NATIONAL
SENIOR CERTIFICATE

GRADE 11

NOVEMBER 2014

ECONOMICS P2
MEMORANDUM

MARKS: 150

This memorandum consists of 13 pages.

SECTION A (COMPULSORY)

QUESTION 1

1.1   **MULTIPLE-CHOICE QUESTIONS**

   1.1.1 A (Diminishing utility) √√

   1.1.2 C (Income Elasticity) √√

   1.1.3 A (Increase in price of a product and an increase in demand of
          the substitute product) √√

   1.1.4 C (marginal cost) √√

   1.1.5 B (Increased crime reports) √√

   1.1.6 A (trade blocks) √√

   1.1.7 B (International Monetary Fund) √√

   1.1.8 C (Excessive consumption) √√   (8 x 2) (16)

1.2   **MATCHING ITEMS**

   1.2.1 F (People being unable to care of their basic needs) √

   1.2.2 D (European Union, BRICS, NAFTA) √

   1.2.3 A (Facilitates international trade agreements, tariff policies and
          probation of intellectual property) √

   1.2.4 G (Was held in South Africa) √

   1.2.5 C (Responsiveness of quantity demanded of one good to a
          change in price of another good)

   1.2.6 E (Prevents an entrepreneur from closing the business down) √

   1.2.7 H (Zero elasticity of demand) √

   1.2.8 B (Price multiplied by quantity) √   (8 x 1) (8)

1.3 1.3.1 Desertification √

   1.3.2 Globalisation √

   1.3.3 Unit elasticity/elasticity of one√

   1.3.4 Profit √

   1.3.5 Economies of scale √

   1.3.6 Economic profit √   (6 x 1) (6)

                     TOTAL SECTION A: **30**

                          Please turn over

SECTION B

QUESTION 2

2.1 2.1.1
- Availability of close substitutes √√
- Nature of products √√
- Habit forming products √√
- Proportion of income spent on the products √√
- Durability of the product √√
- Time √√
- Possible uses √√
- Degree of necessity or luxury √√   (2 x 1)   (2)

    2.1.2 *Explain the law of diminishing returns.*
Law of diminishing returns states that as more of a variable input is added to a fixed input, the returns from the variable input will decrease. √√   (1 x 2)   (2)

2.2 2.2.1 Price elasticity of supply measures the responsiveness of quantity supply to changes in price. √√   (2)

    2.2.2

$$P_{ES} = \left(\frac{\text{\% change in quantity supplied}}{\text{\% change in price}} \right) \checkmark$$

Percent change in price of cheese
$$= \left(\frac{R49 - R35}{R35} \right) \times 100 = 40\% \ \checkmark$$

Percent change in quantity supplied of cheese
$$= \left(\frac{252 - 200}{200} \right) \times 100 = 26\% \ \checkmark$$
$$P_{ES} = \left(\frac{26\%}{40\%} \right) \checkmark$$
$$= 0{,}65 \ \checkmark\checkmark$$ (6)

    2.2.3
- Fixed inputs do not change in the short run; therefore a supplier is able to increase output using only the variable inputs. √√
- A fixed factor of production such as land and other specialised capital equipment is expensive. √√   (1 x 2)   (2)

2.3 2.3.1 Complementary products are different products that are used together at the same time to satisfy a need or want, √√
e.g. tennis ball and a tennis racquet.√ (Accept any relevant example)
               (Definition 2 marks, example only 1 mark)   (2)

