



# **basic education**

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## **SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS**

**ECONOMICS P2**

**MAY/JUNE 2024**

**MARKING GUIDELINES**

**MARKS: 150**

**These marking guidelines consist of 22 pages.**

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

- 1.1.1 B / implicit ✓✓
- 1.1.2 D / economic profit ✓✓
- 1.1.3 A / duopoly ✓✓
- 1.1.4 C / allocative ✓✓
- 1.1.5 D / producer ✓✓
- 1.1.6 A / Cultural ✓✓
- 1.1.7 B / Conservation ✓✓
- 1.1.8 C / Stockholm protocol ✓✓

(8 x 2) (16)

**1.2 MATCHING ITEMS**

- 1.2.1 F / sum of all individual businesses producing a similar kind of product ✓
- 1.2.2 E / the removal of unnecessary laws and regulation that restrict competition in the market ✓
- 1.2.3 G / products that are different in appearance, size and quality ✓
- 1.2.4 A / set below market equilibrium to make goods more affordable ✓
- 1.2.5 H / excludes the items from the CPI basket that are highly volatile or prices affected by government policy ✓
- 1.2.6 B / traditions, rituals or music that are unique to a given culture or society ✓
- 1.2.7 I / a variety of plant and animal life within an ecosystem ✓
- 1.2.8 D / a process whereby soil and rocks are removed from the earth surface due to wind and water ✓

(8 x 1) (8)

**1.3 CONCEPTS**

- 1.3.1 Fixed costs ✓
- 1.3.2 Marginal revenue ✓
- 1.3.3 Price discrimination ✓
- 1.3.4 Stagflation ✓
- 1.3.5 Tourism ✓
- 1.3.6 Marketable permits ✓

(6 x 1) (6)

**TOTAL SECTION A: 30**

**SECTION B**

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

**QUESTION 2: MICROECONOMICS****40 MARKS – 30 MINUTES****2.1 SHORT QUESTIONS****2.1.1 Give any TWO examples of fixed costs.**

- Rent / Lease contract cost ✓
- Insurance ✓
- Salaries ✓
- Depreciation ✓
- Interest ✓
- Administrative cost ✓

(Accept any other correct relevant response)

(2 x 1) (2)

**2.1.2 Why is the demand curve horizontal for an individual firm in a perfect market?**

It is because the individual firm is a price taker and it has to sell its products at market price / An individual firm can sell any quantity at the price determined by the market forces ✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

**2.2 DATA RESPONSE****2.2.1 Identify ONE reason for launching an enquiry into the online market in South Africa.**

- Lack of effective competition ✓
- The growing importance of the online economy ✓

(1)

**2.2.2 Name the competition institution that has a similar status to that of a high court in South Africa.**

The Competition Appeal Court ✓

(1)

**2.2.3 Briefly describe the term *price fixing*.**

Occurs when firms agree or collude to restrict output or set artificially high prices. / An agreement between market participants to collectively raise or lower or stabilize prices. ✓✓

(Accept any other correct relevant response)

(2)

**2.2.4 Explain the role of the Competition Tribunal?**

- It adjudicates on matters referred to it by the competition commission such as granting of exemptions / Prohibition or authorizing of large mergers. ✓✓
  - Issues an order for on matters presented to it by the Competition Commission. ✓✓
  - It may accept, reject or amend the decision of the Competition Commission. ✓✓
- (Accept any other correct relevant response)

(2)

**2.2.5 How has the Competition Act, 1998 (Act 89 of 1998) benefited (advantaged) South Africa?**

- The Act has improved the efficiency of businesses in the economy. ✓✓
  - It has provided consumers with competitive prices and a variety of products. ✓✓
  - It has encouraged all South Africans to participate in the economy through SMMEs. ✓✓
  - The Act has promoted employment through the establishment of new businesses. ✓✓
  - It has allowed previously disadvantaged groups to increase their ownership and control of businesses. ✓✓
- (Accept any other correct relevant response)

(2 x 2) (4)

**2.3 DATA RESPONSE****2.3.1 Identify the market price in the above graph.**

R80 ✓

(1)

**2.3.2 Name the type of price elasticity represented by the lower part (b–d) of the kinked demand curve.**

Relative inelastic/Inelastic ✓

(1)

**2.3.3 Briefly describe the term *oligopoly*.**

It is a market structure that is dominated by few sellers of a particular product or service. ✓✓

(Accept any other correct relevant response)

(2)

**2.3.4 Explain the impact of price competition on the oligopoly market.**

It may result in a price war which will decrease prices or revenue or profit for the businesses ✓✓

(Accept any other correct relevant response)

(2)

