Education and Sport Development

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NORTH WEST PROVINCE

PROVINCIAL ASSESSMENT

GRADE 11

ECONOMICS P2

MEMORANDUM

JUNE EXAMINATION 2018

MARKS: 150

This marking guideline consists of 11 pages

NW/JUNE/ECOM/ EMIS/6*******

SECTION A (COMPULSORY)

QUESTION 1

1.1. Multiple choice

1.1.1. B (quantity supplied)✓✓
1.1.2. A (zero) ✓✓
1.1.3. B (utility) ✓✓
1.1.4. A (elastic) ✓✓
1.1.5. B (downwards sloping) ✓✓
1.1.6. C (average revenue) ✓✓
1.1.7. A (economics of scale) ✓✓
1.1.8. C (Oligopolistic) ✓✓ (8 x 2) (16)

1.2. MATCHING ITEMS

1.2.1. H ✓ When something is in short supply or not readily available.
1.2.2. F ✓ The responsiveness of demand for good A to change if the price of good B changes.
1.2.3. D ✓ Any market that does not have all the characteristics of a perfect market.
1.2.4. B✓ Powerful competitors try to take over each other's market share by progressively reducing prices.
1.2.5. C✓ Barriers to enter the market.
1.2.6. G✓ General business expenses that are not part of what is produced.
1.2.7. A✓ Fixed cost plus variable cost
1.2.8. E✓ Increasing average costs as the contribution of the variable inputs become more expensive. (8 x 1) (8)

1.3. ONE WORD ITEMS

1.3.1. Complimentary ✓
1.3.2. Income elasticity of demand ✓
1.3.3. Perfect completion ✓
1.3.4. Monopolistic competition ✓
1.3.5. Minimum wage ✓
1.3.6. Marginal costs ✓ (6 X 1) (6)

TOTAL SECTION A: 30

SECTION B

QUESTION 2: MICRO ECONOMICS

2.1. Answer the following questions

2.1.1 Give TWO characteristics of a perfect market.

- Many sellers ✓✓
- No control over the price / price taker ✓✓
- Homogenous product ✓✓
- No barriers to entry and exit✓✓
- Complete information ✓✓
- No collusion ✓✓ (Any 2 x 1) (2)

2.1.2 Why would a producer of a product with a unitary price elastic demand not use price to increase profits?

- The producer will not increase price as the demand will equally reduce and no additional revenue will be generated. (Any1x 2) (2)

2.2 DATA RESPONSE

2.2.1 ***Give the value for A and explain the answer*.**

A=20 ✓

Fixed costs remain constant irrespective of the output. ✓ (2)

2.2.2 Give any TWO examples of fixed costs.

Rentals ✓

Insurance premiums✓

Loan payment✓ (Any 2x1) (2)

2.2.3 ***Why do variable costs change?***

Variable costs change with output because when output is produced, more of a particular input factor has been used more, for example electricity, labour. ✓✓ (2)

2.2.4 Calculate the value of B. Show all calculations.

MC= $\frac{\Delta TC}{\Delta Q}$ ✓

= $\frac{28-25}{2-1}$ ✓

= $\frac{3}{1}$ ✓

= 3 ✓ (4)

2.3 DATA RESPONSE

2.3.1 What relationship does McDonald's Big Mac have with the fries and the soda drink?

They are complementary products. ✓ (1)

2.3.2 Explain what complement or complementary goods are?

They are different goods that are used together to satisfy a specific need. ✓✓ (2)

2.3.3 What will happen to the demand for fries if the price of the Big Mac burger decreases? Substantiate your answer.

- The demands for fries will increase ✓
- When the price of the Big Mac burger decreases the demand for Big Mac burgers will increase. ✓✓
- As fries are consumed with the Big Mac burger and more burgers are demanded, more fries will be demanded (3)

2.3.4 ***The price of a Big Mac burger is R23.00 and the price of a Burger King Whopper burger is R25.00. Explain the relative prices of the burgers and if I choose the Big Mac burger what will the Burger King Whopper burger be?***

• The Big Mac burger is relatively cheaper than the Whopper burger. ✓✓

• A relative price is a price of a good or service relative to the price of another good or service.✓✓

•If I choose the Big Mac burger the Whopper burger becomes the opportunity cost✓✓ (Any 2x2) (4)

2.4 Differentiate between cost in the short run and cost in the long run (4x2) (8)

Short Run	Long Run
• A period so short that other factors of production will remain fixed and cannot be change. ✓✓ • In short run total costs will equal total fixed costs including total variable costs. ✓✓	• Periods long enough so that all factors of production and intermediate inputs can become variable. ✓✓ • Total costs equal to variable costs. ✓✓

2.5 Why is it important for business to consider Economies of Scale in its operation?

- To produce on a large scale. ✓✓
- Leads to greater specialisation of resources. ✓✓
- More highly skilled workers can be used. ✓✓
- Allows firms to reduce the average cost of production. ✓✓ (2x4) (8)

