



## KWAZULU-NATAL PROVINCE

EDUCATION  
REPUBLIC OF SOUTH AFRICA

### NATIONAL SENIOR CERTIFICATE

GRADE 12

ECONOMICS P2

COMMON TEST

JUNE 2022

*Stanmorephysics.com*

MARKS: 150

TIME: 2 hours

This question paper consists of 13 pages.

**SECTION B**

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

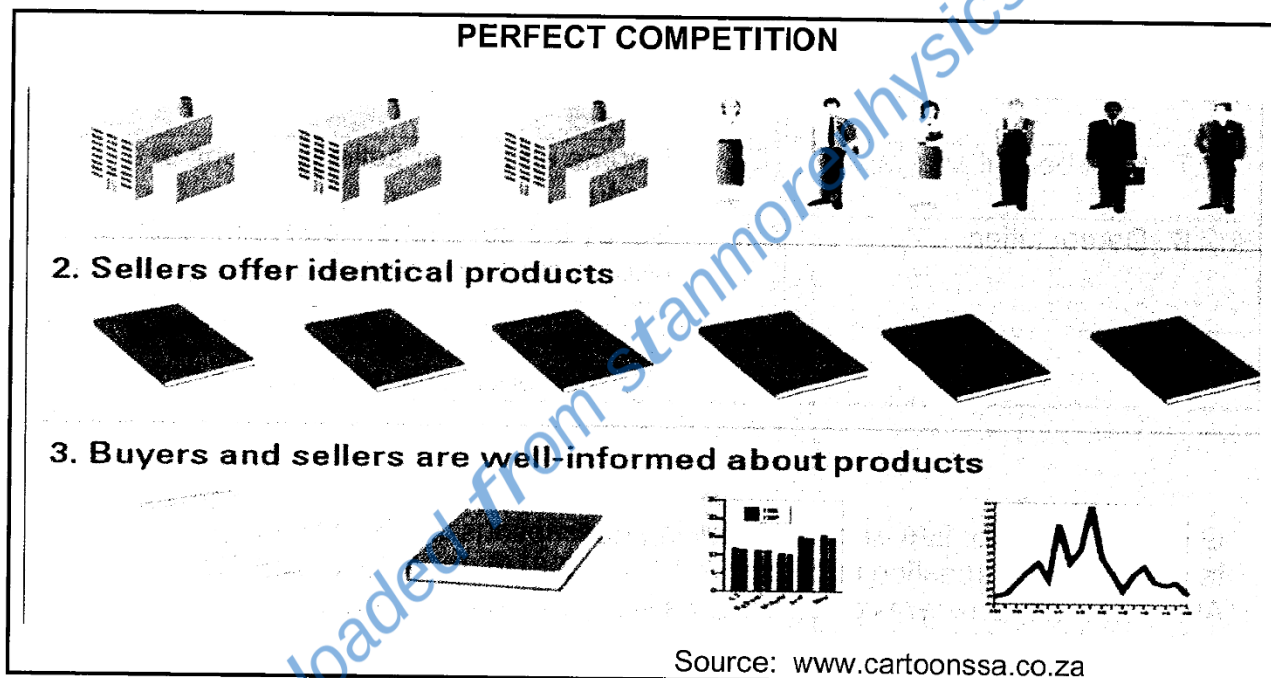
**QUESTION 2: MICRO-ECONOMICS****40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 List any TWO examples of sunk costs. (2 x 1)(2)

2.1.2 Why a monopolist firm called a price maker? (1 x 2)(2)

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



2.2.1 A market structure where collusion between sellers is impossible. (1)

2.2.2 How many firms operate in the perfect market? (1)

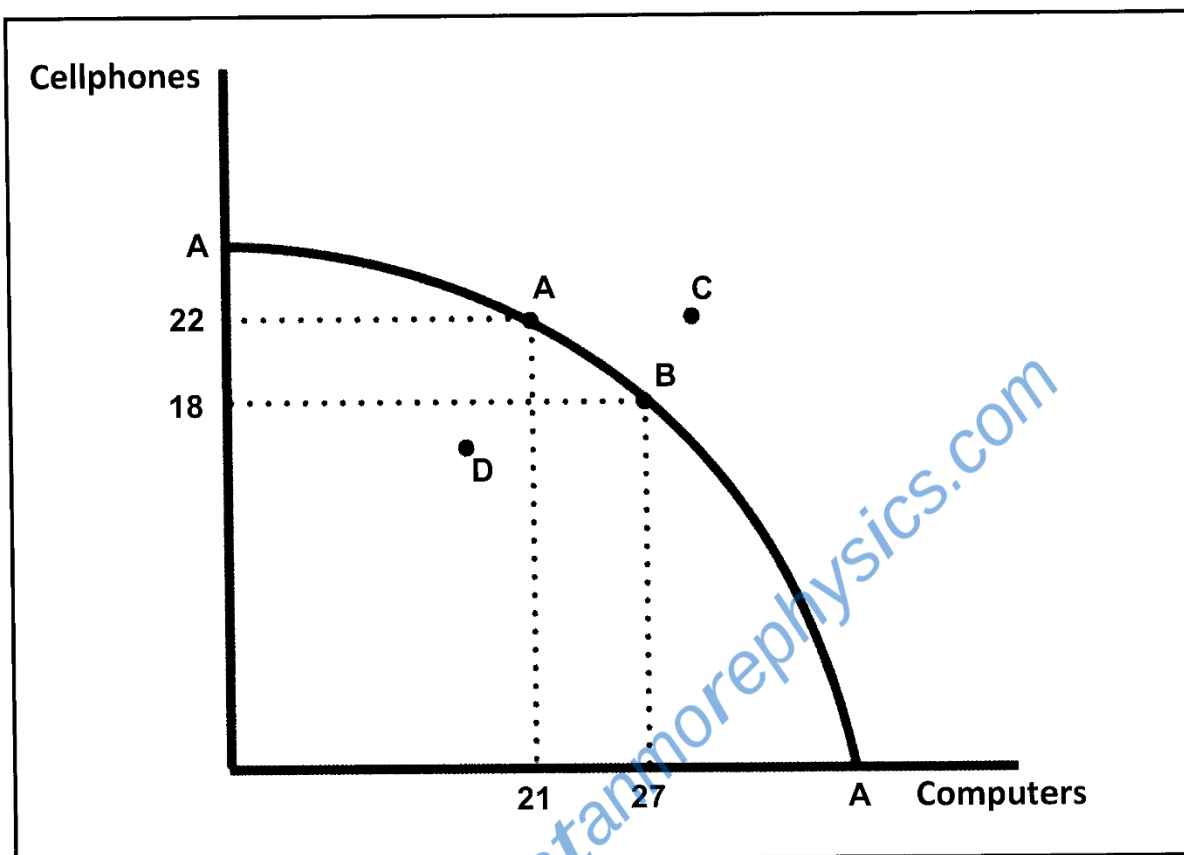
2.2.3 Briefly describe the term *industry*. (2)