**2.3.5 How do firms operating in an oligopoly market increase their market share?**

- Firms in an oligopoly market may use non-price competition strategies to increase their market share ✓✓
- Firms in an oligopoly market structure use advertising to gain a competitive edge over the competitors. ✓✓
- The firms may stay open for longer hours when the competitors are already closed. ✓✓
- Offering loyalty rewards to customers with the aim of maintaining their customer-base. ✓✓
- Some of the firms offer after-sale service to customers such as free delivery. ✓✓
- Using the internet to market their business or products help oligopoly businesses to have a competitive advantage. ✓✓
- The firms may make their products slightly different from that of their competitors. ✓✓

(Accept any other correct relevant response)

(2 x 2) (4)

**2.4 Differentiate between a *natural monopoly* and an *artificial monopoly*.**

- Natural monopolies exist due barriers to entry that are economic in nature while artificial exist due barriers to entry that are not economic in nature. ✓✓
  - High development costs are a common reason for natural monopolies whereas patent rights and licences are common reasons for artificial monopolies. ✓✓
  - Eskom is a natural monopoly as it requires billions of rands to establish and maintain electricity generation and transmission infrastructure while SABC is an artificial monopoly as it requires licences for new businesses to provide radio and TV broadcasting services. ✓✓
  - Natural monopoly arises when a single firm is able to produce a good or service at a lower cost than any other business however, artificial monopoly arises when a single firm is able to gain control of the market through government actions. ✓✓
  - Natural monopoly arises from the inherent characteristics of the market itself but an artificial monopoly is created by external forces ✓✓
  - Transnet and PRASA are other examples of natural monopolies while POST OFFICE and SARS are other examples of artificial monopolies in South Africa. ✓✓
- (Accept any other correct relevant response) (Max. 8)

**OR**

**Natural monopoly**

- Exist due barriers to entry that are economic in nature ✓
  - High development costs are a common reason for natural monopolies ✓
  - Eskom is a natural monopoly as it requires billions of rands to establish and maintain electricity generation and transmission infrastructure. ✓
  - Natural monopoly arises when a single firm is able to produce a good or service at a lower cost than any other business ✓
  - Natural monopoly arises from the inherent characteristics of the market itself ✓
  - Transnet and PRASA are other examples of natural monopolies in South Africa. ✓
- (Accept any other correct relevant response) (Max. 4)

**Artificial monopoly**

- Exist due barriers to entry that are not economic in nature. ✓
  - Patent rights and licences are a common reason for artificial monopolies. ✓
  - SABC is an artificial monopoly as it requires licences for new businesses to provide radio and TV broadcasting services. ✓
  - Artificial monopoly arises when a single firm is able to gain control of the market through government action. ✓
  - An artificial monopoly is created by external forces ✓
  - POST OFFICE and SARS are other examples of artificial monopolies in South Africa. ✓
- (Accept any other correct relevant response) (Max. 4) (8)

**NB: If candidates use the second method for differentiation, allocate marks according to the sequential presentation of facts on both types of monopoly. E.g Bullet one under natural monopoly should relate to bullet one under artificial monopoly. If there is no correlation, one type of monopoly can be marked up to a maximum of 4 marks. Additional marks can only be allocated where there is correlation.**

## 2.5 Analyse the effect of increased competition on the market.

### **Increase in competition may positively affect the market as follows; -**

- As more businesses enter the market, more goods and services will be produced which increases market supply. ✓✓
- Increased competition forces businesses to focus on delivering quality products and services to stay competitive. ✓✓
- Businesses may lower prices to attract more customers which benefit consumers. ✓✓
- Competition can drive businesses to be innovative and create new products and services to stay ahead of their competitors. ✓✓
- An increase in competition creates more efficient and dynamic place leading to benefits to both consumers and businesses. ✓✓

### **Increase in competition may negatively affect the market as follows; -**

- Businesses may lower their prices to remain competitive which may lead to lower profit margins. ✓✓
- Increased competition may lead to some businesses struggling to remain viable and being forced to close down. ✓✓
- Businesses closures and reduced profit margins can lead less supply of goods and services on the market. ✓✓
- Increased competition can lead to price wars between companies and reduce their profits. ✓✓

(Accept any other correct relevant response)

**(Allocate a maximum of 2 marks for mere listing of facts)**

(4 x 2) (8)

**[40]**

**QUESTION 3: CONTEMPORARY ECONOMIC-ISSUES 40 MARKS – 30 MINUTES****3.1 SHORT QUESTIONS****3.1.1 State any TWO effects of tourism.**

- Increase GDP ✓
- Increase employment ✓
- Reduces poverty ✓
- Causes environment stress ✓
- Improves investment ✓

(Accept any other correct relevant response)

(2 x 1) (2)

**3.1.2 Why are businesses reluctant (unwilling) to change to more environmentally friendly production methods?**

- Higher costs of production and possible loss of revenue may cause businesses to resist environmentally friendly methods of production. ✓✓
- Employees may need re-training and environmentally friendly methods may be seen as time consuming by businesses. ✓✓
- Installing environmentally friendly production methods may result in extra expenses for the businesses ✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

