

Western Cape Education Department

ECONOMICS

Grade 12 Term 2
2025

Learner Material

SESSION 1

PERFECT MARKET

MULTIPLE CHOICE QUESTIONS

1.1.1 An example of a variable cost item is ..

- A electricity
- B rent
- C insurance
- D life cover

1.1.2 The slope of the demand curve of an individual firm under perfect market conditions...

- A is vertical.
- B is horizontal.
- C trending downwards from left to right.
- D Positive

1.1.3 To avoid closure, the perfect competitor must be able to cover the ... costs.

- A average variable
- B average
- C labor
- D fixed

1.1.4 Unit costs are also known as ... costs.

- A marginal
- B total
- C average
- D variable

1.1.5 The term 'long term' refers to a period where ... factors of production may change.

- A both variable and fixed
- B only variable
- C only fixed
- D floating

1.1.6 A fresh produce market is a good example of a ... market structure.

- A monopolistically competitive
- B monopoly
- C perfect
- D oligopoly

1.1.7 An individual firm under perfect competition has a ...demand curve.

- A perfectly elastic
- B perfectly inelastic
- C relatively elastic
- D relatively inelastic

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

- A negative.
- B positive.
- C horizontally.
- D vertical.

1.1.9 An industry with only two producers controlling the market is known as a...

- A duopoly
- B monopoly
- C oligopoly
- D triopoly

1.1.10 Pricing for the individual business on the perfect market is determined by the...

- A owner
- B market
- C dominant business
- D business

1.1.11 The factors of production in a ... market are perfectly mobile.

- A perfect
- B imperfect
- C semi perfect
- D competitive

1.1.12 A good example of a perfect market in South Africa is...

- A oil companies.
- B Johannesburg Stock Exchange
- C Eskom.
- D retail industry.

1.1.13 The supply curve of a perfect competitor is represented by that part of the MC curve that lies above the ... curve.

- A total cost
- B average variable cost
- C average-cost
- D fixed costs

1.1.14 The perfect competitor charges a price equal to the...

- A average cost.
- B marginal revenue.
- C average-variable-curve.
- D variable costs

1.1.15 Normal profit is also known as the ... point in a perfect market.

- A minimum
- B break even
- C maximum
- D zero-

1.2 PAIR

<u>COLUMN A</u>	<u>COLUMN B</u>	<u>ANSWER</u>
1.2.1 Breakeven point	A. businesses that produce similar products.	
1.2.2 Industry	B. actual expenses incurred by a business for inputs into the production process.	
1.2.3 Normal profit	C. products that differ, in other words, that are not similar.	
1.2.4 Explicit	D. sell homogeneous goods.	
1.2.5 Perfect market	E. occurs where average income are equal to average costs.	
1.2.6 Long term	F. a company in a perfect market will consider its doors to close as $AR = ARC$.	
1.2.7 Marginal revenue	G. average revenue is less than average cost	
1.2.8 Shut-down point	H. extra income the seller earns as another unit of a product is produced and sold	
<u>1.2.9</u> Economic loss	I. period of production where all factors of production has become variable	
<u>1.2.10</u> Heterogeneous	M. situation where the business does not show a profit or loss	

ONE WORD/ TERM

	DEFINITION	TERM
TOPIC 6: PERFECT MARKETS		
1.	That point where the firm can cover its costs and earn only a normal profit.	
2.	When total cost is greater than total revenue. When average revenue is lower than average cost, the firm makes an economic loss.	
3.	Profit made in addition to normal profit. When average revenue is greater than average cost, the firm makes an economic profit.	
4.	Actual expenses of business, e.g. wages and interest.	
5.	The cost that remains constant regardless of the quantity produced.	
6.	Similar or identical product.	
7.	Value of inputs owned by entrepreneur and used in the production process (forgotten rent, interest + salary).	
8.	The period of production where all factors can change. The time is long enough for variable and fixed factors to change.	
9.	An institution or mechanism that brings together buyers and sellers of goods or services.	
10.	How a market is organized.	
11.	The minimum earnings necessary to prevent an entrepreneur from leaving the industry. When average revenue equals average cost, the firm makes a normal profit.	
12.	A market structure with large numbers of producers and buyers.	
13.	Has no influence on the price. Accept price determined by the market.	
14.	The period of production where only the variable factors of production can change while at least one factor is fixed.	
15.	Business will close where $MC = AVC$.	
16.	An institution whose main functions are to review orders made by the Competition Tribunal and modify or confirm these orders	
17.	An institute that investigates restrictive business practices, abuse of dominant positions and mergers in order to achieve equity in the South African economy.	

18.	Average revenue is the amount earned by the firm for each unit of output sold and is calculated by dividing total revenue (TR) by the amount of output.	
19.	Marginal revenue is the extra revenue earned from selling one additional unit.	
20.	An institution whose main function is to approve major mergers, adjudicate in cases of misconduct and issue orders on matters referred to it by the Competition Commission.	
21.	Businesses earn money by selling their output. Total revenue is calculated by multiplying the number of products sold (Q) by the price of the product (P). $TR = P \times Q$	
22.	The cost remaining increases/decreases when quantity produced increases/decreases. These costs vary with output.	

NAME/GIVE/LIST QUESTIONS

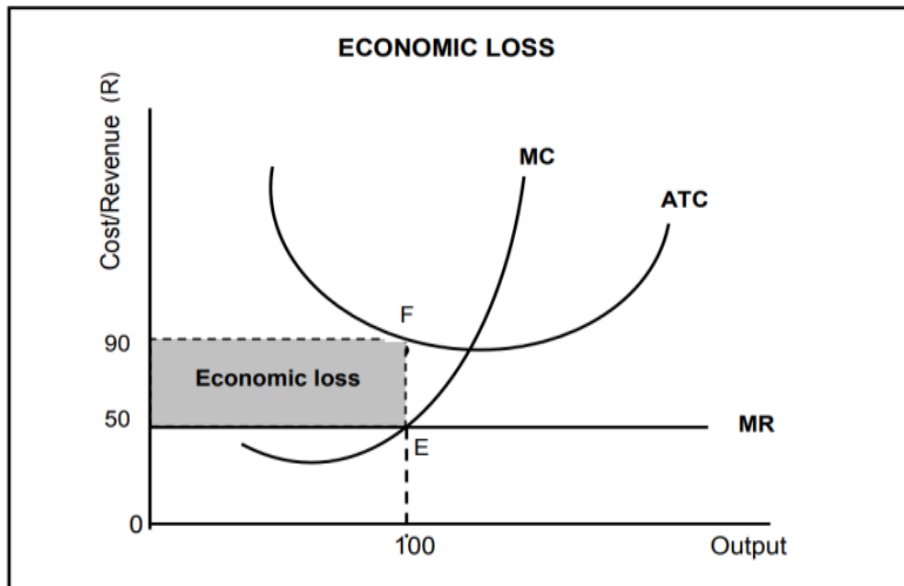
1. Give any TWO examples of variable costs. (2x1)
2. Name any TWO institutions that regulate unfair competition in South Africa. (2x1)
3. Give TWO examples of explicit costs for a firm. (2x1)
4. Name any TWO examples of a perfect market structure. (2x1)