2.3.2

(6)
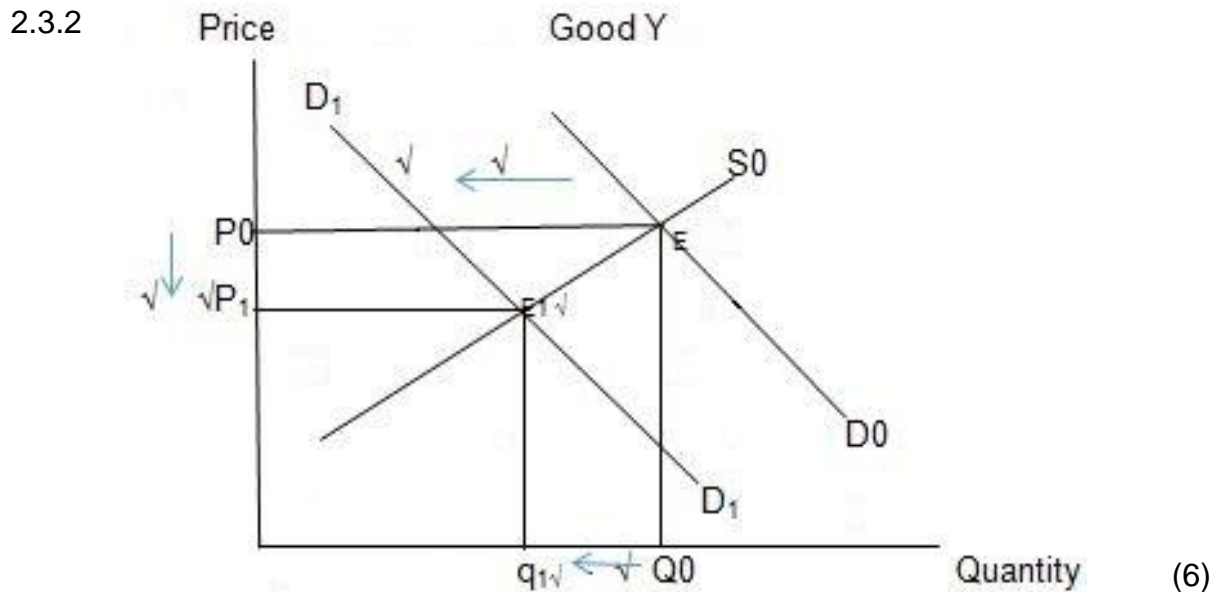
2.3.3
- Enables producers to predict what impact a change in the price of compliments will have on the demand for their product. √√
- They will then be able to implement measures to counteract the effect of price change in an effort to try and maximise their profit. √√
- That is cost effective measures like producing more output with the same amount of input. √√ (Any 1 x 2) (2)

2.4
- Satisfaction is abstract because utility cannot be measured √√ – there is no standard way to measure someone's satisfaction or utility, so economists sometimes simply assign it and value a call the measurement "utils". √√
- Utility is subjective √√ – because it differs from person to person, √√ – the satisfaction two people get from consuming the same product differ depending on personal preferences √√ e.g. some people will find that ice cream has a high utility, while others would prefer to have cold drinks. √√
- Utility differs from one situation to the other / (from time to time) √√ – i.e. warm clothes provide satisfaction in winter as opposed to summer. √√
- Utility differs from place to place√√ – a swimming costume will be satisfying at the beach but not in the classroom. √√ (2 x 4) (8)

2.5
- Tells a producer that for every action there is a reaction. √√
- By studying price elasticity of demand, we can predict what the change in price will be for the producers. √√
- Price elasticity of demand is useful to help firms decide how to increase their total revenue. √√
- To increase its total revenue the producer can (1) raise the price to get more revenue per product; √√ and (2) drop the price to increase the quantity sold. √√
- If the buyers are sensitive to the price (elastic demand), they will buy more if the price drops, √√ so the producers should drop the price. √√

- If the buyers are not sensitive to price (inelastic demand) they will not buy much less even if the price goes up, √√ so the producers should increase the price. √√
- To increase sales, raise the price when the demand is inelastic, √√ or drop the price when the demand is elastic. √√
- Producers want to know how sensitive the market supply is to a change in the price of the product. √√   (4 x 2)   (8)

[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

3.1   3.1.1   • World summit on Sustainable Development 2002 √
              • The Kyoto Protocol √
              • The millennium development goals √   (2 x 1)   (2)

       3.1.2   Absolute advantage refers to the ability of an individual, business, or country to produce more of a good or a service than competitors can, using the same amount of resources. √√
              (Accept any relevant definition.)   (1 x 2)   (2)

3.2   3.2.1   Depicts poverty. √√   (2)

