



KWAZULU-NATAL PROVINCE

EDUCATION  
REPUBLIC OF SOUTH AFRICA



**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ECONOMICS  
JUNE 2021  
COMMON TEST**

**MARKS : 100**

**DURATION : 1½ Hours**

**This Question Paper consists of 14 pages.**

## INSTRUCTIONS AND INFORMATION

1. Answer FOUR questions as follows in the **ANSWER BOOK**.

**SECTION A: COMPULSORY**

**SECTION B:** Answer any **TWO** of the three questions.

**SECTION C:** Answer any **ONE** of the two questions

2. Write the question number above each answer.
3. Answer only the required numbers of questions. Answers in excess of the required number will not be marked.
4. Answer the questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
5. Number the answers correctly according to the numbering system used in this question paper.
6. Read the questions carefully.
7. Start each question on a new page.
8. Leave 2-3 lines between sub sections of questions.
9. Use only black or blue ink.
10. You may use a non- programmable pocket calculator.
11. Write legible and present your work neatly.



**SECTION A: COMPULSORY: MICROECONOMICS****QUESTION 1****30 MARKS – 20 MINUTES**

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. The period of production where it is not possible to change factors of production is called a/an ... run.

- A immediate
- B short
- C average
- D long

1.1.2. Prices controlled by the government on certain essential goods are called ... price.

- A administered
- B relative
- C absolute
- D market

1.1.3. A product with no close substitutes can be described as ...

- A homogeneous.
- B differentiated.
- C unique.
- D heterogenous.

1.1.4. Entry into the monopoly market is ...

- A difficult.
- B free.
- C easy.
- D blocked.

1.1.5. Expenses incurred by the firms when producing goods and services is called ... costs.

- A private
- B social
- C implicit
- D external



1.1.6. Costs or benefits to third parties not included in the market price are called ...

- A efficiencies.
- B externalities.
- C excludabilities.
- D information.

1.1.7. A group of businesses that produce homogenous products in the market is called ...

- A producers.
- B firms.
- C sellers.
- D industry.



1.1.8. The business that cannot influence price is called a ...


- A price setter.
- B price maker.
- C price taker.
- D price leader.

(8 x 2)

(16)



- 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. Break-even	A A formal agreement between firms in the same industry to reduce competition.
1.2.2 Explicit	B A market whose entry is blocked due to legislation.
1.2.3 Patent	C Business expenses that cannot be recovered e.g. advertising.
1.2.4 Cartel	D Actual expenditure of running the business such as wages, insurance born by the business.
1.2.5 Average revenue	E Inputs that are used in a business and owned by the entrepreneur.
1.2.6 Artificial monopoly	F Exclusive rights given to produce certain goods and services.
1.2.7 Taxes	G Income received per unit sold.
1.2.8 Sunk costs	H An alternative concept for the point where a firm in a perfect market makes normal profit.
	I Compulsory payment to the government to cater for public services.
	(8 x 1 ) (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 1.3.6) in the ANSWER BOOK. Abbreviations, acronyms and examples WILL NOT be accepted.

1.3.1 A situation where marginal revenue is equal to marginal costs.

1.3.2 A decrease in the average cost of production per unit as output increases

1.3.3 A market that is dominated by two large businesses.

1.3.4 Strategy used by businesses to distinguish their products from those of competitors.

1.3.5 A situation where it is not possible to make anybody better off without making someone worse off.

1.3.6 Money paid by government to businesses to reduce costs of production.

(6 x 1) (6)

**TOTAL SECTION A: [30]**

**SECTION B**

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

**QUESTION 2: MICROECONOMICS****40 MARKS – 30 MINUTES**

2.1. Answer the following questions.

2.1.1 List any TWO characteristics of public goods. (2x1) (2)

2.1.2 Why is the demand curve equal to average revenue in the perfect market? (1x2) (2)

2.2 Study the information below and answer the questions that follow.

**PERFECT COMPETITION**

All markets exist outside the perfect competition model because of its abstract nature. Some markets resemble perfect competition more than others.

[source www. Shutterstock.com]

2.2.1 Give ONE example of near perfect market. (1)

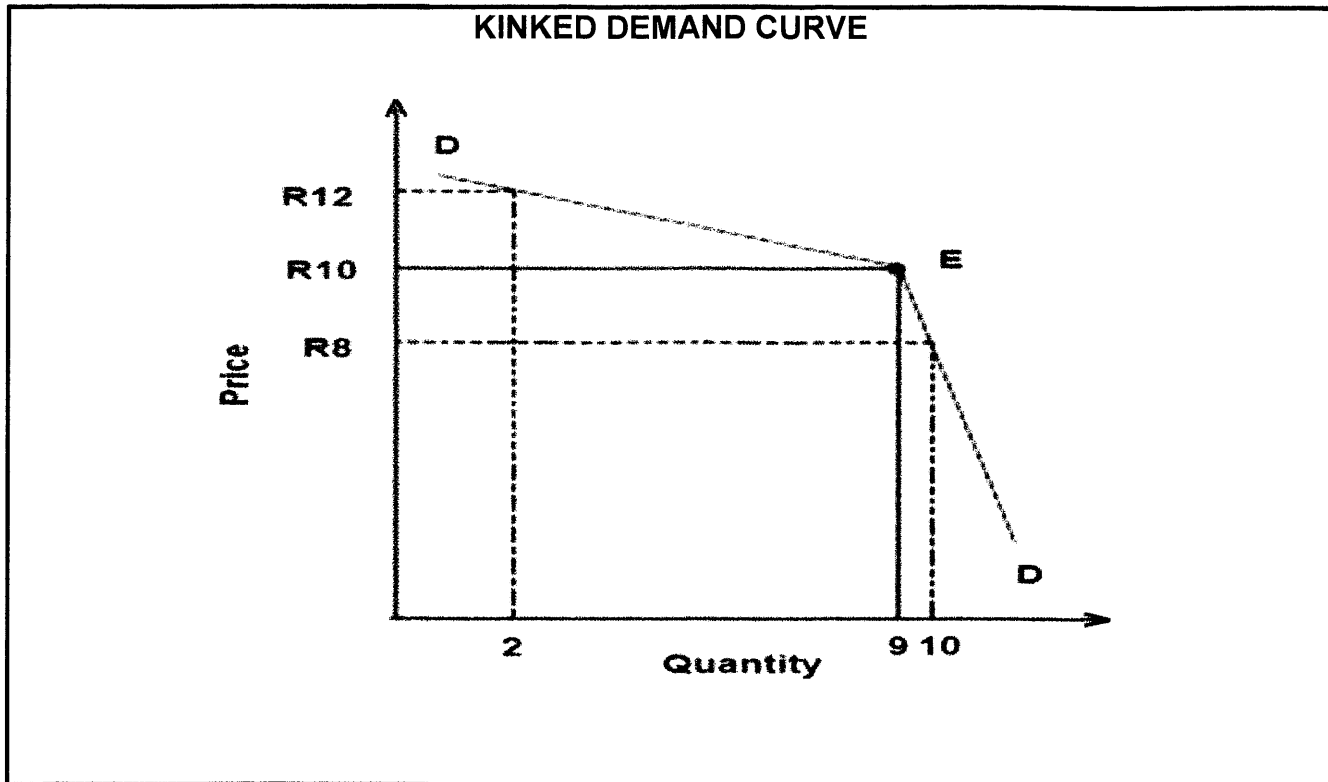
2.2.2 What is the nature of product in this market? (1)