HIGH-ORDER QUESTIONS

1. Why is a perfect competitor not able to the market price to influence? (1x2)
2. Why are businesses in the perfect market structure price takers? (1x2)
3. Why does homogenous products benefit the consumers? (1x2)
4. What will happen if one business in the perfect market decides to increase the selling price? (1x2)
5. What will be the effect if one firm in a perfect market decides to raise the price of a product? (1x2)
6. Why will output in the goods market rise when businesses in the perfect market makes an economic profit? (1x2)

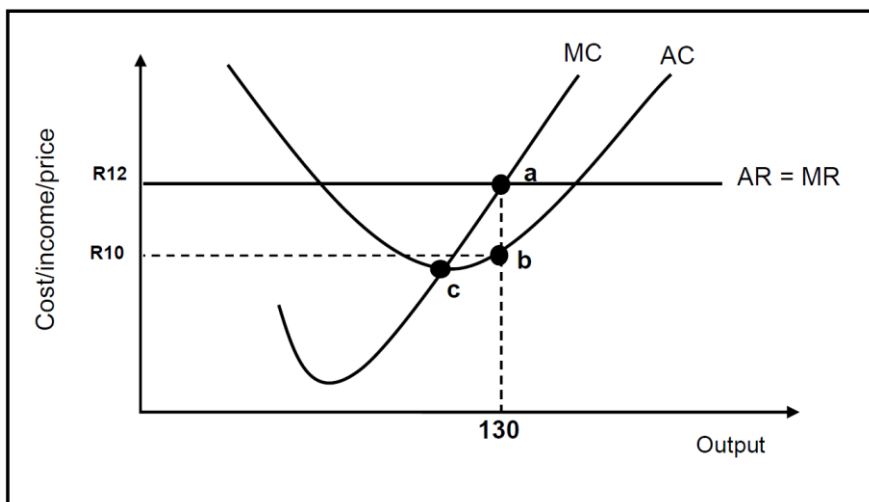
DATA RESPONSE QUESTIONS

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



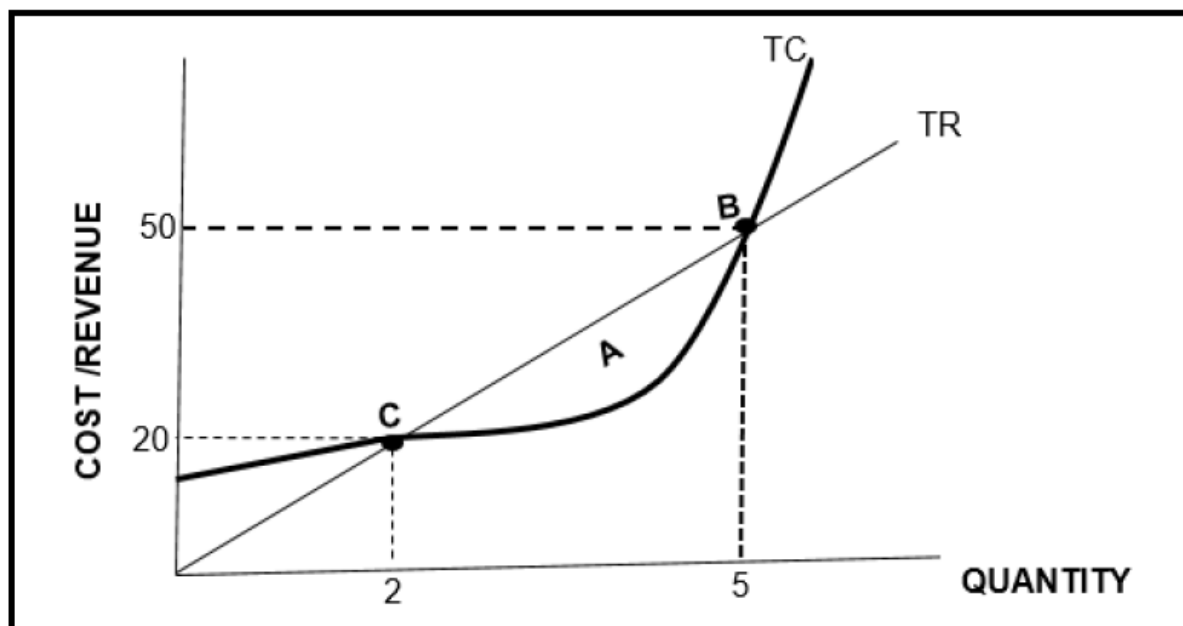
- 1.1 Identify the market structure in the graph above. (1)
- 1.2 Give the value of the market price depicted above. (1)
- 1.3 Briefly describe the concept *marginal cost*. (2)
- 1.4 How will this equilibrium position change in the long run? (2)
- 1.5 What circumstances must exist for this business to close? (2)
- 1.6 Calculate the economic loss this business faces. (4)

