identify the price that is charged by a monopoly on the graph above.

(1)

- P

4.2.2 What is the nature of the product of this market?

(1)

- Unique

4.2.3 Briefly describe the term monopoly

(2)

- It is a market structure with a single seller

4.2.4 Why will a monopolist not produce beyond quantity Q ? (2)

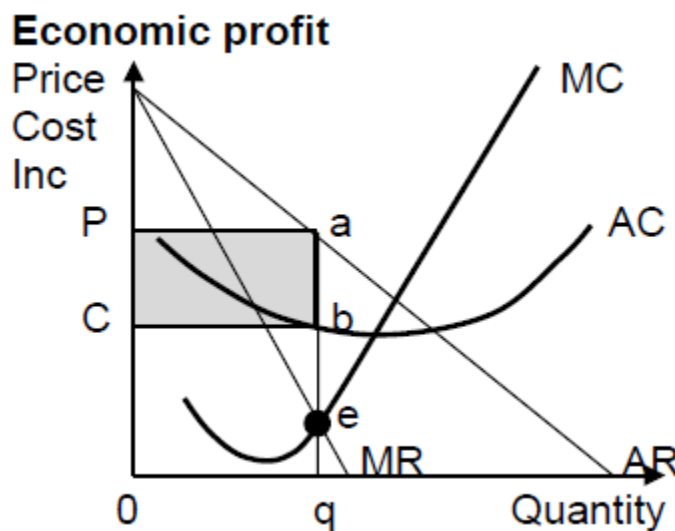
- Marginal cost will be above marginal revenue and profit will start to decrease

4.2.5 How do monopolists create inefficiencies (4)

- Monopolies create inefficiencies by charging higher prices

- By producing less output

4.4 With the aid of a fully labelled graph, explain economic profit for a monopolist in the short run. (8)



NO EXPAINATION

SECTION C

Essay-type Questions

Question 5

5.1 Discuss in detail the characteristics of a monopoly (26)

5.2 How does the monopoly make economic profit in the long run. (10)

INTRODUCTION

Monopoly exist where there is only one seller of a unique product, where product has no close substitutes, and where barriers block entry into the market completely.

BODY

(A maximum of eight marks for headings and examples)

MAIN PART

• Number of firms

- The monopoly consist of one single firm.
- The monopoly also represents the total industry. e.g De Beers, Eskom etc.

• Demand curve

- Monopolist are also confronted with a demand curve for their product but because there 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 a product in the market.
- The demand curve of a monopolist is that of a market as a whole.
- The demand curve slopes downwards from left to right.

• Production level

- Once the monopolist has decided on the price, the quantity sold is determined by demand.
- The monopolists influence the product-price combination of the product they sell.

• Control over price

- A monopolist is regarded as a price maker.
- Able to influence price through changing the quantity, buy limited by market demand and the goal of profit maximisation.
- Monopolist chooses the combination of price and quantity that suits it the best.

• Marginal revenue curve

- Because the demand curve is downwards sloping price will decrease for each additional unit produced.
- Therefore the marginal revenue will be less than the price, thus the demand curve and marginal revenue curve is not the same.
- The marginal revenue curve lies below the demand curve.

• **Cost of production**

- The shape of the cost revenue curve (MC and AC) is the same as any other producer.
- The MC increases as more is produced.
- The AC declines, reaches a minimum and then increases.
- Profit maximisation is where $MC = MR$

• **Profit**

- The monopolist can earn economic profit in the short run and in the long run.
- Because new entries are blocked (no competition) and short-run economic profit cannot be reduced.
- The monopoly can thus continue to earn economic profit as long as the demand for its product remains intact.

• **Market entry**

- Refers to how easy or difficult for the businesses to enter or to leave the market.
- Is entirely/completely blocked.
- A number of barriers to entry that may give rise to monopoly can be economies of scale or limited size of the market or exclusive ownership of raw materials or patents or licensing or sole rights or import restrictions.

(Max 26)

NO ADDITIONAL PART AND CONCLUSION

Question 6

6.1 Explain with the aid of graphs the following short-run equilibrium positions of a monopoly.

- Economic profit

- Economic Loss

(26)

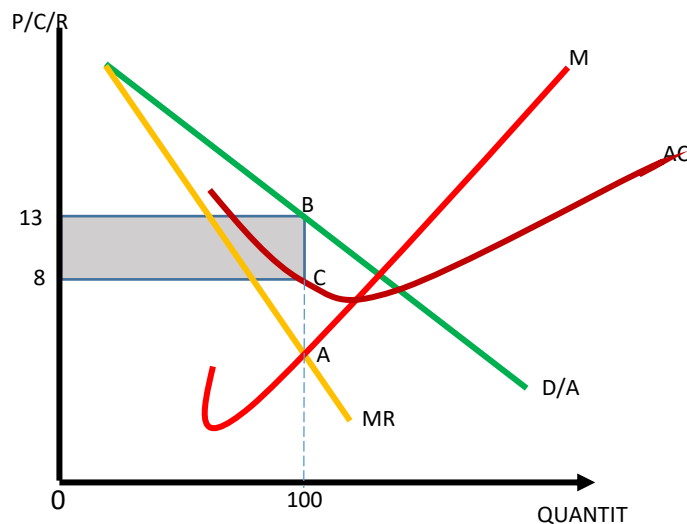
INTRODUCTION

Monopoly exist where there is only one seller of a product, where product has no close substitutes, and where barriers block entry into the market completely. ✓✓ [40]

(Accept any other relevant and correct answer)

BODY/ MAIN PART

ECONOMIC PROFIT



Correct positioning and labelling of curves= 1mark
Correct positioning and labelling of revenue= 1 mark
Indication of profit maximization= 1 mark
Correct indication of profit= 1 mark
Indication of cost= 1 mark

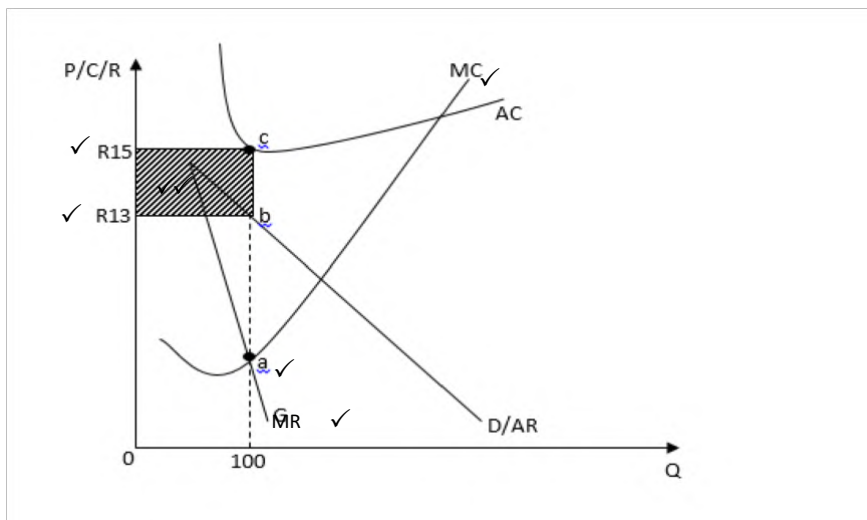
Explanation

- The point where $MC = MR$ is a point where production cost of last unit is equal to revenue it earns. (Point a) – profit maximizing production quantity of 100 units on the horizontal axis. ✓✓
 - The monopolist will produce at the output level of 100 units where $MR = MC$, because it can maximize profit at this level. ✓✓
 - Point b represent the average revenue at selling price of R13 while point c represent the average costs at the cost price R8. ✓✓
 - When the average revenue is more than average cost, it results in an economic profit for the business. / When TR is more than TC it will result in economic profit for the business. ✓✓
 - The monopoly makes economic profit when AC is below the average revenue (AR). ✓✓

- Total income = Price x quantity = R13 x 100 = R1300 ✓✓
- Total costs = Cost x quantity = R8 x 100 = R800 ✓✓
- Profit = R1300 – R800 = R 500. ✓✓

(Accept any other correct and relevant response)

ECONOMIC LOSS



Explanation

- 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 minimize losses at this level. ✓✓
- Point b represent the average revenue at selling price R13 while point c represents the average cost at the cost price R15 ✓✓
- The average cost is more than the average revenue, resulting in an economic loss for the business / When TC is more than TR it will result in an economic loss for the business. ✓✓
- The shaded shows the economic loss. ✓✓
- The monopoly suffers an economic loss in the short run when the AC curve is the above the market price. ✓✓

(Max 26)

(Accept other correct and relevant responses)

ADDITIONAL PART

6.2 Why does the performance of South African monopolies contradict the long-run equilibrium position of a monopoly? (10)

- 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 costs 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 National Energy Regulator in South Africa (NERSA) that determines the selling price of electricity in South Africa. ✓✓
- A natural monopoly has experienced high maintenance costs compared to artificial monopolies that compromises profits. ✓✓
- Natural monopolies cannot manipulate its quantities to increase prices. ✓✓
- Revenue seems to be less than costs due to corruption, non-payment by a large number of electricity users. ✓✓
- Under normal circumstances a monopoly will shut down if average costs 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 costs) structure of natural monopolies have increased, but the private benefits (revenue of sales) stagnated due to poor maintenance of infrastructure. ✓✓

(Max 10)

(Accept any relevant and correct response)

CONCLUSION

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

(2)

(Accept any relevant and correct response)

2.2 OLIGOPOLY

Section A

Activity 1



SECTION A

1.1. Various options are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A-D) next to the question number (1.1.1 – 1.1.5) in the answer book e.g. 1.1.6 A

1.1.1. This industry is characterized by few large firms.

- A. Perfect market
- B. **Oligopoly** ✓✓
- C. Monopolistic competition
- D. Monopoly

1.1.2. Firms spend lots of money establishing brand loyalty with existing customers and attract new customers using media

- A. Loyalty schemes
- B. Product development
- C. **Advertising** ✓✓
- D. Packaging

1.1.3 Which of the following is not an example of oligopoly market?

- A. Bread and milk industry
- B. **Restaurants** ✓✓
- C. Fertilizer industry
- D. Car industry

1.1.4 When one firm changes price and the others follow, it is regarded as

- A. Discrimination
- B. Differentiation
- C. **Price leadership** ✓✓
- D. Influence

1.1.5 Collusion is an agreement among firms to Competition

- A. **Limit** ✓✓
- B. Promote
- C. Match
- D. Regulate

1.1.6 The demand curve that explains oligopolistic behaviour is described by some theorists as ...

A. Downward sloping

B. Kinked ✓✓

C. Horizontal

D. Diagonal

1.1.7 This exists when one or more firms has a significant control in the entire market.

A. Market differentiation

B. Collusion

C. Market dominance ✓✓

D. Market Failure

1.1.8 Method of building customer loyalty by setting a product apart from that of competitors.

A. Branding ✓✓

B. price leadership

C. patent

D. licensing

1.2 Choose a description from COLUMN B that matches the 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, for example 1.2.9 J.

COLUMN A	COLUMN B	Answers
----------	----------	---------

1.2.1 Duopoly	A. Behaviour by firms is motivated by an arrangement that is not formal	E
1.2.2 Tacit collusion	B. Agreement between oligopolies occurs openly and formally	A
1.2.3 Cartels	C. Market dominated with differentiated products	B
1.2.4 Differentiated oligopoly	D marketing strategy in which one firm tries to distinguish its product	C
1.2.5 Non-price strategy	E There are two oligopolies in the market F. A strategy of competing without using the price	F

(5x1) =5

1.3 Give one term for each of the following descriptions. Write only the term next to the question number (1.3.1. – 1.3.4) in the answer book.

1.3.1 Oligopolies producing many range of products to cater for many different market.

- Differentiated oligopoly ✓

1.3.2 One business in the industry makes price decision on behalf of other producers

- Dominant firm ✓

1.3.3 Market structure characterized by few large firms that sell homogenous product

- Pure oligopoly ✓

1.3.4 An arrangement between businesses with the aim of limiting competition amongst themselves

- Collusion ✓

1.3.5 Products are made to be slightly different in terms of physical appearance

- Branding ✓

(5x1) 5

Activity 2

2.1.1 Give TWO conditions of oligopoly

(2)

- Entry is restricted✓
- Few producers✓
- Less control over the price
- They sell homogenous/heterogeneous product (Any relevant answer)

2.1.2. Why it is not easy to enter oligopoly market structure? (2)

- It not easy because they need licences to operate✓✓
- Existing firms are given copyright and patents rights (Any relevant correct answer)

2.2 Study the cartoon below and answer questions that follow:



Source: WordPress.com

2.2.1. Name a formal collusion that is done by oil producing companies (1)

- Organisation Petroleum Exporting Countries or OPEC✓

2.2.2. What type of inefficiency is caused by collusion? (1)

- Allocative inefficiency ✓

2.2.3. Briefly describe the term Cartel (2)

- Cartel occurs when two or more firms enter into agreements to restrict the supply or fix the price of a good in a particular industry✓✓

2.2.4. Briefly explain why firms continue to collude even if it's illegal (2)

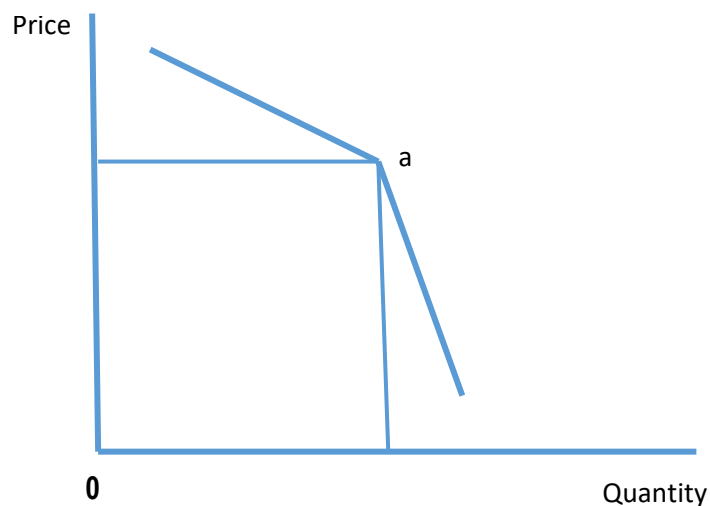
- Firms collude because it benefits them to sell goods and services at a higher price✓✓

2.2.5. How can collusion be dealt with in South Africa (4)

- Allow more industries to enter the industries to leave no space for collusion✓✓
- Competition commission can be expanded in many areas around the country in order to strengthen investigation of colluding firms ✓✓

2.4 With the aid of a graph discuss Demand curve of oligopolies

(8)



- Oligopoly faces a kinked demand curve✓✓
- It shows a combination of relatively elastic demand and relatively inelastic demand✓✓
- The upper demand curve is relatively elastic (D-A) and the lower (below) represent relatively inelastic(A-D)
- The intersection point of inelastic demand and elastic demand is the kinked point.
(accept any other relevant answer)

2.5 How collusion negatively impact the economy of the country

(8)

- When firms collude, they fix the price and limit or reduce output that leads to a decrease in goods produced ✓✓
- Collusion leads to higher prices that makes people not afford goods and services✓✓
- It may also lead to consumer exploitation due to high prices charged✓✓
- Few firms may control the market and that limits the supply of goods and services✓✓
- Firms end up having more market power in the economy and take control of goods in the industry

- It may lead to inefficiency of markets because firms will be reluctant to produce more since output is reduced (Any relevant correct answer)

Activity 3

3.1.1. Name TWO examples of Pure oligopoly (2)

- Cement Industry✓
- Steel Industry ✓
- Aluminium industry

3.1.2. Explain why oligopolies are obliged to produce at a kinked point only (2)

- Oligopolies produce at a kinked point because that is where they earn high revenue✓✓

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

Companies fined for COVID-19 collusion

The Competition Tribunal has been clamping down on companies that have been hiking prices of sanitisers and masks since the COVID-19 outbreak. On Friday the Tribunal said it had confirmed two consent agreements relating to COVID-19 exorbitant price complaints, bringing the total to 20 since April 2020

“All these agreements relate to the alleged excessive pricing of goods, such as sanitisers and face masks used by consumers in the context of the COVID-19 pandemic” the Tribunal said.

Source: South African Government News Agency 03 July 2020

3.2.1. Identify the form of collusion done by companies above (1)

- Price Fixing✓

3.2.2. State the institution responsible for investigating these illegal practice (1)

- Competition Commission✓

3.2.3. Briefly describe the term Pure Oligopoly (2)

- Pure oligopoly refers to an oligopoly business that sells homogenous products✓✓

3.2.4. Explain what causes collusion not to be successful in most cases? (2)

- Most firms do not stick to the agreement because they want to steal customers from the other competing firms✓✓

3.2.5. What is the impact of fining companies that were found colluding (4)

- Other firms from other industries are discouraged to collude because they avoid to pay unnecessary fines✓✓
- Few firms are still colluding because they know that if they collude they will be fined✓✓
(Any relevant correct answer)

3.4. Differentiate between Pure oligopoly and Differentiated oligopoly (8)

Pure/Perfect Oligopoly	Differentiated oligopoly
<ol style="list-style-type: none"> 1. Pure oligopoly the products of different firms are identical✓✓ 2. They have greater power over the price✓✓ 3. Examples: Cement, Petrol etc. 	<ol style="list-style-type: none"> 1. Differentiated Oligopoly products are different/not the same✓✓ 2. They have smaller amount of monopoly power because they have little or no substitution between products✓✓ 3. Examples: Cigarettes, Soft drinks etc.

3.5. Evaluate the interdependency of oligopoly as a market structure (8)

- The action of one firm attract the action of other firms to follow the actions of a dominant firm in order to keep their customers✓✓
- If one firm changes the price it is likely that other competing firms in the industry will gain higher market share due to new customers as a result each firm does not act independently✓✓
- A firm consider the action and reaction of the rival firms while determining its price and output level✓✓
- A change in output or price by one firm evokes reaction from other firms operating in the market✓✓ (Any relevant correct answer)

Activity 4

4.1.1. Name TWO forms of collusion

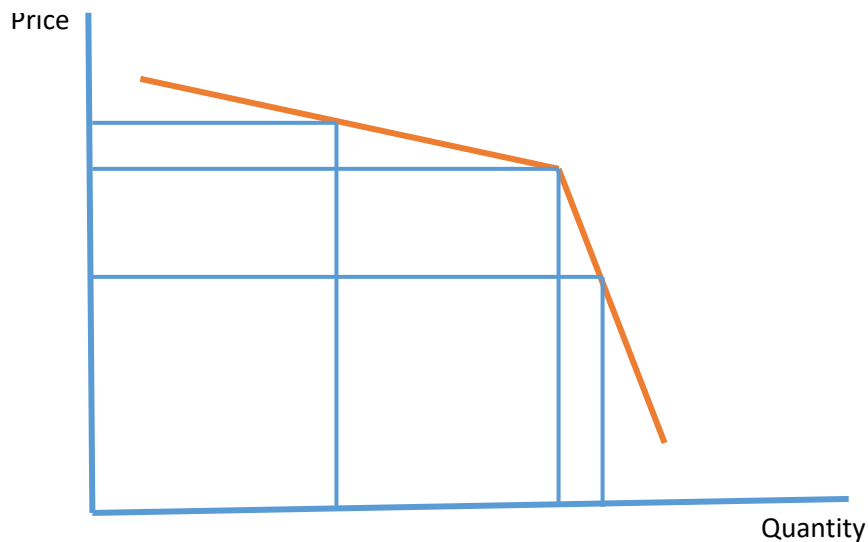
(2)

- Price leadership ✓
- Cartel ✓

4.1.2. Explain why oligopolies use non-price strategies when they compete instead of lowering the price? (2)

- Non price strategy may increase sales without chasing away customers but lowering the price may increase number of customers without increasing revenue✓✓
(Accept any relevant answer)

4.2. Study the graph below and answer questions that follow



4.2.1. At which point should oligopolies produce?

(1)

- Kinked point or Point B✓

4.2.2. What kind of profit is made by oligopolies in a long-run?

(1)

- Economic profit✓

4.2.3. Briefly describe the term kinked demand curve

(2)

- Kinked point is a market ruling price for oligopolies where relatively elastic demand intersect relatively inelastic demand✓✓

4.2.4. What will be the impact of increasing the price on revenue in the above market structure?

(2)

- If the price is increased, less revenue will be earned by the firm✓✓

4.2.5. Calculate the total revenue this firm will make. Show ALL calculations

(4)

$$\begin{aligned}\text{Total revenue} &= P \times Q \\ &= R10 \times 100✓✓ \\ &= R1000✓✓\end{aligned}$$

4.4. How can business enterprises increase their market share without causing price wars (8)

Oligopolies increase their market share by:

Advertising✓ They attract customers by advertising their products on TV, radio or newspapers

Advertising makes the product appealing to consumers ✓✓

Branding✓ They make their products exclusive by using branding. Branding gives the product a special image in the mind of the consumer ✓✓

Packaging✓ They pack or present their product in a special way that is attractive to the customer

Packaging differentiates the product from other similar products✓✓

After sales service✓ They compete by providing after-sales services e.g. installing a DSTV for the customer✓✓

Extended trading hours✓ Businesses may attract customers by opening longer hours than their competitors or open on holidays✓✓

Customer loyalty✓ Businesses spend time building customer loyalty✓✓

Free deliveries✓

A business that offers free delivery attracts more customers than the one which does not have that service ✓✓

(Accept any relevant answer)

4.5. Evaluate the success of the competition act to eliminate collusive behaviour of the oligopolies (8)

The competition policy is **successful** by:

- Making provision for institutions like the Competition Commission, Competition

Tribunal and Appeal Court to investigate any unfair competition by oligopolies ✓✓

- 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 ✓✓

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 ✓✓ (Accept practical examples where Competition policy has succeeded)

Section C

Activity 5

Oligopoly is a necessary market structure in a free-market system.

