This memorandum consists of 16 pages.
SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE-CHOICE QUESTIONS

1.1.1 C ✓✓ Monopolistic competition
1.1.2 A ✓✓ completely blocked
1.1.3 B ✓✓ market
1.1.4 A ✓✓ perfect
1.1.5 B ✓✓ infertility
1.1.6 C ✓✓ labour intensive
1.1.7 A ✓✓ granting property rights
1.1.8 B ✓✓ demand-pull

1.2 MATCHING ITEMS

1.2.1 C ✓ actual expenditure of a business such as purchases of raw materials, paying wages and interest
1.2.2 A ✓ smallest individual and independent producing unit
1.2.3 F ✓ total revenue equals total cost
1.2.4 B ✓ government intervention to redistribute income equally
1.2.5 G ✓ provisioning of water and sanitation
1.2.6 I ✓ climate change that affects the whole world
1.2.7 H ✓ government sets acceptable levels of pollution
1.2.8 D ✓ South Africa's World Heritage Site

1.3 GIVE THE CONCEPT

1.3.1 Economic / super normal / abnormal ✓
1.3.2 Social ✓
1.3.3 Industry ✓
1.3.4 Domestic tourism ✓
1.3.5 Indigenous Knowledge Systems ✓
1.3.6 Administered ✓

TOTAL SECTION A: 30
SECTION B

QUESTION 2: MICROECONOMICS

2.1 2.1.1 Give TWO examples of merit goods.

- Education / skills training ✓
- Health care / inoculations ✓

(Accept any other correct relevant response) (2 x 1) (2)

2.1.2 Why will output in the goods market increase when businesses in the perfect market make economic profit?

More businesses will enter the industry to take advantage of economic profit ✓✓ (1 x 2) (2)

2.2 Data Response

2.2.1 Identify TWO main problems that South Africa experiences with monopolies in the extract above.

- Far too many monopolies ✓
- One competitor ✓
- High prices ✓
- Quality of products or services is lower ✓
- Companies are less innovative ✓
- Companies are less efficient ✓

(2 x 1) (2)

2.2.2 Why is Eskom regarded as a natural monopoly?

Due to the high cost of infrastructure, a single business can serve the whole market at a lower price than two or more businesses competing ✓✓

(Accept any other correct relevant response) (2)

2.2.3 What prevents monopolies from charging excessively high prices?

- The demand for the goods will decrease and it will result in lower profits ✓✓
- Due to consumers' limited budgets the monopolies compete for the consumer's favour ✓✓
- Monopoly's prices are sometimes regulated by government ✓✓
- E.g. NERSA is regulating Eskom's electricity prices ✓

(Accept any other correct relevant response) (2)
2.2.4 How has the implementation of an anti-monopolistic policy benefitted South Africa?

- Restrictions into entry to any industry was relaxed which promote economic transformation in the country ✓ ✓
- The economic power of big conglomerates was limited to ensure a more equitable distribution of income and wealth ✓ ✓
- South African businesses were able to regain access to the world economy and became more competitive ✓ ✓

(Accept any other correct relevant response) Any (2 x 2) (4)

2.3 Data Response

2.3.1 Identify the marginal revenue curve in the graph above.

AR / P ✓ (1)

2.3.2 Which curve is also known as the supply curve?

MC curve ✓ (1)

2.3.3 Why will the individual firm not produce more than 60 units?

- Point B is the profit maximisation point ✓ ✓
- Any quantity more than 60, marginal cost will exceed marginal revenue ✓ ✓ (2 x 2) (4)

2.3.4 How does the market demand curve differ from the curve of the individual firm?

The demand curve for the individual firm is horizontal ✓ while the demand curve for the market slopes downward from left to right ✓ (2)

2.3.5 What is the significance of point A?

- Point A represents the shut-down point of a business ✓ ✓
- At this point the competitor cannot cover the average variable cost (AVC) ✓ ✓ (2 x 2) (4)
2.4 Differentiate between the nature of the product under *monopolistic competition* and under the *monopoly*.