       3.2.2   • **Unemployment**: Diseases decrease the amount of work that ill people can do, reducing their income and driving them deeper into poverty. √√
              • **Lack of education**: It keeps people from obtaining decent jobs that would lift them and their families out of poverty. √√
              • **Global financial crisis**: Poor countries do not have money for investments which are important for development and growth; this widens the gap between the rich and the poor. √√
              • **Lack of productive resources**: In poor countries, there are not enough productive resources to ensure sustainable livelihoods. √√
              • **Dysfunctional governments**: Many governments have created their own misfortunes, and lack of physical and social infrastructure can be crippling for the poor. √√
              • **Environment and climate change**: Increasing drought, flooding and changing climate patterns demand a shift in in crops and farming practices that people may not be able to make easily. Poor people are ill-equipped to deal to adapt to changing rainfall patterns. √√
              • **War and conflict**: A large portion of today's global poverty is found in war torn and post conflict countries.   (Any 2 x 2)   (4)

       3.2.3   Eastern Cape √√
              KwaZulu-Natal √√   (4)

3.3   3.3.1
- North/South divide √√
- Countries of the South have less industries than those of the North while those in the South are dependent on countries of the North. √√

(Accept any relevant response.)   (1 x 2)   (2)

       3.3.2   Africa √√   (2)

       3.3.3
- **Capitalism**: √ Is known to lead to inequality because it is based on the profit motive and the accumulation of wealth. √√
- **Globalisat**ion: √ Leading cause of inequality across the world. Some developed countries exploit poor countries to a point where developing countries become dependent on developed countries for survival. √√
- **Immigration**: √ When immigration patterns between countries are uneven, it leads to inequality. √√
- **Rate of development**: √ Countries of the North and South have different levels of economic growth. A slow rate of development refers to developing or under-developed countries in the South, while a high rate refers to development refers to the North. √√
- **Emergence of economic powers**: √ Developed countries with access to capital obtain economic power. They can produce goods most efficiently, develop and produce new technologies, and export most goods to the other countries. √√ The competition between emerging power economies makes it difficult for developing economies to survive. √√
- **International infrastructure**: √ Countries of the North have the most transport systems. √√ International communications network are almost completely under the control of the countries of the North and the South pays heavily for these services. √√
- **New technologies**: √ The research, development and production of new technologies are in the hands of large corporations in the North. √√
- **Financial aid and debt**: √ Many countries in the South obtained funds or credit from wealthy countries in the North, usually at high interest rates. √√ These high interest rates cause debt to accumulate, borrowers end up paying out more than they receive in the form of investments. √√   (Any 3 x 2)   (6)

3.4 *Briefly discuss any TWO characteristics of globalisation.*

- **Global market established** √√ where goods and services can be exchanged freely between countries. √√
- **Trade has become open** √√ as trade barriers such as tariffs have been removed. √√
- Globalisation encourages **free flow of investment** √√ between countries and there is free movement capital and finance across the world. √√
- **Economic integration** √√ is necessary and no country can survive on its own; different countries and economies are interdependent. √√
- **The movement of people and goods** √√ across the national borders is facilitated by the development of transport and communication. √√
- All countries have **access to cheapest and best quality** √√ products.
- Giant international co-operations play a very important role in world trade. √√   (Any 2 x 4)   (8)

3.5 *Analyse any FOUR ways that can be used by the South African government to alleviate poverty.*

- **Basic income security**: √ Providing safety nets. √
- **Basic services** √ and other non-financial transfers and other non-financial transfers in the form social wages and grants consisting of free basic municipal services. √
- **Social inclusion initiatives**: √ To ensure an inclusive society. √
- **Human resource development**: √ Investment in health and education. √
- **Creation of economic opportunities**: √ To ensure that the economy creates chances for poor households to earn improved incomes. √
- **Access to assets** √ Particularly housing, land and capital including public infrastructure. √
- **Improving health care**: √ Ensuring that poor children grow up healthy. √
- **Environmental sustainability**: √ Reversing environmental degradation, promoting ecotourism, responding to climate changes and encouraging efficient and sustainable exploitation of the environment. √
- **Good governance**: √ Direct intervention in the provision of information of information, facilitating participatory democracy, pro-poor policies and Sound macro-management and partnerships/solidarity. √   (4 x 2)   (8)
                                                                                                             [40]

**QUESTION 4:   MICROECONOMICS AND CONTEMPORARY ECONOMIC
                 ISSUES**

4.1   4.1.1   • To make profit √
                • Survival of the business √
                • Maximising revenue √
                • Maximising sales √
                • Setting targets for growth √   (2 x 1)   (2)