5.1 Discuss in detail oligopoly as a market structure. (26)

5.2 Without the use of a graph, explain why oligopolies will not compete

using the price to increase its market share. (10)

INTRODUCTION

The oligopoly is a type of imperfect market in which only few producers dominate the market ✓✓
(Accept any other correct relevant response) (Max 2)

Body: MAIN PART

Nature of the product ✓

- The product may be homogeneous (the same) or differentiated (heterogeneous) ✓✓
- If the product is homogeneous, it is known as a pure oligopoly ✓✓
- If the product is differentiated, it is known as a differentiated oligopoly ✓✓

Market information ✓

- There is incomplete information ✓✓
- Information is imperfect ✓✓

Market entry ✓

- Entry is easy to difficult ✓✓
- It is restricted in a sense that all firms operating must have license or patent rights ✓✓

Control over price ✓

- Considerable control over price, it can influence price, but not as much as the monopolist ✓✓
- Oligopolies can frequently change their prices in order to increase their market share and this can result in price wars ✓✓

Mutual dependence ✓

- Mutual dependence (interdependence) exists amongst these businesses ✓✓
- Each firm knows its market share, the behavior of one firm can influence others significantly ✓✓
- A change in the price or change in the market share by one firm is reflected in the sales of the others ✓✓

Collusion ✓

Overt collusion: ✓

- Firms can work together to form a cartel; a cartel is a formal agreement amongst firms to work together in limiting total industry supply in order to increase prices or fix prices at certain levels ✓✓
- The main idea is to increase individuals' members' profits by reducing competition. ✓✓
- This is illegal and often investigated by the Competition Commission in South Africa ✓✓
- Guilty businesses are often heavily penalized in the form of fines ✓✓

Tacit collusion/Price leadership: ✓

- The oligopoly market may be characterized by a definite price leader; others may follow the pricing policy of the leader ✓✓
- This is not a formal agreement and thus not illegal in South Africa. ✓✓

- Examples in South Africa are cell phone operators: Cell C, MTN, Vodacom, Telkom Mobile, petrol garages (Engen, Total, Caltex, Shell, BP) Banks (FNB, ABSA, Standard Bank, Nedbank, Capitec) ✓

Profit ✓

- Oligopolies can make an economic profit over the long term ✓✓
- Abnormal profits may a result of joint decision-making in an oligopoly ✓✓

Demand curve ✓

- The demand curve is downward sloping from left to right ✓✓
- Also known as kinked demand-curve ✓✓
- Contains two curves (elastic and inelastic parts) ✓✓

Productive/Technological efficiency ✓

6 Productive efficiency is possible ✓✓

Allocative efficiency ✓

7 Allocative efficiency is not possible because oligopolies limit production and charge higher prices

(Max. 26)

Body: Additional Part

8 Without the use of a graph, explain why oligopolies will not compete using the price to increase its market share. (10marks)

- Oligopoly faces a kinked demand curve where Relatively elastic demand intersects with relatively inelastic demand ✓✓
- The market ruling price and quantity are determined by kinked point as markets in this market structure use that price ✓✓
- The upper demand curve is relatively elastic and the lower (below) demand curve represents relatively inelastic demand
- Markets in this market structure are not able to increase the price because consumers are very much sensitive to the price so they easily switch to another firm and the demand for their products decrease drastically.
- If they try to decrease prices in order to attract consumers, other producers will also decrease theirs due to mutual dependence so the response in demand will be very slight.

(Any relevant correct answer)

Conclusion

(Any relevant correct answer)

Activity 6

6.1 Compare characteristics of a perfect market with that of an oligopoly. (26)

6.2 Why do oligopolies often collude although it is illegal in South Africa? (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
- Oligopoly is a market structure dominated by few large sellers and Perfect competition is a market structure with many buyers and many sellers

(Accept any other correct relevant response) Max (2)

Information

- 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
- There is no need for marketing strategy in the **perfect market** due to complete market knowledge ✓✓
- Market information in an **oligopoly** is incomplete ✓✓ Many brands, variety of products or marginal difference causes lack of information for sellers and buyers ✓✓
- Marketing strategy is applied in the oligopoly aggressive advertising campaigns is launched to create brand loyalty ✓✓

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 ✓✓
- Oligopoly is regarded as a price maker because they have some control over the price

- **Oligopoly** *Overt collusion* the individual business in the oligopoly has some control over the price of a product✓✓
- Firms can work together to form a cartel a cartel is a formal agreement amongst firms to work together in limiting total industry supply in order to increase prices or fix prices at certain levels✓✓
- The main idea is to increase individuals' members' profits by reducing competition✓✓
- This is illegal and often investigated by the Competition Commission in South Africa ✓✓
- Guilty businesses are often heavily penalized in the form of fines ✓✓

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 ✓✓

Oligopoly: *Overt collusion*: ✓

- Firms can work together to form a cartel, A cartel is a formal agreement amongst firms to work together in limiting total industry supply in order to increase prices or fix prices at certain levels✓✓
- The main idea is to increase individuals' members' profits by reducing competition. ✓✓
- This is illegal and often investigated by the Competition Commission in South Africa ✓✓
- Guilty businesses are often heavily penalized in the form of fines ✓✓

Tacit collusion: ✓

- The oligopoly market may be characterized by a definite price leader, other may follow the pricing policy of the leader ✓✓
- This is not a formal agreement and thus not illegal in South Africa. ✓✓
- Examples in South Africa are cell phone operators: Cell C, MTN, Vodacom, Telkom Mobile, petrol garages like Engen, Total, Caltex, Shell, BP; Banks like FNB, ABSA, Standard Bank, Nedbank, Capitec ✓

Profits ✓

- The firm can realize economic profits in the short run, but only normal profits in the long run in the **perfect market** ✓✓
- The firm can realize economic profits in the short term as well as in the long run in the oligopoly due to barriers to entry ✓✓

Demand curve ✓

- The demand curve for the individual firm in the **perfect market** is horizontal ✓✓
- The demand curve for the firm in the oligopoly is Kinked. ✓✓



ADDITIONAL PART

Why do oligopolies often collude although it is illegal in South Africa?

Firms collude because:

- It is an effort to reduce uncertainty thus make them to use collusion in order to increase market share ✓✓
- They can enjoy the advantage of higher profit and limit other businesses to enter the market (to control the market / to form a collective monopoly) ✓✓
- The cost of doing business in an oligopoly market is very high, that is why these firms use non-price competition such as advertising, and this can cost a very large amount of money ✓✓
- Firms are mutually interdependent and large amounts of money is often required to monitor one another's actions ✓✓
- This often makes firms to engage in cooperation with one another instead of competing even though it is illegal in South Africa but they turn to monopolize the industry ✓✓

(Accept any other relevant response)

(Max.10)

Conclusion

Whilst perfect market does not exist, it serves as a standard that imperfect markets, such as oligopoly, should strive to achieve ✓✓Max (2)

2.3 MONOPOLISTIC COMPETITION

ACTIVITY 1

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

– 1.1.5) in the ANSWER BOOK. For example 1.1.6 C.

1.1.1 A firm will increase production when...

A $MC = MR$.

B $MR > MC$. ✓✓

C $P = MC$.

D $AR = AC$.

1.1.2 The study of individual households in an economy is known as ...economics.

A micro ✓✓

B macro

C labour

D international

1.1.3 The revenue derived from the sale of an additional unit is ... revenue.

A total

B average

C extra

D marginal ✓✓

1.1.4 A state in which all opposing market forces are balanced is known as ...

A collusion

B competition

C equilibrium ✓✓

D equality

1.1.5 Unit cost is also known as ... cost.

A fixed

B variable

C average ✓✓

D marginal

(5 x 2) (10)

1.2 Choose a description from COLUMN B that matches the item in COLUMN A.

Write only the letter (A-F) next to the question number (1.2.1 – 1.2.5) in the ANSWER BOOK.

COLUMN A		COLUMN B
1.2.1 Normal profit	C✓	A A period of production where all factors of production become variable
1.2.2 Explicit costs	E✓	B A mechanism that brings together buyers and sellers a good or service
1.2.3 Implicit costs	F✓	C Minimum earnings required to prevent the firm from leaving the market
1.2.4 Long run	A✓	D A period of production where at least one factor of production remains fixed
1.2.5 Short run	D✓	E Actual expenditure of a business such as purchasing raw materials, paying wages and interest
		F The value of input owned by the entrepreneur and used in the production process

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1- 1.3.5) in the ANSWER BOOK.

1.3.1 The organisational features of perfect and imperfect markets

- **Hybrid structure ✓**

1.3.2 The additional cost incurred when production increases by one unit

- Marginal cost✓

1.3.3 A situation where identical products are sold at different prices to different consumers

- Price discrimination ✓

1.3.4 Sum of all individual businesses producing a similar kind of product

- Industry ✓

1.3.5 The increase in the percentage of output is less than the increase in the percentage in input

- Diseconomies of scale ✓

ACTIVITY 2

2.1.1. State any TWO characteristics of monopolistic competition

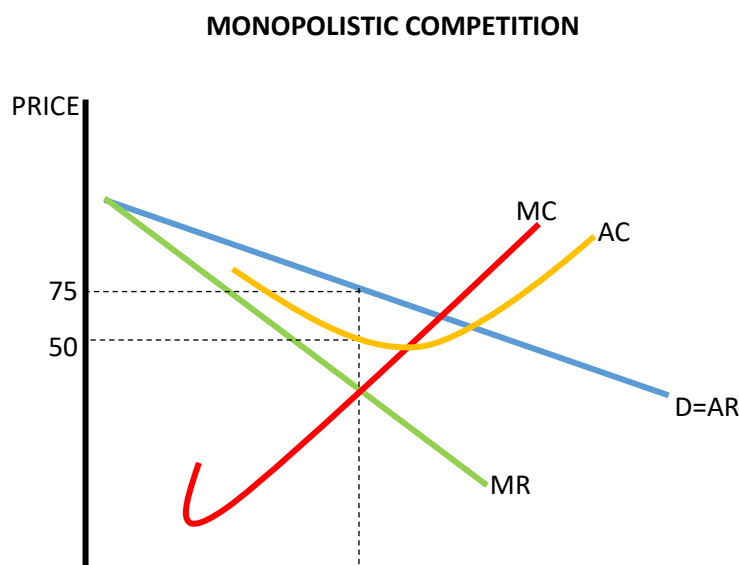
- There are many buyers and sellers✓
- Little control over the price✓
- Entry in the market is easy and free✓
- Market information is incomplete✓
- A hybrid structure✓
- Often it is local✓

(Accept any relevant correct response)

2.1.2. Why does branding play a major role in monopolistic competition?

- Branding sets the product apart from those of fellow competitors ✓
- It makes it easier for consumers to identify with the product✓

2.2. Study the graph below and answer the following questions



2.2.1 Identify the market price in the graph above (1)

- R 75✓

2.2.2. Name the equilibrium position depicted by the graph above (1)

- Short term equilibrium position – economic profit✓

2.2.3 Briefly describe the term marginal cost (2)

- It refers to an additional cost of production that a business incur from producing an extra unit of a product.✓✓

2.2.4 Why is the MR curve and AR curve are two separate curves? (2)

- It is because of the downward sloping nature of the demand curve which dictates that for the monopolistic competitor to sell one extra unit the prize must decrease, this results into marginal revenue decreasing a faster rate than average revenue ✓✓

2.2.5 Calculate the profit or loss made by the firm above (Show ALL calculations) (4)

- $TR - TC$
 $(AR \times Q) - (AC \times Q) \checkmark$
 $(R\ 75 \times 100) - (R\ 50 \times 100) \checkmark$
 $R\ 7\ 500 - 5\ 000 \checkmark$
 $R\ 2\ 500 \text{ economic profit} \checkmark$

2.4 Discuss control over price and economic profits as characteristics of the monopolistic competition (8)

CONTROL OVER PRICE

- The monopolistic competitor has little control over price ✓✓
- The only control they have depends on the strength of brand loyalty ✓✓

ECONOMIC PROFITS

- The monopolistic competitor makes economic profits only in the short term which will attract new business in the market ✓✓
- The fact that there is freedom of entry it means the monopolistic competitor faces competition in the long term, this will result in short run economic profits to disappear into long term normal profit ✓✓

2.5 How may differentiated products influence consumers and producers in the monopolistic competitive market? (8)

CONSUMER

- The consumer may regard one product as better, whether real or imagined, therefore, it is based on the opinion of consumers ✓✓
- Consumers tend to buy brand names and have their preferences in this regard ✓✓
- E.g. Levi jeans will be more popular than no name brand jeans ✓✓
- Advertising stresses differences that are attractive to consumers ✓✓
- Increase spending due to consumers wanting different brands of the same good e.g. Nike, Puma, etc. ✓✓
- Wider choice of goods / exposed to different products ✓✓
- Differences in packaging makes purchasing/buying easy ✓✓ (Max 4)

PRODUCERS

- By selling slightly differentiated product each producer distinguishes themselves from another producer ✓✓
- The unique characteristics of differentiated products allow producers to compete against others ✓✓
- Therefore they can justify a higher price for their product based on these 'uniqueness' (slight differentiation) ✓✓

- It may enjoy brand loyalty as customers have a preference towards a particular product ✓✓
- Profits used in research and development in order to make the product look different – stimulated creativity ✓✓
- Differentiated products create opportunities for non-price competition ✓✓
- (Accept any other correct relevant response)

ACTIVITY 3

3.1.1 Name two examples of non-price competition (1x2) (2)

- Advertising ✓
- Branding ✓
- Packaging ✓
- Extended business hours ✓ (accept any relevant correct answers)

3.1.2 Why firms earn zero economic profit under monopolistic competition in the long run? (2X1) (2)

- The fact that there is freedom of entry it means the monopolistic competitor faces competition in the long term, this will result into short run economic profits to disappear into long term normal profit ✓✓

3.2 Study the information below and answer the following questions



3.2.1 Identify one characteristics of the market structure depicted above. (1)

- Freedom of entry ✓

- Differentiated product✓
- Long run normal product ✓
- Incomplete information ✓

3.2.2 Name one example of an industry that can be classified as a monopolistic competition (1)

- Retail industry ✓
- Fast food industry ✓
- Car manufacturing ✓

3.2.3 Briefly describe the term non price competition (2)

- a form of competition in which two or more producers use such factors as packaging, delivery, or customer service rather than price to increase demand for their products✓✓

3.2.4 Why do consumers benefit from monopolistic competitive markets? (2)

- Consumers benefit from competition which leads to increased consumer choice✓✓
- They benefit through innovative product development✓✓
- They benefit through fair and competitive prices✓✓
- They benefits through efficient services✓✓

3.2.5 How can product proliferation be used as a non-pricing strategy by monopolistic competitive firms? (4)

- This is having different ranges of the same product to capture for different consumer needs✓✓
- Product proliferation increases consumer choice and ensures that different consumer needs are satisfied✓✓

3.4 Discuss FOUR features of the monopolistic competition (8)

- It is a high-brid market structure ✓✓
- It produces similar yet differentiated products✓✓
- There is no collusion between firms ✓✓

- Firms are price makers ✓✓
- It uses non price competition ✓✓

3 How does the monopolistic competitor make normal profit in the long run? (8)

- The monopolistic competitor makes economic profits only in the short term which will attract new business in the market✓✓
- New entrance will increase market supply and decrease prices as well as total revenues✓✓
- The demand curve will shift to the left as the demand is split between many firms✓✓
- The demand will also become more elastic✓✓
- Short run economic profit will disappear and the long term equilibrium of normal profits will be reached✓✓

ACTIVITY 4

4.1.1 Name any two industries that can be considered as monopolistic competition (1X2) (2)

- Fast food industry✓
- Retail industry✓
- Car manufacturing industry ✓(accept any relevant correct answer)

4.1.2 Why product differentiation is an important aspect of the monopolistic competition? (2X1)(2)

- Each and every business must salient features on his products so that stand out against those of other competitors✓✓

4.2 Study the information below and answer the questions that follow:



4.2.1 Identify the market structure represented in the above picture (1)

- Monopolistic competition✓

4.2.2 What is the nature of the product sold in this market above? (1)

- The product sold is heterogeneous/ differentiated✓

4.2.3 Briefly describe the term hybrid structure (2)

- It is a market structure that has a combination features of the perfect and imperfect market (monopoly✓✓

4.2.4 Why monopolistic competitive firms earn zero economic profits in the long run? (2)

- It is because of the freedom of entry which results into competition and increase in market supply.✓✓

4.2.5 How does the free entry affect the demand curve of the monopolistic competition? (4)

It can affect the demand curve by:

- Making it more elastic thus reducing the profits earned by individuals✓✓
- Allowing more firms to enter the industry thus causing individual producers to earn normal profits in the long run.✓✓

4.4 Compare the nature of products and demand curve for the perfect and monopolistic competitor (8)

FEATURE	PERFECT MARKET	MONOPOLISTIC
NATURE OF PRODUCT	They sell a homogenous product✓✓	They sell a differentiated product✓✓
DEMAND CURVE	The individual firm has a horizontal demand curve that is perfectly elastic✓✓	It is faced with a downward sloping demand curve that is relatively elastic✓✓

4.5 How can the monopolistic competitor gain a bigger market share than its competitors? (8)

- The monopolistic competitor can invest large sums of money on advertising their product as the best such as putting up a big billboard on a busy highway✓✓
- They must invest on branding their product so that customers can associate with it e.g. appoint a famous brand ambassador to be the face of the product✓✓
- They must invest on attractive packaging which will set their product apart from those of the competitors✓✓
- They must focus and invest on product development and research in order to keep on improving the innovation on products developments✓✓
- They must invest on product proliferation which is to offer different ranges of the products to satisfy a variety of consumer needs✓✓

Activity 5

5.1.1 Name any two variables that determine profits (2x1) (2)

- Average cost✓
- Average revenue✓
- Marginal cost✓
- Marginal revenue✓

5.1.2 Why is market information incomplete under monopolistic competition?
(1X2) (2)

- They sell differentiated products and charge different prices for their product✓✓

5.2 Study the extract below and answer the questions that follow.

**FAST-FOOD RESTAURANTS IN THE MONOPOLISTIC
COMPETITIVE MARKET**

South Africa's fast-food market is extremely competitive, as many sellers fight it out for their share of the consumer market. The fast-food industry accounts for about 40% of the total consumer food-service sales in South Africa, e.g. Fishaways selling fish and Steers selling hamburgers. It is regarded as a hybrid market structure.