**3.2 DATA RESPONSE****3.2.1 Identify in the table above the term that refers to tourists visiting other countries.**

Outbound tourism / Inbound tourism ✓

(1)

**3.2.2 Name ONE criterion (way) that is used to measure tourism.**

- Purpose of the visit ✓
- Distance must be at least 160km ✓
- Duration of stay (minimum 1 night and maximum 1 year) ✓
- No remuneration should be received ✓

(Accept any other correct relevant response)

(1)

**3.2.3 Briefly describe the term *transit tourism*.**

Tourists using air, sea, road and rail transport stopping over en route to their destination. ✓✓

(Accept any other relevant responses)

(2)

**3.2.4 Why do people from other countries prefer South Africa as a tourist destination?**

- South Africa has favourable climate conditions which allow tourists to experience different tourism activities. ✓✓
  - Increased marketing campaigns (advertising) make people from foreign countries aware of unique tourist destinations in South Africa. ✓✓
  - Tourists find South Africa's exchange rate to be favourable when compared to other countries. ✓✓
- (Accept any other relevant responses)

(2)

**3.2.5 How can an increase in tourism activities negatively affect the environment?**

- Permanent restructuring of the landscape due to construction of highways ✓✓
  - Additional waste products both biological (sewage) and non-biological (litter) ✓✓
  - Cause direct environmental stress such as loss of wildlife species due to safari hunting. ✓✓
- (Accept any other correct relevant response)

(2 x 2) (4)

**3.3 DATA RESPONSE****3.3.1 What type of pollution is depicted by the above picture?**

Air pollution ✓

(1)

**3.3.2 Give any ONE example of a renewable source of energy.**

- Solar ✓
- Water ✓
- Wind ✓
- Biomass ✓
- Geothermal ✓

(Accept any other correct relevant response)

(1)

**3.3.3 Briefly describe the term *environmental sustainability*.**

The ability of the environment to survive its use for economic activity / Meeting the needs of the present generation without compromising the needs of future generations ✓✓

(Accept any other correct relevant response)

(2)



**3.3.4 Explain the effect of deforestation on the environment?**

- Loss of animal and plant species due to the loss of the inhabitant and some of them are even pushed to extinction. ✓✓
  - The lack of trees allows a greater amount of greenhouse gases to be released into the atmosphere. ✓✓
  - Deforestation reduces the control of the level of water in the atmosphere which helps to regulate the water cycle. ✓✓
- (Accept any other correct relevant response)

(2)

**3.3.5 How can pollution cause climate change?**

- Pollution introduces greenhouse gases into the atmosphere which contribute to ozone depletion. ✓✓
  - The accumulation of greenhouse gases traps the heat which results in an increase in the world temperature. ✓✓
  - The increased temperature disrupt weather patterns ecosystems as it leads to increased disasters such as wildfires, floods, earth quakes, et cetera. ✓✓
- (Accept any other correct relevant response)

(2 x 2) (4)

**3.4 Briefly discuss *marketing* and *spatial distribution* as policy suggestions to promote tourism.****Marketing**

- The Business Trust and Tourism Business Council of South Africa together with the Department of Environmental Affairs and Tourism (DEAT) promote South Africa as a destination to the foreign markets. ✓✓
  - Emphasises the diversity of the tourism products which include cruise tours, sports, wildlife safaris, etc. that attract tourists both nationally and internationally. ✓✓
  - A deliberate attempt to market South Africa's unique tourist destinations. For example, through advertising. ✓✓
- (Accept any other correct relevant response)

(Max. 4)

**Spatial distribution**

- Spatial distribution involves the distribution of tourism effectively to ensure that the various tourist sites are accessible to tourists. ✓✓
  - Tourism bodies which are linked to tourist-based industries must be created to ensure that tourists can easily access knowledge about all tourist destinations in the country. ✓✓
  - Tourists must receive accurate product descriptions and information about competitive prices by aggressively marketing tourist destinations that are less known. ✓✓
  - Support services and facilities such as transport, communication and other amenities must be improved and become world class. ✓✓
- (Accept any other correct relevant response)

(Max. 4) (8)

**3.5 How can the levying of taxes ensure a sustainable use of the environment?**

- Levying taxes on the output of goods that generate external environmental costs (pollution) will result in lower output which will cause less damage to the environment. ✓✓ For example, green taxes. ✓
- The levying of taxes can force/encourage businesses to switch to environmentally friendly products or methods of production. ✓✓
- Environmental taxes ensure that practices that are harmful to the environment are reduced. ✓✓
- The government can use the income generated through environmental taxes (green taxes/carbon taxes) to educate the society on environmental issues. ✓✓
- The government offers subsidies to businesses that commit to the use of green energy and the production of environmentally friendly products. ✓✓
- The levying of carbon tax on motor vehicles which are not fitted with carbon emission reduction device (catalytic converter) will increase car prices resulting in a decrease in their demand. ✓✓
- The rate of environmental tax should be equal to the marginal external cost in order to reduce the level of pollution. ✓✓
- The government has legislated the use of biodegradable paper bags as a way to ensure litter free environment. ✓✓

