

**HILLCREST HIGH SCHOOL
ECONOMICS JUNE EXAMINATION
GRADE 12
MARKS: 150
PAPER TWO
TIME: 2 HOURS**



INSTRUCTIONS AND INFORMATION

1. Answer FOUR questions as follows:
 - SECTION A: COMPULSORY
 - SECTION B: Answer any TWO questions from this section.
 - SECTION C: Answer any ONE of the two questions.
2. Number the answers correctly according to the numbering system used in this question paper.
3. Read the questions carefully and start EACH question on a new page.
4. Answer questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
5. Use ONLY blue or black ink.
6. Non-programmable pocket calculators may be used.
7. Write legibly and present your work neatly.

SECTION A (30 marks)

QUESTION 1: COMPULSORY

1.1. Various options are provided as possible answers to the following questions. Choose the correct answer and write ONLY the letter (A – C) next to the question number (1.1.1 – 1.1.8) in the ANSWER BOOK. e.g 1.1.9 C.

1.1.1. Which ONE of the following can be regarded as a perfect competitor?

- A. OPEC, the supplier of crude oil
- B. Telkom, the supplier of a fixed-line telephone services
- C. A maize manufacturer in the Eastern Cape

1.1.2. Market structures describe different levels and forms of ...

- A. competition.
- B. distribution.
- C. production.

1.1.3. Large capital expenditure in the electricity industry makes entry to the ... market difficult.

- A. monopoly
- B. monopolistic
- C. oligopoly

1.1.4. The demand curve of a monopolistic competitor's product is ... than that of a monopolist.

- A. more price inelastic
- B. more price elastic
- C. inelastic

1.1.5. The government implements minimum wages for the benefit of ... labour.

- A. skilled
- B. unskilled
- C. professional

1.1.6. Oligopoly firms are reluctant to change prices because a ... will drive prices down and profits will be eliminated.

- A. price discrimination
- B. price war
- C. price ceiling

1.1.7. Which of the following explains immobility of factors of production?

- A. Price negotiations are not allowed.
- B. Some people have many goods while others have a few.
- C. Physical capital cannot be reallocated easily.

1.1.8. The government sets minimum prices in order to ...

- A. encourage producers to supply important essential goods.
- B. increase the price and decrease production.
- C. improve the quality of labour force.

(8 x 2)(16)

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

Column A	Column B
1.2.1. Free riding	A. Consumers like the choice that results from product proliferation
1.2.2. Competition Tribunal	B. Two firms dominate the market
1.2.3 Monopolistic competition	C. Individuals still benefit from a good even if they do not pay for it
1.2.4 Duopoly	D. Cannot be recovered should the firm leave the market
1.2.5 Long run	E. Factors of production are completely mobile
1.2.6 Sunk costs	F. Accepts or rejects investigations and recommendations
1.2.7 Allocative inefficiency	G. Two firms join together
1.2.8 Perfect competition	H. All costs are variable
	I. The product mix does not affect consumer's tastes

(8 x 1)(8)

1.3. Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1.-1.3.6.) in the ANSWER BOOK. Acronyms and abbreviations will NOT be accepted.

1.3.1. An institution or mechanism that brings together buyers and sellers of goods and services.

1.3.2. The selling of a good or service to different buyers at different prices.

1.3.3. The legal right whereby the holder obtains the exclusive right to manufacture a product or use a specific technique.

1.3.4. A market structure where only a few sellers operate.

1.3.5. Total income received from the sale of goods and services.

1.3.6. An illegal trading arrangement in which a good is sold at a price higher than the legally imposed price ceiling.

(6 x 1) (6)

SECTION B (80 marks)

Answer TWO questions in this section.