5.2.1 Give ONE example of a monopolistic competitor that specialises only in chicken. (1)

- KFC✓
- Chicken Licken✓
- Nando's✓
- Hungry lion✓

5.2.2 Identify the concept that describes a combination of perfect competition and monopoly. (1)

- Hybrid / monopolistic competition✓

5.2.3 Briefly describe the term product differentiation (2)

- Product differentiation is a marketing strategy designed to distinguish a company's products or services from the competition.✓✓

5.2.4 Give a reason why businesses in the monopolistic competitive market prefer to compete on a non-price basis. (2)

- Non-price competition allows them to focus on the uniqueness of the product which can increase sales✓✓
- They do not compete based on price because it causes price wars and can drive prices down due to many sellers✓✓

5.2.5 Why will the economic profit made by a monopolistic competitor disappear in the long run? (4)

Economic profit will disappear in the long run because:

- Profits attract new businesses easily into the market making it more competitive✓✓
- Increased competition will lead to a decrease in prices which will reduce profits✓✓
- There can be an increase in the number of substitute products produced which will reduce the demand✓✓
- This will eventually lead to normal profit by the monopolistic competitor in the long-run✓✓

5.4 Discuss hybrid structure as characteristics of the monopolistic competition (2X4)8)

HYBRID STRUCTURE

- This is a combination of perfect competition and monopoly✓✓
- The fact that there is free market entry and exit in the long term are elements of competition✓✓
- They sell differentiated products which gives the business a degree of monopolistic market power✓✓
- A firm has some control over the price. ✓✓

5.5 How can monopolistic competitors use market research and product development as non-price strategies? (8)

Market research can be used to:

- Help monopolistic competitors reach current/potential customers and to keep them attentive to their audience's demands.✓✓
- Allow monopolistic competitors to beat their contenders and provide a better service to target audience. They can leverage market research findings to stay ahead of the competition.✓✓
- Allow them to respond to emerging trends and exploiting them is the key to flourishing product development. The research agency will let them know what's currently "hot" in the market.✓✓
- Allow monopolistic competitors to spot threats to the success of their product. They can eliminate these dangers after learning about them via market research. These threats can be some flaws in the product or customer dissatisfaction with them.✓✓

Activity 6

6.1.1 Name any two dimension of product differentiation (2)

- Products are not identical✓
- Differences maybe imaginary✓
- Differences in packaging✓

6.1.2 Why is technology important for monopolistic competitors? (2)

- It's an area of comparative advantage as it allows monopolistic competitors an advantage over its competitors with respect to innovation and production.✓

6.2 Study the chart below and answer the questions that follow.



6.2.1 Name any example of a monopolistic competitor depicted in the cartoon above (1)

- Retail industry✓
- Coffee shops✓

6.2.2 What is the nature of the demand curve of a monopolistic competitor? (1)

- The demand curve is downward sloping and relatively elastic✓

6.2.3 Briefly describe the term branding (2)

- The marketing practice of creating a name, symbol or design that identifies and differentiates a product from other products✓✓

6.2.4 Briefly explain why collusion is not possible under the conditions of the monopolistic competition. (2)

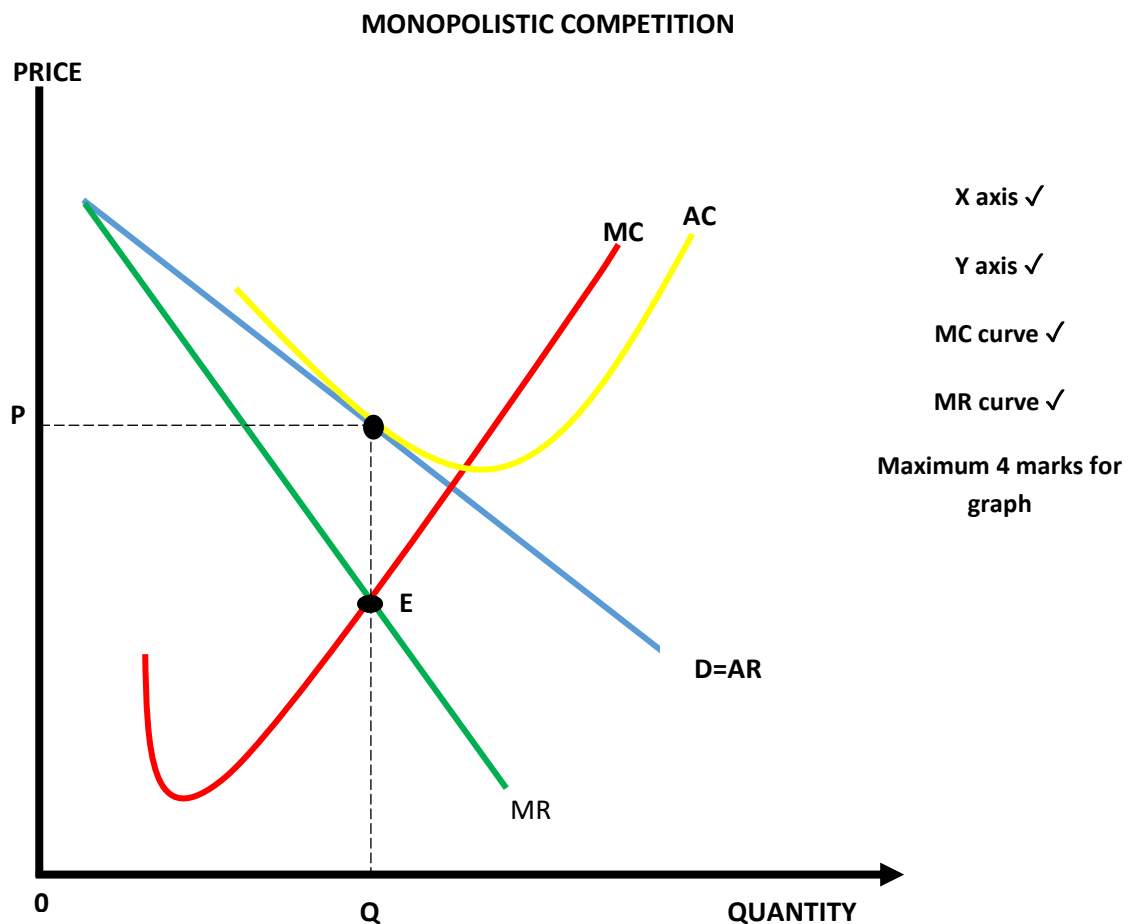
- Collusion is not possible because of the large numbers of sellers which makes it impossible for them to collude✓✓

6.2.5 How do monopolistic competitors use packaging as a non-price competition strategy? (4)

- By associating unique characteristics with their products, brand owners create instant recognition leading to higher sales as visibility and credibility rise.✓✓
- Packaging furnishes opportunities to share unique messages✓✓

- Packaging also plays key roles in merchandising and marketing success, furnishing opportunities for producers to stand out among competitors as they jostle for retail shelf space.✓✓

6.4 Draw a fully labelled graph explain to illustrate the normal profit of a monopolistic competitor. (8)



- The normal profit is the minimum earning that prevents the entrepreneur from exiting the industry✓✓
- the profit maximisation point where $MR=MC$ ✓✓
- At the market price (P) the AC curve is tangent to AR curve ($AC = AR$) the business makes normal profit.✓✓

6.5 How can free market entry under monopolistic competition benefit consumers? (8)

Consumers can benefit from:

- Increased competition which will lead to an improvement to consumer welfare✓✓
- Innovation which will improve the consumer experience✓✓
- Increase in the consumer choices as free entry increases competition and variety✓✓
- Competitive and fair prices as a results of competition✓✓

MARKET FAILURE

SECTION A

QUESTION 1

1.1.

1.1.1 Goods highly in demand in the general welfare of the people, but not highly rated by the market is called goods

- A. demerit
- B. Merit
- C. Non-durable
- D. Semi-durable

1.2 Choose a description from COLUMN B that matches the item in COLUMN A

1.2.1 B

1.2.2 C

1.2.3 D

1.2.4 A

1.2.5 F

1.3

1.3.1 Reducing income inequality using a progressive system

(1)

- Redistribution of income□

1.3.2 The private benefit plus external which are linked with positive externality (1)

- Social benefit□

1.3.3. Benefits spilling over onto second parties not involved in the initial transactions. (1)

- externalities□

1.3.4. A tax levied on demerit goods to reduce consumption. (1)

- Sin tax□

1.1. 5 Occurs when the forces of demand and supply do not ensure the correct quantity of good and services are produced (1)

- Market Failure□

ACTIVITY 2 (Lower order questions in section B)

2.1.1 Give TWO characteristics of a public goods (2)

- Non- rivalry□
- non- excludable□
- non- reject able□

2.1.2. List any TWO example of merit good. (2)

- Education□
- Health□

2.1.3. List TWO type of inefficiency. (2)

- Allocative inefficiency□
- productive inefficiency□

2.1.4. Name TWO type of externalities. (2)

- Positive externality□
- negative externality□

2.1.5. Give TWO causes of market failure. (2)

- Lack of information□

- unequal distribution of income□
- externalities□

ACTIVITY 3

3.1.1 Why are merit goods normally undersupplied by the market? (2)

- Merit goods demand a lump sum of money to be provided□
- They generate profit after a long period of time□

3.1.2 How will a national minimum wage influence the supply of labour? (2)

- Supply for labour will increase□

3.1.3 How will the producer benefit from minimum price that are implemented by government?

- Producers will be able to increase the profits□
- There will be an increase in production□

SECTION B DATA RESPONSE

ACTIVITY 4

4.1 Study the graph that follow and answer the questions



4.1.1 What type of externality is shown in the pictures above? (1)

- Positive externality□

4.1.2 Give any example of a negative externality (1)

- Pollution□
- Tobacco□
- Alcohol□

4.1.3 Briefly describe the term merit goods (2)

- Goods and services that are provided to benefit the user and society as a whole□□

4.1.4 How does the positive externalities (health) lead to market failure (2)

- When there is less consumption of products that are available□□

5.1.5 What measures can government take to deal with the negative impact of demerit goods?(4)

- Apply taxation system on these products to make them more expensive.□□
- Limit the production of these products- impose quotas□□

ACTIVITY 5

5.1 Study the pictures below and answer the questions that follow.



5.1.1 Name the factors of production that is immobile above (1)

- Land□

5.1.2 Give any other cause of market failure other than the one above? (1)

- Lack of information□

- Missing markets□
- Externalities□
- Unequal distribution of income□

5.1.3 Briefly describe the term market failure (2)

- Market failure refers to when the forces of demand and supply fail to allocate resources efficiently/when markets fail to allocate goods and services efficiently□□

5.1.4 How is the immobility of labour a significant problem? (2)

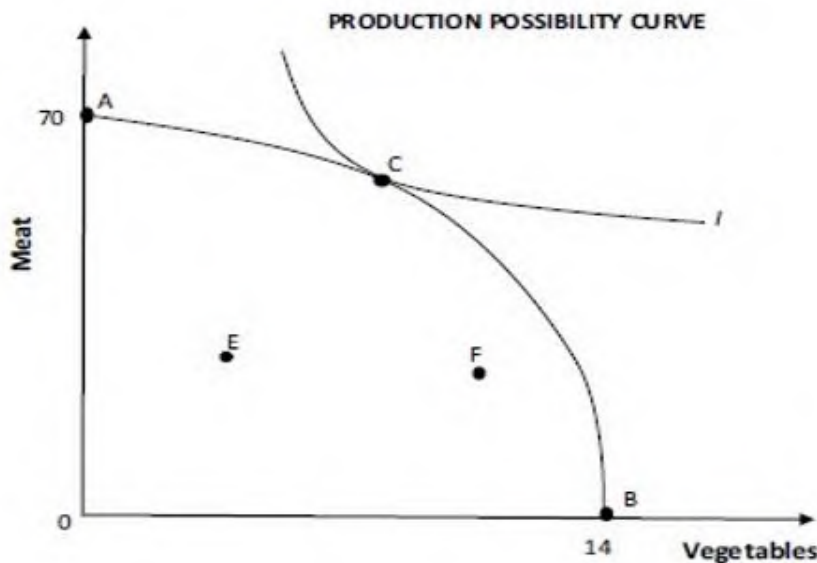
- Occupational immobility is a barrier to people finding work.□□
- Towns with the low mobility more exposed to external shocks□□

5.1.5 What actions should government take to increase mobility in the labour market? (2X2) (4)

- More information about job vacancies so that searching for is easier□□
- Subsidies to labour or firms such as help with re-location expenses and subsidized housing.□□
- Incentive to domestic firms to re-locate to the regions including providing “tax break and investments grants”□□
- Training and retraining schemes to enable labour to develop their general skills and become more employable in a variety of occupations or industries.□□

ACTIVITY 6

6.1 Study the Graph below and answer the questions that follow.



6.1.1 At which point on the graph above are the demands of consumers met? (1)

- C ☐

6.1.2 What is represented by point E? (1)

- Productive Inefficiency ☐



6.1.3 Briefly describe the term allocative inefficiency. (2)

- It is a curve that shows a combination of two products that gives the consumer equal satisfaction and utility. ☐ ☐

6.1.4 Explain the reason for the slope of the Production Possibility curve above? (2)

- The PPC is concave to the origin because increases in production of one good will lead to an increase in terms of a reduction in other goods. ☐ ☐

6.1.5 How can the government ensure macroeconomic stability through their involvement in production? (4)

Government can ensure macroeconomic stability in production by:

- Using the monetary and fiscal policy through interest rates and corporate taxes. ☐ ☐
- Using the supply-side policy approach by applying policy to increase the flexibility of factors of production and infrastructure. ☐ ☐
- Producing goods (missing markets) not provided the market. ☐ ☐

ACTIVITY 7

7.1 Study the extract below and answer the questions.

COST BENEFIT ANALYSIS (CBA)

We live in a world of scarce resources, so we need to set priorities and make choices about how to allocate resources. The CBA provides us with a tool that could be used in this decision-making process. Calculations in a CBA should be done by using market prices.

(source:

www.goggle.com)

7.1.1 In which sector is the cost benefit analysis generally used? (1)

- Public ☐

7.1.2 Give any one redress method used by government to enforce the redistribution of income. (1)

- BEE ☐
- Affirmative Action ☐
- Empowerment ☐
- Land restitution ☐
- Land redistribution ☐
- Property subsidies for RDP houses ☐

7.1.3 Briefly describe the term cost-benefit analysis (2)

- A technique used to compare social cost and benefit of undertaking a project. ☐ ☐

7.1.4 Why is it necessary to do a cost benefit analysis for large project? (2)

A cost benefit analysis will ensure

- Efficient allocation of scarce resources ☐ ☐
- Objectivity in decision making process/ evaluate social costs and benefits of the project. ☐ ☐
- The elimination of subjectivity in the absence of price signals ☐

7.1.5 Why some projects are undertaken although the financial cost is very high?

2x2 = (4)

- Government is concerned about efficient public services rather than private costs. ☐ ☐
- The long-term social benefit is of greater importance than the initial money spent ☐ ☐
- The focus is on whether a project will benefit the country as a whole ☐ ☐

ACTIVITY 8

8.1 Study the information below and answer the question below

COST-BENEFIT ANALYSIS: SHOULD THE BUS RAPID TRANSIT (BRT) SYSTEM CONTINUE TO EXIST IN SOUTH AFRICA?



The Bus Rapid Transit (BRT) systems in the country's main cities, Johannesburg, Cape Town and Tshwane, are performing worse financially than was expected. There are serious problems with the BRT system. One high ranking government official suggested that it was time to rethink and redesign the system to stop draining the fiscus. Fixing them must focus on reducing costs and increasing income. Running costs should automatically decline as the system matures. The net present value was not as expected when the project was implemented.

Adapted source: <https://citizen.co.za/news/south-africa/1688443/sa-needs-to-revamp-its-newpublic-transport-system/>

8.1.1 Identify ONE social cost associated with the implementation of the BRT system in South Africa (1)

- The costs of obtaining and maintaining buses are high ☐
- The BRT system is restricted to specific routes only, which can limit its operation ☐

8.1.2 Name ONE benefit associated with public transport systems in South Africa.

- Lower costs ☐
- Buses are subsidised ☐

8.1.3 Briefly describe the term *net present value* (2)

- This indicate the value of an investment project. ☐

8.1.4 Explain the reasons for drainage of “the BRT system fiscus”? (2)

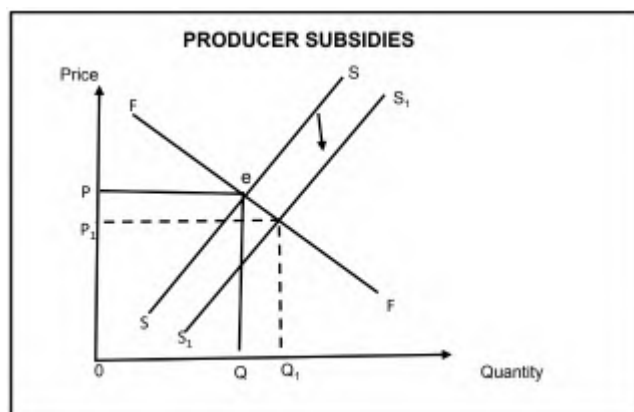
- The bus service is not profitable□□
- The cost of operations is more than the income that it generates.□□

8.1.5 Discuss the impact of the BRT on other transport systems in South Africa. (4)

- The bus services require large amounts of capital at the expense of subsidizing other transport system.□□
- The bus service industry is also in conflict with other types of transport, such as Uber/Taxi which are not subsidized □□

ACTIVITY 9

9.1 With the aid of a graph, explain the impact of state subsidies on the production of good and services.

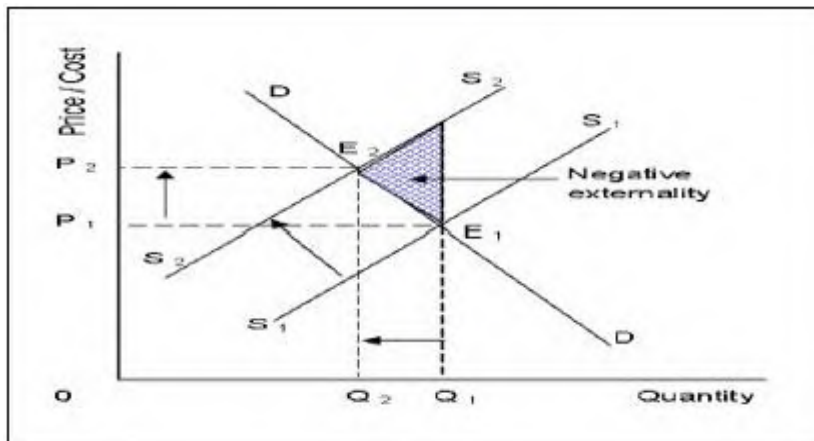


(8)

- Leading to a reduction in production costs, thereby making it possible for an individual producer to increase the production of goods and services in the economy.✓✓
- Preventing producers from leaving the markets as the result there will not be any shortage of products.✓✓
- Encouraging producers to invest their surplus revenue into their businesses.✓✓
- Allowing the poor to purchase more of the subsidised goods at a lower price.✓✓

- Concealing the real costs of production, thereby keeping the producers in business.✓✓

9.2 Use the graph below to explain the effects of the negative externalities in the market. (8)



- Because external costs are not included in the price when the market produces Q_1 units. ✓✓
- If external costs are included the supply will decrease and market will produce at Q_2 units at a higher of P_2 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. ✓✓
- The shaded area represent negative externality ✓✓

Activity 10

Paragraph type questions: Middle order

10.1 Motivate why the government implements minimum wages in the labour market. (8)

- When the government enforces a minimum wage, it means workers have to be paid a certain remuneration that will lead to an increase to a higher standard of living. ✓✓
- Reaching the socially optimal point of production if cost is taken into account that will lead to a price increase. ✓✓

10.2 Evaluate the effectiveness of cost-benefit analysis(CBA) as the decision making tool (8)

- Evaluating whether capital invested is worth it. ✓✓
- Influencing decision whether to hire new employees. ✓✓
- Developing a benchmark for comparing of projects. ✓✓
- Helping predict whether the benefit of a policy outweigh its costs relative to other alternatives. ✓✓

10.3 Assess the impact of producer subsidies in the economy. (8)

- Leading to a reduction in production costs, thereby making it possible for an individual producer to increase the production of goods and services in the economy (supply increases). ✓✓
- Preventing producers from leaving the market as the results there will not be any shortage of products. ✓✓
- Encouraging producers to invest their surplus revenue into their businesses. ✓✓
- Allowing the poor to produce more of the subsidised goods at a lower price. ✓✓
- Concealing the real cost of production, thereby keeping the producers in business.