2.2.4 Why is the demand curve of a firm horizontal? (2)

2.2.5 What is the impact of freedom of entry to existing firms in the long-run? (2 x 2)(4)



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



2.3.1 What is the name of the curve AA above? (1)

2.3.2 Name the point that indicate inefficiency on the graph. (1)

2.3.3 Briefly describe the term *opportunity cost*. (2)

2.3.4 Why is it not possible to produce at point C for this firm? (2)

2.3.5 How does allocative inefficiency differ from productive inefficiency? (4)

2.4 Using a correctly labelled graph, discuss how a firm uses TR/TC rule to maximize profit. (4 x 2) (8)

2.5 Analyse the challenges faced by the competition policy in South Africa to achieve its objectives. (8)

[40]

**QUESTION 3: MICRO-ECONOMICS****40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name TWO competition bodies in South Africa. (2 x 1) (2)

3.1.2 Why is there limited competition in an oligopoly market? (1 x 2) (2)

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

**UNDERSTANDING MONOPOLIES**

A monopoly implies possession of a market by a supplier of a product or services. In the absence of government intervention, the firm has a significant market power to charge prices. The monopoly case is taken as the polar opposite of perfect competition.

Monopolies are often discouraged in free-market nations. They are seen as leading to price gouging and decrease in quantity due to lack of alternative choices for consumers. They also concentrate on wealth, power and influence in the hands of one or few individuals.

Source: [www.stats.oecd.org](http://www.stats.oecd.org)

3.2.1 How many firms operate in the monopoly market? (1)

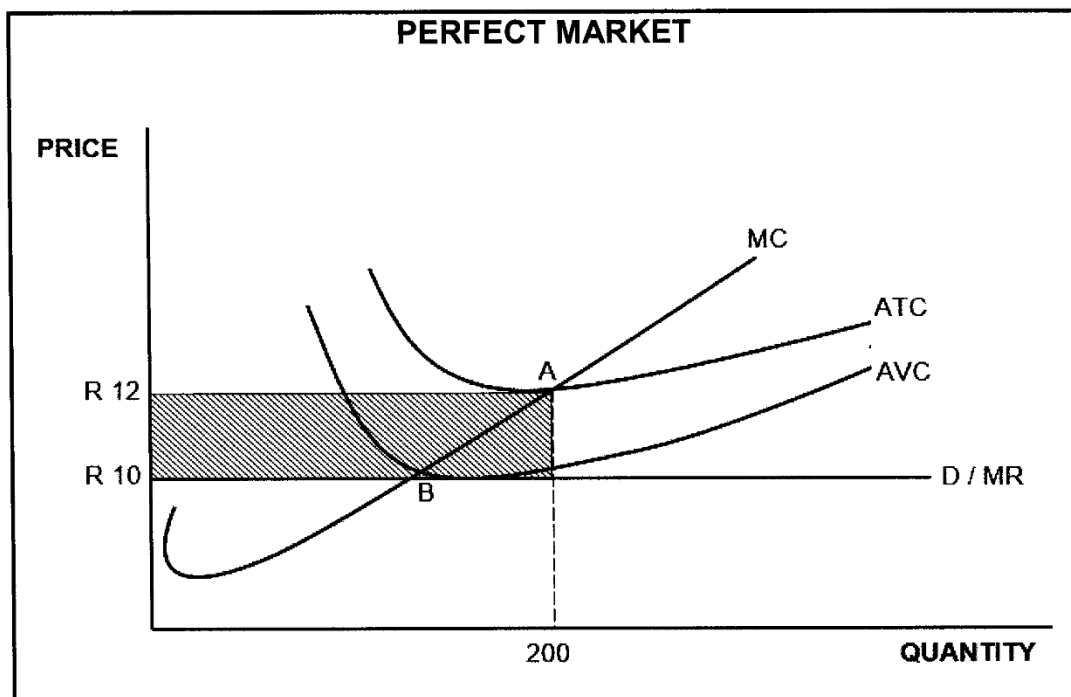
3.2.2 What is the nature of product in a monopoly market? (1)