2.2.3 Briefly describe the term *marginal cost*. (2)

2.2.4 Explain the entry of firms in a perfect market. (2)

2.2.5 Why are firms in the perfect market not able to control price? (2x2) (4)

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



- 2.3.1 Identify the market price on the graph above. (1)
- 2.3.2 Which part of the demand curve is relatively inelastic? (1)
- 2.3.3 Briefly describe the term *price leadership*. (2)
- 2.3.4 Why would firms be reluctant to increase prices in an oligopolist market? (2)
- 2.3.5 Calculate the revenue earned by this firm. Show all calculations. (4)
- 2.4 Using a correctly labelled graph, discuss how a firm uses TR/TC rule to maximize profit. (8)
- 2.5 Evaluate how collusion can positively affect the economy. (8)

**[40]**

**QUESTION 3: MICROECONOMICS**

**40 MARKS – 30 MINUTES**

3.1. Answer the following questions.

3.1.1 Give TWO examples of monopolistic competition markets. (2 x 1) (2)

3.1.2. How does reduction of producer taxes affect the consumers? (1 x 2) (2)

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

<b>COST AND BENEFIT ANALYSIS IN PROVISION OF ELECTRICITY TO COMMUNITY</b>		
<b>Communities</b>	<b>Private Costs Rbn</b>	<b>Private Benefits Rbn</b>
KWAHLATHINI	135	200
KWAMAHHESHE	140	150
ETSHELIMNYAMA	120	110
KWANONTSHIZA	200	250

3.2.1. Which institution uses cost benefit analysis? (1)

3.2.2. What type of prices are used to calculate this technique? (1)

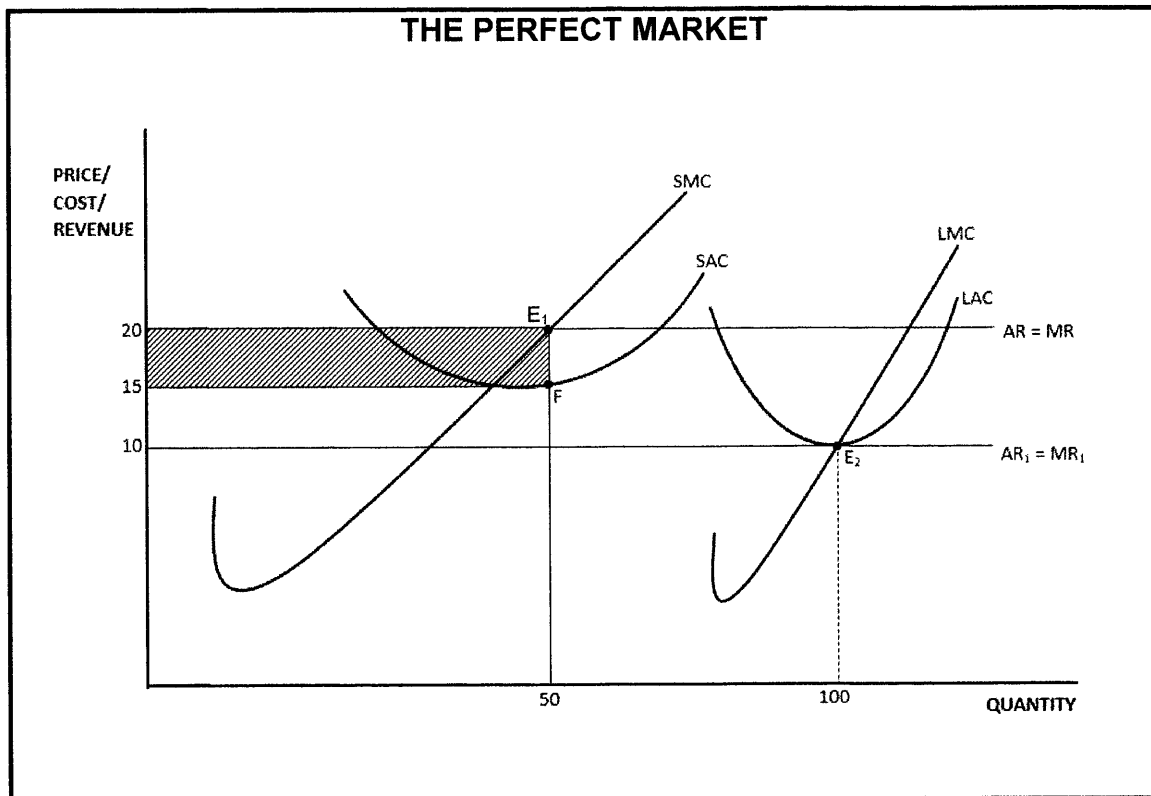
3.2.3. Briefly describe the term *private benefit*. (2)