SECTION C ESSAY TYPE QUESTIONS

ACTIVITY 11

11.1 Discuss in detail the following causes of misallocation of resources

- Missing markets (10)
- Imperfect competition (8)
- Imperfect distribution of income and wealth (8)

11.2 How can the South African government deal with supply of undesirable goods? (10)

INTRODUCTION

- Market failure is when the forces of supply and demand fail to allocate resources efficiently / when markets fail to allocate goods and services efficiently. □□

(accept any other correct relevant introduction) (Max 2)

BODY: MAIN PART

Missing Markets

- Markets are often incomplete in the sense that 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 □□
- They are not provided by the price mechanism because producers cannot withhold the goods from non-payment and there is often no way of measuring how much a person consumes. ✓✓

Public goods have the following features:

- Non-rivalry: ✓ The consumption by one person does not reduce the consumption of another person ✓✓ e.g. a lighthouse. ✓
- Non-excludability: ✓ Consumption cannot be confined to those who have paid, so there are free riders ✓✓ e.g. radio and TV in South Africa. ✓ Merit goods ✓
- These are goods/services that are deemed necessary or beneficial to the society, ✓✓ e.g. education, health care etc. ✓✓
- These goods are highly desirable for general welfare but not highly rated by the market, therefore provide inadequate output/supply. ✓✓
- If people had to pay market prices for them relatively too little would be consumed – the market will fail. ✓✓
- The reason for undersupply of merit goods is that the market only takes the private costs and benefits into account and not the social costs and benefits. ✓✓

Demerit goods ✓

- These are goods/services that are regarded as bad or harmful for consumption hence we should use less of these✓✓ e.g. alcohol, cigarettes, etc. ✓✓
- Demerit goods lead to a lot of social costs, therefore, the government charges sin tax / excise duties to discourage the consumption of such goods. ✓✓
- While the market is willing to supply demerit goods, it tends to oversupply demerit goods. Some consumers may be unaware of the true cost of consuming them. ✓✓

Imperfect competition

- Power often lies to a greater extent with producers than with consumers✓✓
- Businesses operate under conditions of imperfect competition that allows them to restrict output, raise prices and produce where price exceeds marginal cost.□✓✓
- They can also prevent new businesses from entering the industry✓✓, by preventing full adjustment to changes in consumer demand occurring✓✓

Imperfect distribution of income and wealth

- Low income lead to an inability to accumulate wealth ✓✓

How can the South African government deal with supply of undesirable goods? (10)

- Items such as cigarettes, alcohol and non-prescription drugs are examples of demerit or undesirable goods.□✓✓
- These goods are often over supplied in the market, due to the fact that the external cost is not added to the market price.□✓✓
- Some consumers may be unaware of the true cost of consuming them, their negative externalities.□✓✓
- Government can ban their consumption or reduce it by means of taxation.□✓✓
- Taxation on these products will increase the market price and hopefully the demand for these products will drop.□✓✓

- The prices of cigarettes and alcohol is increased annually, to dissuade the public from using these undesirable goods **[40]**

INFLATION

Activity 1

1.1 .Various options are provided as possible answers to the following questions.

Choose the answer and write only the letter (A-D) next to the question numbers (1.1.1 to 1.1.8) in the ANSWER BOOK,e.g 1.1.9 D

1.1.1 The statement of 'too much money chasing too few goods' describes...inflation.

- A hyper inflation
- B supply
- C demand-pull
- D wage

1.1.2 The institution which play a key role in controlling inflation

- A South African Reserve bank
- B Stat SA
- C South Africa Revenue services
- D Johannesburg stock exchange

1.1.3 Price increases based on the whole basket of goods and services selected

- A Stagflation
- B Core inflation
- C Headline inflation
- D Hyperinflation

1.1.4 Occurs when the inflation rate falls below 0%(negative inflation rate)

- A Reflation
- B Deflation
- C Inflation
- D Core inflation

1.1.5 The Minister of Finance is responsible for implementing ...policy.

- A fiscal
- B domestic
- C monetary
- D foreign trade

1.1.6 The institution that publishes the consumer price index on a monthly basis is.....

- A Department of Finance.
- B Department of Tourism
- C The South African Revenue Services.
- D Statistics South Africa

1.1.7 They receive money with a high purchasing power and pay back money with a lower purchasing power

- A Buyers
- B Creditors
- C Debtors
- D Sellers

1.1.8 Measures that changes the prices of manufactured goods before being sold

- A Consumer price Index
- B Producer price index
- C CPIX
- D Administered Prices (8x2) (16)

(NO ANSWERS FOR 1.1)

1.2. Choose a description from COLUMN B that matches the item in COLUMN A.

Write only the letter (A-I) next to the question numbers (1.2.1 to 1.2.8) in the ANSWER BOOK.

COLUMN A	COLUMN B
----------	----------

1.2.1. Surcharge	F	A. Occurs when aggregate demand for goods and services exceeds aggregate supply, leading to price increase.
1.2.2. Cost -push inflation	G	B. Make decision on repo(repurchase rate)
1.2.3. Stagflation	C	C. Condition where country experiences low economic growth, high unemployment and high inflation simultaneously.
1.2.4. Demand pull inflation	A	D. The interest rate that the SARB charges when it lends money to the commercial bank.
1.2.5. Consumer price index	H	E. Excludes products with volatile prices
1.2.6. Repo rate	D	F. Tariff imposed on imported goods to control inflation
1.2.7. Core inflation	E	G. Occurs when the price of raw materials increases.
1.2.8. Monetary Policy Committee	B	H. Measure of the weighted average of prices of a basket of consumer goods and services.

(8 x 2)

(16)

1.3 Give one term for each of the following descriptions. Write only the term next to the question number (1.3.1 – 1.3.7) in the answer book.

1.3.1 Price on certain goods that are set or controlled by government, for example petrol.

- Administered Prices

1.3.2 Low growth, high unemployment and high inflation rates.

- Stagflation

1.3.3 An increase in general price level caused by an increase in cost of production

- Cost push inflation

1.3.4 An extreme in price of more than 50 % per month.

- Hyperinflation

1.3.5 Type of inflation exclude items that are highly volatility from the CPI basket of goods.

- Core inflation

1.3.6 Sustainable and considerable increase in general price level over time

- Inflation

1.3.7 Type of inflation that measures price changes to all final goods and services, not only those in the selected basket

- All inclusive inflation (1x7) (7)

Activity 2

2.2 Read the extract below and answer the questions that follow.

2.1.1 Name any TWO examples of product or services with administered prices inflation (2x1) (2)

- Petrol price✓
- Motor licenses✓
- Television licenses✓
- Paraffin✓
- Electricity tariffs✓

2.1.2 What is the negative impact of an increase in indirect taxes on goods and services? (1x2) (2)

- It will lead to higher prices of goods and services which will decrease aggregate demand and slow down the economy✓✓

(Accept any other correct relevant response)

2.2 Read the extract below and answer questions that follow:

South Africa Inflation Rate Eases in June

South Africa's consumer price inflation rate eased to 4.9 percent year-on-year in June 2021, from a two-and-a-half-year high of 5.2 percent in the previous month and compared with market expectations of 4.8 percent. Cost increased at a softer pace for transport and clothing and footwear (1.7 percent vs. 1.8 percent). At the same

time, inflation was unchanged for both food such as frozen vegetable and non-alcoholic beverages (at 6.7 percent) and miscellaneous goods (at 4.1 percent).

(Adapted from www.resbank.co.za)

2.2.1 Identify goods whose prices are volatile from the above information. (1)

- Frozen vegetables✓

2.2.2 Name any one type of consumer inflation. (1)

- Headline inflation✓
- Core inflation✓
- Administered prices inflation✓

2.2.3 Briefly describe the term core inflation (2)

- Is a consumer inflation that is based on an adjusted CPI inflation rate ✓✓
- Volatile elements such as fuel and subsidised elements such as food have been removed from the calculation✓✓
- Affected by government intervention and policy✓✓

2.2.4 How does the increase in inflation impact the poorest of the poor? (2)

- Increase in poverty levels, money worth less than before, unable to satisfy basic needs as in the past. ✓✓
- Disadvantages people who are dependent on fixed income such as pensioners will decrease their buying power. ✓✓

2.2.5 How can the government use taxation to combat inflation? (2x2) (4)

- Increase direct taxation leads to decrease in disposable incomes and demand such as income tax✓✓
- Increasing indirect taxation such as loan levies which will reduce money supply by making credit more expensive✓✓
- Increase surcharges on imported goods will reduce the demand for these goods✓✓

(Accept other correct relevant response)

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



Adapted from www.google.co.z

2.3.1 Identify one socio economic issue in the above cartoon. (1)

- Inflation ✓

2.3.2 Which type of inflation that occurs when there is an increase in consumer spending (1)

- Demand pull inflation ✓

2.3.3 Briefly describe the term headline inflation. (2)

- The headline inflation represents the cost of a basket of goods for an average South African household which is measured by the Consumption Price index ✓✓

2.3.4 How can the South African Reserve Bank ensure that the CPI fluctuates within the 3%-6% band? (2x2) (4)

- Selling or buying government bonds to commercial banks (open market transaction) ✓✓
- SARB will adjust the repo rate to influence commercial banks. ✓✓
- Adjust the cash reserve requirement ✓✓
- Appeal to banks to limit the Granting of credit (moral suasion) ✓✓

Activity 3

3.1.1 Name any TWO types of consumer inflation

(2x1) (2)

- Headline inflation✓
- CPIX inflation✓
- Core inflation✓
- All-inclusive inflation✓
- Producer price index✓
- Administered price✓

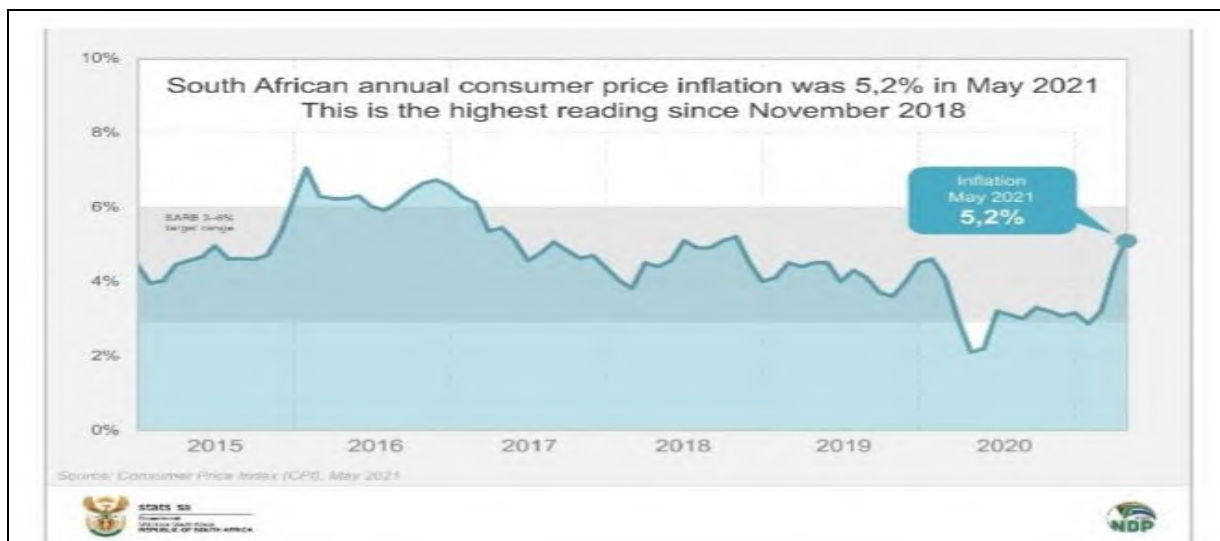
3.1.2 What is the negative impact of an increase in money supply on goods and services

(1x2) (2)

- A higher increase in the supply of money in circulation will cause an increase in demand for goods and services.
- If the supply of goods does not increase sellers will increase the prices of their goods because buyers are willing to pay more. ✓✓
- (Accept other correct relevant response)



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



Adapted from www.tradingeconomics.co.za

3.2.1 During what year was the inflation rate outside the target of range? (1)

- 2016/2020✓

3.2.2 which institution compiles the data above? (1)

- Statistics South Africa✓

3.2.3 Briefly describe the term all-inclusive inflation (2)

Type of inflation that measures price changes to all final goods and services, not only those in the selected basket✓✓

This implicit GDP deflator is simply the ratio of the GDP at current prices to the GDP at constant prices for a specific year. ✓✓

(Accept other correct relevant answers)

3.2.4 Briefly explain how do natural disasters cause inflation (2)

- External shocks like OPEC controlling the world oil supply/natural disasters leading to low production✓✓
- Heavy rain and draught create shortage on fruit and vegetable market thereby the suppliers increase price. ✓✓ (1x2) 2

(Accept other correct relevant answers)

3.2.5 Why is the SARB concerned about the impact of inflation on the Balance of Payments? (4)

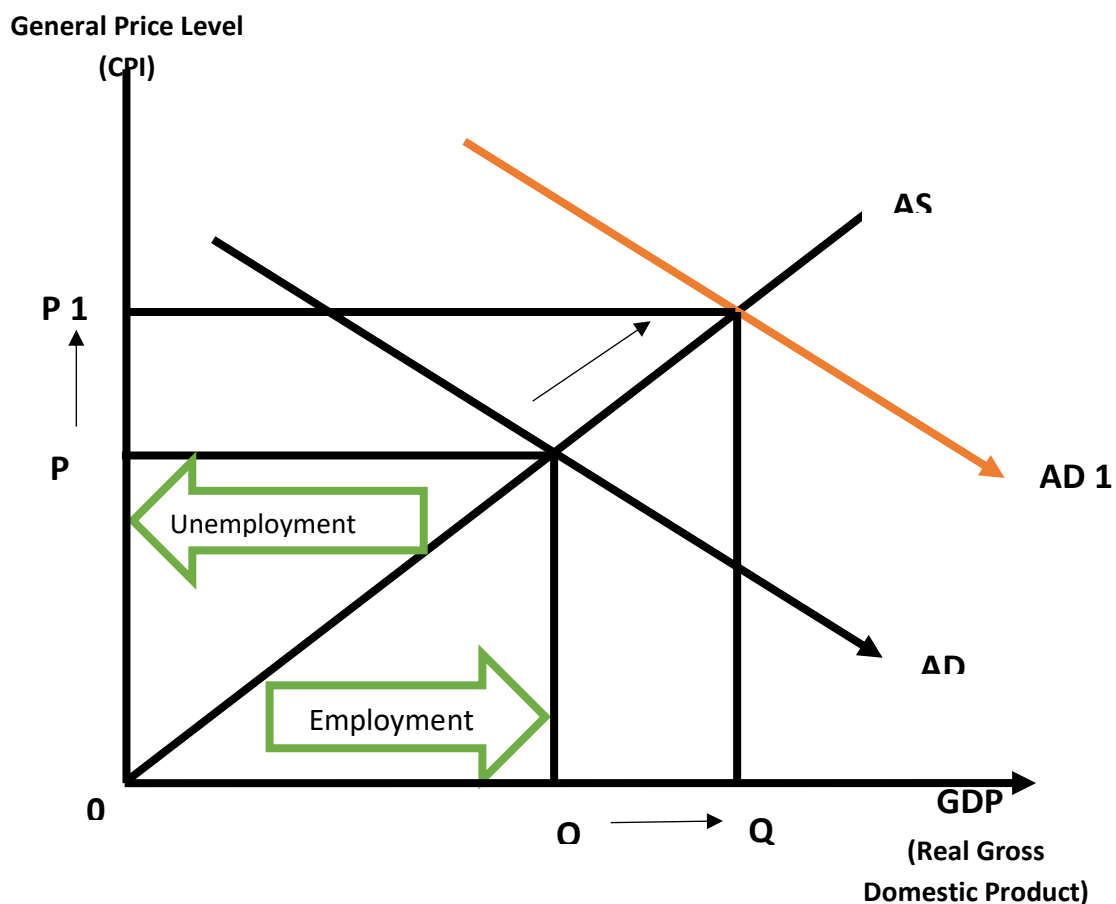
The impact of inflation on the BOP concerns SARB because:

- Trade between countries will be affected negatively✓✓
- Export will decrease which will create a deficit on the BOP✓✓
- This would mean borrowing money which creates a further burden especially to the tax payers✓✓
- It would be difficult to export goods as it would be more expensive✓✓

(Accept other correct relevant answers)

(2x2) (4)

3.3 Study the graph below and answer the questions that follow



3.3.1 Which type of inflation is represented by the graph above? (1)

Demand pull inflation ✓

3.3.2 Give one component of aggregate demand (1)

- Government spending G ✓
- Expenditure by household C ✓
- Export earning X ✓
- Investment spending I ✓

3.3.3 Briefly describe the term inflation (2)

Sustained and significant increase in the general price the general price level over a period of time ✓✓

3.3.4 Explain the influence of inflationary expectations on consumption

expenditure. (2)

- Consumers expect prices to rise further, and start to buy more goods which will lead to further increase in prices of goods and services. ✓✓
- Labour unions wish to protect their members income against erosion of purchasing power caused by inflation ✓✓ (1x2) 2

(Accept other correct relevant answers)

3.3.5 How will an increase in social spending and unemployment grants influence inflation? (4)

- Aggregate demand will increase for goods and services thereby raising prices. ✓✓
- Creates an opportunity for producers to use the increase in social grants to increase their profit margins. ✓✓
- Income level for poor and unemployed will increase thereby increasing consumer spending. ✓✓
- Increase in disposable income for people with fixed income such as pensioners will increase spending thereby put more pressure on price level. ✓✓ (2x2) (4)

3.4 How can looting affect the rate of inflation in S.A economy (8).

Looting will affect inflation rate by:

- Suppliers will increase prices trying to maximize their profit due to stock losses. ✓✓
- Cost of installing securities measures will increase the input cost and push up the prices of goods and services. ✓✓
- Consumers will panic when they expect price increases and increase their buying pattern which will fuel inflation. ✓✓
- Repairs on damages caused by looters will cost producers thereby increase prices. ✓✓
- Consumers increase consumption expenditure thereby increase pressure on price level. ✓✓
- Consumers would like to spend now because of the fear that high prices in future will decrease the buying power of their money ✓✓

3.5 Evaluate the impact of inflation on individual taxpayer in the economy (8)

- Inflation increases the marginal and average tax rates of the individual taxpayer ✓✓
- The progressive income tax system, where the individual with a higher income will be taxed at a higher tax rate, leaves this consumer with less spending money ✓✓
- Tax is levied on nominal income and not on real income – therefore the average rate of personal income tax increases and disadvantages the individual taxpayer even more ✓✓
- Individuals end up paying higher taxes even when they are not actually better off ✓✓
- Bracket creeping has the same effect as an increase in the tax rate, thereby reducing the purchasing power of the tax payer ✓✓

NO ACTIVITY 4, ALSO ON LEARNER - GUIDE

- **Middle and Higher cognitive level Example Timeframe**
minutes

40

STRUCTURE OF ESSAY	
Introduction The introduction is a lower-order response. <ul style="list-style-type: none"> • A good starting point would be to define the main concept related to the topic. • Do not include any part of the question in your introduction. • Do not repeat any part of the introduction in the body. • Avoid saying in the introduction what you are going to discuss in the body. 	
Main part: Discuss in detail/In-depth discussion/Examine/Critically Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain / Draw a graph and explain the graph given and explain/Complete the given graph/	
Additional part: /Critically discuss/ Evaluate/ Critically evaluate/ Calculate/ Deduce/ (Explain/ Distinguish/ Interpret/Briefly debate/ How/ Suggest /Construct graph	
Conclusion Any higher-order conclusion should include: <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned • Any opinion or value judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendation: 	
TOTAL	40

QUESTION 5 : CONTEMPORARY ECONOMIC ISSUES 40 MARKS-40 MINUTES

5.1 Discuss in detail the measures to combat demand-pull inflation (26)

5.2 Evaluate the impact of inflation targeting policy in South Africa. (10)

INTRODUCTION

Demand pull inflation occurs when aggregate demand in an economy outpaces aggregate supply, even though gross domestic product rises and unemployment falls. ✓✓

Main body:

- Policy makers can use various policy measures to fight inflation when it gets too high.