3.2.3 Briefly describe the term *economic profit*. (2)

3.2.4 Explain the reason why a monopolist is not able to achieve allocative efficiency. (2)

3.2.5 Why it is possible for a monopolist to make economic profit both in the short and long-run period? (2 x 2) (4)

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



3.3.1 Identify what is represented by point B in the graph above. (1)

3.3.2 What is the cost of producing one unit according to the graph above? (1)

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

3.3.4 Explain the conditions that must exist for a firm to shut down. (1 x 2) (2)

3.3.5 Calculate the economic loss made by this firm. Show ALL calculations. (2 x 2) (4)

3.4 With an aid of a graph, explain subsidy as government intervention to overcome market failure. (4 x 2) (8)

3.5 Evaluate the effect of imperfect markets on consumers. (8)  
[40]

**QUESTION 4: MICRO-ECONOMICS**

**40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

4.1.1 Give TWO types of public goods. (1 x 2) (2)

4.1.2 How could firms in the perfect market increase their profits? (2 x 1) (2)

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

**THE MARKET INSIGHT OF MONOPOLISTIC COMPETITIVE MARKETS**

The bakery market in South Africa is analysed to be of the fastest growing markets across the world. Whether you are focused on bread or sweet treats, launching a bakery requires various licenses and permits. This industry offers plenty of opportunities and a variety of products. That is why you find a bakery in every corner in the community. With high start-up costs, these businesses face a very high level of competition. It is for these reasons that the monopolistic competition is sometimes referred to as a hybrid market structure.

Source: [www.reportliner.com](http://www.reportliner.com)

4.2.1 What is the nature of the products sold in a monopolistic competitive Market? (1)

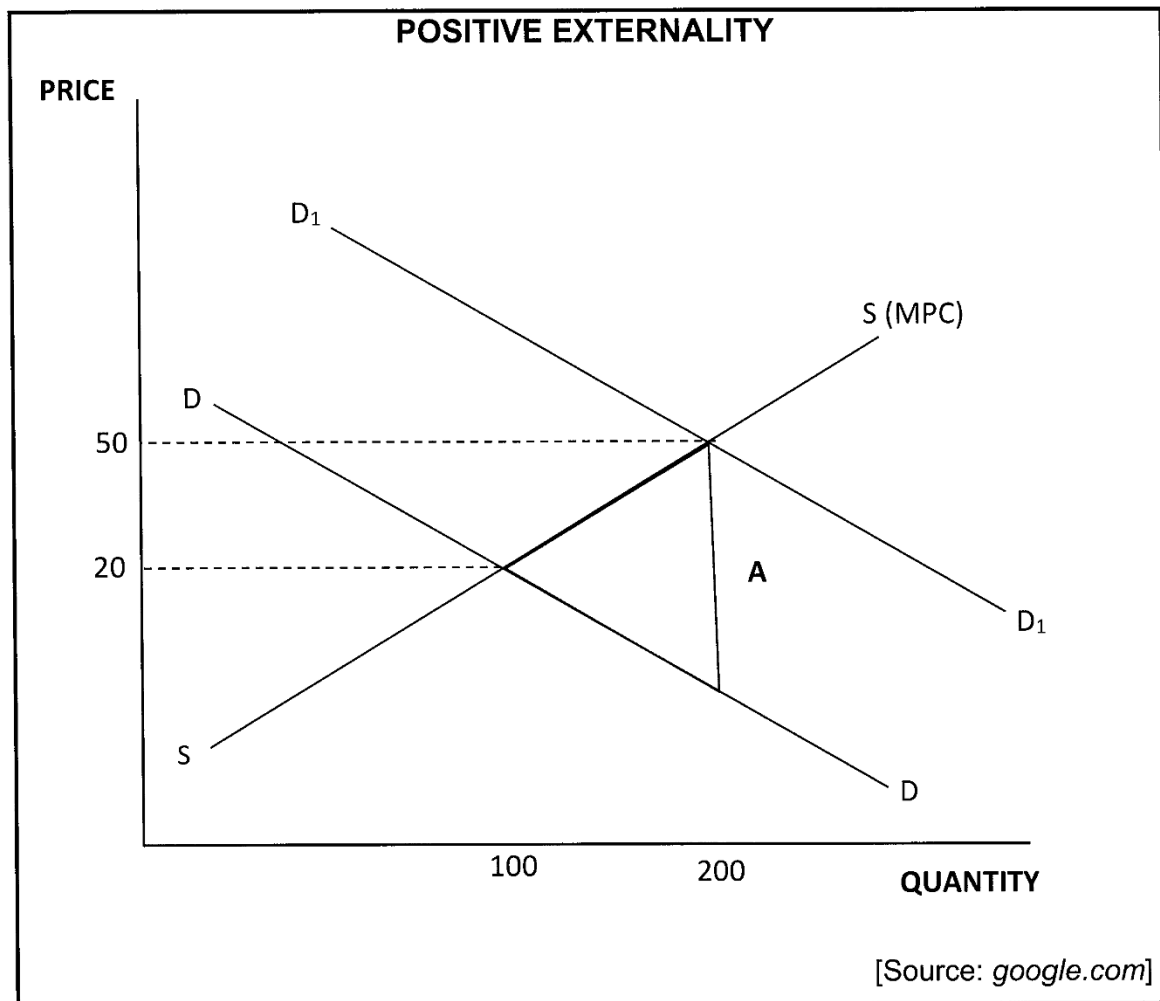
4.2.2 Identify from the extract word suggests a combination of two market structures? (1)