(Accept any other correct relevant response)

**(Allocate a maximum of 2 marks for mere listing of facts)**

(4 x 2) (8)

**[40]**

**QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC-ISSUES**  
**40 MARKS – 30 MINUTES****4.1 SHORT QUESTIONS****4.1.1 Name any TWO world Heritage Sites in South Africa.**

- Mapungubwe ✓
- Robben Island ✓
- Khomani ✓
- Cradle of humankind / Sterkfontein caves ✓
- ISimangaliso Wetland Park ✓
- Vredefort dome ✓
- Barberton Makhonjwa Mountain ✓
- Cape floral/Fynbos region (includes Table Mt.) ✓
- Ukhahlamba / Maloti Drakensberg Park ✓
- Richtersveld cultural and botanical landscape ✓

(2 x 1) (2)

**4.1.2 Why would a monopoly be unwilling to charge excessively high prices for their products?**

- Excessively high prices will reduce the demand for the products which will negatively affect profit margins. ✓✓
  - It could result in consumers switching to alternative goods although it may not be close substitutes ✓✓
  - Monopoly prices maybe regulated by the government, E.g. electricity prices are regulated by NERSA ✓✓
- (Accept any other relevant correct response)

(1 x 2) (2)

**4.2 DATA RESPONSE****4.2.1 Identify the label for profit maximising point in the graph above.**

C ✓

(1)

**4.2.2 Label the curve represented by the letter X.**

Long-run marginal cost (LMC) ✓

(1)

**4.2.3 Briefly describe the term *long-run*.**

The period of production in which all the factors of production can be varied. ✓✓

(Accept any other relevant correct response)

(2)

4.2.4 **Why is the position of the marginal revenue (LMR) curve below the average revenue (LAR) curve?**

Due to the downward sloping average revenue/demand curve each extra unit of a product is sold at a lower price. ✓✓ (2)

4.2.5 **Calculate the profit/loss that is made by the firm. Show ALL calculations.**

$$\begin{array}{ll}
 \text{TR} - \text{TC} & (\text{AR} - \text{AC}) \times Q \\
 (\text{P} \times \text{Q}) - (\text{AC} \times \text{Q}) & (\text{R}42 - \text{R}32) \checkmark \times 100 \checkmark \\
 \text{R}42 \times 100 \checkmark - \text{R}32 \times 100 \checkmark & \text{OR} \quad \text{R}10 \times 100 \checkmark \\
 \text{R}4\,200 - \text{R}3\,200 \checkmark & \text{R}1\,000 \checkmark \\
 \text{R}1\,000 \checkmark &
 \end{array}$$

**Allocate 1 mark for the correct formula if the calculations are incorrect** (4)

4.3 **DATA RESPONSE**

4.3.1 **Identify the term in the extract that relates to the introduction/disposal of waste material into the environment.**

Pollution ✓ (1)

4.3.2 **Which international agreement addresses the extinction of endangered species?**

The Convention on international Trade in Endangered Species (CITES) ✓ (1)

4.3.3 **Briefly describe the term *preservation*.**

An act of keeping natural resources that are threatened by extinction intact by ensuring that they are not depleted ✓✓  
(Accept any other relevant correct response) (2)