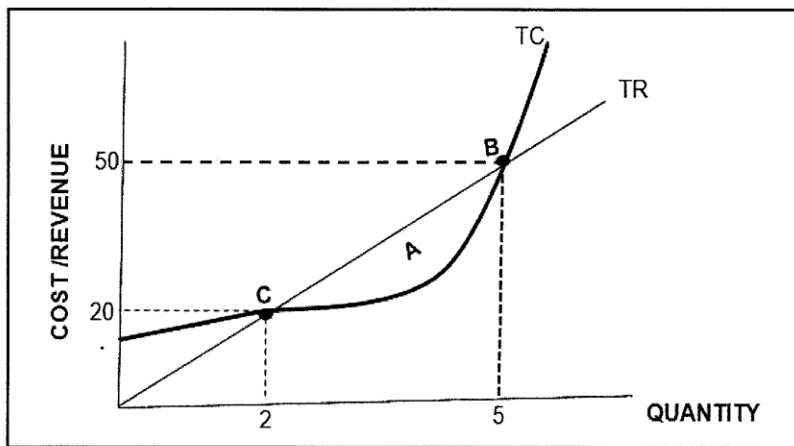
QUESTION 2

2.1. Answer the following questions.

2.1.1. List any TWO aims of the *competition policy* in South Africa. (2 x 1)(2)

2.1.2. Why is the short run economic profit of a monopolistically competitive firm not sustainable in the long run? (1 x 2) (2)

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



- 2.2.1. How is profit calculated? (1)
- 2.2.2. Which profit does the firm earn at point B? (1)
- 2.2.3. Why is the TR curve starting at zero? (2)
- 2.2.4. When is profit maximised in the graph above? (2)
- 2.2.5. What are the implications of producing beyond point B? (4)

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



- 2.3.1. Give names of TWO banks from those above. (2)
- 2.3.2. Explain any TWO characteristics that makes a banking sector an oligopoly. (4)
- 2.3.3. How do banks use non-price competition to make their products or services more price inelastic? (4)
- 2.4. Distinguish between a perfect market and a monopoly with regard to prices, profit, quantity and cost. (4 x 2)(8)
- 2.5. Why do firms in monopolistic competition make economic profit in the short run only? (4 x 2)(8)
- [40]**

QUESTION 3

3.1. Answer the following questions.

3.1.1. Name TWO elements of a hybrid structure of a monopolistic competition. (2 x 1)(2)

3.1.2. How will output be affected when a loss is made in a perfect market? (1 x 2) (2)

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

A LOSS TO SHUT DOWN OR NOT?

	Firm A	Firm B
Total revenue (TR)	R5 000	R5 000
Fixed cost (FC)	R2 000	R2 000
Variable cost (VC)	R4 000	R5 500
Total cost (TC)	R6 000	R7 500
Total loss	-R1 000	-R2 500

3.2.1. In which run are the two firms operating? (1)

3.2.2. Give an example of a *fixed cost*. (1)

3.2.3. With reasons, identify a firm that will shut down. (4)

3.2.4 What, do you think, are the implications of a shutdown? (4)

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

JASCO GIVES UP ON CROSS FIRE ACQUISITION

Jasco Electronics Holdings has terminated a planned acquisition of Cross Fire Management after the competition authorities ruled against the merger last month.



The Competition Commission prohibited the proposed merger, saying it would likely “substantially prevent or lessen competition in the provision of active fire protection systems”, particularly in the Western Cape and Gauteng regions.

[Source: Adapted from *fin24*, 3 August 2017]

- 3.3.1. Which authority did not allow the merger of Jasco and Cross Fire? (1)
- 3.3.2. What was the reason for the denial of the merger? (1)
- 3.3.3. Explain any other TWO objectives of the Competition Policy, other than the one in the extract. (4)
- 3.3.4. In your opinion, how will the economy benefit from fair competition? (2 x 2)(4)
- 3.4. Explain the rationale behind cost benefit analysis. (4 x 2)(8)
- 3.5. Explain how marginal cost and marginal revenue are used to determine profit maximisation in a perfect market. Use well-labelled graphs (8)

[40]

QUESTION 4

4.1. Answer the following questions.

4.1.1. List TWO examples of community goods.

(2 x 1) (2)

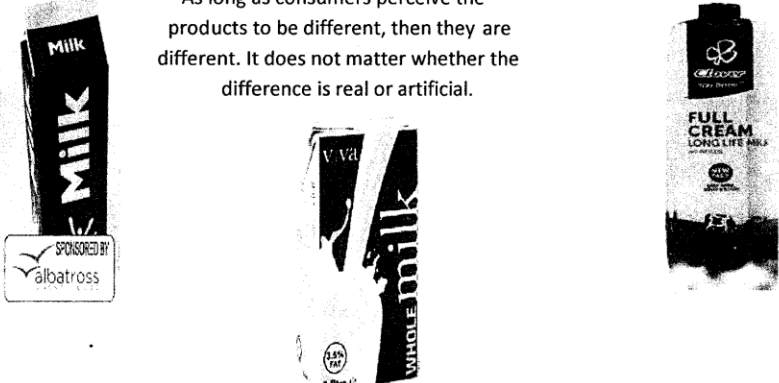
4.1.2. Why would society accept the existence of differentiated products as opposed to homogeneous products?