4.2.3 Briefly describe the term *economic loss*. (2)

4.2.4 Explain the reason why the demand curve for a monopolistic firm is highly elastic? (2)

4.2.5 Why will the economic profit made by a monopolistic competitor disappear in the long-run? (2 x 2) (4)

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



4.3.1 What is another name for curve D in the graph above? (1)

4.3.2 Name the shaded area on the graph. (1)

4.3.3 Briefly describe the term *externalities*. (2)

4.3.4 Explain the impact on education after government intervention. (2)

4.3.5 How can the government encourage positive externalities? (2 x 2) (4)

4.4 With an aid of a well labeled graph discuss economic loss made by a monopolist. (4 x 2) (8)

4.5 Why is a perfect market considered to be more efficient when compared to other market structures? (8)

**TOTAL SECTION B: [80]**

## SECTION C

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
<p><b>Introduction</b></p> <p>The introduction is a lower order-response</p> <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>	<p>Max. 2</p>
<p><b>Body</b></p> <p><b>Main part:</b> Discuss in detail/ In depth discussion/ Examine/ Critically discuss/ Analyse/ Compare/ Evaluate/ Distinguish/Differentiate/ Explain.</p> <p><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</p>	<p>Max. 26</p> <p>Max. 10</p>
<p><b>Conclusion</b></p> <p>Any high-order conclusion should include:</p> <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>	<p>Max. 2</p>
<b>TOTAL</b>	<b>40</b>

**QUESTION 5: MICRO-ECONOMICS****MARKS – 40 MINUTES**

- Discuss oligopoly as a market structure in detail. (26)
  - How do businesses in an oligopoly market compete without using prices? (10)
- [40]**

**QUESTION 6****MARKS – 40 MINUTES**

- Examine in detail the causes of market failure. (26)
  - How does the South African government intervene to limit market failure? (10)
- [40]**

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

**FINAL**



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**GRADE 12**

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**MARKING GUIDELINES**

**COMMON TEST**

**JUNE 2022**

Stanmorephysics.com

**MARKS: 150**

**This marking guideline consists of 19 pages.**

**SECTION A (COMPULSORY)****QUESTION 1****30 MARKS - 20 MINUTES****1.1 MULTIPLE CHOICE**

- 1.1.1 B – short ✓✓
- 1.1.2 C – price ✓✓
- 1.1.3 D – black ✓✓
- 1.1.4 A – profit maximisation ✓✓
- 1.1.5 C – Explicit ✓✓
- 1.1.6 B – merit ✓✓
- 1.1.7 D – external ✓✓
- 1.1.8 A – maximum ✓✓

(8 x 2) (16)

**1.2 MATCHING ITEMS**

- 1.2.1 D – Few firms which produce similar products in the market. ✓
- 1.2.2 E – An increase in the average cost of production per unit as output increases. ✓
- 1.2.3 F – The firm has no control over the price of the product. ✓
- 1.2.4 G – Income earned for selling one unit of a product. ✓
- 1.2.5 H – Set by the government above the market rate below which no employer may pay their workers. ✓
- 1.2.6 A – A situation where a similar product is sold to different customers at different prices. ✓
- 1.2.7 I – Conducted by government to make informed decisions on new project. ✓
- 1.2.8 C – Removal of unnecessary laws and regulations to improve efficiency of markets. ✓

(8 x 1) (8)

**1.3 CONCEPTS**

- 1.3.1 Missing market ✓
- 1.3.2 Patents ✓
- 1.3.3 Marginal revenue ✓
- 1.3.4 Break-even point ✓/Profit Maximisation point ✓
- 1.3.5 Income Tax ✓
- 1.3.6 Administered prices ✓

(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 TWO: MICRO-ECONOMICS****40 MARKS – 30 MINUTES****2.1 Answer the following questions.****2.1.1 List any TWO examples of sunk costs.****(2 x 1)(2)**

- Advertising ✓
- Salaries ✓

(Accept any relevant and correct answers)

**2.1.2 Why a monopolist firm called a price maker?****(1 x 2)(2)**

Monopoly firms decide on the prices of their goods and have full control over price. ✓✓

(Accept any relevant and correct answers)

**2.2 DATA-RESPONSE****2.2.1 Identify the market structure depicted on the cartoon above.****(1)**

Perfect market ✓

**2.2.2 How many firms operate in the perfect market?****(1)**

Many ✓

**2.2.3 Briefly describe the term *industry*.****(2)**

A group of businesses that produce homogenous products in the market. ✓✓

(Accept any relevant and correct answers)

**2.2.4 Why is the demand curve of a firm horizontal? (2)**

- The demand curve is horizontal because the firm is a price taker. ✓✓
- The firm uses the market price and do not have control over price. ✓✓

(Accept any relevant and correct answers)

**2.2.5 What is the impact of freedom of entry to existing firms in the long-run? (2 x 2)(4)**

- More firms enter the market, attracted by economic profit that is made by firms in the short- run, increasing the number of competitors. ✓✓
- The supply of goods in the market increases due to many firms, causing prices to decrease. ✓✓
- Firms operating in the long-run are likely to achieve normal profit as compared in the short - run, where they make economic profit. ✓✓

(Accept any relevant and correct answers)

**[10]**

**2.3 DATA-RESPONSE****2.3.1 What is the name of the curve AA above? (1)**

Production possibility curve. ✓

**2.3.2 Name the point that indicate inefficiency on the graph. (1)**

D ✓

**2.3.3 Briefly describe the term opportunity cost. (2)**

Opportunity costs is the best alternative that has been given up when making product choice. ✓✓

(Accept any relevant and correct answers)

**2.3.4 Why is it not possible to produce at point C for this firm? (2)**

- The firm does not have sufficient resources to produce at point C. ✓✓
- Production at point C requires the firm to improve technology so as to increase production. ✓✓

(Accept any relevant and correct answers)