Fiscal measures

Fiscal measures are measures taken by the Minister of Finance regarding taxation and expenditure. Examples of measures that can be taken include:

- An increase in direct taxation (personal income tax) which will help to decrease demand. ✓✓
- An increase in indirect taxation (VAT) causes spending to decrease because goods become more expensive. ✓✓
- A loan levy. Reduces the disposable income of consumers. ✓✓
- The state cuts back on expenditure by cancelling government projects like roads, hospitals and schools. ✓✓
- The country's finance budget deficit is non-inflationary (the government uses loans from the non-banking sector to limit inflation). ✓✓

- The state imposes surcharges on imported goods. This increases the price of these imported goods, resulting in many people being unable to afford to buy these goods. ✓✓

Monetary measures

The South African Reserve Bank (SARB) and the government apply certain monetary measures to curb inflation:

- The SARB adjusts the quantity of money to the needs of the economy, (e.g. through open-market policy, thus maintaining a fine balance) between the supply of goods and services and money supply. ✓✓
- The SARB curbs inflation caused by excess demand by reducing the money supply. ✓✓
- The bank rate of the central bank (SARB) affects the interest rates in the economy (repo rate). The bank rate can be raised to encourage savings. ✓✓
- Excessive credit can be reduced by restricting the granting of credit by banks.

✓✓

- The SARB can apply moral pressure (moral suasion) on financial institutions to be more careful when granting credit ✓✓

Other measures

Additional measures that can be taken to combat inflation include:

- Increase productivity: This is a long-term measure generated through improved education and training which allows more people to be employed and ensures they are more productive. ✓✓
- Price control: By fixing the price of certain essential goods, the government assures they remain affordable. ✓✓

- Wage policy: The government takes a decision to break the inflationary spiral of increased wages and prices by keeping the increase in wages below or at the level of inflation. ✓✓
- Stricter conditions for consumer credit: The government makes it harder for consumers to get credit in order to restrict their spending. ✓✓
- Encourage personal savings: The government implements measures to encourage savings, e.g. by cutting taxes on savings. The imbalance between demand and supply is corrected by increased savings, as people save more and spend less. ✓✓
- Import controls are relaxed.
- Floating exchange rate: Prices are automatically adjusted to international conditions. ✓✓
- Indexation: 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. ✓✓

Evaluate the impact of inflation targeting policy in South Africa.

Positive impact of inflation

- The SARB monetary policy sets the inflation target between 3% to 6%. ✓✓
- The SARB have been successful in maintaining the level of inflation between the above ranges. ✓✓
- If the inflation target range is exceeded the monetary authorities (SARB) acts to reduce the demand for money, such as increasing interest rates. ✓✓
- If inflation levels increase beyond the inflation target it leads to wage-push inflation and possible strike action. ✓✓
- Wage demands are often accompanied by violent strikes. ✓✓ Employers will give in to workers' demands but put their prices up to compensate for increased labour cost / increased cost of living. ✓✓
- If the targets are exceeded the countries credit rating can be negatively affected ✓✓

Negative impact of inflation

- The control of inflation levels prevents South African citizens from living on too much credit from commercial banks. ✓✓

- Inflation targeting negatively affects people on a fixed incomes, because they are reliant on an income that does not increase at the rate at which inflation increases ✓✓
- Headline inflation includes all the volatile products such as fuel and electricity, which are not considered as part of the inflation targeting policy; so people are paying more for certain goods and services but it is not taken into account ✓✓ (Accept any other correct negative or positive arguments.)

Conclusion

- While the resources are not being fully used, production and income will increase. However, when there is no excess capacity, the prices will increase. As long as consumers are able to borrow from commercial banks, they are able to increase their demand output. Demand inflation is often described as

‘too much money chasing too few goods. ✓✓

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS-40 MINUTES

6.1 Discuss in detail the consequences of inflation (26)

6.2 Evaluate the effectiveness of inflation targeting in South Africa (10)
(40)

INTRODUCTION

- This is a constant and significant increase in the general price level of goods and services in the country over a certain period of time, e.g. a year ✓✓

(Max. 2)

(Accept any other relevant response)

Wage and Salary earners

- Price increases affect people whose incomes are relatively fixed (in other words, people whose incomes remain constant or do not increase at the same rate as prices do ✓✓
- This group includes retired people, pensioners and the poor ✓✓
- As prices increase, their almost fixed incomes purchase less and less ✓✓

- However, there are individuals and entrepreneurs whose incomes often increase at a rate that is higher than the inflation rate and they do not suffer but gain from inflation ✓✓
- Globalization results in increased employment opportunities in the economy due to increased productivity, the need to produce more goods both for local and international markets rises in globalised economies ✓✓
- The demand for increased skilled labour becomes a need as a result, this demand for labour benefits the local labour market in increased employment opportunities and growth ✓✓

Investors and savers

- Different types of investments are affected by inflation: Assets with fixed nominal values ✓✓
- These assets have a fixed nominal value and give a return if they are held until maturity ✓✓
- When they are paid, because their nominal values remain constant, the purchasing power of the nominal values decreases as prices increase (that is, their real value decreases) ✓✓

Assets with flexible market values

- The holders of shares and fixed property usually gain by price increases because the nominal values of these assets tend to increase at least proportionately to the rate of inflation (that is, their market values are flexible) ✓✓
 - Often the prices of these assets increase more rapidly than increases in the general price level ✓✓
 - In this case, inflation creates wealth to the advantage of those holding such assets ✓✓

Tax payers

- South Africa has a progressive personal income tax system ✓✓
- This means that marginal and average tax rates increase in harmony with the income level ✓✓
- The higher an individual's income, the greater the percentage of income he or she has to pay in tax ✓✓

- With inflation, taxpayers' nominal income (wages and salaries) rise even when their real income remain unchanged ✓✓
- Taxes are levied on nominal income and not on real income ✓✓
- Therefore, if the income tax schedule remains 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 ✓✓
- This phenomenon, known as bracket creep, leads to a redistribution of income from taxpayers to the government ✓✓
- Bracket creep results from a combination of inflation and progressive income tax ✓✓
- It has the same effect as an increase in the tax rate ✓✓

Industrial stability

- Wage bargaining is often accompanied by strikes and mass action ✓✓
- These actions can sometimes spill over into violence, which affects society at large ✓✓
- 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 follows ✓✓

Unemployment /poverty

- Higher prices will result in decrease in demand which decrease in demand which decrease production levels which will increase unemployment ✓✓

Inflation has a negative effect on economic growth

- Inflation leads to increased uncertainty in the economy ✓✓
- This uncertainty discourages savings and investments especially in the long term ✓✓
- Which are necessary for economic growth – result: reduced economic growth ✓✓

Inflation affects the real money value and savings

- Because inflation reduces the real value of money, it affects the real value of money saved in particular ✓✓

- This means that inflation, the rand buys fewer goods and services than before
- It also means that the real money value saved is worth less at the end of the savings period than when the money was saved ✓✓
- e.g. if a consumer receives 5% interest on his/her savings account while the inflation rate is 8%, then the real rate of interest on the consumer's savings is -3% ✓✓

Balance of payments problems

- If a country's rate of inflation is higher than that of its trading partners, the prices of exported goods increase while the prices of imported goods decrease ✓✓
- This leads to loss of competitiveness in the export market, which in turn leads to decreased exports ✓✓
- This has a negative effect on the country's balance of payments (BOP) ✓✓
- The loss of export competitiveness can also increase unemployment Inflation affects the redistribution of income in a country ✓✓
- The effects of inflation are uneven ✓✓
- While it does not clearly benefit anyone and certainly harms most, it also harms some less than others ✓✓
- Inflation also tends to redistribute income from low-income groups to higher income groups ✓✓

(Allocate a maximum of 8 marks for headings / sub-headings)

(Max. 26

Additional Part

Evaluate the effectiveness of inflation targeting in South Africa

Inflation targeting is when a particular percentage is set as an acceptable level for an increase in general price levels.

- The SARB's inflation target is a range of 3% and 6%. ✓✓
- The aim of inflation targeting policy is to achieve and maintain price stability. ✓✓
- The SARB make use of monetary policy, specifically the repo rate to keep the inflation within the target range. ✓✓

Positive effects

- Where demand is higher than supply an increase in interest rates help to bring the demand down. ✓✓
- The policy can help businesses to make economic plans without worrying about the effects of high inflation. ✓✓
- South Africa's price level has been fairly stable since the introduction of the inflation targeting policy in 2000. ✓✓

Negative effects

- Inflation targeting can cause a reduction in economic growth. ✓✓
- This is because the raising of interest rates, result in a decrease in total spending which is needed for production to increase. ✓✓
- Decreased economic growth can increase unemployment. ✓✓
- South Africa has been experiencing an increase in unemployment since the implementation of the policy in 2000. ✓✓ Inflation targeting is difficult to implement when the cause of inflation is supply shocks. ✓✓

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. ✓✓

TOURISM

QUESTION 1

1.1

- 1.1.1 B (communication)✓✓
- 1.1.2 A (inbound)✓✓
- 1.1.3 D (Poverty)✓✓

- 1.1.4 B (labour intensive)✓✓
- 1.1.5 A (developing)✓✓
- 1.1.6 B (eco-tourism)✓✓
- 1.1.7 A (indigenous knowledge system)✓✓
- 1.1.8 C (transit tourists)✓✓

ACTIVITY 2

2.1 Study the cartoon below and answer questions that follow.



- 2.1.1 Identify sector of tourism is shown on the above cartoon? (1)
Accommodation✓
- 2.1.2 What type of jobs does tourism create for locals? (1)
Unskilled labour✓
- 2.1.3 Briefly describe the term transit tourist. (2)
Tourist travelling through South Africa to get to another destination.✓✓
- 2.1.4 What is the impact of COVID 19 on tourism? (2)
 - COVID 19 has impacted negatively on tourism.✓✓

- Foreign tourists are not able to visit South Africa due to strict regulations to enter into the country.✓✓
- People have lost their jobs resulting in no disposable income to travel.✓✓ (*any other relevant answer*)

2.1.5 How can the South African government ensure that the jobs created by the tourism sector are maintained in the long run? (4)

- Subsidising the employment creation capabilities of the sector.✓✓
- Subsidising the protection and maintenance of the established tourist sites.✓✓
- Enhancing the marketing face of the sector exclusively for the country.✓✓
- Embarking on a strong marketing plan and strategies.✓✓ (*Accept any other relevant answer*)

ACTIVITY 3

3.1 Study the picture below and answer the questions that follow



3.1.1 What type of tourism shown by the picture above?

Cultural tourism✓

3.1.2 Mention ONE environmental world heritage site in South Africa. (1)

Isimangaliso Wetland Park✓

Cape Fynbos Region✓

UKhahlamba Drakensberg park✓ *any one of the three*

3.1.3 Briefly describe the term inbound tourist. (2)

Tourists from other countries who come to visit South Africa.✓✓

3.1.4 Why do government impose tax on tourism? (2)

- Increase in revenue through taxes charged from tourism related activities.✓✓
- Recover external costs to compensate for providing infrastructure.✓✓ (*Accept any other relevant answer*)

3.1.5 How would the Sho't left campaign impact on tourism in South Africa? (NOT IN THE LEARNERS GUIDE) (4)

- The Sho't left campaign aims to promote a culture of local holiday travel.✓✓
- This campaign targets ordinary people in South Africa 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 Africans 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 relevant answer*)

Activity 4

4.1 Study the graph below and answer questions that follow



- 4.1.1** **What economic term is shown by the graph above?** **(1)**
- Tourism✓
- 4.1.2** **Which type of tourism contributed the least on the graph above?** **(1)**
- Shopping✓
- 4.1.3** **Describe the term indigenous knowledge system (IKS).** **(2)**
- It refers to local knowledge or a traditional way of doing things that is unique to a given culture or society.✓✓
- 4.1.4** **Explain how COVID 19 resulted in job losses in tourist sector.** **(2)**
- If people do not have money they cannot travel as tourism requires money to spend on a destination.✓✓
(accept any other relevant answers)
- 4.1.5** **What effect will decline in tourism have on economy?** **(4)**
- Economic growth of the country will decline. ✓✓
 - Households' standard of living will decrease as people cannot satisfy their needs.✓✓
 - Poverty will increase as people will not be able to satisfy their basic needs.✓✓
 - Economic development will take place at slower pace as government will receive less tax on tourism and there will be

less infrastructural development.✓✓ (accept any other relevant answer)

•

Activity 5

5.1 Study the picture below and answer questions that follow



5.1.1 Identify the tourism campaign shown by the picture above

Sho't left✓

5.1.2 What type of tourists is shot left targeting?

Local tourists✓

5.1.3 Briefly describe the term tourism.

Activities of people travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business other activities not remunerated.✓✓

5.1.4 Explain the negative effect that tourism has on the environment.

- Landscape has been permanently restructured and damaged to provide infrastructure.✓✓
- Additional harmful waste products have been produced causing environmental degradation.✓✓
- Direct environmental stress has been added through loss of wildlife due to safari hunting.✓✓

- Changes in population density such as migration have been experienced in response to the needs of tourists.✓✓ (accept any other relevant answer)

5.1.5 How does indigenous knowledge system (IKS) lead to the growth of tourism (4)

- Foreign tourists look for authentic and unique local knowledge and sites.✓✓
- Indigenous knowledge system is the local knowledge that is unique to a given culture or society.✓✓
- It exposes tourists to traditions, architecture, rituals, music and artwork of local or regional cultural groups.✓✓
- They want to understand the indigenous culture, history and environment and how people live and work.✓✓
- Arts and cultural festivals such as the National art festival.✓✓ (accept any other relevant answer)

Activity 6

6.1 Briefly discuss employment and investment as effects of tourism.

Employment

Directly and indirectly, about 9% of South Africa's labour force is employed in the tourism industry. ✓✓

- Tourism is very labour intensive and supplies employment for unskilled and semi-skilled labour. ✓✓
- A variety of skills are required in the tourism industry, which makes it easy for a variety of people to find employment such as tourist guides, hotel staff, etc. ✓✓
- It also provides people with immediate employment.✓✓
- It provides entrepreneurship opportunities/many businesses in the informal sector benefit from tourism, such as local arts and crafts, street vendors, etc.✓✓ (any relevant answer)

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, electronics signal stations, telephone services, etc✓✓
- Energy infrastructure- for example, electricity and liquid fuels.✓✓
- Basic service infrastructure- for example, clean water, refuse removal, sewerage system and storm water drainage.✓✓ (max 4) (any other relevant answer)

6.2 How can government use the Indigenous Knowledge System (IKS) to grow the country's tourism industry?

- Promoting local culture, history and environment to international tourists.✓✓
- Offering tourists an authentic village experience at cultural villages, such as Shangana in Mpumalanga.✓✓
- Promoting cultural significance of world heritage sites, such as Robben Island.✓✓
- Touring townships, such as Soweto, to allow tourists to eat and drink at shebeen.✓✓
- Taking tourists who are interested in arts to festivals, such as the National Arts Festival in Grahamstown.✓✓
- Encouraging the inhabitants close to the destinations to sell their unique products.✓✓ (any other relevant answer)

6.3 How could tourism be promoted while simultaneously protecting environment?

- Techniques for nature conservation and natural ecosystems should be constantly.✓✓
- New information technologies should be used to analyse the state of natural environments.✓✓

- Large amount of income that is derived on tourism sector, it is necessary to protect the natural environment visited by tourists, including natural biological environment. ✓✓
- Part of tourism revenue should be used to protect tourists' attractions while the other portion be used to advertise and promote tourism. ✓✓
- Technology should be increasingly used to promote the protection of nature, natural ecosystem and biodiversity. ✓✓
- Undisturbed environmental areas should be promoted and protected to keep them as uninterrupted. ✓✓
- Making advertisement of tourists' sites simultaneously making tourists aware of the pollution to the environment. ✓✓ (*Any other relevant answer*)

6.4 How can the government do to promote the tourism industry in a country?

- Market the industry on different media spaces in the country. ✓✓
- Improve on the safety and security of the international tourists who wish to visit the country. ✓✓
- Encourage and support the building resorts and hotels next to attractive places. ✓✓
- Develop strategic partnerships and collaborations. ✓✓
- Providing an information and knowledge management services. ✓✓
- Using new technology to provide reliable infrastructure (improved infrastructure). ✓✓
- Government effectively managing its tourist's sites and other tourist attractions. ✓✓
- Special off-season rates make it possible to enjoy cheaper holidays. ✓✓ (*any other relevant answer*)

ESSAY TYPE QUESTIONS

Activity 7

7.1 Discuss in detail the effects of tourism on the South African economy.
(26 marks)

7.2 Evaluate the impact of tourism on economic growth
(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 and other purposes not related to an activity remunerated from within the place visited. ✓✓ (2)

Body: Main part Gross Domestic Profit (GDP) ✓

- Tourism impacts more on the services industry than on agriculture or manufacturing.
- Travel and Tourism contributes both directly and indirectly to the GDP. ✓✓
- The direct contribution of travel and tourism reflects the internal spending of travel and tourism by residents and non-residents for business and leisure purposes as well as industries' direct spending on accommodation, food, retail, transport and destination services, and the public sector's spending directly linked to visitors, such as cultural or recreational services. ✓✓ -
The indirect contribution includes:
 - Travel and tourism investment spending by government and the private sector such as the purchase of new aircraft and construction of new hotels, resort area, water and sanitation services, etc. ✓✓
 - Purchases from suppliers of goods and services by the sectors dealing directly with tourists including purchases of cleaning services by hotels, or fuel and catering services by airlines and IT services by travel agents. ✓✓

i) Indirect contribution ✓

- Tourism is basically a service industry and has been partly responsible for service sector's growth in South Africa. ✓✓
In developing economies the sector is responsible for around 40% GDP, while it is responsible for more than 65% of GDP in developed countries. ✓✓
- In South Africa it is similar to that of developed countries. ✓✓
Services contributed more than 67% of GDP in 2011. ✓✓ ✓

ii) Direct contribution

- SSA shows that in 2010 inbound (foreign) tourism contributed R69 billion and domestic tourist R99 billion amounting in total to R168 billion. ✓✓
- This is about 3% of South Africa's GDP. ✓✓
- If indirect contribution is added, tourism adds 7% to GDP. ✓✓
- The WTTC estimated that tourism contributed 9% to the GDP of the world economy in 2011. ✓✓

Employment ✓

- Tourism has a major effect on employment. ✓✓
- Directly and indirectly, 9% of South Africa's employed people were in the tourism industry ✓✓

- This amounted to 1.18 million workers in 2011. ✓✓
- Tourism sector is a large generator of jobs for the following reasons: ✓✓
 - Tourism is labour intensive. ✓It has the lowest rate of investment to employment creation. ✓✓
- Tourism employs many skills. ✓There is room for almost any skill in the tourist industry such as accountants, hairdressers, tour guides etc. ✓✓
- Tourism can provide 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. ✓✓

Poverty✓

- Tourism 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. ✓✓
- Empowering them✓: for example, to exploit opportunities of on-the-job and other training. ✓✓
- Creating partnerships✓: linking up with mainstream tourism businesses supplying goods and services. ✓✓

Externalities✓

- The rapidly expanding tourism industry could have both positive and negative impacts that extend well into the future. ✓✓
- While tourism attracts large amounts of revenue, it can also cause undue environmental damage that can harm the foundation on which it depends. ✓✓
- Tourism uses resources and produces waste. ✓✓
- It also creates environmental, social and cultural costs and benefits in the process such as: ✓✓
- Degeneration of traditions and cultural values. ✓✓
- Environmental damage to sites and natural settings✓✓ - Pollution and waste are generated by tourism facilities. ✓✓
- Transportation and tourist activities themselves are identified as the major cause of environmental impacts associated with tourism. ✓✓

Environment✓

- Tourism has an impact on the environment
- Tourism activities create environmental stress✓✓. The four main categories of stressor activities are:

- Permanent environmental restructuring (highways, airports, resorts) ✓✓
- Waste product generation such as biological and non-biological waste that damages fish production, creates health hazards, and detracts from the attractiveness of the destination. ✓✓
- Direct environmental stress caused by tourist activities: for example the destruction of coral reefs, vegetation and dunes. ✓✓
- Effects on population dynamics such as migration and increased urban densities accompanied by declining populations in other rural areas. ✓✓

Investment ✓

- Adequate physical, economic and basic services infrastructure is essential for tourist destination areas, which means they require investment in: ✓✓
- Transport infrastructure including roads (including streets and pavements), railway lines, airports ports and car parks. ✓✓
- Communication infrastructure such as telephone lines, electronic signal stations, computer connection capacity, radio, television and print media. ✓✓ -

Energy infrastructure e.g. electricity and liquid fuels. Eskom should add capacity at all times. ✓✓

- Basic Services e.g. clean water refuse removal, sewage systems and storm water removal ✓✓ (26)

Body: Additional part

- Due to globalisation, people are well informed of destinations in other countries
- Increasing number of people earn high disposable income which allow them to spend on leisure and recreation
- With improved communication methods such as internet, it is easier to arrange travelling
- Infrastructural development e.g. airports
- Intensified advertising and promotion make people aware of various travel destinations
- Through utilisation of new technology, custom and border control in most countries are user friendly

(10)

Conclusion

- The economic and basic services infrastructure must be maintained to sustain all economic activity and not just tourism. Upgrading of infrastructure should be done often in order to keep up with the growth of tourism in South Africa.