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QUESTION 3

3.1. Answer the following questions.

3.1.1 **Name TWO components of total cost.**

- Total fixed costs✓
- Total variable costs✓

(2x1) (2)

3.1.2 **What will happen when monopolistic competitor decides to increase prices?** (1x2) (2)

- Consumers will turn to other producers because products are slightly different. ✓✓

3.2. Data response

3.2.1 Name the market structure depicted in the graph.

- Perfect market. ✓ (1)

3.2.2 What type of curve is shown in the graph?

- Horizontal/ Straight demand curve. ✓ (1)

3.2.3 Calculate the Total Revenue amount. Show all calculations

- **Total Revenue =** Price x Quantity ✓

= 70 x 50 ✓

= 3 500 ✓✓ (4)

3.2.3 What will happen when firms in a perfectively competitive market sell its products at a price above the market price?

- The will lose customers. ✓✓
- Expected revenue will not be generated. ✓✓ (2x4) (4)

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

3.3.1 ***List two example of oligopoly industries mentioned in the article above?***

- The energy industry ✓
- Banking industry ✓
- Supermarket industry ✓
- IT Services ✓
- Accounting ✓ (Any 2 x 1) (2)

3.3.2 Briefly describe the term oligopoly.

- A market structure where only a few sellers operate. (2)

3.3.3 What type of demand curve is associated the market structure mentioned above. (2)

- Kinked demand curve. ✓✓

3.3.4 Explain why energy, banking, and supermarket sectors are dominated by a handful of very large firms?

- Oligopolies use collusion making entry difficult. ✓✓
- Spend huge amounts on advertising. ✓✓ (4)

3.4. **Briefly explain FOUR characteristics of monopolistic competition**

- Each business produces a differentiated product. ✓✓
- Products sold are differentiated or heterogeneous. ✓✓
- Entry and exit to and from the market is completely free.
- There are a large number of producers or business in the industry. ✓✓

  Business has a downward-sloping demand curve. ✓✓ (4x2)(8)

3.5. Explain how habit forming product affect elasticity of demand

- A change in the price has a relatively small impact on the quantity demanded. ✓✓
- Consumers are addicted to the product. ✓✓ E.g cigarettes and alcohol
- They will continue to consume the product even if a price increases. ✓✓
- The demand for products tends to be price inelastic. ✓✓ (4x2) (8)

Question 4

4.1. Answer the following questions.

4.1.1 Name any two monopoly industries in South Africa.

- Eskom ✓
- Denel ✓ (2x1) (1)

4.1.2 Why is monopoly faced with downward sloping curve?

- They are price makers. ✓✓
- Monopolist can influence price and quantity. ✓✓ (Any 1x2) (2)

4.2 Data response

4.2.1 Name the source from which the cartoon is extracted

www.economicscartoon.com 2017 ✓ **(1)**

4.2.2 At which price will more quantity be purchased? **(1)**

At a price of R1.00 ✓

4.2.3 Give the formula used to calculate elasticity of demand **(2)**

$\frac{\%\Delta QD}{\%\Delta P✓}$ ✓

4.2.4 Explain how consumer responds to price changes in the cartoon.

- Consumer will look for substitute because of price increase. ✓✓
- Decide to no longer purchase the product. ✓✓
- Cola is a luxury therefore is elastic demand. ✓✓ (3x2) (6)

4.2. Data response question

4.3.1 Give the graph the appropriate heading. **(1)**

- Cost Structure. ✓

4.3.2 What is represented by point B on the graph

- Shut Down Point. ✓ **(1)**

4.3.3 Give alternative name for Marginal Cost

- Supply curve. ✓✓ **(2)**

4.3.4 Explain why variable cost changes with level of output?

- Variable costs do not remain the same. The costs differ according to each level of output. ✓✓ **(2)**

4.3.5 Why is the ATC above the AVC?

- ATC is greater than Average Variable Cost. ✓✓It also includes average fixed costs. ✓✓ (2x2) (4)

4.4 Briefly explain the characteristics of an oligopoly.

- Each firm produces a different product, some firms can produce homogeneous product. ✓✓
- There are many similar products that are sold at different prices. ✓✓
- Firms normally agree on non-price competition such as advertising or product differentiation. ✓✓
- There is small number of fairly large producers or firms in the industry. ✓✓
- Fairly strong barriers that prevent firms from joining or leaving the market usually exist. ✓✓ (4x2) (8)

4.5 In your opinion explain why entrepreneurs only earn normal profit

- When making economic profit others will enter to share the profit and entry will result in normal profit. ✓✓
- Others see economic profit as indication that forces of competition may not be strong and barriers exist in some industries. ✓✓
- Economic profit is in relation to implicit return, a return for risk bearing ✓✓
- Industries willing to take risk will earn high returns though temporary. ✓✓ (4x2) (8)