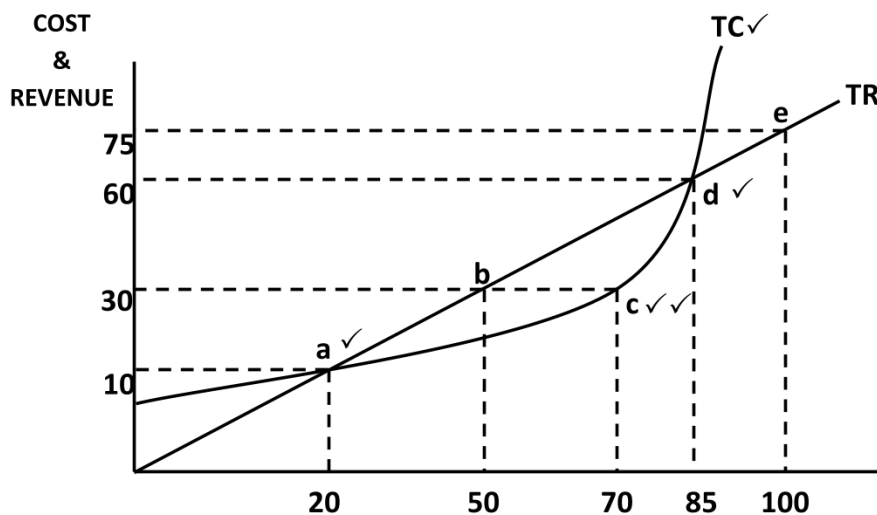
### 2.3.5 How does allocative inefficiency differ from productive inefficiency? (4)



- Allocative inefficiency means that the quantities of goods or services produced are not what is best for consumers. ✓✓
- Productive inefficiency is when resources are not used appropriately to produce a maximum number of goods at a lowest possible cost. ✓✓

(Accept any relevant and correct answers)

### 2.4 Using a correctly labelled graph, discuss how a firm uses TR/TC rule to maximize profit. (4 x 2)(8)



#### MARK ALLOCATION

- 2 marks – profit maximisation point
- 1 mark – curves (TR and TC)
- 1 mark – Any break-even point

#### 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**. ✓✓

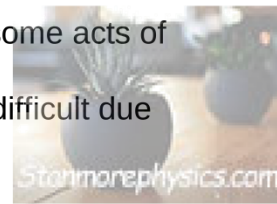
(Accept any relevant and correct answer)

**2.5 Analyse the challenges faced by the competition policy in South Africa to achieve its objectives.**

**(8)**

Challenges faced by the Competition Policy in South Africa are that:

- Fines charged are too lenient and do not cover the costs suffered by the consumers. ✓✓
- Lack of human resources results in some investigations or act of collusion sometimes goes undetected. ✓✓
- Cases of restrictive practices take longer to investigate and lose merit in the process. ✓✓
- Corruption and political interference and interests prevent some acts of collusion from being investigated properly. ✓✓
- The monitoring and enforcement of competition policies is difficult due to the vastness of area. ✓✓
- Some mergers and acquisitions only protect workers in the short term, eventually workers are retrenched. ✓✓



(Accept any relevant and correct answers)

**[40]**

**QUESTION 3: MICRO-ECONOMICS****40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

**3.1.1 Name TWO competition bodies in South Africa. (2 x 1)(2)**

- Competition Commission ✓
- Competition Tribunal ✓
- Competition Appeal Court ✓

(Accept any other relevant correct answer)

**3.1.2 Why is there limited competition in an oligopoly market? (1 x 2)(2)**

There are few large firms operating in an oligopoly market which limits competition in the market. ✓✓

(Accept any relevant and correct answer)

**3.2 DATA-RESPONSE**

**3.2.1 How many firms operate in the monopoly market? (1)**

One ✓

**3.2.2 What is the nature of product in a monopoly market? (1)**

Unique ✓

**3.2.3 Briefly describe the term *economic profit*. (2)**

Economic profit is a minimum profit earned above the normal profit where average revenue is greater than average cost. ✓✓

(Accept any relevant and correct answer)

**3.2.4 Explain the reason why a monopolist is not able to achieve allocative efficiency. (2)**

- The monopolist may lack resources to provide sufficient goods and services because of misallocated resources. ✓✓
- The monopolist is only interested in making profits and ignores production levels and quality. ✓✓

(Accept any relevant and correct answer)

**3.2.5 Why it is possible for a monopolist to make economic profit both in the short and long-run period? (2 x 2)(4)**

**It is possible because:**

- A monopolist is the only seller of the product and faces no competition. ✓✓
- A monopoly sells a unique product with no close substitutes. ✓✓
- The prices charged are determined by the firm since it is a price taker. ✓✓

(Accept any relevant and correct answer)

**[10]**

**3.3 DATA-RESPONSE**

**3.3.1 Identify what is represented by point B in the graph above. (1)**

Shut down point ✓

**3.3.2 What is the cost of producing one unit according to the graph above? (1)**

R12 ✓

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

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

(Accept any relevant and correct answer)

**3.3.4 Explain the conditions that must exist for a firm to shut-down. (1 x 2)(2)**

- The firm's average variable costs must be equal to marginal cost. ✓✓
- The firm is unable to cover its variable costs which are necessary for production to take place. ✓✓

(Accept any relevant and correct answer)