✓✓

(2)

[40]

Activity 8

8.1 Examine in details the benefits of tourism

(26 marks)

8.2 Analyse the impact of world heritage sites on South Africa economy

(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 and other purposes not related to an activity remunerated from within the place visited. ✓✓ (2)

Body: Main part

Households✓

- Households benefit through three main impacts of prosperity:
- Earning an income directly from the tourism industry. Spending by tourists means income to households because of salaries and wages they earn through employment or through their own endeavour in the tourism industry. ✓✓
- Improved infrastructure for tourists, but can be used by the local people✓✓ e.g. Soccer City (FNB Stadium), hotels, roads, water supply and electricity etc. ✓
- Skills: tourism requires a variety of skills, for which education and training are needed✓✓

Businesses✓

- Economic and basic services infrastructure is usually provided by the public sector, which is the case in South Africa. ✓✓
- This is used as a foundation for a superstructure. ✓✓
- In tourism such a superstructure consists of businesses that provide accommodation, transport, built attractions, retailing and recreational services. ✓✓ They are normally private sector activities and make up the profitgenerating element of a tourist destination. ✓✓
- A combination of public and private sector finance are used to develop destinations. In South Africa a PPP is the corporate form for this. ✓✓
- The public sector also provides a range of financial incentives for private sector tourism investment (grants, subsidies, loans, tax rebates, etc.). ✓✓
- Apart from the traditional opportunities in the formal sector, there are many informal and less traditional opportunities. ✓✓ These serve as stepping stones for previously neglected groups in the tourism business:
 - Entertainment, laundry and transportation services. ✓
 - Car rental, craft and curios sales. ✓
 - Walking tour guides and tour of scenic places.
 - Teaching of African languages, customs and traditions. ✓

- Eating places that emphasise local cuisine and guest houses. ✓
- Beach massages, manicures, pedicures and chairs and umbrellas for hire ✓

Government ✓

- The main avenue for the government to benefit from tourism is through the levying of taxes. ✓✓
- It is customary for governments to levy specific taxes on the tourism sector. Such taxes have two purposes:
 - To recover external costs. ✓✓
 - To raise revenue. ✓✓
- The most common forms of raising public income from tourism are airport departure taxes, air ticket taxes and taxes on hotel room occupancy as well as casinos. ✓✓
- Foreign tourists who visit South Africa also pay all the normal expenditure taxes, ✓✓ such as VAT, excise duties and custom duties ✓. However, on their departure from the country tourists can reclaim the VAT that they have paid. ✓✓

Infrastructure developments ✓

- Adequate and well-maintained physical and basic services infrastructure are essential for tourist destinations. ✓✓ These are normally shared by residents and visitors alike. ✓✓
- The government has prioritised economic infrastructure, ✓✓ including elements such as ports, beaches, rivers and lake access, to support tourism growth. ✓
- Most economic corridors have tourism as an important focus. ✓✓
- The PPPs are sometimes used for the development of infrastructure. ✓✓
- In addition to physical and basic services infrastructure, tourists as well as residents, also require social infrastructure ✓✓, for example, ambulance services, medicines, clinics and hospitals, police protection and information services. ✓

(26)

Additional part

Positive

- Tourist will understanding our indigenous culture, history and environment.
- Employment opportunities because of additional jobs which are created through high increase in tourist visiting

Increase in the value of our money in relation to other countries

Negative

- Without proper management, heritage tourism can lead to a lack of understanding and appreciation of the culture and heritage of the place within the wider community as a result of inadequate or inappropriate presentation; it can diminish the protection and conservation of cultural heritage overtime without the adequate integration of cultural heritage protection and management laws at the national and regional level;
- and certain tourism activities can unconsciously or inadvertently encourage theft of cultural resources and properties
- lack of sufficient safeguards to protect the values of heritage properties is to be found in an underdeveloped understanding, and therefore lack of appreciation of the heritage value of precious cultural or natural resources by both local communities and tourists

Conclusion

Tourism can also have a negative impact to the country such as drug trafficking, increased crime rate, inflation and pollution. ✓✓ (2)

Any other higher order conclusions

ENVIRONMENTAL SUSTAINABILITY

Activity 1

1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A-D) next to the question numbers (1.1.1 to 1.1.5) in the answer book, e.g. 1.1.3 D

1.1.1 An increase usage of ... resources increases carbon dioxide .
A renewable

- B non-renewable✓✓
- C natural
- D human

1.1.2 Climate change is as a result of ...

- A global warming. ✓✓
- B tropical cyclone.
- C ozone layer.
- D the sun.

1.1.3 Nature ... means to keep natural resources intact.

- A conservation
- B protection
- C extinction
- D preservation✓✓



1.1.4 Greenhouse gases form part of ... pollution.

- A land
- B water
- C air✓✓
- D sea

1.1.5 Variety of plant and animal life in an ecosystem is ...

- A biodiversity✓✓
- B marine life
- C ecology
- D species

(5x2) (10)

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

COLUMN A	COLUMN B
----------	----------

1.2.1 Environmental subsidy	E✓	A. A UN agreement to limit chemical waste
1.2.2 External costs	D✓	B. Is local knowledge that is unique to people of a particular region
1.2.3 Stockholm Protocol	A✓	C. A layer in the earth's stratosphere that reduces ultraviolet radiation
1.2.4 Indigenous knowledge	B✓	D. Affect third parties who were not part of the activity
1.2.5 Ozone layer	C✓	E. Are granted to businesses to reduce environmental damage
1.2.6 Marketable permits	I✓	F. These are goals that aimed at improving the lives of the poorest people in the world
1.2.7 Millennium Development Goals	F✓	G. Charged on polluters of the environment.
1.2.8 Environmental tax	G✓	H. The extinction of species
		I. Are given to businesses to pollute to a certain degree

(1x8) (8)

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question numbers (1.3.1 to 1.3.5) in the ANSWER BOOK.

1.3.1 An international agreement to manage nuclear waste.

Basel Convention ✓

1.3.2 The ability of the environment to survive its use for economic activity.

Environmental sustainability ✓

1.3.3 An increase in world temperature as a result of the depletion of the ozone layer.

Climate change✓

1.3.4 A formally concluded and ratified agreement between countries

Treaty✓

1.3.5 The original draft of a diplomatic document.

Protocol✓

(1x5) (5)

Activity 2

2.1 Answer the following questions.

2.1.1 Name any TWO examples of non-renewable resources. (2X1) (2)

○ Gold, copper, platinum

(Accept any other relevant and correct answer)

2.1.2 Why is rhino poaching on the increase? (1X2) (2)

○ It increases because of the rise in demand of rhino horns.

○ The vast land scape in which rhinos are kept make it hard to guard.

○ Corrupt park rangers colluding with poachers.

(Accept any other relevant and correct answer)

2.2 Study the extract below and answer the questions that follow:

A FACTORY IN CORNUBIA, NORTH OF DURBAN IN RUINS

It is thought that the biggest environmental disaster arising from the KZN unres was caused by the arson attack on the UPL Chemical factory. The building in Cornubia, north of Durban burned for days.

The attack resulted in several environmental issues after fire fighters tried to douse the flames with water. Smoke blanketed the north of Durban and rivers, lagoons and beaches all the way up to the North Coast were contaminated.

Adapted from News24, 24 July 2021

2.2.1 Name the type of pollution that resulted from the flames above. (1)

Air pollution✓

2.2.2 What is the tax imposed on the consumption of goods that generate external environmental costs. (1)

Green tax✓

2.2.3 Briefly describe the term *climate change*. (2)

Climate change is a shift in weather patterns as a result of global warming.

✓✓

(Accept any other relevant and correct answer)

2.2.4 Explain measures used by the government to mitigate the effect of hazardous waste. (2)

The government can:

- Grant property rights to ensure that people take care of the things that belong to them.✓✓
- Levy environmental tax to encourage the reduction of pollution.✓✓
- Grant subsidies for activities that reduce environmental damage.✓✓

(Accept any other relevant and correct answer)

2.2.5 How can deforestation caused by overpopulation of animals in game parks be overcome? (4)

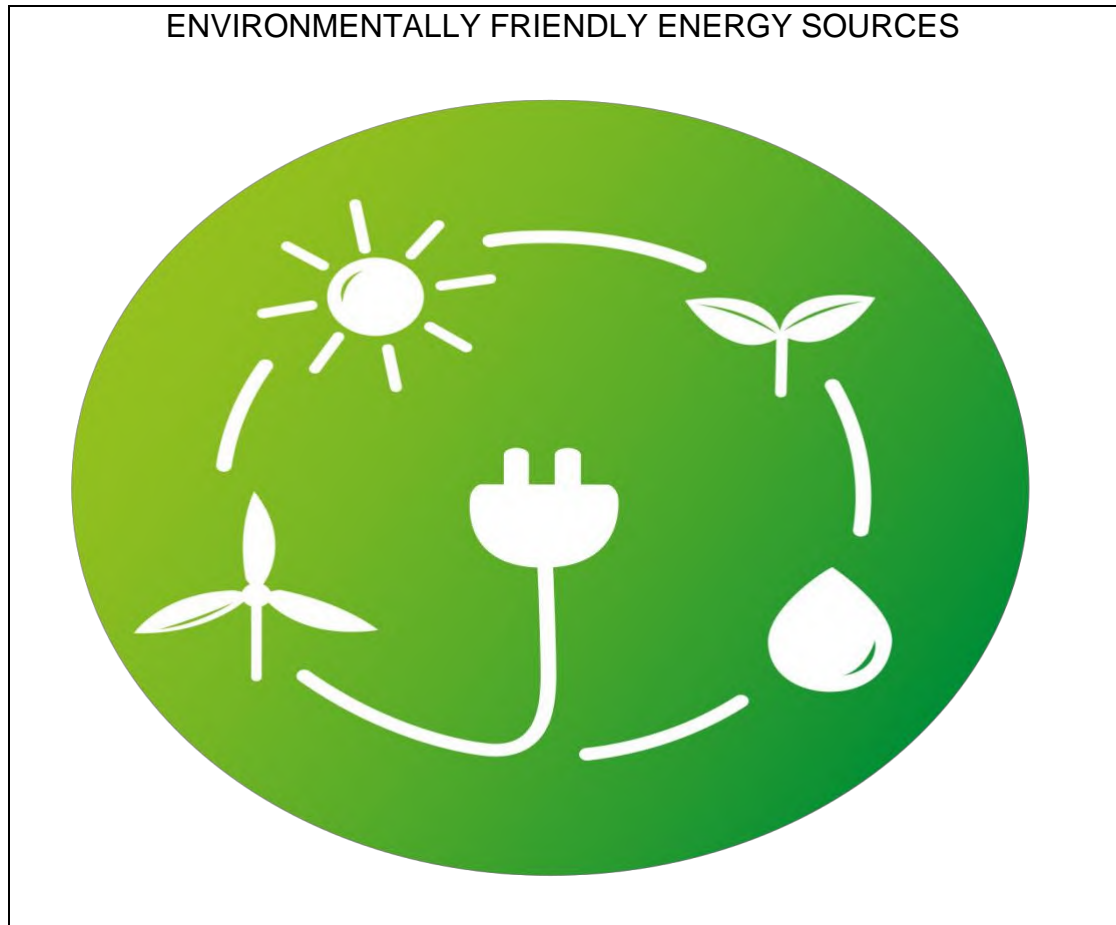
Deforestation can be overcome by:

- Reducing population numbers through animal culling hence plants would be able to grow. ✓✓
- Taming males or sterilising females to curb birth rates. ✓✓

- Translocating animals between different regions to reduce stress on the over populated area. ✓✓

(Accept any other relevant and correct answer)

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



2.3.1 Give one environmentally friendly energy source. (1)

Solar power, wind power, hydroelectric power ✓

2.3.2 Which state owned entity regulates energy in South Africa? (1)

NERSA ✓

2.3.3 Describe the term *biodiversity*. (2)

Biodiversity is the variety of plant and animal life in the world. ✓✓

2.3.4 What effect will global warming have on commercial farmers? (2)

- Farmers will lose income as a result of crops damaged by extreme weather. ✓✓
 - Farmers livelihoods will be destroyed. ✓✓
- (Accept any other relevant responses)

2.3.5 How can countries around the world ensure compliance with the Rio Convention? (4)

- By imposing sanctions on countries that violate the agreement. ✓✓
- By incentivising countries that uphold the agreement, incentives such as subsidies for green energy production. ✓✓
- Granting credits to countries that implement the declaration of the convention. ✓✓

2.4 Discuss the negative effects of pollution on the environment. (8)

- Air pollution can damage crops and trees in a variety of ways. ✓✓
 - Ground level ozone can lead to reduction in agricultural crop and commercial forest yields. ✓✓
 - The quality of air can be adversely affected leading to lung related illnesses. ✓✓
 - Different animal species can suffocate from waste material littered. ✓✓
 - The scenic beauty of nature can forever be lost. ✓✓
- (Accept any other relevant and correct response)

2.5 How can indigenous knowledge be used to sustain the environment? (8)

- By planting organic food and use crop rotation practices to ensure that soil remains fertile. ✓✓
- By using compost when planting crops and refrain from using fertilizers and pesticides. ✓✓
- Rooting out plants that are invasive in nature. ✓✓
- The government should subsidise organic farmers in order to increase the supply of organic food while prices will be reduced. ✓✓

Activity 3

3.1 Answer the following questions.

3.1.1 Name any TWO institutions in South Africa that are responsible for nature conservation. (2x1) (2)

- South African National Parks
- Natal Sharks Board
- Ezemvelo-KZN Wildlife
- CapeNature

(Accept any other relevant and correct answer)

3.1.2 Why are rich countries responsible for the majority of carbon emissions in the world? (1X2) (2)

- Because they are highly industrialised and stand to lose if they restructure energy sources too quickly.

3.2 Study the cartoon below and answer the questions that follow:



3.2.1 Identify the pollution caused by the vehicle above. (1)

Air pollution✓

3.2.2 What is the amount of carbon dioxide released into the atmosphere as a result of excessive human claims on the environment? (1)

Carbon footprint✓

(Any other relevant and correct answer)

3.2.3 Briefly describe the term *nature conservation*. (2)

Nature conservation is a practice of protecting the environment by using it while ensuring that the quality of life for both present and future generations are not compromised. ✓✓

3.2.4 Explain how over exploitation of resources could lead to a decline in economic growth. (2)

- An increase in extraction of natural resources can lead to a decrease in air quality and the scenic beauty causing a decline in foreign earnings from tourists.
 - Over use of resources could lead them to depletion hence business closures and job losses.
- (Any other relevant and correct answer)

3.2.5 Why does environmental degradation continues at an alarming rate? (4)

- Self-interest by businesses and individuals over utilisation of natural resources for their own economic gain. ✓✓
 - Increased demand for fossil fuels and natural resources leads over extraction of natural resources. ✓✓
 - Extensive agricultural activities to provide for increase in population rate.
 - Illegal trade in wildlife causing biodiversity loss. ✓✓
- (Any other relevant and correct answer)

ESSAY TYPE QUESTIONS

Activity 4

4.1 Discuss how the government can ensure sustainable development.
(26)

4.2 How successful has the South African government in implementing the Kyoto Protocol?
(10)

[40]

INTRODUCTION

The existence of the environment is under threat due to many problems which intensify as time moves along. ✓✓

BODY

MAINT PART

1. Granting property rights ✓

- The conservationist effect: It ensures that people care for the things that belong to them. ✓✓
- To prevent fauna + flora species to become extinct allow people property rights It has little cost to tax payers. ✓✓
- Can be expanded to common goods e.g. clean air where polluters pay victims to reduce pollution. ✓✓
- (e.g.) Kyoto Protocol where developed countries agreed to provide financial assistance to developing countries because they cause less pollution. ✓✓
- The developed countries therefore pay for the right to pollute. ✓✓

2. Pay for environmental use ✓

- The pricing of the environment is one method used by government to impose environmental charges. ✓✓
- E.g. in S.A. local authorities levy charges on rubbish collection and sewage disposal. ✓✓
- Government levies a fee on consumers and producers for the waste (solid, liquid, gas) they dump in the environment. ✓✓
- Best results are obtained when these charges are proportional to the waste they produce. ✓✓

3. Levy environmental tax ✓

- A tax could be imposed on the output or consumption of a good, wherever external environmental costs are generated. ✓✓
- These are known as green taxes, (e.g.) tyres ✓✓
- The rate of tax should be equal to the marginal external cost. ✓✓

4. Pay environmental subsidies ✓

- These subsidies reduce activities that cause environmental damage. ✓✓
- These costs are recovered from taxation. ✓✓
- Subsidies could be for the development of new technology or equipment. ✓✓

- Encourage production of environmental friendly subsidies. ✓✓
- Encourage recycling of waste such as bottles or cardboards. ✓✓

5. Issue marketable permits✓

- Governments may wish to charge for the pollution (externality) and it could raise a levy or a tax to pay for it. ✓✓
- A license (credits) or permit is offered and businesses are allowed to sell their licenses to other businesses who wish to expand. ✓✓
- Licenses or permits or credits are traded in a permit market. ✓✓

6. Command and control (CAC) ✓

- Set maximum permitted levels of emission or resource use inspectors monitor activities and impose fines ✓✓
- Developed countries have environmental regulations e.g. air and water pollution, noise, waste management, recycling ✓✓

Three approaches to devising CAC systems:

- Quantity standards focus on amounts of pollution caused✓✓
- Quality standards focus on environmental impact ✓✓
- Social impact standards focus on the effect on the people ✓✓

7. Voluntary agreements ✓

- Between government and businesses on voluntary basis to cut pollution – formal contract and legally binding or informal commitments ✓✓
- Businesses prefer these agreements – can negotiate – build into planning ✓✓

8. Education✓

- Manage the environment through education people's attitude change towards environmental consequences of their actions. ✓✓
- Innovative approaches in developing world to educate people to manage environment is: community wildlife reserves transformed into

areas managed for conservation, households more conscious of waste-recycling, cooperatives established to produce organic foods, groups like Green Party + Friends of the Earth encourage environmental responsibility

✓✓

•

ADDITIONAL PART

How successful has the South African government in implementing the Kyoto Protocol?