3.2.4. Why does the government implement minimum prices? (2)

3.2.5. Calculate the cost benefit analysis of KwaNontshiza. Show all calculations. (4)



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



3.3.1 Identify profit maximization in the long term. (1)

3.3.2 Which curve represents the demand curve in the graph above in the long run? (1)

3.3.3 Briefly describe the term *variable costs*. (2)

3.3.4 Why is the price at point E2 lower than the price at point E1? (2)

3.3.5 Calculate the value of the shaded area. Show ALL calculations. (2 x 2) (4)

3.4. With a correctly labelled graph, discuss production inefficiency in the markets. (4 x 2) (8)

3.5. Evaluate the success of Competition policy in the economy. (4 x 2) (8)

**[40]**



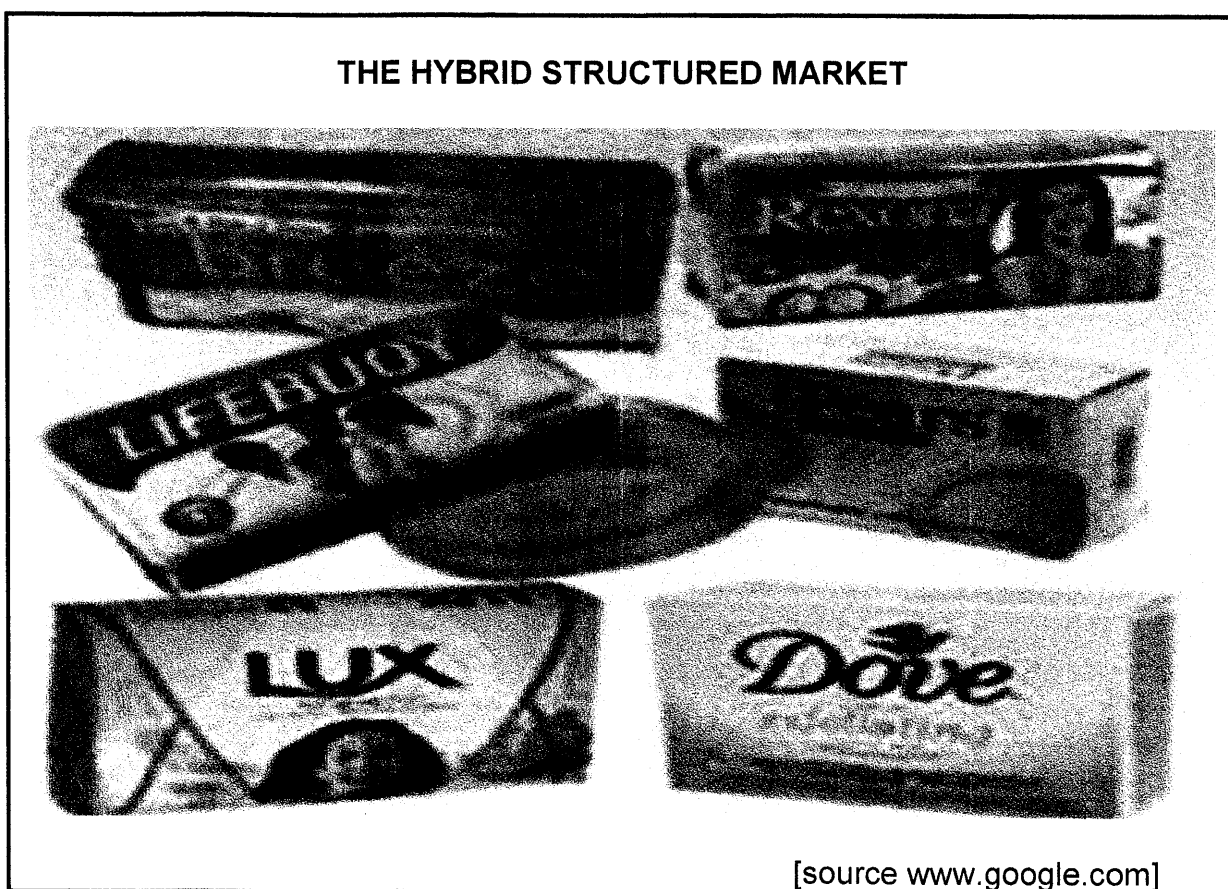
**QUESTION 4 MICROECONOMICS****40 MARKS – 30 MINUTES**

4.1. Answer the following questions.

4.1.1 Give TWO examples of positive externalities. (2 x1) (2)

4.1.2 Why do people in rural areas sometimes pay higher prices for goods and services than those living in urban areas? (1x2) (2)

4.2 Study the picture below and answer the questions that follow.



4.2.1 Identify the market structure depicted above. (1)

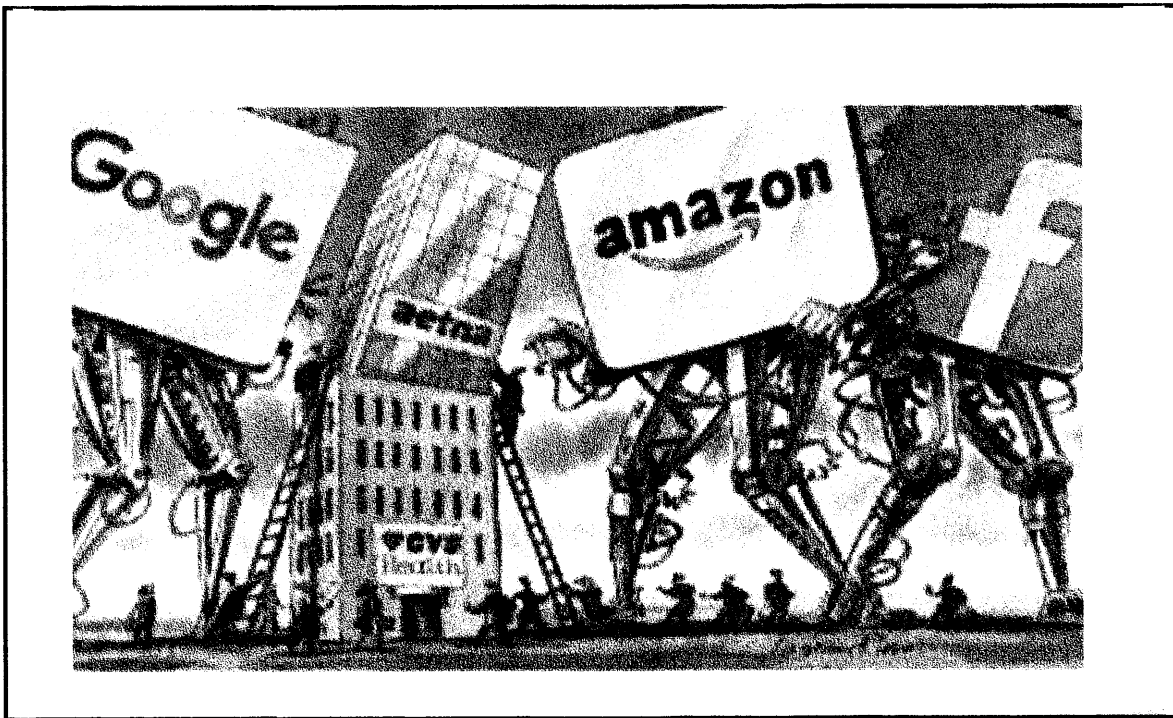
4.2.2 What is the shape of the demand curve in this market? (1)

4.2.3 Briefly describe the term *substitute goods*. (2)

4.2.4 Why are firms in this market sometimes regarded as price setters? (2)

4.2.5 How does branding promote businesses in the industry? (2 x 2) (4)

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



[Source: google.com]

- 4.3.1 Identify the market structure depicted in the cartoon above. (1)
- 4.3.2 What is the nature of the product of this market? (1)
- 4.3.3 Briefly describe the term *pure oligopoly*. (2)
- 4.3.4 Explain the role of mutual dependence in an oligopoly market. (2)
- 4.3.5 How does price-fixing negatively affect consumers? (2 x 2) (4)

- 4.4. With an aid of a well labelled graph, discuss negative externalities as consequences of market failure. (4 x 2) (8)
- 4.5. How does the government proceed with a project even if private costs exceed the private benefits in a cost benefit analysis? (4 x 2) (8)

[40]

TOTAL SECTION B: [80]





**SECTION C: MICROECONOMICS**

Answer any ONE of the two questions in this section in the ANSWER BOOK. Ensure that your answer follows the structure indicated below in order to obtain maximum marks:

STRUCTUTURE OF ESSAY	MARK ALLOCATION
<b>Introduction</b> The introduction is a lower order-response <ul style="list-style-type: none"> <li>• A good starting point would be to define the main concept related to the question topic.</li> <li>• Do not include any part of the question in your introduction.</li> <li>• Do not include any part of the introduction in your body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max. 2
<b>Body</b> <b>Main part:</b> Discuss in detail/ In depth discussion/ Examine/ Critically discuss/ Analyse/ Compare/ Evaluate/ Distinguish/Differentiate/ Explain.	Max. 26
<b>Additional part:</b> Give own opinion/ Critically discuss/ Evaluate/ Critically evaluate/ Draw a graph and explain/ Use the graph given and explain/ Complete the given graph/ Calculate/ Deduce/ Compare/ Explain/ Distinguish/ Interpret/ Briefly debate/ How/ Suggest	Max. 10
<b>Conclusion</b> Any high-order conclusion should include: <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned.</li> <li>• Any opinion or value judgment on the facts discussed.</li> <li>• Additional support information to strengthen the discussion/ analysis.</li> <li>• A contradictory viewpoint with motivation, if required.</li> <li>• Recommendations.</li> </ul>	Max. 2
<b>TOTAL</b>	<b>40</b>

**QUESTION 5: MICROECONOMICS****40 MARKS – 40 MINUTES**

- With aid of graphs, discuss how economic profit and economic loss is determined in a monopoly market. (26 marks)
- Why does the performance of South African monopolies contradicts the long-run equilibrium position of a monopoly? (10 marks)

**[40]****QUESTION 6: MICROECONOMICS****40 MARKS – 40 MINUTES**

Discuss government intervention to effects of market failure under the following headings:

- Maximum prices (13 marks)
- Subsidy (13 marks)

Why is it necessary to implement a national minimum wage in South Africa? (10 marks)

**[40]**

**TOTAL SECTION C: [40]**  
**GRAND TOTAL: [150]**



**NATIONAL  
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**GRADE 12**

**ECONOMICS  
COMMON TEST  
MARKING GUIDELINE  
JUNE 2021**

**MARKS : 100**

**DURATION : 1 ½ Hours**

**THIS marking guideline consists of 18 pages.**

**SECTION A: COMPULSORY: MICROECONOMICS****QUESTION 1****30 MARKS – 20 MINUTES****1.1. MULTIPLE CHOICE**

- 1.1.1 B✓✓(Short)
- 1.1.2 A✓✓(administered)
- 1.1.3 C✓✓(unique)
- 1.1.4 D✓✓(blocked)
- 1.1.5 A✓✓(private)
- 1.1.6 B✓✓(externalities)
- 1.1.7 D✓✓(industry)
- 1.1.8 C✓✓(price taker)

**1.2 MATCHING**

- 1.2.1 H✓ An alternative concept for the point where a firm in a perfect market makes normal profit.
- 1.2.2 D✓ Actual expenditure of running the business such as wages, insurance born by the business.
- 1.2.3 F✓ Exclusive rights given to produce certain goods and services.
- 1.2.4 A✓ A formal agreement between firms in the same industry to reduce competition.
- 1.2.5 G✓ Income received per unit sold.
- 1.2.6 B✓ A market whose entry is blocked due to legislation
- 1.2.7 I✓ Compulsory payment made to the government to cater for the public services.
- 1.2.8 C✓ Business expenses that cannot be recovered e.g. advertising

**1.3 ECONOMIC CONCEPTS**

- 1.3.1 Profit maximization point ✓
- 1.3.2 Economies of scale✓
- 1.3.3 Duopoly✓
- 1.3.4 Product differentiation✓
- 1.3.5 Pareto efficiency✓
- 1.3.6 Subsidies✓

**TOTAL SECTION A: [30]**

**SECTION B**

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

**QUESTION 2: MICROECONOMICS****40 MARKS – 30 MINUTES**

2.1. Answer the following questions.

2.1.1 **List any TWO characteristics of public goods.**

- Public goods are non rival in consumption. ✓
  - Public goods are non-excludable. ✓
  - Public good are non-rejectable. ✓
- (Accept any relevant and correct response)

(2x1) (2)

2.1.2 **Why is the demand curve equal to average revenue in the perfect market?**

- Each unit is sold at the same price which is the same as the horizontal demand curve. ✓✓
- (Accept any relevant and correct response)

(1x2) (2)

**[4]****2.2 DATA RESPONSE**

2.2.1 **Give ONE example of near perfect market.**

Agricultural production ✓  
(Accept any relevant and correct response)

(1)

2.2.2 **What is the nature of product in this market.**

Homogeneous / same/ identical ✓  
(Accept any relevant an correct response)

(1)

2.2.3 **Briefly describe the term marginal cost.**

Marginal costs is the amount by which total costs increases when an extra product is produced. ✓✓

(2)

(Accept any relevant and correct response)

2.2.4 **Explain the entry of firms in a perfect market.**

The entry into a perfect market is free and easy because there are no barriers. ✓✓

(2)

(Accept any relevant and correct response)

2.2.5 **Why are firms in the perfect market not able to control the price?**

- The price is determined by the market through market forces. ✓✓
- Firms are regarded as price takers and have no control over price. ✓✓

(2X2)(4)

(Accept any relevant and correct response)

**[10]**

## 2.3 DATA RESPONSE

2.3.1 Identify the market price on the graph above.

R10✓

(1)

2.3.2 Which part of the demand curve is relatively inelastic?

ED/ Bottom part /lower part✓

(1)

2.3.3 Briefly describe the term *price leadership*.

Price leadership is a situation where one firm fixes a price and other firms accept it as the market price. ✓✓

(Accept any relevant and correct response)

(2)

[10]

2.3.4 Why would the firm be reluctant to increase prices in an oligopolists market?

- Firms are reluctant to increase the price because it will create price wars. ✓✓

- Increasing the price will result in a decrease in demand leading to a decrease in revenue and profit of the firms. ✓✓

(Accept any relevant and correct response)

(2)

2.3.5 Calculate the revenue earned by this firm. Show all calculations.

Total Revenue = Price x Quantity✓

R10✓ x 9✓

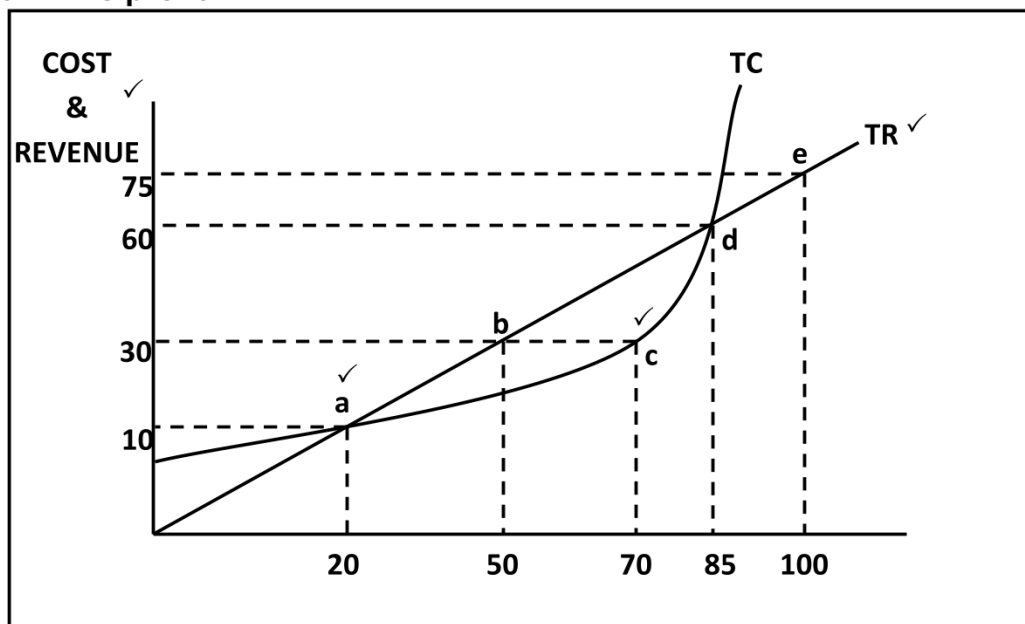
R90✓

(Accept any relevant and correct response)