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



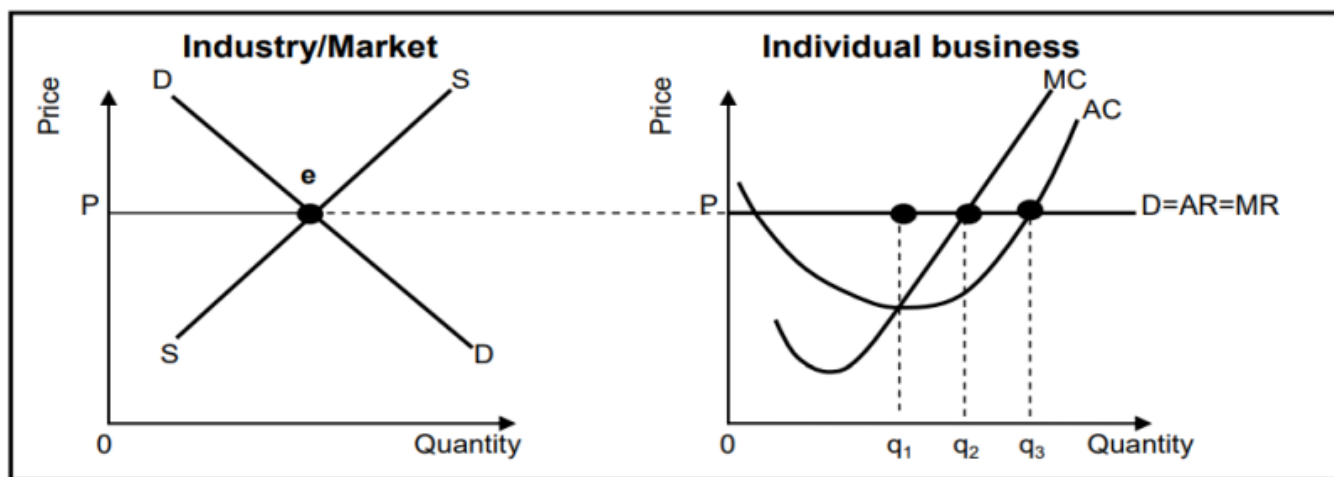
- 2.1 Provide the graph above with a suitable heading. (1)
- 2.2 Which point indicates profit maximization? (1)
- 2.3 Briefly describe the concept *short run*. (2)
- 2.4 How will price and quantity change in this market structure in the long run? (2)
- 2.5 Determine the total profit/loss made by this business. (4)

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



- 3.1 How is profit calculated? (1)
- 3.2 What profit does the company earn at point B? (1)
- 3.3 Briefly describe the concept *variable cost*. (2)
- 3.3 Why does the TR curve start at zero? (2)
- 3.4 Where is profit maximized on the above graph? (2)
- 3.5 What are the implications of producing below point B? (4)

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



- 4.1 Identify the amount where the individual business will profit maximize. (1)
- 4.2 Name the market structure illustrated above. (1)
- 4.3 Briefly describe the term economic profit. (2)
- 4.4 Why does the individual business take the price set by the industry? (2)
- 4.5 How will the entry of new firms into the industry affect the individual business in the long run? (4)

8 MARKS QUESTIONS

- 8.1 Explain the nature of the product and market entry as characteristics of perfect competition. (2x4) (8)
- 8.2 Explain the objectives of the South African competition policy. (8)

SESSION 2 and 3

Imperfect markets

Section A

1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.

Monopoly

- 1.1.1 Although a monopoly can charge any price it wishes, it chooses ...
- A. The highest price
 - B. The price equal to marginal cost
 - C. The price that maximizes profit
 - D. Competitive prices
- 1.1.2 Which of the following is not a barrier to entry for new firms seeking entry into an industry in which there is currently a monopoly?
- A. Supernormal profits
 - B. Economies of scale
 - C. Branding
 - D. An industry regulatory body
- 1.1.3 A natural monopoly is most likely to exist when ...
- A. there are extremely large economies of scale.
 - B. there are large barriers to entry.
 - C. there is government regulation of the industry.
 - D. there are long term patents in an industry.
- 1.1.4 Which ONE of the following will be the result of the large economies of scale enjoyed by those involved in the production of gas and electricity?
- A. Upward sloping long run average cost curve
 - B. Flat long run average cost curve
 - C. Downward sloping long run average cost curve
 - D. "U" shaped long run average cost curve
- 1.1.5 A pure monopoly is unlikely to achieve allocative efficiency because ...
- A. equilibrium price is not equal to marginal cost.
 - B. equilibrium profit is not equal to normal profit.
 - C. equilibrium cost is rising due to diseconomies of scale.
 - D. equilibrium output is not at the lowest point of the AC curve.

1.1.6 Monopoly is faced with a ...

- A. Horizontal DD curve
- B. Downward sloping DD curve
- C. Kinked demand curve
- D. Vertical DD curve

Oligopoly

1.1.1 Which of the following is most likely to be oligopolistic.

- A. The market for corn
- B. The market for colas
- C. The market for aluminium
- D. The market for ground coffee

1.1.2 The market structure in which there is interdependence among firms is.

- A. Oligopoly
- B. Monopolistic competition
- C. Monopoly
- D. Perfect competition

1.1.3 The oligopoly model that predicts that oligopoly will tend to be very rigid is the ... model.

- A. Cournot
- B. Stackelberg
- C. Dominant firm
- D. Kinked demand

1.1.4 Suppose that three oligopolistic firms are currently charging R12 for their product. The three firms are about the same size. Firm A decides to raise its price to R18, and announces to the press that it is doing so because higher prices are needed to restore economic vitality to the industry. Firms B and C go along with Firm A and raise their prices as well. This is an example of ...

- A. Price leadership
- B. Collusion
- C. The dominant firm model
- D. The Stackelberg model

1.1.5 In the dominant firm model, the smaller fringe firms behave like ...

- A. an increase in output level and a decrease in price
- B. a decrease in output level and an increase in price
- C. a decrease in output level and no change in price
- D. neither a change in output level nor a change in price

Monopolistic competitor

1.1.1 A market with few entry barriers and with many firms that sell differentiated products is ...

- A. Purely competitive
- B. A monopoly
- C. Monopolistic competition
- D. oligopolistic

1.1.2 The most important factor in determining the long-run profit potential in monopolistic competition is.

- A. Free entry and exit
- B. The elasticity of the market demand curve
- C. The elasticity of the firm's demand curve
- D. The reaction of rival firms to a change in price

1.1.3 Which of the following is NOT regarded as a source of inefficiency in monopolistic competition?

- A. The fact that price exceeds marginal cost.
- B. Excess capacity
- C. Product diversity
- D. The fact that long-run average cost is not minimized.

1.1.4 Monopolistic competition firms have monopoly power because they ...

- A. Face downward sloping demand curves
- B. Are great in number
- C. Have freedom of entry
- D. Are free to advertise

1.1.5 A monopolistic competition firm in long-run equilibrium

- A. Will make negative profit
- B. Will make zero profit
- C. Will make positive profit
- D. Will make both positive and negative

1.1.6 Which of the following is true for both perfect and monopolistic competition?

- A. Firms produce a differentiated product.
- B. Firms face a downward sloping demand curve.
- C. Firms produce a homogeneous product.
- D. There is freedom of entry and exit in the long run.