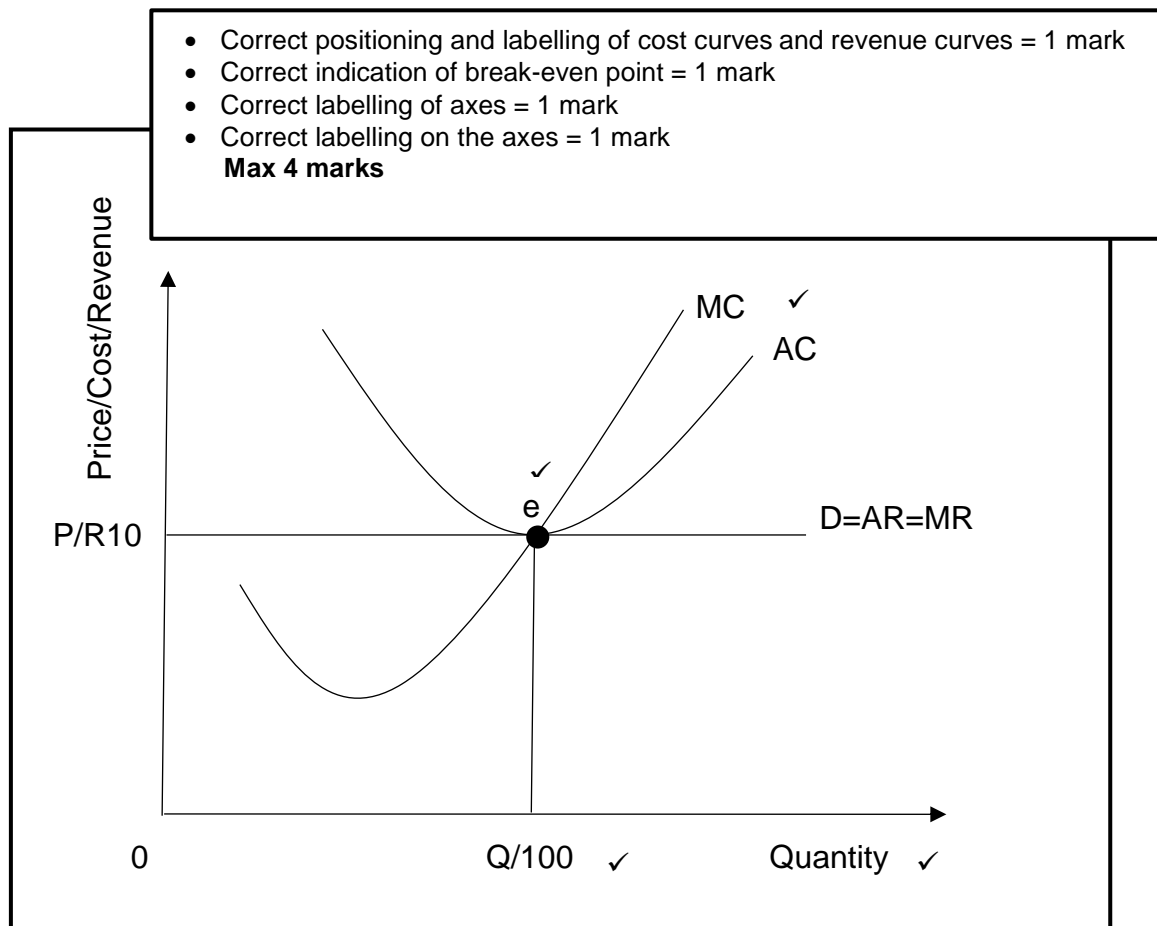
4.3.4 **Explain unsustainable use of natural resources as a contributing factor to loss of biodiversity.**

Some animals and plants may become extinct as they get used/consumed without being replaced. ✓✓  
(Accept any other relevant correct response) (2)

4.3.5 **Why is hazardous waste regarded as harmful to the environment?**

- Hazardous waste can endanger all life forms, organisms and entire ecosystems. ✓✓
- Hazardous waste has a slow decomposition rate (It stays poisonous for a long time). ✓✓
- Poses a serious threat as it is toxic, flammable and corrosive. ✓✓
- Can cause various types of illnesses such as cancer, headaches and breathing problems. ✓✓  
(Accept any other relevant correct response) (2 x 2) (4)

4.4 With the aid of a well-labelled graph, explain normal profit for perfectly competitive firm.



(Max 4)

- Normal profit is the minimum earnings required to prevent the firm from leaving the industry
  - The firm produces at point e, where  $MR=MC$  and  $Q/100$  units are produced at a price of  $P/R10$ . ✓✓
  - The firm makes normal profit/break-even because average revenue ( $P/R10$ ) is equal to average cost ( $P/R10$ ). ✓✓
  - The firm makes normal profit of  $TR (P \times Q) - TC (AC \times Q) = R1000 - R1000 = R0$ . ✓✓
- (Max 4) (8)

**4.5 How does infrastructure promote domestic tourism in South Africa?**

- Continuously maintaining and upgrading existing infrastructure in order to improve accessibility of tourist destinations. ✓✓
- Improving the accessibility and infrastructure in rural areas to allow these areas to realise their tourism potential. ✓✓
- Using modern computer and communication technologies to efficiently market, promote and distribute travel and tourism products, services and information locally. ✓✓
- Facilitating the funding of major tourism infrastructure projects that would have an impact on the development of the tourism industry. ✓✓
- Considering Southern African tourism potential when developing major tourism-related infrastructure projects. ✓✓
- Working closely with the Department of Transport to improve transport services for domestic tourism industries. ✓✓
- Reviewing current road signage to ensure maximum customer satisfaction. ✓✓
- Expanding tourism infrastructure as a long-term strategy rather than on an ad hoc basis. ✓✓

(Accept any other correct relevant response)

**(Allocate a maximum of 2 marks for mere listing of facts)**

(4 x 2) (8)

**[40]**

**TOTAL SECTION B: 80**

**SECTION C**

Answer any ONE of the two questions in this section in the ANSWER BOOK.