(10)

The government has made little progress on the production of environmentally friendly goods because:

- Limited public sector capacity caused by shortage of skills to deal with a complex policy making to deal with climate governance. ✓✓
- Mistrust of public-private engagement to deal with Independent Power Producers (IPP's) that will bolster electricity supply that is environmentally friendly has led to a delay in bringing private energy producers to the national grid. ✓✓
- The Department of Environmental Affairs and municipalities fine polluters for flouting pollution policies. ✓✓
- Pollution still continues to be a stumbling block in reducing the decay of towns and pollution of beaches hampering tourism growth of which law enforcement is not implemented to the fullest. ✓✓
- Marine dumping which is often difficult to police causes much danger to sea species. Little resources have made it difficult to deal with such practices. ✓✓

CONCLUSION

The success of the efforts in addressing environmental problems is dependent on whether the stakeholders around the world take such measures seriously. ✓✓

Activity 5

5.1 Discuss the problems and measures taken to ensure sustainable development.

(26)

5.2 Evaluate the impact of modern technology in reducing environmental damage.

(10)

[40]

INTRODUCTION

The existence of the environment is under threat due to many problems which intensify as time moves along. ✓✓

BODY

MAINT PART

1. Biodiversity loss ✓

- Biodiversity is the variety of species of plants and animals 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 the extinction which 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. ✓✓

2. Chemical waste ✓

- Chemical waste is 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 into the ground water. ✓✓
- The Stockholm Protocol bans the 12 of the deadliest manufactured chemicals ✓✓.
- The Rotterdam Convention protects countries that lack adequate infrastructure to monitor the import and export of dangerous chemicals. ✓✓

3. 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 term) ✓✓
- 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

4. 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 into 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 objectives 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. ✓✓

5. 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 lifestyles and experiences. ✓✓• UNESCO's management of social transformation programme (MOST) is a global effort to document local/indigenous knowledge before it is lost forever. ✓✓

ADDITIONAL PART

Positive impact:

The modern technology has been successful in reducing environmental damage by:

- Reducing carbon footprint through the use of solar energy and wind farms to produce electricity. ✓✓
- Using electronics that warn vehicle users of excessive carbon emissions and catalytic converters that reduce carbon dioxide emitted by vehicles. ✓✓
- Developing LED's-energy saving light bulbs that have a longer life span while consuming less energy. ✓✓
- Having solar powered vehicles. ✓✓
- Recycling goods such as plastics and bottles reduces pollution and the over exploitation of natural resources. ✓✓

Negative impact:

The modern technology has been unsuccessful in reducing environmental damage because:

- The technology and the material used to reduce emissions such as solar panels will reach the end of its lifespan which will be disposed off as waste. ✓✓
- New technology used results in some sectors retrenching workers because of skills that cannot be compatible. ✓✓
- Ghost towns could also emerge resulting from business closures such as coal mines that propelled the towns economies. ✓✓
- Resource depletion could be a setback for new technology which could render it obsolete. ✓✓
- Destruction of ecosystems which affect food chain impacting negatively on food security. ✓✓

CONCLUSION

The success of the efforts in addressing environmental problems is dependent on whether the stakeholders around the world take such measures seriously. ✓✓



LAST PUSH TEACHER GUIDE

REVISION DOCUMENT

TOPIC: MICRO-ECONOMICS

Perfect market

ACTIVITY 1

1.1

1.1.1. C

1.1.2. A

1.1.3. B

1.1.4. D

1.1.5. B

(10)

1.2

1.2.1 E

1.2.2. A

1.2.3. D

1.2.4. G

1.2.5. B

1.2.6. F

1.2.7. C

(7)

1.3

1.3.1. industry

1.3.2. shut down

1.3.3. fixed cost

1.3.4. perfect market

1.3.5. Marginal revenue

1.3.6. Implicit cost

1.3.7. Short run

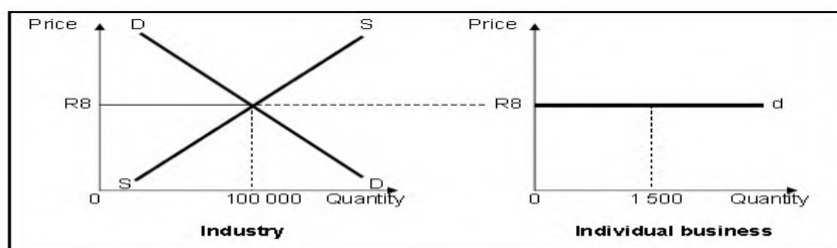
(7)

SECTION B



ACTIVITY 2

2.1. DATA-RESPONSE



2.1.1 Which diagram represents a single firm from the above diagrams? (1)

B✓

2.1.1. Provide another name for curve d in diagram B. (1)

MR/AR curve✓

2.1.2. Describe the term *perfect competition* (2)

Perfect competition is a market structure where many firms offer a homogenous product. ✓✓

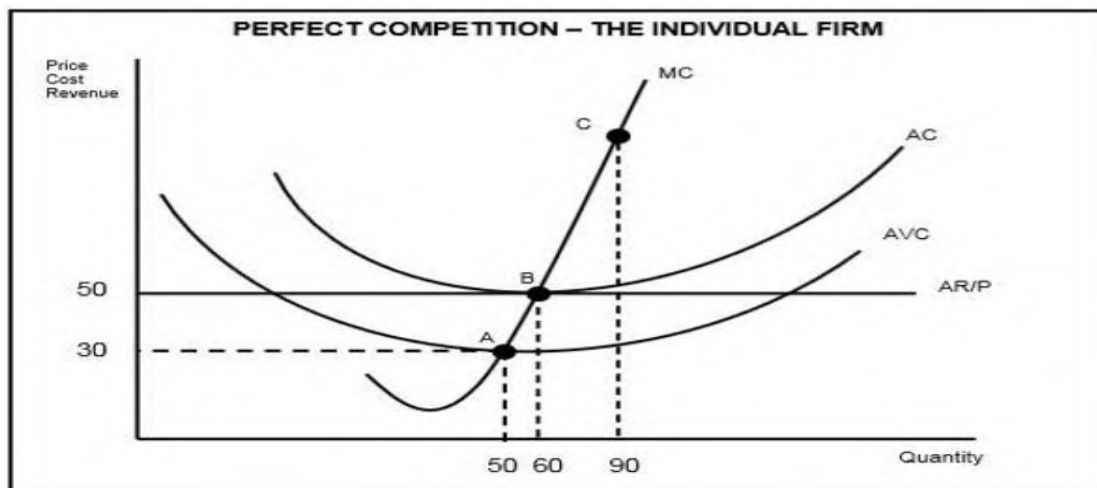
2.1.4. Briefly explain price determination by the firm in diagram B? (2)

Price are determined by the industry/ market forces. ✓✓

2.1.5. Explain the effect on supply if more firms decide to leave the industry. (4)

As firms leave the market the supply will decrease✓✓ leading to firms making normal profit. ✓✓

2.2 DATA RESPONSE



2.2.1. Identify the marginal revenue curve in the graph above.

AR/P ✓

2.2.2. Which curve is also known as the supply curve?

Upper part MC that lies above AVC ✓

2.2.3. Briefly describe normal profit.

It is the minimum earning that prevents an entrepreneur from exiting the market.✓✓

(accept any correct relevant answer)

2.2.4 Why is the individual firm not produce more than 60 units?

Any output above 60 units will minimise profit ✓✓

2.2.5. Use a table to distinguish between individual business and the industry.

INDUSTRY	INDIVIDUAL BUSINESS
Industry refers the different businesses together that produce or supply the same product e.g. farmers✓✓	An individual business (firm) is a single producer of a specific product such as maize.✓✓

(4)

The demand curve is downward sloping (Negative slope).✓✓	The demand curve is horizontal.✓✓
The price is formed by market forces of demand and supply.✓✓	They take price from industry (price takers)✓✓

IMPERFECT MARKET

ACTIVITY 1

1.1 Multiple choice

1.1.1. A

1.1.2. B

1.1.3. D

1.1.4. C

1.1.5. A

1.2. Match column A and B

1.2.1. B

1.2.2. D

1.2.3. F

1.2.4. C

1.2.5. E

1.3 Give appropriate term

1.3.1. Normal profit

1.3.2. Monopolistic competition

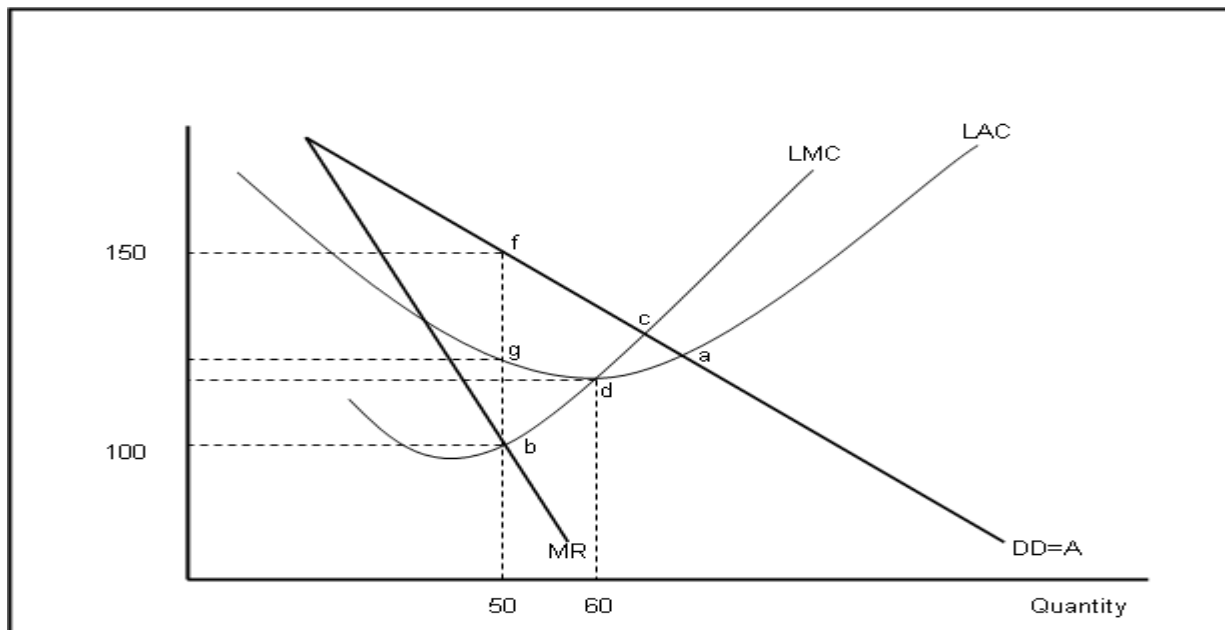
1.3.3. Marginal cost

1.3.4. Patent

1.3.5. Monopoly

ACTIVITY 2

2.1. DATA – REPONSE



2.1.1 Identify the price charged by the firm above. (1)

R70 ✓✓

2.1.2 What is the nature of the product supplied by the monopolist? (1)

Unique product ✓✓

2.1.3 Briefly describe the term *artificial monopoly*.
(2)

Artificial monopoly occurs when the barriers to entry are not economic in nature, like the use of patents to block entry into the market. ✓✓

2.1.4 What determines the optimum production level in a monopoly market? (2)

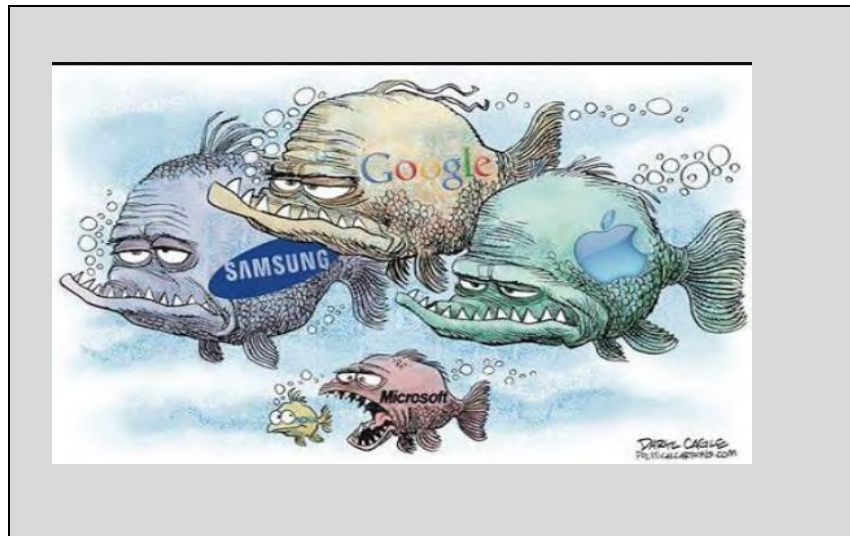
The optimum level of production is determined by a point where marginal revenue equals marginal cost. ✓✓

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

Economic profit = Total Revenue – Total Cost/ (TR – TC) ✓✓
= 280 – 240 ✓ = R40 ✓✓

ACTIVITY 3

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



3.1.1. Identify the market structure depicted on the above cartoon. (1)

Oligopoly✓✓

3.1.2. What is the nature of the product sold in this market?

(1)

Differentiated✓

3.1.3. Describe the term *cartel*. (2)

A cartel is a formal collusive agreement between oligopolists where members agree to restrict output (adopt quotas) in order to force the price up.✓✓

3.1.4. Briefly explain copy rights as a barrier preventing other firms from entering

the oligopolist market. (2)

Copy rights: Licensing and putting marks of ownership on certain goods can act as a barriers in the oligopoly market.✓✓

3.1.5. How can aggressive advertising assist the oligopolist in maintaining a sufficient market?

Oligopolists will use advertising as a non-price strategy to market their products so as to maintain a good market share.✓✓

ACTIVITY 4

4.1. Study the pictures below and answer questions that follow.



4.1.1 Identify ONE example of a monopolistic competitor from the picture above. (1)

Accept any franchise on the picture✓

4.1.2 What is a number of firms expected in the market shown on the picture above?

(1)

Large✓

4.1.3 Describe the term *hybrid structure*.

(2)

Monopolistic is called a hybrid structure since it combines perfect competition and monopoly in one structure.✓✓

4.1.4 Briefly explain why product differentiation is a very important aspect of competition between businesses. (2)

Each and every monopolistic competitor must put salient features on his goods so that they can stand out against those of other competitors. ✓✓

4.1.5 How does free entry affect the demand curve of the monopolistic competition? (2x2)(4)

It affects the demand curve by:

- making it more elastic thus reducing the profits earned by individuals.✓✓
- Allowing more firms to enter the industry thus causing individual producers to earn normal profit in the long run.✓✓

MARKET FAILURE

ACTIVITY 1

1.2.1. B

1.2.2.C

1.2.3 E

1.2.4. A

1.2.5. F

1.3.1. Minimum wage

1.3.2. Social cost

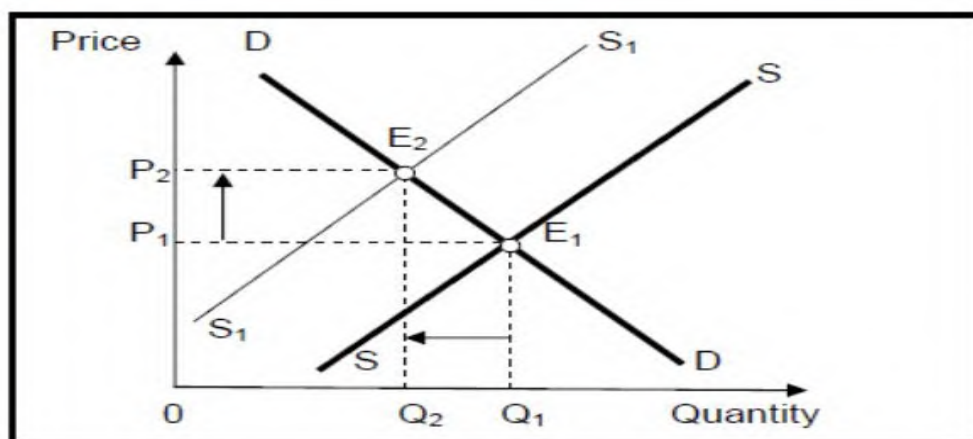
1.3.3. Subsidy

1.3.4. demerit

1.3.5. Black market

ACTIVITY 2

2.1 DATA-RESPONSE



2.1.1 What type of externality is shown on the graph above?

(1)

Negative externality✓

2.1.2 Identify the curve that shows that supply decreases.

(1)

S1✓

2.1.3. Describe the term *externality*.

(2)

Cost and benefits that are incurred by the third party which was not part of the decision to produce.✓✓

2.1.4. At which output level is production taking place on the

market?

(2)

E1✓✓

2.1.5. How does externalities lead to market failure?

(4)

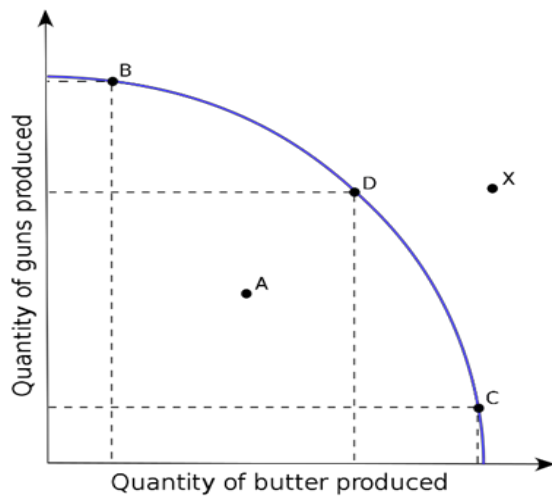
Externalities leads to market failure by:

- Failing to take the social costs into consideration when setting the prices of goods and services.✓✓
- Making the society to pay for the cost of negative externalities in a place of the producer.✓✓

(Accept any other relevant and correct response)

ACTIVITY 3

3.1 Study the graph below and answer the questions that follows:



3.1.1. Point D (1)

3.1.2. Productive inefficiency

(1)

3.1.3. It is a curve that shows a combination of two goods that gives the consumer equal satisfaction and utility

(2)

3.1.4. The Production Possibility Curve is concave to the origin because increases in the production of one good will lead to an increasing sacrifice in terms of a reduction in other goods (2)

3.1.5. Regulating the production of a good

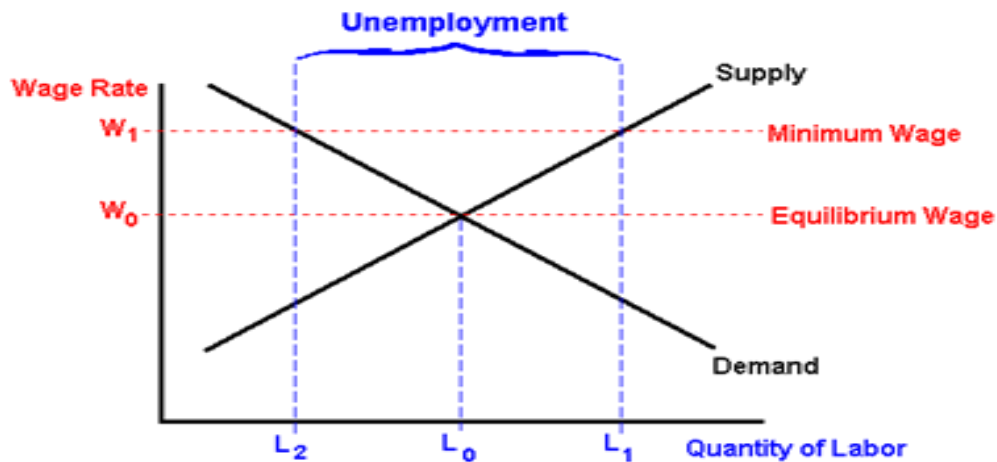
(4)

Issuing licences to allow production

Setting quota limits to the total amount of a good to be produced

ACTIVITY 4

4.1 Study the graph below and answer the questions that follows:



4.1.1. W_0

4.1.2. L_2

4.1.3. It is the lowest wage permitted by law or by a special agreement.

It protect unskilled labour such as farm workers from being exploited in the bargaining process

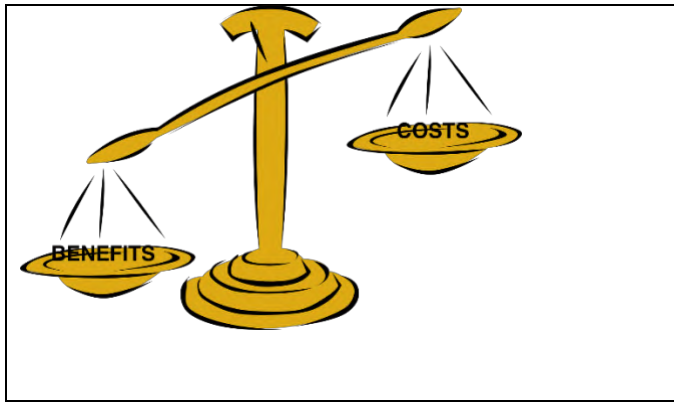
4.1.4. If minimum wage is implemented, the quantity supplied of labour will be greater than the quantity demanded, leading to a surplus of labour.

4.1.5. More workers will offer their labour because of the higher wage rate, but employers will be willing to employ lesser number of workers.

This would further result to a retrenchment of some workers, causing an increase in unemployment.