(4)



- 2.4. Using a correctly labelled graph, discuss how a firm uses TR/TC rule to maximize profit. ✓✓



#### MARK ALLOCATION

Labeling on axis	1 mark
Correct position of TC and TR	1 mark
profit maximisation point	2 marks
– Break even point	1 mark
[max 4 marks]	

#### Explanation

- If  $TC > TR$  the business makes a loss, if  $TR > TC$  the business makes economic profit. ✓✓
- Profit is maximized at a point where there is the biggest difference between TC and TR, where TR is greater than TC at R30 with 70 units sold. ✓✓
- The business will be making normal profits at points **a** and **d**. ✓✓ Max4  
(Accept any relevant and correct answer) (8)

- 2.5. Evaluate how collusion can positively affect the economy.

- Collusion would benefit the supplier by logically fixing prices which will increase profits. ✓✓
- Third parties e.g. OPEC (oil cartel) and Greenpeace actually have similar interest. OPEC artificially increase price of oil through collusion. This reduces quantity consumed. ✓✓ This decrease the amount of negative externality of pollution. ✓✓
- Higher investment in research and development to improve the product quality to the benefit of the consumers. ✓✓
- The government receive increased revenue through indirect taxes on inflationary prices. ✓✓

(Accept any relevant and correct response)

(8)  
[40]



**QUESTION 3: MICROECONOMICS****40 MARKS – 30 MINUTES**

3.1. Answer the following questions.

3.1.1. **Give TWO examples of monopolistic competition markets.**

- Restaurants ✓
- Motor car manufacturers ✓

(2 x 1) (2)

(Accept any relevant and correct response)

3.1.2. **How does reduction of producer taxes affect the consumers?**

(1 x 2) (2)

The reduction of producer taxes would decrease market prices resulting in an increase in aggregate demand due to affordability by consumers. ✓✓

(Accept any relevant and correct response)

**[4]**3.2. **DATA RESPONSE**3.2.1. **Which institution uses cost benefit analysis?**

(1)

Government ✓

3.2.2. **What type of prices are used to calculate this technique?**

(1)

Shadow prices ✓

3.2.3. **Briefly explain the term private benefit**

(2)

- The gain a consumer gets from the use of goods. ✓✓
- The gain a producer gets from the sale of a product. ✓✓

(Accept any relevant and correct response)

3.2.4. **Why does the government implement minimum prices?**

(2)

- To allow businesses to make more profits. ✓✓
- To encourage producer to produce under produced goods ✓✓

(Accept any relevant and correct response)

(Accept any relevant and correct response)

3.2.5. **Calculate the cost benefit analysis of KwaNotshiza. Show all calculations.**

(4)

$$CBA = \frac{\text{Private benefits}}{\text{Private costs}} \checkmark$$

250 ✓

200 ✓

1,25 ✓

**[10]**



## 3.3. DATA RESPONSE

3.3.1 Identify profit maximization in the long term.

 $E_2$  ✓

(1)

3.3.2 Which curve represents the demand curve in the graph above in the long run?

 $AR_1 / MR_1$  ✓

(1)

3.3.3 Briefly describe the term *variable costs*.

Variable costs are costs that change as the quantity of output changes. ✓✓

(2)

(Accept any relevant and correct response)

3.3.4 Why is the price at point  $E_2$  lower than the price at point  $E_1$ ?

- More firms entered the market which decreased the price due to increase in supply. ✓✓
- The shift of the supply curve caused the price to decrease from R20 to R10. ✓✓

(2)

(Accept any relevant and correct response)

3.3.5 Calculate the value of the shaded area.

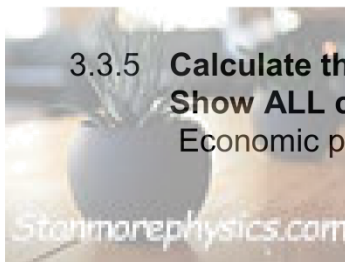
Show ALL calculations.

(2 x 2) (4)

Economic profit =  $TR - TC$  $P \times Q - C \times Q$  $(20 \times 50) - (15 \times 50)$  ✓ $1000 - 750$  ✓

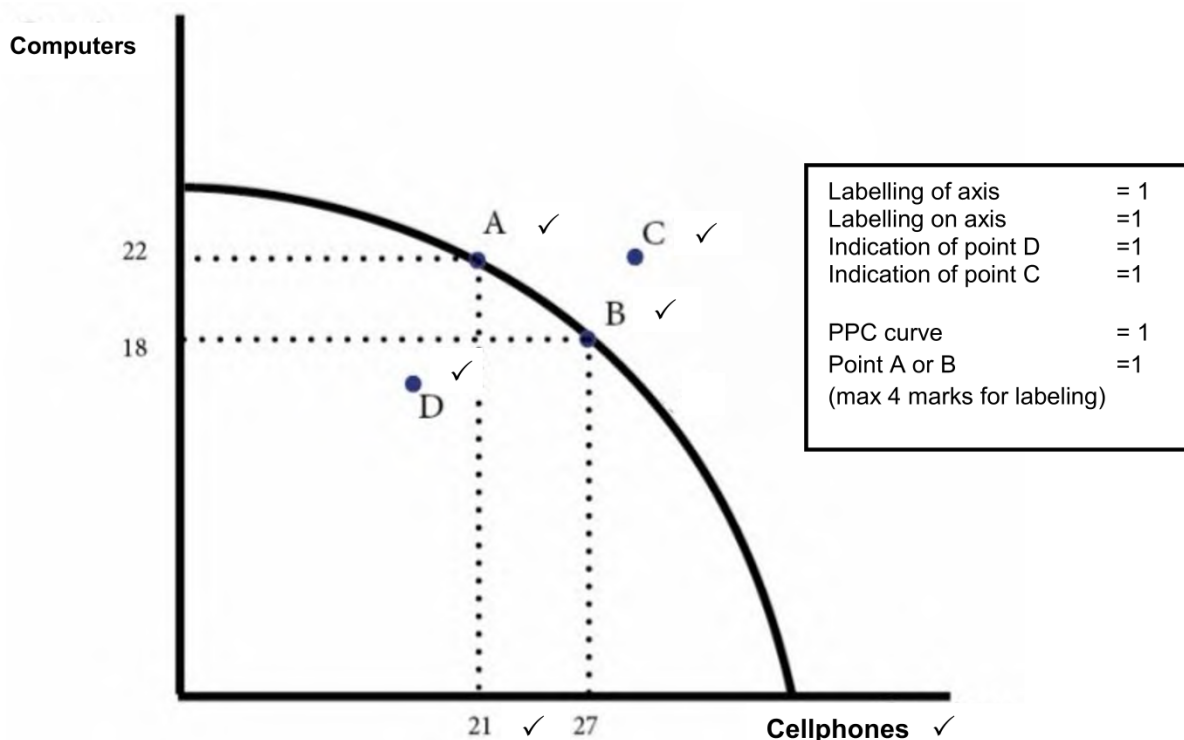
250 ✓

(Accept any correct calculation)

**[10]**

- 3.4. With a correctly labelled graph, discuss production inefficiency in markets.