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

- **Discuss in detail the causes of market failure** (26)
- **Analyse the impact of minimum prices in the economy.** (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. ✓✓ (Max. 2)  
(Accept any other correct relevant response)

**MAIN PART****EXTERNALITIES ✓**

- Externalities are costs and benefits to the third party that are not included in the market price. ✓✓
- Goods that have negative externalities are over-produced because the cost to the third party is not included in the market price. ✓✓
- Goods that have positive externalities are under-produced because the benefit to the third party is not included in the market price. ✓✓
- Externalities are the cost and benefits (spill-over effects or third-party effects) that convert private cost and benefits into social cost and benefits. ✓✓

**Basic cost and benefit concepts of externalities include the following;**

- Private costs are the internal costs incurred by consumers and producers when they buy or produce goods and services. ✓✓
- Private benefits are enjoyed by those who buy the goods and those who produce the goods. ✓✓ For example, the family enjoys using the car and the producer sells it (profit). ✓
- Social costs are the costs to individual producers and consumers as well as to society at large. ✓✓ For example, pollution that is caused by waste products, such as tyres, batteries, oil. ✓
- No value is given for these extra or external costs because no market exists to price them. ✓✓
- Social costs include both private costs and external costs. ✓✓
- Social benefits are the total benefits enjoyed by producers, consumers and the society at large. ✓✓
- Social benefits include both private benefit and external benefit. ✓✓

**Missing Markets ✓**

- Markets are often incomplete in the sense that they cannot meet the demand for certain goods. ✓✓

**Public goods: ✓**

- 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, which include community and collective goods, have the following features:

- Non-rivalry which means that consumption by one person does not reduce the consumption of another person, ✓✓ for example, a lighthouse. ✓
- Non-excludability which means that consumption cannot be confined to those who have paid, so there are free riders, ✓✓ for example, radio and TV licences in South Africa. ✓
- Non-rejectability which means that individuals cannot abstain from consumption on public goods such as street lights ✓✓

**Merit goods** ✓

- These are goods/services that are deemed necessary or beneficial to the society, ✓✓ For example, education, health care etc. ✓
- These goods are highly desirable for general welfare but not highly rated by the market, therefore provide inadequate output/supply. ✓✓
- The reason for the 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 ✓✓ For example, 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. ✓✓
- The market tends to oversupply demerit goods. ✓✓
- Some consumers may be unaware of the true cost of consuming them. ✓✓

**Lack of information** ✓

- Markets do not respond to changes in consumer demand if resources cannot be easily reallocated due to lack of information. ✓✓
- Technical and allocative efficiency require that both producers and consumers have complete and accurate information about the costs and benefits of the goods and services produced and consumed in the market. ✓✓
- Producers and consumers make production and consumption decisions based on the information they have. ✓✓
- When information is incomplete or inaccurate, it leads to wrong decisions about what to produce, how to produce and for whom to produce, and a waste of resources occurs. ✓✓
- Producers might not know all the different technologies and production techniques that are available and the different resources that can best be used to produce goods/services more efficiently. ✓✓
- Consumers might not know that the price of a product is lower from other suppliers or about the harmful effects of a product since they might just base their decisions to use the product on the information from a misleading supplier. ✓✓

**Immobility of factors of production** ✓

- The supply of labour cannot be increased because of the time it takes to be trained or educated. ✓✓
- Labour takes time to move into new occupations and geographically due to the long time it takes to upgrade skills, and family ties. ✓✓



- Physical capital such as equipment, buildings, land and raw materials can only move from one place to another at a high cost. ✓✓
- Technological applications change production methods such the use of robots rather than physical labour. ✓✓
- With greater technological change there is an increasing need for workers to become flexible, to update skills, change employment, occupations and work patterns. ✓✓

**Imperfect competition ✓**

- In market economies, competition is often weakened by market power because power often lies to a greater extent with producers than with consumers. ✓✓
- Most businesses operate under conditions of imperfect competition that allows them to restrict output, raise prices and produce where price exceeds marginal cost. ✓✓
- Monopolies and oligopolies restrict supply in order to maximise profits and can also prevent new businesses from entering the industry. ✓✓
- Resources are under allocated to the production of goods and services produced under conditions of imperfect competition. ✓✓
- The government may choose to do nothing about imperfect competition and trust that large profits will attract competitors to the market or it can regulate the market through competition policy. ✓✓

**Imperfect distribution of income and wealth ✓**

- The shortcoming of market systems is that it is neutral in the issue of income distribution. ✓✓
- If the initial distribution of income is unequal, the final distribution will also be unequal hence the market is failing. ✓✓
- Unequal distribution of income is caused by varying of skill levels and the ability to produce output. ✓✓
- The market fails to ensure that everyone gets equal access to the output of the economy. ✓✓
- Too many of the resources are used to produce output for the rich and too few for the poor. ✓✓