**3.3.5 Calculate the economic loss made by this firm. Show ALL calculations.**

**(2 x 2)(4)**

TR-TC

$(PXQ) - (CXQ)$

$(10 \times 200) \checkmark - (12 \times 200) \checkmark$

$2000 - 2400 \checkmark$

$- 400 \checkmark$

**OR**

Loss =  $(10 - 12) \checkmark \times 200 \checkmark$

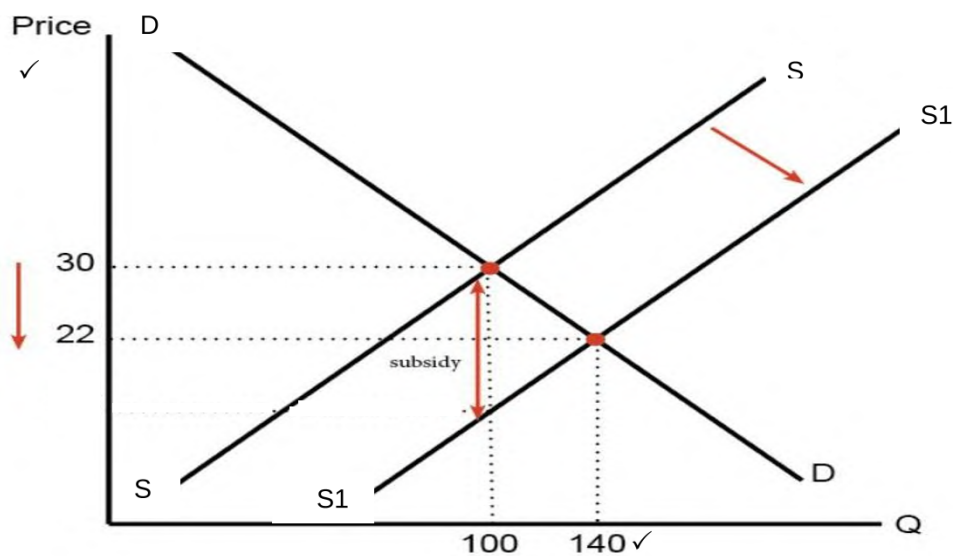
=  $- 2 \times 200 \checkmark$

=  $- 400 \checkmark$

**[10]**

**3.4 With an aid of a graph, explain subsidy as government intervention to overcome market failure.**

**(4 x 2)(8)**



1 mark labelling of axis  
1 mark for labelling on axis  
1 mark for shift of the supply curve  
1 mark for identify the subsidy

- The market price of R30 and corresponding quantity is 100.  $\checkmark \checkmark$
- If the government subsidises the production of bread, the market price will decrease to R22, with corresponding quantity 140  $\checkmark \checkmark$
- The lower price R22, allows the poor to purchase more bread.  $\checkmark \checkmark$



**3.5 Evaluate the effect of imperfect markets on consumers.****(8)****Negative impact**

- Most businesses operating in imperfect markets maximize profits by supplying less than the optimal quantity of goods or services produced which means that some consumers need may not be met. ✓✓
- Reduced quantities lead to higher prices which may exclude lower income groups. ✓✓
- New businesses are sometimes prevented from entering the industry, thereby limiting competition, which prevents consumers from enjoying lower prices and variety of goods. ✓✓
- Collusion which is rife in oligopoly markets results in higher prices which at times prevent some consumers to afford prices. ✓✓
- Consumers may pay higher prices in the imperfect markets due to the fact that production does not take place at the lowest point of the LAC curve. ✓✓

**Positive impact**

- Imperfect markets can stabilize supply or output of certain goods and services, that requires a vast amount of inputs capital, ensuring a variety of goods available to consumers. ✓✓
- Imperfect markets can also provide a better-quality product to the consumer, large corporations have Research and Development units that constantly develop new technology and improved production methods. ✓✓
- Patent rights give the patent holder exclusive rights to produce a product this stimulates innovations and inventions of new products that could be beneficial to consumers. ✓✓

**[40]**

**QUESTION 4: MICRO-ECONOMICS****40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

**4.1.1 Give TWO types of public goods.****(1 x 2)(2)**

- community goods✓
- collective goods✓

**4.1.2 How could firms in the perfect market increase their profits? (2 x 1)(2)**

Firms can increase the quantity of goods they produce to sell more to increase their profits. ✓✓

(Accept any relevant and correct answer)

**4.2 DATA-RESPONSE****4.2.1 What is the nature of the products sold in a monopolistic competitive Market? (1)**

Differentiated / Homogeneous✓

**4.2.2 Identify from the extract word suggests a combination of two market structures? (1)**

Hybrid✓

**4.2.3 Briefly describe the term *economic loss*. (2)**

Economic loss occurs when average revenue is less than average cost. ✓✓

(Accept any relevant and correct answer)

**4.2.4 Explain the reason why the demand curve for a monopolistic firm is highly elastic??**

- It is elastic because a price change may elicit a change in quantity demanded as their products are close substitutes.
- The demand curve is elastic because change in price results in a change in quantity demanded since products are close substitutes.

(Accept any relevant and correct answer)

**(2 x 2) (4)**

**4.2.5 Why will the economic profit made by a monopolistic competitor disappear in the long-run?**

**(2 x 2)(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 substitutes products produced which will reduce the demand. ✓✓
  - This eventually leads to normal profit by the monopolistic competitor in the long-run. ✓✓
- (Accept any relevant and correct answer)

**4.3 DATA-RESPONSE**

**4.3.1 What is another name for curve D in the graph above?**

**(1)**

Marginal Private Benefit (MPB) ✓

**4.3.2 Name the shaded area on the graph.**

**(1)**

External benefits. ✓

**4.3.3 Briefly describe the term externalities.**

**(2)**

Externalities are the costs or benefits to the third parties which are not included in the market price. ✓✓

(Accept any relevant and correct answer)

**4.3.4 Explain the impact on education after government intervention.**

**(2)**

- The demand for education increases as it becomes affordable. ✓✓
- The quantity of education supplied also increases. ✓✓

(Accept any other relevant correct answer)

**4.3.5 How can the government encourage positive externalities?**

**(2 x 2)(4)**

The government encourages positive externalities by:

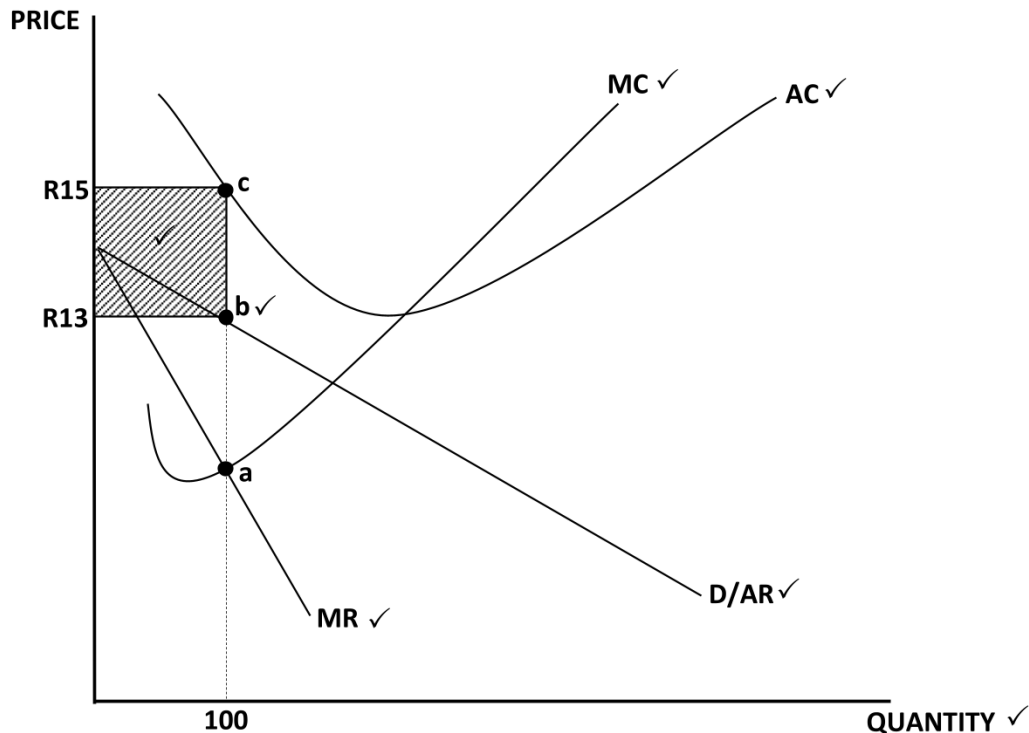
- Advertising on the radio, in order to increase awareness. ✓✓
- Providing education, health care and other services at a low cost ✓✓
- Providing consumer subsidies which lower the costs of goods and encourage its usage. ✓✓

(Accept any relevant and correct answer)

**[10]**

4.4 With an aid of a well labelled graph discuss economic loss made by a monopolist.

(4 x 2)(8)



#### MARK ALLOCATION

Labelling of axis	1 mark
Correct sloping of labelling of AR curve	1 mark
Correct sloping and labelling of MR curve	1 mark
Correct drawing, labelling and positioning of AC curve	1 mark
Correct indication of profit maximisation point	1 mark
Correct area of economic loss	1 mark

Max 4 marks

#### Explanation

- 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.
- The shaded area shows the economic loss. ✓✓
- A monopoly makes an economic loss when its revenue is less than its costs. ✓✓  
(Accept any relevant and correct answer)

**4.5 Why is a perfect market considered to be more efficient when compared to other market structures? (8)**

- There are no barriers to entry in the market, aspiring businesses can easily enter the market. ✓✓
- There is no limit to the number of businesses that can join the market; it increases competition which is more beneficial to the consumer. ✓✓
- A perfect competitor sells large quantities at smaller prices. ✓✓
- The nature of a product is similar, product is already known in the market and costs of advertising are saved. ✓✓
- There is no exploitation of consumers since perfect competitors are price takers and sell at a market price. ✓✓
- Every individual business owns a small portion of the market share. ✓✓

(Accept any relevant correct response)

**[40]**

## SECTION C

### QUESTION 5

- Discuss oligopoly as a market structure in detail. (26)
- How do businesses in an oligopoly market compete without using prices? (10)

### INTRODUCTION

The oligopoly is a type of imperfect market in which only a few large producers dominate the market. ✓✓

(Accept any other relevant and correct response)

### MAIN PART

#### Nature of product ✓

The product may be homogeneous in a pure oligopoly. ✓✓

If the product is differentiated, it is known as a differentiated oligopoly. ✓✓

#### Market information ✓

There is incomplete information on the product and the prices. ✓✓

#### Market entry ✓

Market entry is not easy, it is limited in the sense that huge capital outlay might be necessary. ✓✓

#### Control over price ✓

- Oligopolists has 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 result in price wars. ✓✓

#### Mutual dependence ✓

- The decision of one firm will influence and be influenced by the decisions of the other competitors. ✓✓
- Mutual dependence (interdependence) exist amongst these businesses. ✓✓
- A change in the price or change in the market share by the firm is reflected in the sales of the others. ✓✓

#### Non-price competition ✓

- **Non price competition can be through** advertising, packaging, after-sales services. ✓✓
- Because price competition can result in destructive price wars, oligopolist prefer to compete on a different basis. ✓✓
- Participants observe one another carefully- when one oligopolist launches an advertising campaign, its competitors soon follow suite. ✓✓
- If oligopolies operate as a cartel, firms have an absolute cost advantage over the rest of the other competitors in the industry. ✓✓

**Collusion ✓**

Collusion is a strategy used by firms to eliminate competition amongst each other. It can be in a form of overt collusion where firms can work together to form a cartel and tacit collusion where a dominating business controls the price. ✓✓

**Limited competition ✓**

There are only a few suppliers manufacturing the same product. ✓✓

**Economic profit ✓**

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

**Demand curve ✓**

Slope from left down to the right. ✓✓ It is known as the kinked demand since it contains the upper relatively elastic slope and the lower relatively inelastic slope.