(1 x 2) (2)

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

MONOPOLISTIC COMPETITION

As long as consumers perceive the products to be different, then they are different. It does not matter whether the difference is real or artificial.



The image shows three different milk cartons. On the left is a black carton with 'Milk' written vertically and 'albatross' at the bottom. In the center is a white carton with 'VVA' and 'WHOLE MILK' written on it. On the right is a white carton with 'FULL CREAM LONG LIFE MILK' written on it.

4.2.1. Identify the market structure above.

(1)

4.2.2. Is the difference between products above real or artificial?

(1)

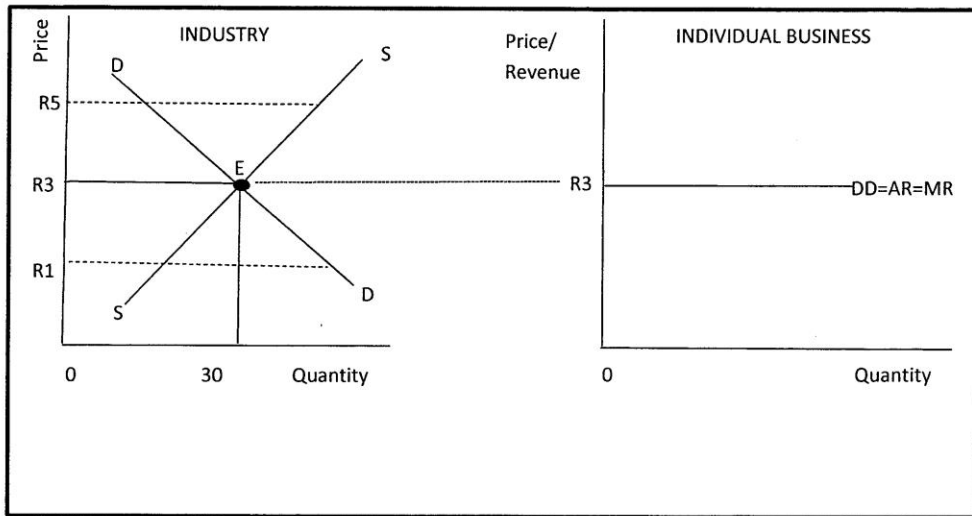
4.2.3. Explain branding as a non-price strategy used by monopolistic competitors.

(4)

4.2.4. Why does monopolistic competition not have full control over the price?

(4)

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



- 4.3.1. At which price will the individual business sell its products? (1)
- 4.3.2. How is the slope of the demand curve of the industry? (1)
- 4.3.3. Briefly explain the phrase, "*Businesses are price-takers*" (2)
- 4.3.4. How are prices determined in the industry? (2)
- 4.3.5 In your ANSWER BOOK redraw the graph of an individual business and insert curves that show the business making an economic profit. (4)
- 4.4. Distinguish, without using graphs, between *productive inefficiency* and *allocative inefficiency*. (4 x 2) (8)
- 4.5. Explain, by means of a neatly labelled graph, how a negative externality results in the misallocation of resources. (4 x 2) (8)

[40]

SECTION C (40 marks)

Answer **ONE** question from this section in the ANSWER BOOK
Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max. 2
Body: Main part: Discuss in detail/In-depth discussion/Examine/ Critically discuss/ Analyse/Compare/ Evaluate/Distinguish/ Differentiate/Explain/Assess/Debate	Max. 26
Additional part: 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	Max. 10
Conclusion: Any higher-order conclusion should include: <ul style="list-style-type: none">• A brief summary of what has been discussed without repeating facts already mentioned in the body• Any opinion or valued judgement on the facts discussed• Additional support information to strengthen the discussion/analysis• A contradictory viewpoint with motivation, if required	Max. 2
TOTAL	40

QUESTION 5

"Markets are broadly categorised into perfect and imperfect markets. However, in reality very few examples of perfect markets exist."

- Explain the characteristics under conditions of perfect competition in detail. (26)
- Illustrate by means of graphs the position of the industry and firm in the long term if a loss was incurred in the short term. (10)

[40]

QUESTION 6

"Sometimes free market fail to produce the quantities of goods and services that people want at the prices that reflect marginal utilities and relative scarcities."

- Discuss the causes of market failure by referring to externalities and missing markets. (26)
- How does the government discourage or encourage externalities? (10)

[40]