**Monopolistic Competition**
- Each firm sells a slightly differentiated product ✓✓
- Differences might be real or imagined / differences can be based on the opinion of consumers ✓✓
- Producers can compete against one another on the grounds of unique characteristics ✓✓ (Max 4)

**Monopoly**
- The good or service is unique ✓✓
- There is no close substitutes ✓✓
- The consumer does not have a choice between alternative goods and services ✓✓ (Max 4)
  (Accept any other correct relevant response) (2 x 4) (8)

2.5 Explain, by means of a neatly labelled graph, how a negative externality results in the misallocation of resources.

- The market produces at Q units. If the cost of a negative externality (pollution) is included in the market price, then Q₁ units will be produced ✓✓
- Because it is not included if the market overproduces at Q which results in a misallocation of resources ✓✓
  (Accept any other correct relevant response) (4 x 2) (8)
QUESTION 3: CONTEMPORARY ECONOMIC ISSUES

3.1 3.1.1 Name TWO types of tourism

- Cultural tourism ✓
- Business tourism ✓
- Paleo-tourism ✓
- Eco-tourism ✓
- Adventure tourism ✓

(Accept any other correct relevant response) (Any 2 x 1) (2)

3.1.2 What effect does chemical pollution have on agricultural land in South Africa?

It reduces the quality of soil and products ✓ ✓

(Accept any other correct relevant response) (2)

3.2 Data Response

3.2.1 Which economic indicator is used to determine the inflation rate?

Consumer Price Index / CPI ✓ (1)

3.2.2 Which year is currently used by the SARB as base year?

2010 ✓ (1)

3.2.3 Why would the inflation rate in 2013 have been considered to be acceptable by the Monetary Policy Committee?

It was within the target range of 3 - 6% ✓ ✓ (2)

3.2.4 Why will a reduction in personal income tax increase the inflation rate?

It results in an increase in disposable income which increases the demand for goods and services, putting pressure on prices ✓ ✓ (2)

3.2.5 Calculate the inflation rate for 2015 (A). Show all calculations.

\[
\frac{111.0 - 105.4}{105.4} \times \frac{100}{1} = 5.3% ✓ ✓
\]

(4)
3.3 Data Response

3.3.1 Identify TWO goods or services on which tourists can spend money in South Africa in the extract above.

- Hotel and lodge accommodation ✓
- Restaurant services ✓
- Big five viewing ✓  
(Any 2 x 1)  (2)

3.3.2 Explain the term tourism.

The activities of people travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes ✓✓  (2)

3.3.3 How does a weaker rand affect the South African tourist?

- Imported goods and services become more expensive ✓✓
- It will reduce travel abroad / cost of travel ✓✓
- Encourage domestic tourism ✓✓  
(Accept any other correct relevant response)  (Any 1 x 2)  (2)

3.3.4 How can an increase in tourism benefit South African households?

- Job creation / New employment opportunities ✓✓
- They receive income for working in the tourist sector ✓✓
- Infrastructure created for use by tourist becomes available for use by households ✓✓
- Increased domestic production to satisfy everyone's needs ✓✓  
(Accept any other correct relevant response)  (2 x 2)  (4)

3.4 Explain the effects of increased tourism on poverty.

- Tourism allow poor people to share in the benefits of tourism development ✓✓
- Poor people can start small tourism business around community assets such as parks ✓✓
- They become empowered by receiving on the job training ✓✓
- Local people can form business partnerships with mainstream tourism businesses supplying goods and services ✓✓  
(Accept any other correct relevant response including negative effects)  (4 x 2)  (8)
3.5 **How can the market be used to ensure environmental sustainability?**

- By including external cost (pollution) in the price of the products the harmful effects of production will be limited ✓ ✓
- By encouraging the use of environmental friendly technology in the production of goods and services ✓ ✓ e.g. technology that will ensure lower CO₂ emissions ✓
- By charging a price for a common resource which is generally non-excludable, will ensure that the use thereof is economized ✓ ✓
- By making producers and consumers aware of the environmental effects of their actions (knowledge) ✓ ✓ e.g. indicated on the cans the harmful effect of aerosol spray on the environment ✓
- By encouraging research on the prevention of harmful practices or the use of products ✓ ✓

(Accept any other correct relevant response) (Any 4 x 2) (8) [40]
QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 4.1.1 Give TWO reasons for a cost-benefit analysis.