ACTIVITY 5

5.1 Study the information below and answer the question that follows:



5.1.1. Cost benefit analysis

5.1.2. Yes it must be implemented as benefit are more that cost

5.1.3. It is a systematic approach to estimating the strength and weaknesses of alternatives used to determine which options provide the best approach

5.1.4. To bring greater objectivity to decision-making.

To make better choice between alternative projects

5.1.5. Identify and quantify all private costs.

- Identify and quantify all external costs.
- Calculate social costs - the private and external costs added together.
- Identify and quantify all private benefits.
- Identify and quantify all external benefits.
- Calculate the social benefits – the private and external benefits added together
- Compare the social costs and benefits and take a decision.

CONTEMPORARY ECONOMIC ISSUES(INFLATION)

ACTIVITY 1

1.1. MULTIPLE CHOICE

- 1.1.1. B (headline) ✓✓
- 1.1.2. C (consumer price index) ✓✓
- 1.1.3. C (stagflation) ✓✓
- 1.1.4. D (demand pull) ✓✓
- 1.1.5. A (all inclusive) ✓✓

1.2. MATCHING ITEMS

- 1.2.1. D✓
- 1.2.2. E✓
- 1.2.3. B✓
- 1.2.4. A✓
- 1.2.5. C✓

1.3. CONCEPTS/ TERMS

- 1.3.1. Hyperinflation✓
- 1.3.2. Demand pull✓
- 1.3.3. Inflation✓
- 1.3.4. Cost push ✓
- 1.3.5. Repo rate✓

ACTIVITY 2

- 2.1. Study the extract below and answer the questions that follow

THE IMPLICATION FOR MONETARY POLICY ON THE AGRICULTURAL SECTOR

Food commodity price booms and busts push food and consumer price inflation, agricultural sector output growth, investment growth and employment growth in different directions. These movements imply opposing effects for the monetary policy. Although food commodity price booms are good for the agricultural sector output growth and employment growth, they come at a cost of heightened food and consumer price inflation with implications for monetary policy. The sustainability and profitability of farmers, and the pursuit of low and stable inflation, financial stability and maximum employment demand policy co-ordination.

2.1.1. Identify the index used to measure South Africa's inflation rate.

(1)

Consumer Price Index✓

2.1.2. Give the main reason for the increase in the CPI inflation above.

(1)

An increase in food prices✓

2.1.3. Describe the term *core inflation*.

(2)

Core inflation excludes items from CPI basket that are highly volatile or prices affected by government policy.✓✓

2.1.3. Briefly explain impact of a decrease in inflation rate on low income earners. (2)

A decrease in inflation rate can be advantageous to low income earners as they are able to afford goods and services.✓✓

2.1.5. How can the South African Reserve Bank ensure that the CPI fluctuates within the 3%–6% band?

(4)

The SARB can apply monetary policies which include:

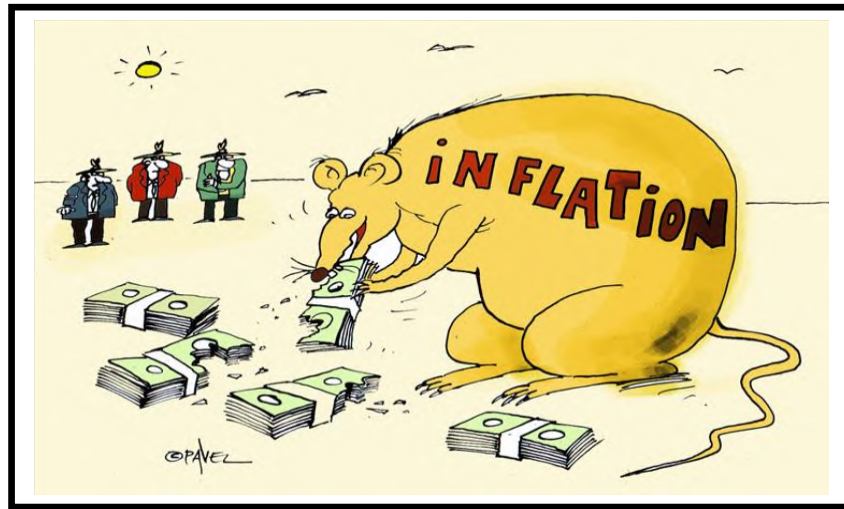
- Increasing interest rate so as to reduce aggregate spending.✓✓
- Reducing the supply of money by selling government bonds.✓✓
- Increasing moral pressure as a measure to discourage credit trading.

✓✓

(Accept any other relevant and correct response)

ACTIVITY 3

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



3.1.1. Name the index that measures change in cost of living.

(1)

Consumer Price Index✓

3.1.2. Which committee is responsible for making decisions on interest rates?

(1)

Monetary Policy Committee✓

3.1.3 Describe the term *stagflation*.

(2)

Stagflation occur when there is low growth, high unemployment rate and high inflation rate at the same time.✓✓

(Accept any other relevant and correct response)

3.1.4 Briefly explain the impact of increase in inflation rate on investors.

(2)

Investors may lose out as they receive the repayment at a lower purchasing power than when they lend out their money.✓✓

3.1.5 How can South African Reserve Bank use interest rate to curb inflation? (4)

The SARB can use interest rates by:

- Increasing interest rates so as to curb borrowing in the economy.✓✓
- Charging higher rates when borrowing so that households will be discouraged to spend in the economy.✓✓

ACTIVITY 4

4.1 Study the cartoon below and answer the questions that follow



4.1.1 Name any ONE cause of cost push inflation. (1)

- Wages✓
- Key input✓
- Profit margin✓
- Productivity✓
- Natural disaster ✓(Any One)



4.1.2 Who is likely to benefit from an increase in inflation? (1)

- Debtors ✓

4.1.3 Briefly describe the term *hyperinflation*. (2)

An extreme rapid rise in the general price levels above 50%.✓✓

4.1.4 Explain the effect of an increase in interest rates on inflation (2)

An increase in interest rate makes buying on credit more expensive. This often results in a decrease in aggregate demand which will lead to low inflation✓✓

4.1.5 Why is the SARB concerned about the impact on the Balance of payment

(2 x 2) (4)

The impact of inflation on the BOP concerns SARB because

- Trade between countries will be affected negatively✓✓
- It would be difficult to export goods as it will be more expensive. ✓✓
- Export will decrease which will create a deficit on BOP✓✓

(Accept any relevant answer)

NO ACTIVITY 5

SECTION C

ACTIVITY 6

Introduction

Inflation is a sustainable and significant increase in general price level over a period of time✓✓

Debtors / creditors

- Creditors suffer due to price increase than debtors. ✓✓
- This is because borrowers (debtors) receive money with relatively high purchasing power and they repay the loan with money with low purchasing power. ✓✓

Wage and salary earners

- Inflation affects people whose income do not increase at the same rate as inflation. ✓✓
- Pensioners, retired people and those who earn low income are affected highly. ✓✓
- As prices increase, their almost fixed income purchases less goods and services. ✓✓
- **Investors and savers**
- Assets with fixed nominal values give a fixed return if they are held until maturity. ✓✓

- This means savers can be negatively affected by inflation as their returns often do not grow as inflation increases✓✓.
- Assets with flexible market values increase more rapidly than increase in the general price level. ✓✓
- This means investors (e.g. property) are favoured by inflation. ✓✓

Tax payers

- South Africa uses the progressive tax system, the higher the consumer income is the higher taxation will be paid✓✓
- Taxes are levied on nominal income and not on real income. ✓✓

Industrial peace

- High inflation often disturbs industrial peace and makes consumers to demand higher wages ✓✓
- Wage bargaining is often accompanied by strikes and mass action ✓✓

Section C

ACTIVITY 7

Introduction

Inflation is a sustainable and significant increase in general price level over a period of time✓✓

MEASURES TO COMBAT INFLATION

Monetary policy

- This is the use of monetary measures by the SARB to combat inflation. ✓✓
- Increase in repo rate can lead to commercial banks increasing the prime interest rate at which they loan money to their clients. ✓✓
- The SARB can decrease money supply by selling government bonds. ✓✓

- Monetary authorities can reduce the level of credit by instructing banks to apply stricter lending criteria ✓✓
- Commercial banks can be required to keep larger amount of money in reserve. ✓✓
- Reduce currency controls in order for the currency to float freely in the market. ✓✓

Fiscal policy

- These are steps taken by the minister of finance to control inflation through application of tax and government spending. ✓✓
- Restrictive fiscal policy entails a reduction in government spending and increased taxation. This can reduce inflation as demand of goods and services will be reduced. ✓✓
- Direct taxation will mean increasing personal income tax and business tax. ✓✓
- Increase in indirect taxes such as VAT, customs and excise duties can be used to influence inflation. ✓✓
- A surcharge on imports can be levied. ✓✓
- Reduce government spending on public goods and welfare payment ✓✓
- The state can also cut back on its expenditure by postponing or even cancelling government projects ✓✓
- The government should implement policies that will increase productivity, competition and innovation. ✓✓

Other measures

- Implementing a wage rate limit can control price levels. ✓✓
- Increasing productivity through better teaching and training. ✓✓
- Encouraging personal savings which can enable investments and supply. ✓✓
- Reducing import control to make imported goods cheaper. ✓✓
- Implementing inflation targeting policy. ✓✓

TOURISM

ACTIVITY 4

4.1.1 Name Two Environmental World Heritage Sites.

- iSimangaliso Wetland Park ✓
- The Cape Fynbos Region ✓
- uKhahlamba Drakensburg Park. ✓

4.1.2 Briefly explain why foreign tourism grows at a high rate over the years.

- South Africa is regarded as a peaceful and prosperous African Democracy as a results tourists wish to associate themselves with South Africa. ✓✓
- South Africa offers the world in one country ✓✓
- South Africa's rand depreciated substantially against the major currencies of the world, this made local activities relatively cheap and good value for money. ✓✓

4.2. Study the pictures below and answer the questions that follow.



4.2.1. Identify the type of tourism shown by the above images.

(1)

Cultural tourism✓

4.2.2. Name the campaign used to promote domestic tourism in SA.

(1)

Proudly SA✓

4.2.3. Describe the term *eco-tourism*.

(2)

Ecotourism occur when tourists visit undisturbed natural areas like botanical landscapes.✓✓

4.2.4. Explain the impact of tourism on the environment.

(2)

When tourists visit the area, the local people tend to take good care of those areas. ✓✓

4.2.5. Why is tourism viewed as a major job creator?

(4)

- Tourism is a labour intensive industry in a sense that manual labour is required to make this industry viable. ✓✓
- People without jobs can embark on this type of industry as it creates immediate job opportunities. ✓✓

4.3 Study the extract below and answer the questions that follow. THIS ACTIVITY IS NOT INCLUDED IN THE LEARNER GUIDE

SOUTH AFRICAN TOURISM DECLINE

The STATS SA report shows the overall number of visitors to South Africa in the first financial quarter of the year, normally one of the most popular times to visit the country, fell by 3%. The biggest concern however is that the numbers for Q1 2019 aren't just worse than 12 months before, they are lower than 2017's number.

4.3.1. Identify the greatest contributor to SA tourism according to the extract.

(1)

4.3.2. Name the economic sector under which tourism is classified.

(1)

Service sector✓

4.3.3. Describe the term *outbound tourist*.

(2)

Outbound tourism occurs when the citizens of the country travel to other countries.✓✓

4.3.4. Briefly explain the contribution of tourism to economic growth.

(2)

Tourism attract foreign capital when visitors buy locally manufactured products, this contributes directly to the country's GDP.✓✓

4.3.5. Why is South Africa preferred by most African countries as tourist - destination?

(4)

South Africa has a good infrastructural development which includes roads, airports

and sea ports which makes it easy for tourists to access the country.✓✓

The country has various tourist attractions which tourists like to have a view of.✓✓

The historical background of South Africa attracts people from different countries who

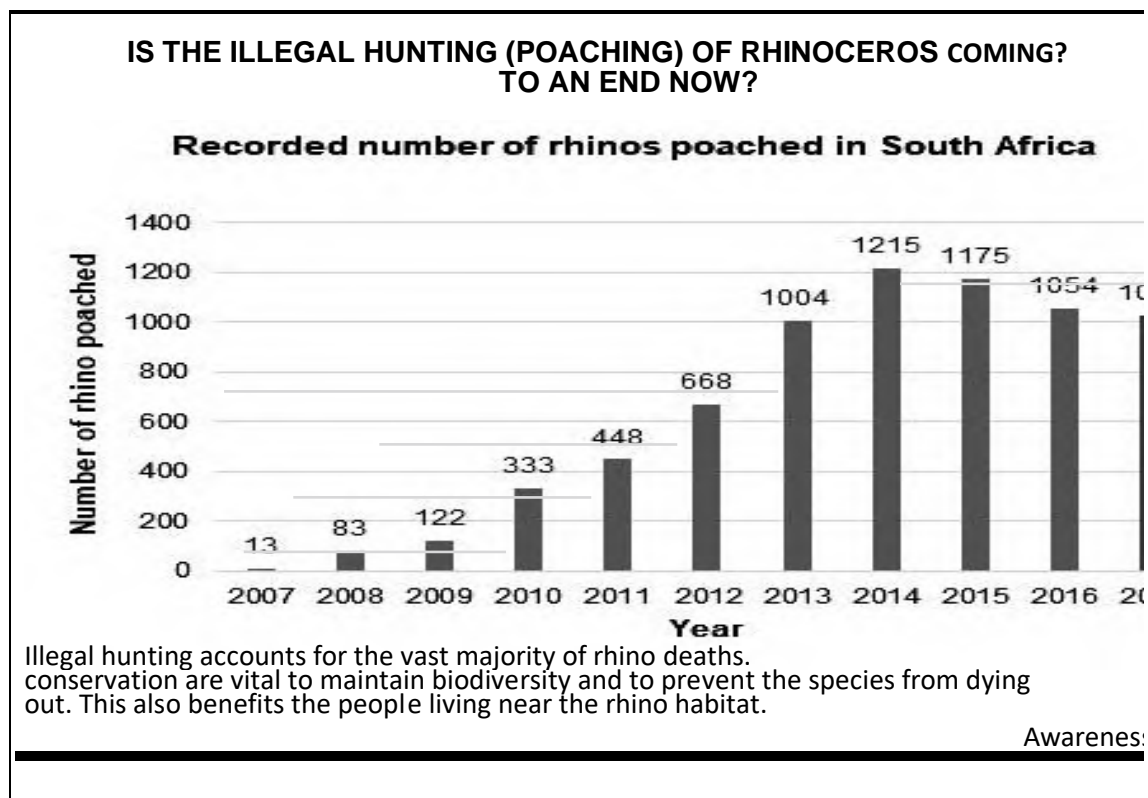
want to share their experience.✓✓

1.1.5 Why does the market fail to use the natural environment sustainably? (4)

- The markets see the environment as a common resource and therefore see no need to sustain it.✓✓
- Externalities cannot be stopped without restrictive policies of-which businesses are able to manipulate them.✓✓
- Some businesses will damage the environment without even realizing it.✓✓
- Carelessness by some businesses can cause devastating effects on the environment.✓✓

Activity 2

2.1. Study the graph below and answer the questions that follows



[Adapted from www.PoachStats.com]

2.1.1. **What is the main reason behind the poaching of Rhinos?**

Rhino horn/Money ✓

2.1.2. **During which year did South Africa experience its worst year Rhino poaching?**

2014 ✓

2.1.3. **Briefly describe the term *biodiversity*.**

Biodiversity refers to the variety of plants and animals that inhabit the earth ✓✓

2.1.4. **Give ONE example how an awareness of the natural fauna and flora can be created.**

- Making children and adults more aware of environmental issues through the media and school visits ✓✓
 - Setting up community wildlife reserves as national parks ✓✓
 - Field trips, guided environmental tours ✓✓
- (Accept any other correct relevant response)

2.1.5. **How will conservation benefit the people living near the Rhino habitat reserves?**

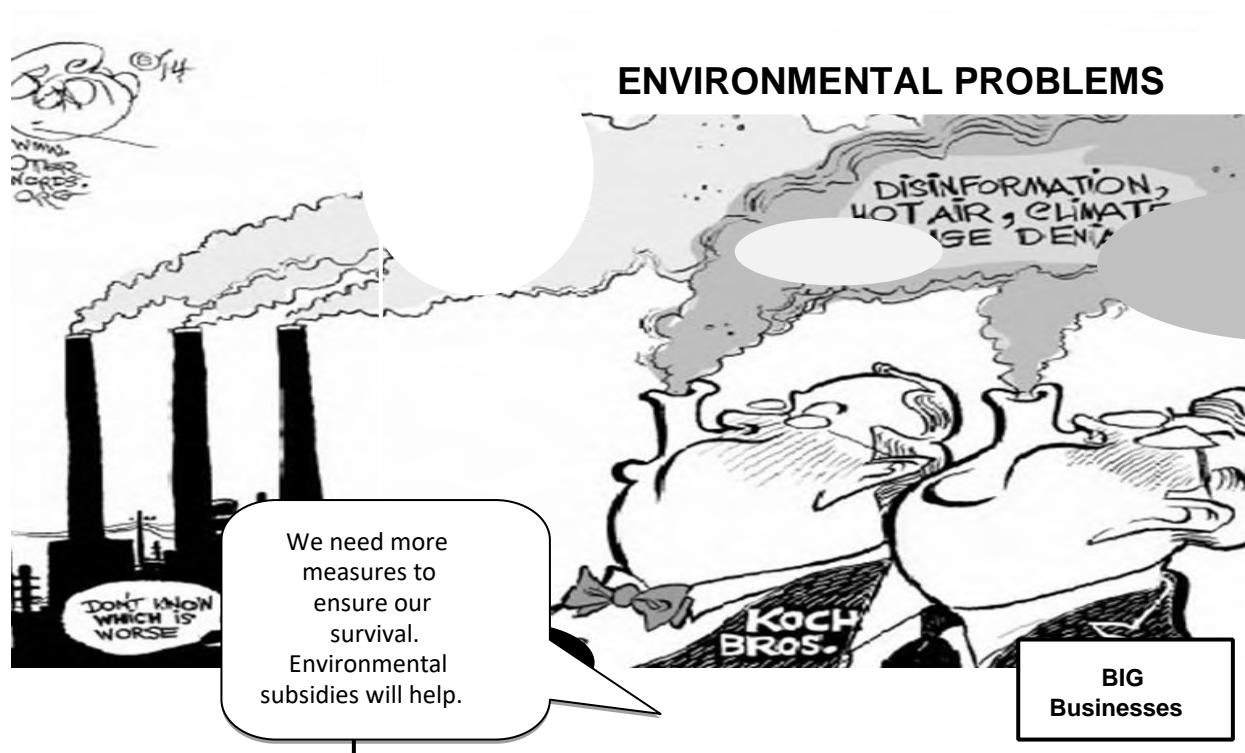
Local people will benefit from all the spin-offs from the development of reserves by:

- using a variety of infrastructure – Roads, water, transport, shopping
- improving entrepreneurial abilities through manufacturing of handicrafts
- enjoying social benefits like clinics and health activities ✓✓

(Accept any other correct relevant response)

(2 x 2)

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



[Source: www.wikipedia, 2017]

3.3.1 Identify the type of pollution in the cartoon above.

Air pollution/atmospheric pollution ✓

3.3 2 What major environmental problem can result from the business activities above?

Climate change/global warming ✓
(Accept any other correct relevant response)

3.3.3 Briefly describe the term *environmental sustainability*.

Environmental sustainability is the ability of the environment to survive its use for economic activity / it refers to meeting the needs of the present generation without compromising the needs of future generations ✓✓
(Accept any other correct relevant response)

3.3.4 What impact will environmental problems have on food security (continuous food production)?

- limiting production due to extreme droughts and floods ✓✓

- hazardous waste and chemical waste will reduce quality and limit quantities ✓✓
 - forcing producers to change their production processes due to a changing climate and cultivate different products which may not be in demand ✓✓ (2)
- (Accept any other correct relevant response)

3.3.5 How can environmental subsidies be used to ensure sustainable development in South Africa?

- Subsidies can be granted to businesses to reduce environmental damage ✓✓
 - The government can subsidize new technology that save energy such as energy saving light bulbs or solar geezers, & power to reduce air pollution ✓✓
 - promoting environmentally friendly substitutes like unleaded petrol ✓✓
- (Accept any other correct relevant responses) (Any 2 x 2)