(Accept any other relevant and correct response)

**(Note: Mark to maximum of 8 marks for listing and examples)**

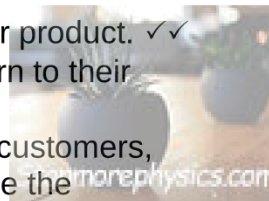
**ADDITIONAL PART**

**How do oligopolists increase their market share without using price to increase their market share?**

**(10)**

Oligopolist may increase their market share using non-price competition strategies by:

- branding their product to create an impression that its product is for a particular age group or income group. ✓✓
- aggressive advertising which inform customers about the business or product it provides. ✓✓
- using appealing packaging to bring out important features of their product. ✓✓
- improving their customer service in order to ensure that they return to their businesses. ✓✓
- providing relevant and precise information which is crucial to the customers, since there are competitors in the market, customers will patronize the businesses that provides relevant information. ✓✓
- extending shopping hours to the convenience of customers. ✓✓
- Offering loyalty rewards to customers which will encourage their return to spend accumulated rewards. ✓✓



(Accept any other relevant response)

**CONCLUSION**

In South Africa, oligopolists have been found to be illegally manipulating prices to their benefit, yet to the detriment of consumers and have been penalized for such action. ✓✓

(Accept any other relevant response)

## QUESTION 6

- Examine in detail the causes of market failure. (26)
- How does the South African government intervene to limit market failure? (10)

### 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. ✓✓

(Accept any relevant and correct answer)

### BODY / MAIN PART

#### Externalities ✓

- These are known as spill-over effects to third party which is not directly involved in the production process. ✓✓
- These are those costs and benefits that convert private cost and benefits into social costs and benefits. ✓✓
- As externalities in production and consumption often exist and output is usually based on private costs and benefits, this is a significant cause of market failure. ✓✓

#### Public goods / Missing markets ✓

- Significant market failure is to produce some goods and services, despite it being needed or wanted. ✓✓
- Markets can only form under certain conditions and when these conditions are absent, markets struggle to exist. ✓✓
- Public goods are not provided for by market mechanism because producers cannot withhold the goods for non-payment and since there is often no way of measuring how much a person consumes, there is no basis for establishing a market price. ✓✓
- Community and collective goods together are known as public goods. ✓✓
- **Community goods:** these are goods such as defense, police services, prison services, street lightning, flood control, storm water drainage and lighthouses. ✓✓
- **Collective goods:** these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals. ✓✓

**Merit goods and demerit goods: ✓**

- **Merit goods:** Some goods are highly desirable for the general welfare of the people of the country and are often not highly rated by the market. ✓✓
- If people have to pay market prices for them, relatively little would be consumed. ✓✓
- In this sense, the market fails to the detriment of the economy and society. ✓✓
- e.g. health care services, education, skills training, safety, inoculation, car seats belts etc. ✓
- **Demerit goods:** Items such as cigarettes, alcohol, and non-prescriptive drugs are example of demerit goods. ✓
- In a free market economy, these goods are over-consumed. ✓✓
- Some consumers may be unaware of the true costs of consuming them that is their negative externalities. ✓✓
- Government can ban their consumption or reduce it by means of taxation (e.g. excise duties) and by providing information about their harmful side effects. ✓✓

**Imperfect competition ✓**

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

**Lack of information ✓**

- Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make rational decisions. ✓✓
- **Consumers:** Although advances in technology increase the amount of information to which people have access, they obviously do not have perfect information. ✓✓
- **Workers:** They may be unaware of job opportunities outside their current employment. ✓✓
- **Entrepreneurs:** They may lack information about the costs, availability and productivity of some factors of production, and may be operating on the basis of incorrect information. ✓✓

**Immobility of the factors of production: ✓**

- Most markets do not adjust rapidly to changes in supply and demand. n✓✓
- While this may be due to lack of information, it also true that resources are very often not mobile. ✓✓
- **Labour:** They may take time to move into new occupations and geographically to meet the changes in consumer demand. ✓✓
- **Physical capital:** Factory buildings and infrastructure such as telephone lines, bridges, rail links and airports are not moveable at will. ✓✓
- They last for many years, but cannot be moved to fit change in demand. ✓✓

- **Technological applications change production methods:** Technology used in the production may change. e.g. the use of robots rather than labour in mines. ✓✓
- However, it takes time for most industries to adapt - with greater technological changes, there is an increasing need for workers to be flexible, to be willing to update their skills throughout their working lives and to change employment, occupations and work patterns. ✓✓

**Imperfect distribution of income and wealth:** ✓

- Perhaps the most important shortcoming of market systems is that it is neutral in the issue of income distribution. ✓✓
- If the initial distribution is unequal, the final distribution will be too. ✓✓
- For this reason, it is often argued that the market fails. ✓✓

(Accept any other relevant and correct response)

**(Note: Mark to maximum of 8 marks for listing and examples)**

**ADDITIONAL PART**

**How can the government improve the distribution of income to overcome market failure?**

**The government would:**

- Transfer income directly to the poor e.g. social security grants, to improve the economic welfare. ✓✓
- Provide goods free of charge e.g. community goods especially to the previous disadvantaged to uplift the standard of living. ✓✓
- Subsidise merit goods e.g. cultural events to promote their consumption. ✓✓
- Impose taxes and laws on demerit goods to discourage their consumption. ✓✓
- Intervene through the use of fiscal and monetary policies to achieve its macro-economic objectives. ✓✓
- Ascertain that consumers are informed about the products through legislation and check on product quality. ✓✓
- Prevent misleading advertising through Advertising Standards Authority to protect consumer from business malpractices. ✓✓

(Accept any other relevant and correct response)

**[10]**

**CONCLUSION**

- Market failures can have devastating effects on the economy which requires government to intervene to reduce their consequences. ✓✓

(Accept any relevant and correct answer)

**[2]**

**[40]**

**GRAND TOTAL: 150**