1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A – I) next to the question number (1.2.1 – 1.2.8) in the ANSWER BOOK, for example 1.2.9 J.

Monopoly

Column A		Column B
1.2.1. Nature of product		A. Legal right of a holder to exclusively manufacture a product.
1.2.2. Artificial monopoly		B. One business in the market will control the supply of goods and services.
1.2.3. Competition		C. No close substitutes
1.2.4. Monopoly		D. Electricity in South Africa is provided by the government enterprise.
1.2.5. Sunk costs		E. Faces a downward sloping demand curve.
1.2.6. Deadweight loss		F. Reduction in economic welfare caused by a reduction in both consumer and producer surplus.
		G. Cannot be recovered should the firm leave the market.

Oligopoly

Column A		Column B
1.2.1. Priced leadership		A. Collusion that is open and oligopolies meet formally to decide on prices and production.
1.2.2. Duopoly		B. A change in price causes a smaller percentage change in the quantity demanded.
1.2.3. Inelastic demand		C. Two firms dominate the market.
1.2.4. Explicit collusion		D. Doing business over the internet.
1.2.5. Non price competition		E. One firm fixes the price and other accept as a market price.
1.2.6. Branding		

		F. Encourages people to buy new products from the same range
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Monopolistic competitor

Column A		Column B
1.2.1. Advertising		A. Occurs when $MC = MR$
1.2.2. Heterogeneous		B. Is used to differentiate the firm's product
1.2.3. Non-price competition		C. Products that are not the same
1.2.4. Monopolistic competition		D. Occurs when sellers focus on their product's features than on price
1.2.5. Profit maximisation		E. A variety of designs in packaging of the same article
1.2.6. Differentiated products		F. Type of competition that occurs often in the retail sector of the economy

1.3. Provide the economic term/concept for each of the following descriptions. Write only the term/concept next to the question number. NO ABBREVIATIONS OR EXAMPLES WILL BE ACCEPTED.

1.3.1.	When one firm takes over another firm and that firm then ceases to exist	
1.3.2.	When the market produces the BEST possible MIX of goods and services desired by consumers.	
1.3.3.	A group of producers who make a formal agreement to collude in order to fix prices, limit supply and limit competition.	
1.3.4.	Formal or informal agreement between two or more firms to divide the market, set prices or limit production in order to gain unfair advantage in the market.	
1.3.5.	Products that differ slightly in physical appearance, packaging, service and/or brand names	
1.3.6.	When there are only two oligopolies in the market	
1.3.7.	Occurs in a market where some of the producers and/or consumers are able to affect the price and quantity of goods by their action alone. Any market or industry that does not match the criteria for perfect competition is an example of imperfect competition.	

1.3.8.	When two firms join together to form a single firm	
1.3.9.	A market structure with many buyers and sellers where entry is relative easy but the product is differentiated, e.g. toothpaste	
1.3.10.	A market structure where only one seller operates. Entry is blocked and the product has no close substitute.	
1.3.11.	Exists when a small number of very large firms produce similar or identical products.	
1.3.12.	Gives the holder the exclusive rights to produce a product for as long as the patent right are valid	
1.3.13.	When a seller charges different prices for the same product for different groups	
1.3.14.	When one business in the industry makes price decisions on behalf of the whole group of oligopolists	
1.3.15.	When the market produces the maximum quantity of goods and services from a given set of resources.	
1.3.16.	Overt/Formal collusion e.g. cartels are generally forbidden by law in most countries. However, they continue to exist nationally and internationally.	
1.3.17.	Sometimes in an oligopoly market, a dominant firm will increase the price of a product in the hope that its rivals will see this as a signal to do the same. This is referred to as price leadership	

Section B

Question 2 - Answer each of the following as thoroughly as possible.

Monopoly

- 2.1.1 Name TWO main groups of monopolies. (2 x 1) (2)
- 2.1.2 List any TWO characteristics of monopolies (2 x 1) (2)
- 2.1.3 Name any TWO barriers to entry of monopolies. (2 x 1) (2)
- 2.1.4 Give any TWO examples of variable cost of production. (2 x 1) (2)
- 2.1.5 Name any TWO examples of monopoly in South Africa. (2 x 1) (2)

Oligopoly

- 2.1.6 Name any TWO forms of non-price competition. (2 x 1) (2)
- 2.1.7 List any TWO well-known cartels. (2 x 1) (2)
- 2.1.8 Name TWO segments of the kinked demand curve. (2 x 1) (2)

- 2.1.9 Name any TWO characteristics of oligopolies. (2 x 1) (2)
- 2.1.10 Name any TWO types of collusion. (2 x 1) (2)

Monopolistic competitor

- 2.1.11 Name any TWO examples of monopolistic competition (2 x 1) (2)
- 2.1.12 Name any TWO dimensions of product differentiation. (2 x 1) (2)
- 2.1.13 List any TWO brands of fast-food suppliers in South Africa (2 x 1) (2)
- 2.1.14 Name any TWO general characteristics of monopolistic competition. (2 x 1) (2)

Monopoly

- 2.2.1 How do monopolies affect consumers? (1 x 2) (2)
- 2.2.2 Why are generic pharmaceuticals significantly cheaper than name brand one's economics? (1 x 2) (2)
- 2.2.3 Why the AR and MR curves are two different curves (1 x 2) (2)
- 2.2.4 What determines the optimum production level in a monopoly market? (1 x 2) (2)
- 2.2.5 How does profit maximisation occur? (1 x 2) (2)

Oligopoly

- 2.2.6 How does the kinked demand curve explain price rigidity in oligopoly? (1 x 2) (2)
- 2.2.7 Why is it difficult to determine a unique demand curve under oligopoly? (1 x 2) (2)
- 2.2.8 Why is collusion desirable to oligopolistic firms? (1 x 2) (2)
- 2.2.9 How do firms compete in the oligopoly market? (1 x 2) (2)
- 2.2.10 What is the importance of after sale service (1 x 2) (2)