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TOTAL SECTION B: 80

QUESTION 5

- Discuss the following factors influencing price elasticity of supply. (26)
  - Number of suppliers (8)
  - Time (8)
  - Nature of the product (10)

- Explain how cost and revenue data can be used to make a decision on whether to stop production or decrease prices of a product or service offered. (10)

INTRODUCTION
The responsiveness of supply to a change in price. (2)

MAIN PART

Number of suppliers

- Where only few suppliers of products exist price increase are not followed by large increase in quantity supplied✓✓
- This factor explain why the supply of oil in the world does not increase when the price of oil spikes. ✓✓
- If every country could produce oil✓✓, there would be no shortage of oil✓✓

Time

- Time taken to produce a product determine its supply✓✓
- Agricultural produce that requires sun, rain and germination period✓✓ as well as products that require complicated technology will result in output being less responsive to change in price✓✓
- E.g locating oil✓✓

Nature of the product

- Some products are easily stores as a result of certain characteristics such as durability. ✓✓
- These goods are generally low priced. ✓✓
- They are in abundant supply✓✓
- Suppy for durable goods is elastic✓✓
- Supply for non-durable goods is inelastic✓✓

ADDITIONAL PART

- A firm should calculate the marginal revenue (MR) of each additional service offered or product sold. ✓✓
- They should compare this to the marginal cost (MC) of selling additional unit . ✓✓
- If the MC exceeds the MR of adding more units, a firm should stop the production, because each extra unit will add more expenses than revenue. ✓✓
- If the MR is greater than the MC, a firm should decrease the price of its products or service. ✓✓
- To attract more customers. ✓✓
- Each extra unit sold will add more to revenue than to expenses. ✓✓
- This will increase a firm's profits. ✓✓
- A firm should only decrease prices up to the point where prices are equal to the MC. ✓✓ (10)

CONCLUSION

Suppliers will always try to sell more at a high price✓✓ (2)

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QUESTION 6

- **Compare in detail the features of a monopoly with those of perfect competition. (26)**
- **Discuss normal profit and economic profit as well as the conditions under which they are earned by firms. (10)**

INTRODUCTION

Perfect market serves as a yardstick against which the other market structures are compared. ✓✓

MAIN PART

Number of firms

- The many sellers in a perfect competition. ✓✓
- In a monopoly there is only one seller✓✓

Nature of the product

- Products in a perfect competition are homogeneous or heterogeneous. ✓✓
- Homogeneous products are goods or services that are exactly the same. ✓✓
- In a monopoly products are unique✓✓

Control over the price

- A perfectly competitive business has no control over the price of its product and is therefore a price-taker. ✓✓
- Monopoly has varying degrees of control over the prices of their products. ✓✓
- Such businesses are price-makers. ✓✓

Barriers to entry

- This refers to how easy or difficult it is for businesses to enter or leave the market. ✓✓
- Under perfect condition, entry is completely free whereas under monopolistic conditions it is entirely blocked. ✓✓
- Very often access is denied by law. ✓✓

Collusion

- In a perfect competition there is no secret communication between sellers that enables them to negotiate favourable terms for themselves. ✓✓
- It is impossible for a monopoly to collude since he/she is the only seller. ✓✓

Availability of information

- This refers to market participants' information on market conditions. ✓✓
- In the case of perfect market and monopoly, information on market conditions is available. ✓✓

Size of profits

- Perfect competition make economic profits in the short-run and normal profit in the long-run. ✓✓
- Monopoly earn economic profit (supernormal) in the short-run and long-run. ✓✓

Output

- Output is high in the perfect competition✓✓
- Output is low in a monopoly. ✓✓

ADDITIONAL PART

Normal profits

- A firm makes normal profits when total revenue (TR) equals total costs or when average revenue (AR) equals average cost (AC). ✓✓
- Normal profit is the maximum return the owner of a firm expects to receive to keep on operating in the industry. ✓✓
- Given a market price of $_{P2}$, profit is maximised where MR = MC = $_{P2}$. ✓✓
- This occurs at a quantity of $_{Q2}$. ✓✓
- At $_{Q2}$ the firm's average revenue (AR) per unit of production is $_{P2}$, which is also equal to the average cost per unit $_{C2}$ (AC). ✓✓
- Since AR = AC, the firm earns a normal profit since all its costs are fully covered. ✓✓
- Point $_{E2}$ is usually called the break-even point. ✓✓

Economic profits

- When a firms' TR>TC✓✓
- When a firms' AR>AC✓✓

CONCLUSION

A market is perfectly competitive when there is no excessive control or power in the hands of either buyers or sellers✓✓

TOTAL SECTION C: 40

TOTAL MARK: 150