- It assess whether a new project will be feasible ✓
- It calculates and compares the social cost and benefits of an investment ✓
- It gives greater objectivity to decision-making ✓
- Ensures a more equitable distribution of resources ✓
(Assume any other correct relevant response) (2 x 1) (2)

4.1.2 How can education be used to ensure environmental sustainability in South Africa?

People can be made aware of the consequences and benefits of their action to the environment ✓ ✓
(Assume any other relevant answer) (2)

4.2 Data Response

4.2.1 Give TWO examples, according to the extract, of informal retailers in South Africa.

- Tuck shops ✓
- Hawkers ✓
- Street stalls ✓
- Fast foods ✓
- Kiosks ✓
- Take-away food ✓
- Taverns ✓
- Spazas ✓
- Small retail stores ✓
(Any 2 x 1) (2)

4.2.2 Explain the term oligopoly.

An oligopoly is a market structure in which a few firms (businesses) dominate the market ✓ ✓ (2)

4.2.3 How can Shoprite influence the price of their goods without forming a cartel?

By becoming the dominant firm / through price leadership strategy ✓ ✓
(Assume any other correct relevant response) (2)
4.2.4 How can the five biggest South African companies increase their market shares in the economy?

- Through product differentiation, products might slightly differ in terms of physical appearance, packaging etc.
- Improve after-sale-services that are far more important to customers and will ensure a long-term relationship with that business.
- To spend more money on advertising to lure consumers onto their side.
- To establish brand loyalty, because oligopolies want consumers to believe that its brand is the best and to buy only that brand.
- Through product proliferation, oligopolies may produce many different ranges of products to cater for many different markets.
- By extending shopping hours to encourage greater flexibility to households.
- Through online purchases, it becomes easier for customers to shop around without any additional cost/variety of goods available to make comparisons.
- Paying loyalty rewards to customers for continued support.

(A maximum of 2 marks for listing of examples) (2 x 2) (4)

4.3 Data Response

4.3.1 Describe the economic message depicted in the cartoon above.

- The environment is in danger of being destroyed by development.
- New development should consider taking measures to sustain the environment.

(Accept any other correct relevant response) (2)

4.3.2 State any ONE negative issue that affects the current state of the environment.

- Pollution
- Soil erosion
- Deforestation
- Climate change

(Accept any other correct relevant response) (Any 1 x 2) (2)

4.3.3 Explain the term conservation.

Ensures creative continuity of the environment by being sympathetic to the quality of life for present and future generations.

(Accept any other correct relevant response) (2)
4.3.4 Explain how climate change can lead to a decrease in production in your community.

- Loss of soil nutrients affects the quantity and quality of agricultural produce ✓ ✓
- Drought conditions lead to poor crop yield ✓ ✓
- Hurricanes, tornados and floods may destroy valuable topsoil, existing agri-businesses in those areas ✓ ✓
(Accept other reasons for a decrease in production in any other industry) (2 x 2) (4)

4.4 Explain the long-term equilibrium of a firm under perfect competition.

- Economic profit in the short term will lead to expansion of current businesses and attract new businesses into the market ✓ ✓
- This will increase the supply of goods (pushes the supply curve to the right) which will decrease the price ✓ ✓
- The price will decrease to the point where price is equal to AR that equals AC, therefore economic profits of these businesses will diminish ✓ ✓
- Due to mass production the cost per unit will be at the lowest point of the LAC curve ✓ ✓
- Factors such as specialisation and improved technology leads to economies of scale ✓ ✓
- Further expansion will lead to higher unit costs and is called internal diseconomies of scale ✓ ✓
- In the long run, individual businesses can only make normal profit ✓ ✓ (4 x 2) (8)