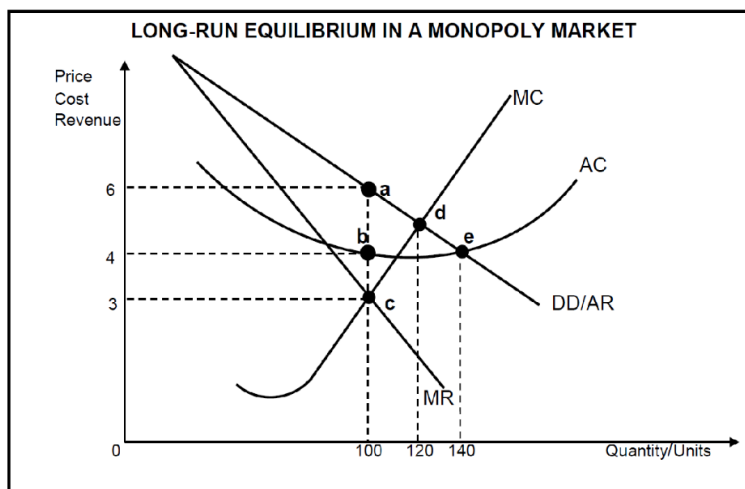
Monopolistic competitor

- 2.2.11 Why do some firms in monopolistic competition not earn losses in the long run? (1 x 2) (2)
- 2.2.12 Why is monopolistic competition inefficient? (1 x 2) (2)
- 2.2.13 Why is excess capacity said to exist in monopolistic competition in the long run? (1 x 2) (2)
- 2.2.14 Why is a perfectly competitive firm more efficient than a monopolistic firm? (1 x 2) (2)

Question 3 - Data response

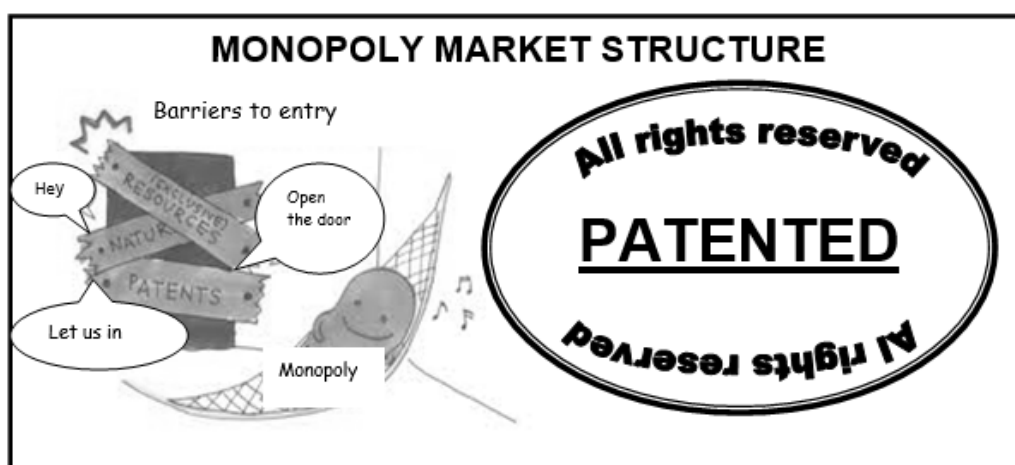
Monopoly

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



- 3.1.1 Indicate the profit maximisation point of the monopolist. (1)
- 3.1.2 How many units will be produced at the maximisation point? (1)
- 3.1.3 Determine whether the business is making an economic profit or an economic loss. Show ALL calculations. (4)
- 3.1.4 What favourable conditions may the monopolist enjoy in comparison to other market structures? (4)

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



[Source: Internet images, 2017]

- 3.2.1 Identify TWO barriers of entry as portrayed by the cartoon. (2 x 1) (2)
- 3.2.2 What type of monopoly is depicted in the above cartoon? (2)

3.2.3 Briefly describe the term *monopoly*. (2)

3.2.4 Why can't a monopolist charge excessively high prices for his products? (2 x 2) (4)

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

HOW SOUTH AFRICA'S BUSINESSES KEEP THE COUNTRY POOR

South Africa has far too many monopolies, for example Eskom which is regarded as a natural monopoly. There is only one competitor in the market. Some prices in South Africa are therefore much higher than they should be. The quality of products and services is lower and some of these companies are less innovative and efficient than is the case in more competitive environments.

[Adapted from www.moneyweb.co.za]

3.3.1 Identify TWO main problems that South Africa experiences with monopolies in the extract above. (2 x 1) (2)

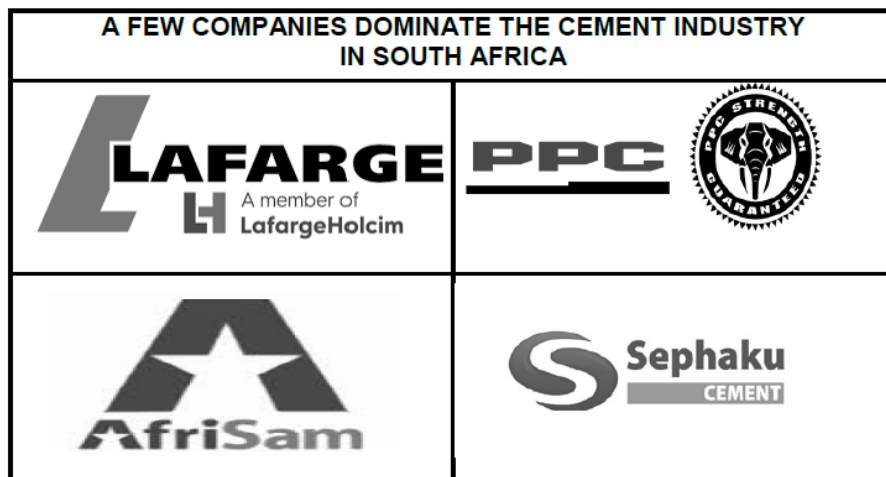
3.3.2 Why is Eskom regarded as a natural monopoly? (2)

3.3.3 What prevents monopolies from charging excessively high prices? (2)

3.3.4 How has the implementation of an anti-monopolistic policy benefitted South Africa? (2 x 2) (4)

Oligopoly

3.4. Study the illustrations below and answer the questions that follow.



[Adapted from www.google.co.za]