       4.1.2   Explicit costs are all the expenses that a business has to pay for the
                use of the factors of production. √√   (2)

4.2   4.2.1   *Give any TWO examples of variable costs.*
                • Electricity √
                • Water √   (Accept any relevant answer)   (2)

       4.2.2   *Explain the shapes of the average total cost (ATC), average variable
                cost (AVC) and marginal cost (MC)*
                • The MC, AVC and ATC are U-shaped. √√
                • As the number of units increase from zero, they start at high
                  values √√ decline at decreasing rate reach minimum points √√ and
                  then increase at increasing rates. √√
                • Marginal cost also cuts average total cost an average variable cost
                  at their minimum values. √√   (Any 3 x 2)   (6)

       4.2.3   *Why are average total costs important?*
                Average total costs are important because:
                • They give the cost per unit √√
                • They are used to determine (when compared to average
                  revenue). √√   (Any 1 x 2)   (2)

4.3   4.3.1   B – Brazil; √ R– Russia; √ I– India; √ C – China; √ S – South Africa √   (5)

       4.3.2   The main purpose is to expand inter-trade amongst member (BRICS)
                countries. √√   (2)

       4.3.3   *According to the extract, what are the agreements that were made in
                Durban?*
                • Re-affirmed their support for sustainable infrastructure
                  development, as well industrial development √
                • Job creation √
                • Skills development √
                • Food and nutrition security √
                • Poverty eradication √
                • Sustainable development in Africa √   (Any 3 x 1)   (3)

4.4 *Distinguish between product and factor markets*

Factor markets:
- Market for factors of production. √√
- Each factor of production is sold in a different market. √√
- The price of each factor of production is determined through the interaction of demand and supply. √√
- If the supply of one factor of production changes, it affects the rest of the factor market as well as the product market. √√

Product market:
- Market for goods and services. √√
- Product market is divided into capital goods market, consumer goods market and the service market. √√
- If demand for a product or a service increases, the demand for factors of production will also increase in the factor market. √√
- A change in the product market influences demand in other markets. √√   (8)

4.5 *Explain the implication of 'non-price competition' in oligopolies.*

- Oligopolies tend not to compete in terms of the price of products. √√
- Businesses normally engage in non-price competition such as advertising, product differentiation, to gain market share. √√
- They try to distinguish their products from those of other businesses in order to gain a competitive advantage. √√
- Businesses try to avoid price competition as this could lower the profitability of the different businesses. √√
- Forms of non-price competition include: building brand loyalty; √√ extended shopping hours; √√ doing business over the internet; √√ after sales service; √√ loyalty rewards to customers; √√ etc.   (4 x 2)   (8)

                                                         [40]

                          TOTAL SECTION B: **80**

SECTION C

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

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max. 2
Body	
Main part: Discuss in depth/In-depth discussion/Examine/Critically discuss/Analyse/Compare/ Evaluate/Distinguish/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	Max. 2
TOTAL	**Max. 40**

QUESTION 5: MICROECONOMICS

Discuss in detail the characteristics of perfect markets.

Briefly highlight how it differs from monopolistic markets.

INTRODUCTION

Perfect markets are markets where neither the individual producer, nor individual consumer has an impact on price. There is no preference where one buys or sells the product, because all the products are the same. √√

(Accept any relevant introduction)   (2)

BODY
Characteristics of perfect markets

Large number of buyers and sellers √ exist who cannot control price: there are many buyers and sellers in the market in that everyone is a price-taker. √√ No individual buyer or seller can influence price. √√
Products are homogenous: √ This means products are of the same type, quality and appearance. √√
The market is impartial and impersonal: √ No seller has an advantage over the other, buyers do not mind from whom they buy from. √√
Freedom of entry and exit: √ The market is totally accessible, no legal, financial nor technological barriers can hinder the freedom of entry and exit from the market. √√
Buyers and sellers have complete/perfect knowledge: √ Buyers have complete knowledge about the price, quality and availability of goods and services. √√ Sellers have complete knowledge about production costs market opportunities. √√ If sellers raise prices buyers will know and will buy from a supplier still charging lower prices. √√
There is high output and large choice: √ Due to many sellers, consumers can shop around and buy from whomever they want. √√ There are no shortages because if one seller runs out, plenty of other sellers still exist. √√

Unregulated markets: √ An unregulated market means that the government does not interfere in the market. Decisions are left to individual producers and suppliers as well as buyers.
No collusion: √ Occurs when sellers or buyers enter into an agreement/arrangement to limit competition. √√   (Any 26)   (26)

ADDITIONAL PART
Briefly highlight how it differs from monopolistic markets.