(Accept any other correct relevant response)

(Max. 26)

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

**ADDITIONAL PART****Minimum prices may positively impact on the economy as follows; -**

- Minimum prices are set above the equilibrium price to benefit farmers as they will make adequate profits. ✓✓
- Minimum prices allow agricultural producers to produce sufficient output to ensure food security in the country. ✓✓
- More workers may be employed to produce more agricultural output which will reduce unemployment in the economy. ✓✓
- Increase in agricultural production may contribute to the GDP which stimulates economic growth ✓✓
- More goods may be exported to generate more foreign exchange and reduce BOP problems ✓✓
- Businesses can be encouraged to invest more in the industries that are covered by minimum prices resulting in even more surpluses. ✓✓

**Minimum prices may negatively impact on the economy as follows; -**

- Manufacturing businesses may be forced to procure agricultural raw materials at higher cost which may contribute to inflation. ✓✓
- Consumers may buy manufactured goods at higher prices which may increase their cost of living ✓✓
- The standard of living for the households may decrease as they fail to afford essential goods and services. ✓✓
- The implementation of minimum prices creates product surpluses as quantity supplied is greater than the quantity demanded in the country hence resulting in wasted resources. ✓✓
- The surplus products are either dumped or sold at prices that are below the market price in foreign countries in order to stabilise prices in the country. ✓✓
- Sometimes surplus products are destroyed or used as animal fodder as dumping goods is against the rules of the World Trade Organisation.

(Accept any other correct relevant response)

(Max. 10)

**(Allocate a maximum of 2 marks for mere listing of facts)**

**CONCLUSION**

Taxes and subsidies can be effective tools for addressing market failures. However, the design of the tax or subsidy needs to be carefully considered to ensure that it is effective in addressing the market failure without creating unintended consequences. ✓✓

(Accept any other correct relevant higher order conclusion)

(Max. 2) **[40]**

**QUESTION 6: CONTEMPORARY ECONOMIC ISSUES      40 MARKS – 40 MINUTES**

- **Discuss in detail the consequences of inflation.** (26)
- **How can the continued stages of load shedding cause inflation?** (10)

**INTRODUCTION**

Inflation is a considerable and sustainable increase in the general price level of goods and services over a period of time. ✓✓ (Max. 2)

(Accept any other correct relevant introduction)

**BODY:****MAIN PART****Creditors ✓**

- Creditors (lenders) suffer due to price increases because they get money back which has a lower purchasing power, especially if the interest rate has been below the inflation rate / inflation harms creditors as they lose due to a fall in the real value of money. ✓✓
- Changes in price levels affect debtors and creditors differently at different time periods. ✓✓

**Debtors ✓**

- Debtors (borrowers) receive money with a high buying power and pay back with money with a lower buying power. ✓✓
- Borrowers benefit from price increases because they repay with money that has a low purchasing power. ✓✓
- During periods of rising prices, debtors gain in real terms because the contract was signed in advance and cannot be changed. ✓✓
- Debtors receive the money with a relatively high purchasing power and repay their loans with low purchasing power, unless interest rates are sufficient to prevent the situation. ✓✓

**Salary and wage earners ✓**

- Price increases affect people negatively because their incomes are relatively fixed. ✓✓
- Real wages fall sharply during period of high inflation as a result of a decline in capital stock and a shift in relative prices. ✓✓
- Inflation can impoverish large segments of the population by eroding the real wages. ✓✓
- Wages are the important component of wealth; they constitute the main source of income for many households, especially for the less well-off. ✓✓
- The behaviour of real wages therefore has a direct bearing on income distribution and the level of poverty. ✓✓
- Retired people, pensioners and the poor, will experience the erosion of spending power and eventually earn too little to survive. ✓✓
- Wage increases are lower than the inflation rate increase. ✓✓

**Investors and savers ✓**

- Assets with a fixed nominal value have a fixed return and lower purchasing power as prices increase. ✓✓
- Purchasing power is reduced unless the interest rate is above the inflation rate. ✓✓
- People who invest in negotiable instruments such as shares, often benefit from inflation, because during periods of inflation, interest rates are increased to encourage savings. ✓✓
- Investors in assets with flexible market value gain when prices increase, because assets with a flexible market value increase at least proportionately to the rate of inflation. ✓✓
- The prices of assets increase more rapidly than increases in the general price level. ✓✓
- People save money for long periods with the aim of using these funds to meet future expectations, these savings may be invested as fixed deposits, in the money market, as life policies or in pension funds. ✓✓

**Tax payers ✓**

- With inflation taxpayers' nominal income rise although their real income remain unchanged, because taxes are levied on the nominal income but not on real income, and this affects the purchasing power of tax payers. ✓✓
- When the income tax brackets remain 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 – bracket creep leads to a redistribution of income from taxpayers to the government. ✓✓