3.4.1 Identify the products produced by the businesses above. (1)

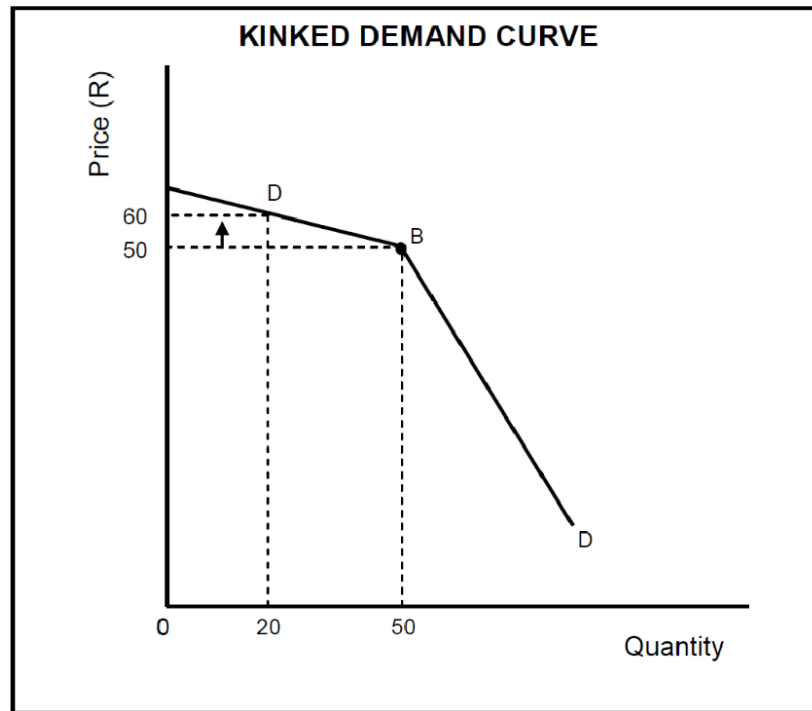
3.4.2 Which market structure is depicted above? (1)

3.4.3 Why will a new business find it difficult to enter into this type of market? (2)

3.4.4 What does *interdependency of businesses* in this market structure imply? (2)

3.4.5 Explain, without the use of a graph, why businesses in this industry will be reluctant to decrease the price of their product. (2 x 2) (4)

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



3.5.1 To which market structure is the kinked curve related? (1)

3.5.2 What is the output level in the graph above? (1)

3.5.3 What would the effect be on total revenue if the oligopolist increased his price from R50 to R60? Show calculations. (4)

3.5.4 Advise the oligopolist on how to increase his market share in this industry. (4)

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

AN OLIGOPOLISTIC RETAIL INDUSTRY

The South African retail industry is the largest in the sub-Saharan region and is positioned as the 20th largest retail market in the world. It is more or less an oligopolistic market with five South African companies, namely Shoprite, Pick n Pay, Spar, Massmart and Metcash, constituting 80% of the retail sales. Informal retail forms the other 20%.

Informal retail concepts vary from taverns to tuck shops (small food-selling retailers). Spazas or small retail stores most often run from home are making inroads in the local retail arena, offering both food and non-food products. Hawkers, street stalls, fast foods, kiosks and take-away food are amongst the informal market retailers.

[Adapted from www.thomaswhite.com]

- 3.6.1 Give TWO examples of informal retailers in South Africa in the extract above. (2 x 1) (2)
- 3.6.2 Explain the term oligopoly. (2)
- 3.6.3 How can Shoprite influence the price of their goods without forming a cartel? (2)
- 3.6.4 How do the five biggest South African companies increase their market shares in the economy? (2 x 2) (4)

Monopolistic competitor

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

MONOPOLISTIC COMPETITION

The demand curve of a monopolistic competitor is very similar to that of a monopolist, with the demand curve being more elastic than that of a monopoly. Short-run equilibrium is very similar to a monopoly and long-run equilibrium of normal profit is very similar to a perfect market. For this reason it is sometimes referred to as a hybrid market structure.









[Adapted from www.monopolisticcompetition.co.za, 2017]

- 3.7.1 Identify ONE example of a monopolistic competitor in the information above. (1)
- 3.7.2 Which word in the information above suggests that a monopolistic competitor is a combination of two market structures? (1)
- 3.7.3 Briefly describe the term normal profit. (2)
- 3.7.4 Why is the demand curve of a monopolistic competitor more elastic than that of a monopoly? (2)
- 3.7.5 How does branding play a key role in a monopolistic competitive market structure? (2 x 2) (4)

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

SOME OF THE POPULAR BRANDS IN SOUTH AFRICA



3.8.1 Name the market above associated with brands above (1)

3.8.2 Identify the characteristic of the market above (1)

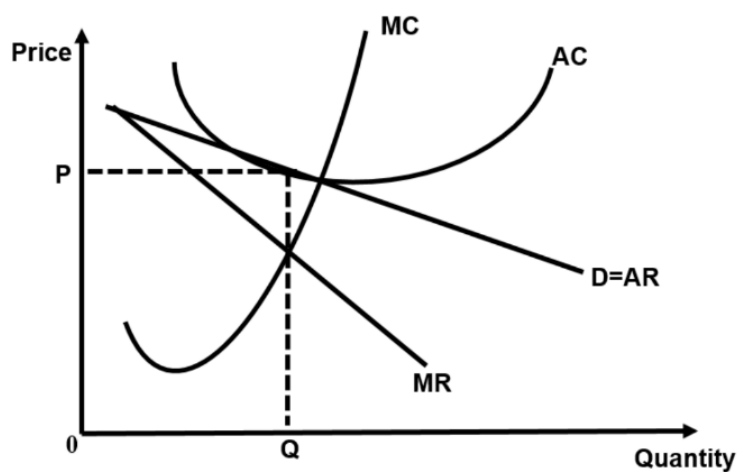
3.8.3 Briefly describe the term market information (2)

3.8.4 Explain the long-term profit in the market illustrated by the above brands. (2)

3.8.5 How do you provide a good after sales service? (4)

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

MONOPOLISTIC COMPETITION



- 3.9.1 What is the nature of the product in this market structure? (1)
- 3.9.2 Where is profit maximised in a monopolistic market? (1)
- 3.9.3 Briefly describe the term average revenue. (2)
- 3.9.4 Why is the demand curve of a monopolistic competitor more elastic than that of a monopoly? (2)
- 3.9.5 How does a monopolistic competitor compare with a perfect competitor in terms of its price and output? (2 x 2) (4)

Question 4 – Answer the following questions as thoroughly as possible.