4.5 What has contributed to an increase in tourism worldwide?

- Due to globalisation, people are well informed of destinations in other countries ✓ ✓
- Increasing number of people earn high disposable income which allow them to spend on leisure and recreation ✓ ✓
- With improved communication methods such as internet, it is easier to arrange travelling ✓ ✓
- Infrastructural development e.g. airports ✓ ✓
- Intensified advertising and promotion make people aware of various travel destinations ✓ ✓
- Through utilisation of new technology, custom and border control in most countries are user friendly ✓ ✓
(Accept any other correct relevant responses) (Any 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. Your answer will be assessed as follows:

<table>
<thead>
<tr>
<th>STRUCTURE OF ESSAY</th>
<th>MARK ALLOCATION:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Introduction</strong></td>
<td>Max. 2</td>
</tr>
<tr>
<td><strong>Body</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Main part:</strong> Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain/Assess/Debate</td>
<td>Max. 26</td>
</tr>
<tr>
<td><strong>Additional part:</strong> 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</td>
<td>Max. 10</td>
</tr>
<tr>
<td><strong>Conclusion</strong></td>
<td></td>
</tr>
<tr>
<td>Any higher-order conclusion should include:</td>
<td></td>
</tr>
<tr>
<td>• A brief summary of what has been discussed without repeating facts already mentioned</td>
<td>Max. 2</td>
</tr>
<tr>
<td>• Any opinion or valued judgement on the facts discussed</td>
<td></td>
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<tr>
<td>• Additional support information to strengthen the discussion/analysis</td>
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<tr>
<td>• A contradictory viewpoint with motivation, if required</td>
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<tr>
<td>• Recommendations</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>40</td>
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</tbody>
</table>
QUESTION 5: MICROECONOMICS

Governments use various instruments at their disposal to correct or limit market failure.

- Draw a clearly labelled graph explaining the consequences of government intervention in the market for each of the following:
  - Maximum prices
  - Taxation

Introduction

The purpose of government intervention is to ensure that the right quantity of resources is allocated to the production of output so that society as a whole maximizes its benefits. (Max. 2)

(Accept any other relevant introduction)

Maximum prices

- Sometimes government will set the price of a good or service at a maximum level that is below the market price ✓ ✓
- The government intervene and passes a law that suppliers may not charge more than the maximum price ✓ ✓
- The immediate effect is that quantity supply will drop ✓ ✓
- The original market equilibrium price and quantity is P and Q respectively ✓ ✓
- The price set by the government is P1, at this price the demand will increase to Q1 and the supply will decrease to Q2 ✓ ✓
- The difference between Q1 and Q2 is the shortfall that will be created on the market ✓ ✓
- The shortage caused by the price ceiling creates a problem of how to allocate the good since the demand has increased ✓ ✓
- Black markets start to develop ✓ ✓

(Mark allocation: Graph 6 and discussion max. 10 marks)
Taxation

- The appropriate way to intervene in the market by government is by levying taxes as a method to recover external cost
- The original market equilibrium at $e$, with $P$ as the equilibrium price and $Q$ as the equilibrium quantity
- The tax increase will shift the supply curve to the left
- New equilibrium at $E_1$
- A tax would raise the price from $P$ to $P_1$
- The production will decrease from $Q$ to $Q_1$

(Mark allocation: Graph total 6 marks and discussion max 10 marks)

In your opinion, how has the implementation of minimum wages advantaged the worker in South Africa? (10 marks)

- They are protected by law and basic human rights. Many farmworkers and domestic workers are better off than before
- They enjoy a better living standard/ensure sustainable income
- They can also enjoy unemployment benefits for which they did not qualify before
- They are also entitled for sick leave with pay
- They are also entitled to annual leave with pay
- Women are also entitled to maternity leave without the risk of becoming unemployed

(Accept any other correct relevant response) (10 marks)

Conclusion
The intervention of government ensures that inefficiencies is eliminated and that the market is operating effectively (Max 2)
(Accept any other relevant conclusion)
QUESTION 6: CONTEMPORARY ECONOMIC ISSUES

The impact of inflation on the economy can often be devastating.