(4 x 2) (8)



#### EXPLANATION

- Production inefficiency is when resources are not used appropriately to produce a maximum number of goods at a lowest possible cost. ✓✓
- Point D shows production inefficiency because goods are produced at a lower quantity than they possibly can. ✓✓
- Point C is unattainable because of unavailability of resources. ✓
- Production efficiency can only be attained at point A or B. ✓✓ max 4

(4x2)

(8)

(Accept any relevant and correct response)

[40]

3.5.

#### Evaluate the success of Competition policy on the economy.

##### Positive Contribution:

The competition policy has promoted a competitive economy by :

- Successfully investigating and prosecuting unfair competition on regular basis in the country. ✓✓
- Making recommendations about penalties for businesses found guilty of abuse and this been endorsed and fines imposed. ✓✓
- Implementing Competition Tribunal decision which accepts or rejects the investigation and recommendation of the Competition Commission and confirms penalty imposed. ✓✓

- The Competition Amendment Bill has improved the competition policy by holding directors / owners accountable for uncompetitive behavior. ✓✓
- Curbing the economic power of big conglomerate to arrive at a more equitable distribution of income and wealth. ✓✓
- Regulate market power of mergers where conditions were imposed to prevent possible unemployment that may result. ✓✓

### Negative Effects:

- There are still frequent occurrence of collusive behavior, despite fines being imposed. e.g. construction/ cement/ steel. ✓✓
- Too many dominant firms prevented disadvantaged black industrialists entering into the market (BEE). ✓✓
- The original competition policy did not take into account the impact of mergers and acquisitions on SMME's in terms of fair pricing. ✓✓
- The shortcomings of the competition policy has led to the adoption of the Competition Amendment Bill which will promote competition further. ✓✓

(Accept any other correct relevant response)

(Max 08)

[40]

## QUESTION4 MICROECONOMICS

40 MARKS – 30 MINUTES

4.1. Answer the following questions.

4.1.1 Give TWO examples of positive externalities.

(2 x1) (2)

- Education. ✓
- Health. ✓

(Accept any relevant and correct response)

4.1.2 Why do people in rural areas sometimes pay higher prices for goods and services than those living in urban areas?

(1x2) (2)

Most manufactured goods are produced in factories, which are situated in urban areas, the cost of transporting them to rural areas will lead to higher prices. ✓✓

(Accept any relevant and correct response)

### 4.2 DATA RESPONSE

4.2.1 Identify the market structure depicted above.

(1)

Monopolistic competition ✓

4.2.2 What is the shape of the demand curve in this market?

(1)

Downwards sloping from left to right. / relatively elastic ✓

4.2.3 Briefly describe the term *substitute goods*.

(2)

Substitute goods are goods that are used to replace other goods to satisfy the same need. ✓✓

(Accept any relevant and correct response)

4.2.4 **Why are firms in this market sometimes regarded as price setters?** (2)

products in this firm are differentiated and allow sellers to charge individual prices on their products. ✓✓

(Accept any relevant and correct response)

4.2.5 **How does branding promote businesses in the industry?** (2X2)(4)

- Branding differentiate products from those of competitors to gain market preference. ✓✓
- Customer loyalty is built to gain profits due to consistent demand. ✓✓
- Consumers are privileged to a variety of products to choose from. ✓✓
- Research and innovation is encouraged among firms which improves product quality. ✓✓

(Accept any relevant and correct answer)

[10]

4.3. **DATA RESPONSE**

4.3.1 **Identify the market structure depicted in the cartoon above.** (1)  
Oligopoly✓

4.3.2 **What is the nature of the product of this market?** (1)  
Heterogeneous✓ /differentiated/ homogeneous✓

4.3.3 **Briefly describe the term pure oligopoly.** (2)  
Pure oligopoly is a market structure in the oligopoly market where product sold are homogeneous✓✓  
(Accept any relevant and correct response)

4.3.4 **Explain the role of mutual dependence in an oligopoly market.** (2)

- Actions of one firm regarding price and quantity triggers the response of other firms. ✓✓
- Firms are forced to come up with strategies in order to counteract the actions of competitors. ✓✓

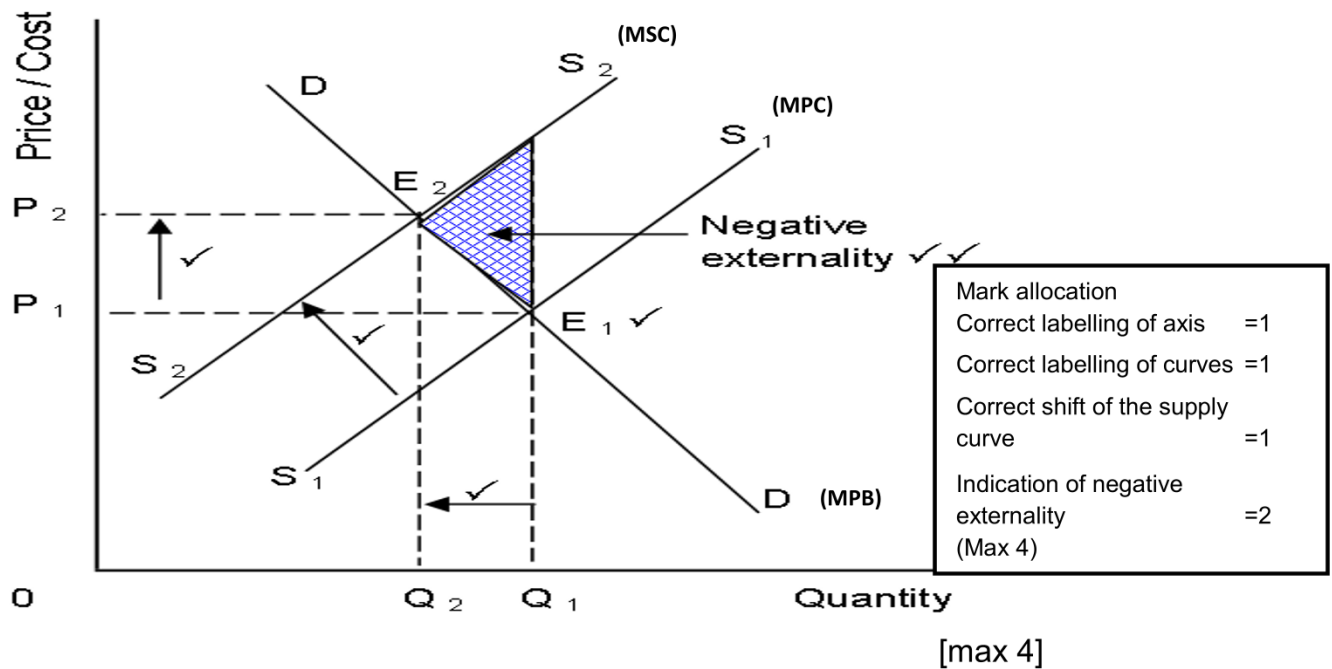
(Accept any relevant and correct response)