- The many sellers in a monopolistic market have market power unlike those in a perfect market. √√
- Products sold in a monopolistic market are differentiated. √√
- Products are therefore heterogeneous √√ unlike in the case of perfect market where the products are homogeneous. √√
- Differentiated products differ from each other based on differences in ingredients, packaging, trademarks, colour, sometimes even shape or sometimes form. √√
- Since firms sell heterogeneous products, they have some control over the price of the product √√ and are price makers whereas they are price takers in a perfect market. √√
- The demand curve of a monopolistic competitive firm is downward sloping while the one of a perfect competitive firm is horizontal. √√   (Any 10)   (10)

CONCLUSION

Perfect markets are really rare, and there is a very thin line between perfect markets and monopolistic markets. √√   (Accept any relevant conclusion.)   (2)
                                                                                            [40]

QUESTION 6

The environment is a precious resource of which as members of society we are duty bound to take good care of it.

Fully explain the various methods that can be used to protect the environment. Highlight the impact of environmental degradation to our economy and society.

INTRODUCTION

Planet earth will not be able to sustain future generations if society, government, businesses, rich and poor countries do not come together and be creative about ways of taking care of the environment. √√   (Accept any relevant introduction)   (2)

BODY

- **Technological innovations/Using new technology** √√ focus on economic growth while trying to contain pollution. √√
- **Replace fossil fuels with sustainable energy sources** √√ such as wind, tide movement, wave movement, sun energy and hydro energy etc. √√
- **Improve efficiency in the use of scarce resources** √√ in production processes and to develop systems to reduce waste in all forms such as recycling. √√
- **Develop processes to treat industrial waste** √√ and to control its disposal. √√

- **Provide specifications to product developers** √√ to produce substitute goods that are environmentally friendly i.e. .degradable containers. √√
- **Price policy:** √√ This is about increasing the price of non-renewable resources to avoid the inefficient use of these resources.√√
- **To restrict supply and increase price to reduce demand of fossil fuels**, √√ people will therefore switch to renewable resources. √√ Price policy can also be used to make industries pay a pollution levy or emission fee for any pollution they may cause. √√
- **Public opinion**: √√ Public opinion comes from formations such as pressure groups and environmental organisations, who lobby for environmental protection. √√ Governments and businesses are forced to take note of the public opinion that these pressure groups express. √√
- **Government action**: √√ The department of environmental affairs takes the lead in environmental matters ,and does the following to try and protect the environment: √√ National Marine Week, People and Parks Conference, Clean Fires Campaign, global and environmental change websites for information, waste management, etc. √√
- **Passing of laws:** √√ **Conference and the Waste Management Act**.√ √ The South African government has passed the following laws: Air Quality Management Act, Act 39 0f 2004, Biodiversity Act, Act 10 2004, Waste Act, Act 59 of 2008 provide for reduced generation and environmental impact of all forms of waste.√√ Integrated Coastal Management Act 24 of 2008. √√
- **Vehicle emissions reduction**: √√ The Copenhagen Climate council issued a warning to the world that there should be a reduction in carbon emissions otherwise there would be irreversible changes in climate. √√ (Any 26)   (26)

ADDITIONAL PART
Highlight the impact of environmental degradation to our economy and society.

- **Increased air pollution**: √ Increasing air pollution and declining air quality are harming people's health. √√
- **Increased soil erosion** √
- **Increased consumption of natural capital**: √ South Africa is using up its natural capital due to overconsumption. √√
- **Increased loss of biodiversity**. √
- **Climate change**: √ The main causes of climate change and global warming, in particular, namely the increased burning of fossil fuels such as gasoline and coal. √√
- **Deteriorating freshwater resources**. √√ (Any 10)   (10)

CONCLUSION

It is essential that all sectors of the economy take care of the environment, for all future generations to enjoy, as much as resources are needed for production, care should be taken and they should be used sparingly. √√
(Accept any relevant conclusion.) (2)
[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150