Monopoly

- 4.1. With the aid of graphs, briefly explain how price is determined for an individual producer in a perfect market. (8)
- 4.2. Make a clear distinction between artificial- and natural monopoly. (2 x 4) (8)

Oligopoly

- 4.3. Distinguish between price leadership and cartels as forms of collusion. (2 x 4) (8)
- 4.4. Discuss the characteristics of oligopolies. (4 x 2) (8)

Monopolistic competitor

- 4.5. Briefly explain non-price competition used by monopolistic competition to ensure their operational success in the market. (4 x 2) (8)
- 4.6. Explain with an aid of graph of monopolistic competition in the long run. (4 X 2) (8)

SESSION 4

Market Failures

- 1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question number.
- 1.1.1 Externalities ...
- A. are not reflected in market prices, so they can be a source of economic inefficiency.
 - B. do become reflected in market prices, so they can be a source of economic inefficiency.
 - C. are not reflected in market prices, so they do not adversely affect economic efficiency.
 - D. do become reflected in market prices, so they do not adversely affect economic efficiency.

1.1.2 The presence of pollution in the trucking industry leads in the long run to dynamic inefficiencies because ...

- A. marginal external cost rises over time.
- B. marginal external cost is constant over time.
- C. average private cost in trucking is lower than average social cost, so that some trucking firms remain in the industry when efficiency calls for them to leave.
- D. average private cost in trucking is higher than average social cost, so that some trucking firms exit the industry when efficiency calls for them to stay (or for more firms to enter).

1.1.3 A minimum wage policy induces an

- A. Excess demand for labour
- B. Excess supply of labour
- C. Efficient market outcome
- D. Elastic supply response

1.1.4 Which of the following is not a cause of market failure?

- A. Incomplete information
- B. Externalities
- C. Individuals acting according to their own self-interest
- D. Public goods

1.1.5 The scarcity of resources necessitates that these resources are ...

- A. Allocated efficiently
- B. Allocated inefficiently
- C. Productive inefficiency
- D. Allocative inefficiency

1.1.6 A market which has major government influence and control can be described as being ...

- A. unregulated.
- B. deregulated.
- C. regulated.
- D. unchanged.

1.1.7 Government intervention in the market ensures sufficient staple food for the poor by setting ... prices.

- A. market
- B. maximum
- C. minimum
- D. limited

1.1.8 When a business does NOT produce at the lowest possible cost, it relates to ... inefficiency.

- A. allocative
- B. consumer
- C. goods
- D. productive

1.1.9 The use of a cost-benefit analysis allows ... decision-making.

- A. subjective
- B. complex
- C. biased
- D. objective

1.1.10 The effect of a minimum price will increase the ... goods.

- A. demand for
- B. supply of
- C. consumption of
- D. spending on

1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A – I) next to the question number (1.2.1 – 1.2.8) in the ANSWER BOOK, for example 1.2.9 J.

Column A		Column B
1.2.1. Imperfect competition		A. Aircraft noise
1.2.2. Private costs		B. Creates an excess supply of labour
1.2.3. Cost benefit analysis		C. Helps to quantify the social costs and benefits of related projects
1.2.4. External benefits		D. Prices would be low, and consumers would be spoiled for choice
1.2.5. Merit goods		E. It is incomplete because it cannot meet the demand for certain goods
1.2.6. Negative externality		F. Government intervention to redistribute income equally
1.2.7. Progressive taxation		G. Increased international profile of the airport
1.2.8. Price discrimination		H. The costs incurred by the individual firm
1.2.9. Minimum wages		
1.2.10. Missing markets		

		I. often under-produced by the market e.g. education J. buyers are charged differently for the same product
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1.3. Provide the economic term/concept for each of the following descriptions. Write only the term/concept next to the question number. NO ABBREVIATIONS OR EXAMPLES WILL BE ACCEPTED.

1.3.1.	Occurs when businesses do not maximise output from the given inputs.	
1.3.2.	An illegal market in which illegal goods are bought and sold or illegal prices are charged	
1.3.3.	A CBA is a method used to compare the total social cost and benefits of alternative projects, activities or investments.	
1.3.4.	Are goods that society feels its citizens should not consume	
1.3.5.	Market failure occurs when the resources of the community are allocated inefficiently	
1.3.6.	Are goods that society feels should be consumed by its citizens because it increases the welfare of the individual person and of society as a whole	
1.3.7.	A cost to a third party which is not included in a market price of a good. The difference between social cost and private cost.	
1.3.8.	Users who do not pay to use goods (free riders) cannot be excluded from using them.	
1.3.9.	The consumption of a product by one person will not prevent other from enjoying it too.	
1.3.10.	Refers to the situation where resources cannot be reallocated to make one person / group better off without making another person / group worse off	
1.3.11.	The benefit gained by a third party which is not included in the market price	
1.3.12.	When identical goods and services are sold at various prices to different consumers.	
1.3.13.	The gain a consumer gets from the use of a goods or the gain a producer gets from the sale of a product.	
1.3.14.	The actual cost paid by a consumer when a good is purchased.	
1.3.15.	Occurs when businesses do not allocate resources correctly and produce goods and services that consumers do not want.	
1.3.16.	Goods that the free market does not provide because they have non-rivalry and non-excludability.	

1.3.17.	The benefit gained by society from the use of a good or service. It is calculated by adding the private benefit and the positive externalities.	
1.3.18.	The cost of a good or service which is paid by society. It is calculated by adding the private cost and negative externalities together.	
1.3.19.	When output occurs at the intersection of marginal social benefit (MSB) and marginal social cost (MSC), the socially optimal level of output is achieved. Also known as the allocatively efficient level of output.	

Section B

Question 2 - Answer each of the following as thoroughly as possible.

- 2.1.1 List any TWO examples of community goods (2 x 1) (2)
- 2.1.2 Name any TWO characteristics of public goods (2 x 1) (2)
- 2.1.3 Name TWO examples where maximum prices can be applied. (2 x 1) (2)
- 2.1.4 Name any TWO consequences of market failure. (2 x 1) (2)
- 2.1.5 Name TWO instruments of imperfect markets (government intervention) (2 x 1) (2)
- 2.1.6 List TWO examples of minimum wage (2 x 1) (2)
- 2.2.1 Why is it important for the state to administer prices of certain goods? (1 x 2) (2)
- 2.2.2 How do externalities affect equilibrium and create market failure? (1 x 2) (2)
- 2.2.3 Why would productive inefficiency and allocative inefficiency be wasteful? (1 x 2) (2)
- 2.2.4 What are the strengths of cost benefit analysis? (1 x 2) (2)
- 2.2.5 Why is minimum wage a price floor? (1 x 2) (2)
- 2.2.6 How will producers benefit from minimum prices that are implemented by the government? (1 x 2) (2)
- 2.2.7 Why is the demand for skilled labour difficult to adjust in South Africa? (1 x 2) (2)
- 2.2.8 Why do people in rural areas sometimes pay higher prices for goods and services than those living in urban areas? (1 x 2) (2)
- 2.2.9 Why are merit goods normally undersupplied by the market? (1 x 2) (2)
- 2.2.10 Why would a lack of information to entrepreneurs lead to market failure? (1 x 2) (2)

Question 3 - Data response

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

LIMITING THE IMPACT OF A DEMERIT GOOD	
South Africa has been praised by the World Health Organisation for tackling diabetes and obesity.	
	