4.3.5 **How does price-fixing negatively affect consumers?** (2X2)(4)

- It forces consumers to pay high prices for goods and services. ✓✓
- It creates scarcity in order to increase prices while allowing inefficient suppliers to produce poor quality goods. ✓✓
- Reducing competitiveness by decreasing GDP and employment levels. ✓✓

(Accept any relevant and correct response) [10]

- 4.4. With an aid of a well labelled graph, discuss negative externalities as consequences of market failure. (2 x 4)(8)



#### Explanation

- As a result of the negative externality e.g. pollution, the marginal social cost (MSC) represented by  $S_2S_2$  is greater than Marginal Private Cost. ✓✓
- Lesser quantity  $Q_1$  is produced at higher price  $P_2$  which causes social inefficient solution. ✓✓
- The shaded angle represents negative externality (welfare loss). ✓✓

[max 4]

(Accept any relevant and correct response)

- 4.5. How does the government proceed with a project even if private costs exceed private benefits in the cost benefit analysis?

- The primary objective is to provide public goods and services irrespective of costs incurred. ✓✓
- Social costs and social benefits are also taken into account when deciding on a project. ✓✓
- When a need for infrastructure is necessary but might not have benefits in terms of profit. e.g. building of a community centre, bridge etc. ✓✓
- Funding of these projects are mainly financed through tax revenue and does not impoverish any individuals as such. ✓✓
- The infrastructure adds to the welfare of the community at large and non-excludable to anyone using it. ✓✓

(4 x 2)(8)  
[40]

**TOTAL SECTION B: [80]**

**SECTION C****QUESTION 5: MICROECONOMICS****40 MARKS – 40 MINUTES**

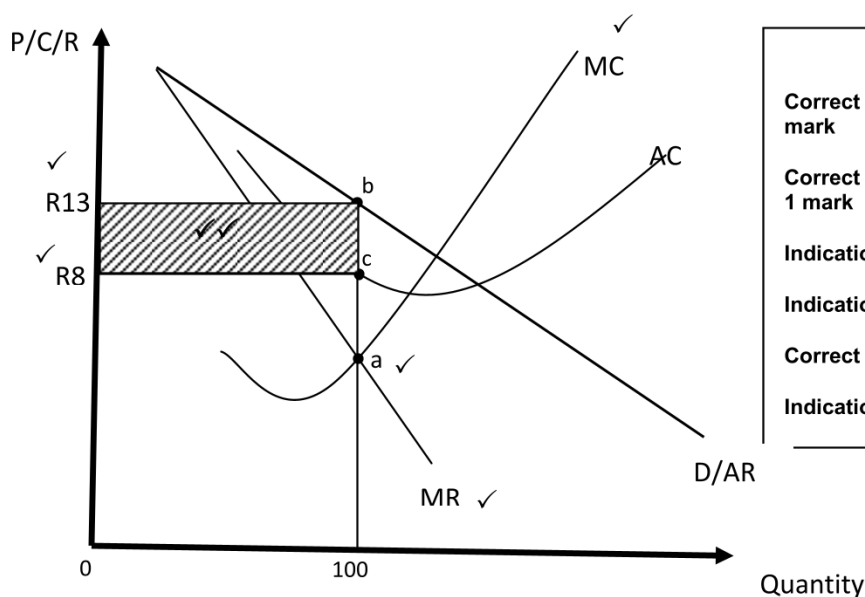
- With aid of graphs, discuss how economic profit and economic loss is determined in a monopoly market.  
(26 marks)
- Why does the performance of South African monopolies contradict the long-run equilibrium position of a monopoly? (10 marks)



**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****MARK ALLOCATION**

Correct positioning and labeling of cost curves = 1 mark

Correct positioning and labeling of revenue curves = 1 mark

Indication of profit maximization = 2 marks

Indication of market price = 1 mark

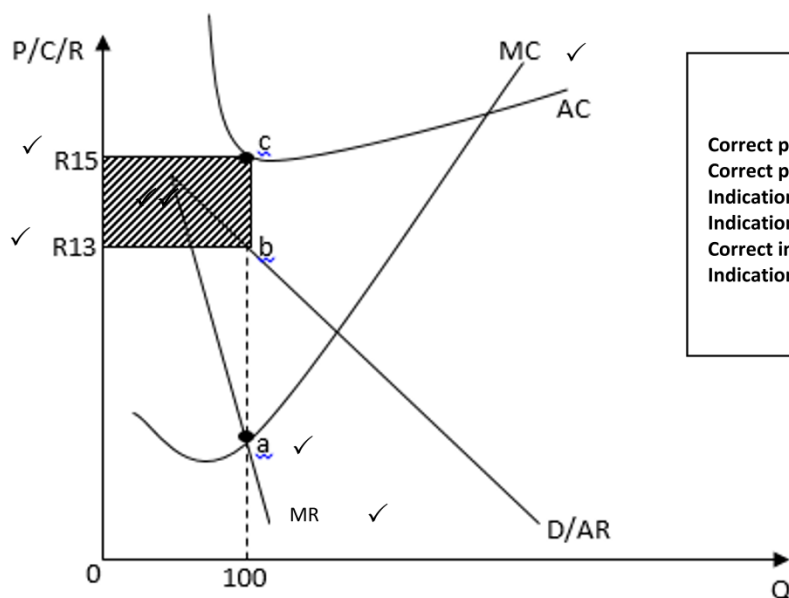
Correct indication of economic PROFIT = 1 mark

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 =  $R13 \times 100 = R1300$  ✓✓
- Total costs = Cost x quantity =  $R8 \times 100 = R800$  ✓✓
- Profit =  $R1300 - R800 = R500$ . ✓✓

(accept any other correct and relevant response)

**ECONOMIC LOSS****MARK ALLOCATION**

Correct positioning and labeling of cost curves	=1
Correct positioning and labeling of revenue curves	=1
Indication of profit maximization	=1
Indication of market price	=1
Correct indication of economic loss	=2
Indication of cost	=1 mark
max mark = 6	

**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**

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

- 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) [40]

**QUESTION 6: MICROECONOMICS****40 MARKS – 40 MINUTES**

Discuss government intervention to effects of market failure under the following headings:

- Maximum prices (13 marks)
- Subsidy (13 marks)