**Industrial peace ✓**

- Wage bargaining is accompanied by strikes and mass action. ✓✓
- Mass actions can sometimes spill over into violence which affects society at large. ✓✓
- Inflation leads to demands for increased wages as trade unions put increasing pressure on employers to raise wages and salaries. ✓✓
- 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 would follow ✓✓

**Balance of payments problems ✓**

- Inflation has an adverse effect on a country's balance of payments. ✓✓
- Inflation makes domestic prices to increase and this makes domestic exports uncompetitive on the international markets and South African exporters may lose major trading partners. ✓✓
- The high prices of exports will discourage foreign businesses from buying South African goods resulting in decrease in exports and a loss of foreign exchange earnings. ✓✓

**Unemployment and poverty ✓**

- The effects of inflation are uneven, because they do not benefit anyone and harms most – some less than others. ✓✓
- Inflation also tends to redistribute income from low-income groups to higher income groups. ✓✓

- The low-income groups do not have assets that can rise in value faster than the rate of inflation to help them overcome the effects of inflation. ✓✓
- Powerful groups such as trade unions, large companies and the wealthy people, are able to increase their share of national income at the expense of disadvantaged people such as pensioners, the unemployed and the welfare recipients. ✓✓

### **Psychological influence** ✓

- Consumer and businesses expectations of what the economy holds in store influence their confidence within the economy. ✓✓
- When their perception about the economy is negative, it will be reflected in poor consumer and business confidence and vice versa. ✓✓
- High inflation rates decrease consumer confidence resulting in consumers choosing to save their income rather than spending it as they are uncertain of what the economic future holds for the country. ✓✓
- When consumers choose to save their income rather than spending it, aggregate spending will decrease in the economy causing businesses to have limited expansion opportunities and thereby decreasing business confidence in the economy. ✓✓
- When producers' cost increases due to spiralling inflation, it will decrease their competitiveness and the demand for their goods or service. ✓✓

### **Low inflation expectations** ✓

- limit excessive wage demands by different labour unions because workers do not expect increases in cost of living in the future. ✓✓
- allow consumers to postpone consumption expenditure thereby reducing pressure on price increases. ✓✓
- give households confidence that inflation rate will be low in future and encourage them to save more from the income, thereby controlling excess demand. ✓✓
- reduce panic buying by consumers when they expect that prices will be stable in the future. ✓✓
- boost real interest rates which will encourage savings. ✓✓
- increase the burden on debtors which discourages them from borrowing money, due to the real interest rate ✓✓

### **High inflation expectations** ✓

- Excessive wage demands by different labour unions because workers anticipate increases in cost of living in the future will lead to producers increasing prices in order to recover extra costs of production ✓✓
- Prompts consumers to engage in panic buying when they expect prices to rise and thereby increasing pressure on price to rise. ✓✓
- Make households to save less, thereby leading to excess demand for goods and services ✓✓
- Decreases real interest rates which will discourage savings. ✓✓
- Reduce the burden on creditors as they will receive their money at higher interest rates ✓✓

(Accept any other correct relevant response)

(Max 26)

**(Allocate a maximum of 8 marks for mere listing of facts/examples)**

**ADDITIONAL PART**

- Load shedding can lead to reduced production in many industries causing shortages of goods and services which may result to demand-pull inflation. ✓✓
- During load shedding, businesses may have to rely on backup power sources such as generators which increase the cost of production resulting in cost-push inflation. ✓✓
- Load shedding can lead to a weakened value of the rand due to a decrease in foreign investor confidence in the country's economy hence decreasing the aggregate supply and lead to inflation. ✓✓
- A weakened rand value will result in an increase in key-imported inputs which will increase prices of goods ✓✓
- Lower levels of investment contribute to stagflation through decreased employment and low economic growth which can negatively affect the inflation rate. ✓✓
- Load shedding can lead to supply chain disruptions thereby causing inflation as businesses tend to pass on added costs to consumers. ✓✓
- Inefficient allocation of resources due to load shedding hinder economic development and lead to cost inefficiencies which may contribute to higher prices. ✓✓
- Load shedding may lead to increased government expenditure as government is forced to invest in infrastructure such as power generators to address load shedding issues leading to inflationary pressures due to increased government borrowing. ✓✓

(Accept any other correct relevant response)

(Max. 10)

**(Allocate a maximum of 2 marks for mere listing of facts)****CONCLUSION**

Inflation reduces the purchasing power of money which means consumers can buy fewer goods resulting in a decrease in the standard of living thus it is important for wage increases to be higher than the inflation rate. ✓✓

(Accept any other correct relevant higher order conclusion)

(Max. 2)

**(40)**

<b>TOTAL SECTION C:</b>	<b>40</b>
<b>GRAND TOTAL:</b>	<b>150</b>