- Examine the measures to combat inflation. (26 marks)
- What is the impact of inflation on the individual taxpayer? (10 marks)

INTRODUCTION

Inflation refers to the general increases in prices over a period of time. (Accept any other relevant introduction) (Max. 2)

BODY

MAIN PART

DEMAND INFLATION ✓

Fiscal policy ✓

- These are steps taken by the Minister of Finance to curb inflation through policies for taxation and expenditure ✓ ✓
- Increasing direct taxation to reduce disposable income and reduce excessive demand ✓ ✓ e.g. PAYE ✓
- Increasing indirect taxation such as VAT and excise duties can be increased to increase prices of specific products ✓ ✓
- A loan levy can be introduced or increased ✓ ✓
- Government spending can be reduced by postponing some of the government projects ✓ ✓ e.g. buildings and irrigation of dams
- Financing of the budget deficit on a non-inflationary basis ✓ ✓ e.g. loans from the non-banking sector ✓
- Imposing a surcharge on imported goods. The surcharge increases the prices of imported goods (especially luxury items) so that people buy fewer goods ✓ ✓
- Implementing measures to improve productivity such as tax rebate to businesses ✓ ✓

Monetary policy ✓

- Increasing the repo rate to reduce the availability of credit. Banks will in turn increase interest rates thereby, making it more expensive to borrow money ✓ ✓
- Increased interest rates can also encourage savings, thus reducing demand ✓ ✓
- Decrease in money supply by means of open market transactions through selling government bonds ✓ ✓
- Increasing bank cash reserve requirement to reduce their money available for lending to customers ✓ ✓
COST-PUSH INFLATION ✓

Productivity ✓
- Increasing productivity through better education and training/skills development and the support of technological developments ✓

Wage increases need to be accompanied by productivity increases ✓

Protecting competition (through the Competition Commission) ✓
- Encouraging personal savings which could enable investments, increase the supply side of the economy ✓

Other measures to consider:
- **Price control** ✓ by fixing the price of certain essential goods, the government assures they remain affordable ✓
- **Stricter conditions for consumer credit** ✓ the government makes it harder for consumers to get credit in order to restrict their spending ✓
- **Import controls are relaxed** ✓
- **Floating exchange rate** ✓ prices are automatically adjusted to international conditions ✓
- **Indexation** ✓ a policy of linking prices of items such as wages, pensions and mortgage bond interest rates to price indices to eliminate the effects of inflation ✓

(Accept any other correct relevant response) (Max. 26)

ADDITIONAL PART

What is the impact of inflation on the individual taxpayer?
- Inflation increases the marginal and average tax rates of the individual taxpayer ✓
- The progressive income tax system, where the individual with a higher income will be taxed at a higher tax rate, leaves this consumer with less spending money ✓
- Tax is levied on nominal income and not on real income – therefore the average rate of personal income tax increases and disadvantages the individual taxpayer even more ✓
- Individuals end up paying higher taxes even when they are not actually better off ✓
- Bracket creeping has the same effect as an increase in the tax rate, thereby reducing the purchasing power of the tax payer ✓

(Accept any other correct relevant response) (Max 10)

Conclusion
South Africa has been having stable prices since the implementation of inflation targeting in 2000 ✓

(Accept any other correct relevant response) (Max. 2)

TOTAL SECTION C: 40
GRAND TOTAL: 150