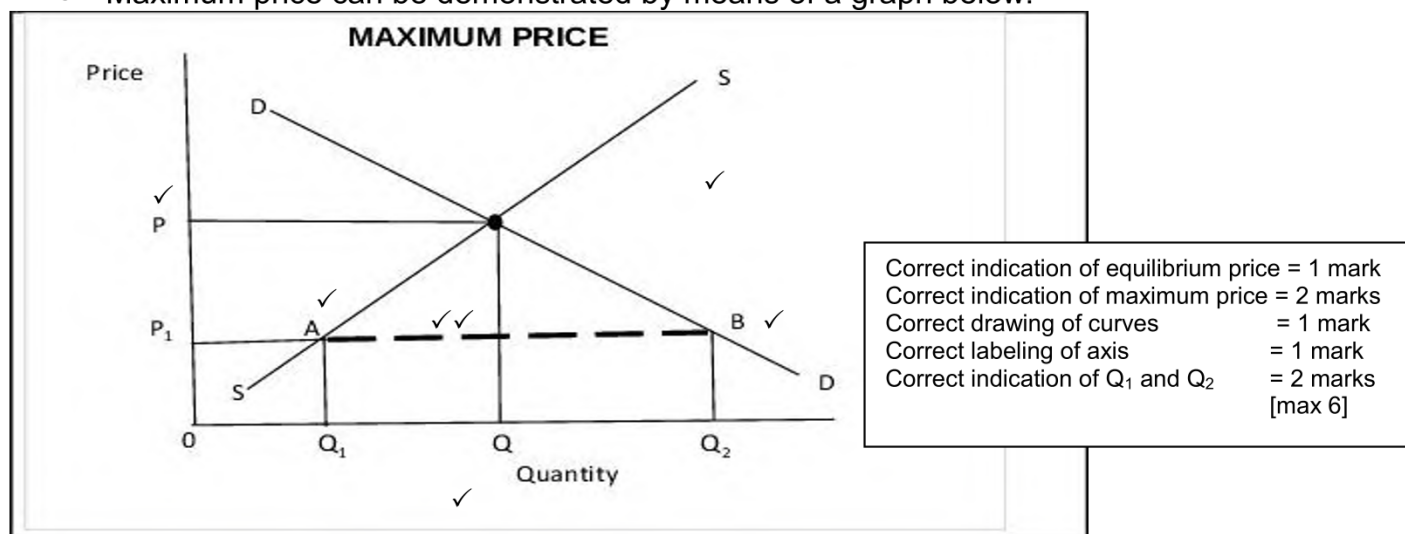
Why is it necessary to implement a national minimum wage in South Africa? (10 marks)  
(10 marks)

**INTRODUCTION**

Market failure occurs when market forces of demand and supply do not ensure the correct quantity of goods and services are produced to meet demand at the right price. ✓✓

**BODY / MAIN PART****Maximum Price**

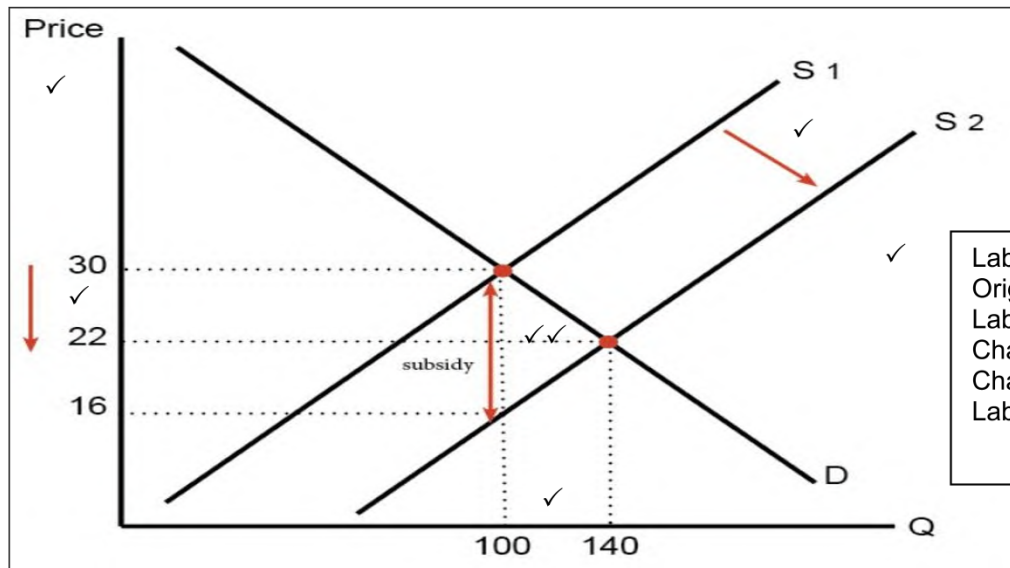
- Government may impose a maximum price on essential goods. ✓✓
- The aim is to ensure that everyone including the poor is able to buy the product. ✓✓
- The maximum price is always less than the market price. ✓✓
- Maximum price can be demonstrated by means of a graph below:

**Explanation:**

- The government intervenes and passes a law of setting maximum prices below the market price. ✓✓
- The effect of this maximum price is that quantity supplied decreases to Q<sub>1</sub> and quantity demanded increases to Q<sub>2</sub>. ✓✓
- There is a shortage in the market which is equal to the difference between Q<sub>1</sub> and Q<sub>2</sub>. ✓✓
- A shortage creates problems of how to allocate products to consumers. ✓✓
- Black markets often develop where people can obtain products. ✓✓
- A black market is illegal markets in which either illegal goods are bought and sold or illegal prices are charged. ✓✓
- Maximum prices may cause a shortage of goods but they do improve the welfare of some consumers since goods can be purchased at lower prices. ✓✓

**Providing consumer subsidy**

- The government provided subsidies to producers in order to encourage them to increase the production of goods. ✓✓
- Producer subsidies are often given to suppliers of agricultural products such as milk, wheat and maize. ✓✓
- Subsidies lower the cost of producing goods and thus the market price of these goods is lowered. ✓✓



Labeling on axis = 1 mark  
 Original price = 1 mark  
 Labeling of subsidy = 2 marks  
 Change in quantities = 1 mark  
 Change in supply = 1 mark  
 Labeling of axis = 1 mark  
 [max 6]

- The market price of P(R30) and corresponding quantity is Q(100). ✓✓
- If the government subsidises the production, the market price will decrease to (R22), with corresponding quantity Q2.(140) ✓✓
- The lower price of (R22), allows the poor to purchase more of a product. ✓✓

(Max 26)

(Accept any relevant and correct answer)

**ADDITIONAL PART**

Why is it necessary to implement a national minimum wage in South Africa?

Minimum wage has the following benefits:

- Protect workers from being exploited by employers. ✓✓
- It increases buying power enabling workers to afford more goods and services. ✓✓
- It improves standard of living by being able to satisfy more wants. ✓✓
- Improves the distribution of income to those people who received very low wage in the past. ✓✓
- People become encouraged to find employment, which will reduce unemployment and poverty. ✓✓
- It reduces dependency on government, such as issuing of social grants. ✓✓

(Max 10)

(Accept any relevant and correct answer)

**CONCLUSION**

- Market failures can have devastating effects on the economy which requires the government to intervene for purposes of correcting market failure.

(Accept any relevant and correct answer)

(2)

**[40]**

**TOTAL SECTION C: [40]**

**GRAND TOTAL: [150]**