By implementing a tax on sugary drinks to increase the prices of these beverages, South Africa will be taking a proactive step to reduce intake of sugars, which contribute to unhealthy weight gain, tooth decay and diabetes.	
Source: Adapted from www.economicshelp.org	

3.1.1 Identify TWO negative effects of sugar intake from the information above. (2)

3.1.2 What effect will *sugar tax* have on the prices of sugary drinks? (2)

3.1.3 What do you understand by *demerit goods*? (2)

3.1.4 How do you think, will sugar tax affect the economy? (4)

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

MARKET FAILURE – Government Intervenes	
There are many causes of market failure, such as externalities, merit goods and unequal income distribution. In January 2019, government intervened to address unequal income distribution and announced a national minimum wage. This announcement was supported by Cosatu and the Federation of Unions of South Africa. [Adapted from FIN24, 1 January 2019]	

3.2.1 Name ONE type of inefficiency that results from market failure. (1)

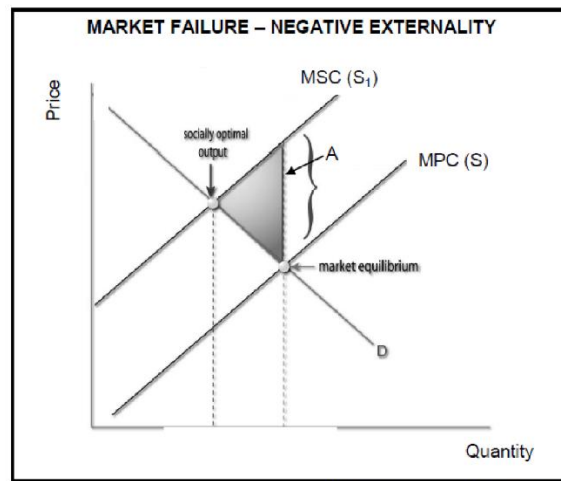
3.2.2 Give ONE redress policy that the government uses to redistribute income. (1)

3.2.3 Briefly describe the term merit goods. (2)

3.2.4 Why does a negative externality result in the overproduction of goods and services? (2)

3.2.5 Explain the negative consequences of minimum wages for the economy. (2 x 2) (4)

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



[Adapted from [Google images.com](https://www.google.com/images)]

3.3.1 Give an example of a negative externality. (1)

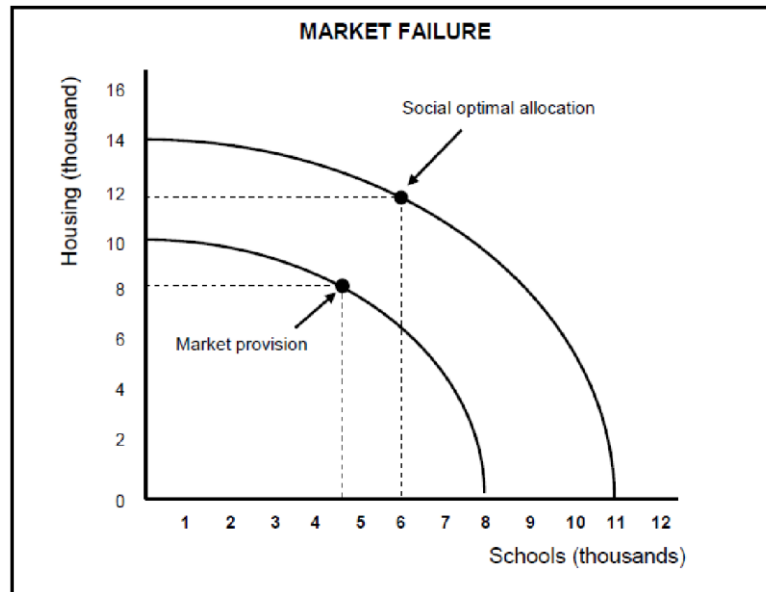
3.3.2 Name the shaded area (A) in the graph above. (1)

3.3.3 Briefly describe the term social cost. (2)

3.3.4 Explain a lack of information to entrepreneurs as a cause of market failure. (2)

3.3.5 Why is the socially optimal output more beneficial to society? (2 x 2) (4)

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



- 3.4.1 Identify the number of houses the market will provide if all resources were spent on houses. (1)
- 3.4.2 How many schools should the government provide to reach the social optimum allocation? (1)
- 3.4.3 Briefly describe the term market failure. (2)
- 3.4.4 Why are markets reluctant to produce public goods such as roads? (2)
- 3.4.5 How can the government ensure macroeconomic stability through their involvement in production? (2 x 2) (4)

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

A COST-BENEFIT SCENARIO

Think about a CBA before deciding to get it fixed ...

Below are the cost-benefit analysis (CBA) findings relating to different projects for a specific community.

ALTERNATIVE	COSTS (R millions)	BENEFITS (R millions)
A – road	100	50
B – park	150	200
C – hospital	120	200
D – airport	80	100

[Adapted from www.google.co.za]

Why? I'm not the government ...
A CBA has no use for a small guy like me.

- 3.5.1 In the information above, who is more likely to use a CBA when making decisions? (1)
- 3.5.2 Identify ONE project in the data above that the government is considering for this community. (1)
- 3.5.3 Give a reason why a CBA will NOT be of use to the mechanic in the cartoon. (2)
- 3.5.4 According to the data above, which project would be best for the community? (2)
- 3.5.5 Why do you think it is important to do a CBA when deciding about large projects? (2 x 2) (4)

Question 4 – Answer the following questions as thoroughly as possible.

- 4.1. Explain the reasons why cost-benefit analysis is used in practice. (4 x 2) (8)
- 4.2. Explain inefficiency in the economy as a consequence of market failure. (4 x 2) (8)
- 4.3. What are the effects of the implementation of minimum wages in South Africa? (4 x 2) (8)
- 4.4. Briefly discuss merit and demerit goods as a cause of market failure. (2 x 4) (8)