



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

**ECONOMICS P2
NOVEMBER 2025
MARKING GUIDELINES**

MARKS: 150

These marking guidelines consist of 23 pages.

PRINCIPLES FOR MARKING ECONOMICS – NSC OCT/NOV 2025

The following marking principles have been developed to standardise marking in all provinces.

MARKING

- **ALL** questions and responses in candidates' scripts **MUST** be marked, irrespective of whether it is correct or incorrect.
- Where responses are in excess of what the instruction required, the following should apply
 - In section A, where candidates give **TWO** responses, the first response should be marked.
 - In section B, (2.1.1, 3.1.1 and 4.1.1) mark the first **TWO** responses and indicate **M 2** for responses that are in excess of what the question required.
 - In section B data response questions that require specific number of responses, (E.g. 2.2.1 and 2.2.2) mark the first response and indicate **M 1** for responses that are in excess.
 - In section B and C (choice questions), indicate **EXTRA** on questions in excess of the required number.
 - Where the maximum marks have been allocated for a particular question, mark all the responses up to the maximum marks for the question and indicate either **M 2 or M 8 or M 10 or M 26**. Thereafter, draw a line on the right-hand side of the responses that are in excess.
- A clear, neat tick must be used:
 - If **ONE** mark is allocated, **ONE** tick must be used: ✓
 - If **TWO** marks are allocated, **TWO** ticks must be used: ✓✓
 - The tick must be placed at the **FACT** that a mark is being allocated for.
 - Ticks must be kept **SMALL**, as various levels of moderation may take place.
- Incorrect answers must be marked with a clear, neat cross: ✕
 - Use one cross on every incorrect response in questions where candidates are required to give more than one response.
 - Try **NOT** to underline the candidates' responses
- For the following action words, **ONE-word** answers are acceptable: **list, name, state, identify**
- For the following action words, a **FULL** sentence must be written: **describe, explain, evaluate, analyse, suggest, differentiate, distinguish, define, discuss, why, how**
- The following action words need to be read within their context to determine whether a **ONE-word** answer or **FULL** sentence is required: **provide, what, tabulate, identify and give**
- Where candidates are required to draw a graph, mark the graph according to a marking grid provided in the official marking guideline.
- Where candidates are required to do calculations, the final answer would not necessarily be awarded full marks. **3 marks** are awarded for the **calculations** and **1 mark** for the **final answer**.

NOTE THE FOLLOWING

- If the numbering is incorrect or left out, as long as the sequence of answers to questions is followed candidates can be credited
- Where there are spelling errors, award the marks provided the meaning is correct.
- Pay attention to the sense of responses, which may be stated in a different way.
- In multiple-choice questions where a letter is the accepted response, but the learner writes the actual answer- award marks.
- There will be addendum to the marking guidelines for the marking of certain questions.

TOTALLING AND TRANSFERRING OF MARKS

- The sub-total for each sub-question must be recorded on the right-margin
 - Question 1 in Section A has **THREE** sub-sections and **THREE** sub-totals should be recorded on the right margin.
 - Questions in Section B have **FIVE** sub-sections and **FIVE** sub-totals should be recorded on the right margin.
 - Sub-totals must be written legibly and leave space for moderated marks on the right margin
- The total mark for each question should be recorded on the top left margin next to the question number and transfer to cover page of answer book

SECTION A (COMPULSORY)**QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

- 1.1.1 D – average fixed ✓✓
 1.1.2 A – relatively elastic ✓✓
 1.1.3 D – minimum price ✓✓
 1.1.4 C – productive ✓✓
 1.1.5 B – decline. ✓✓
 1.1.6 B – business ✓✓
 1.1.7 C – communication ✓✓
 1.1.8 A – recycling ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

- 1.2.1 E - goods that are identical in terms of appearance, packaging and quality ✓
 1.2.2 D - a firm that has no influence over the market price ✓
 1.2.3 G - a agreement among firms within the same industry to reduce competition by fixing prices ✓
 1.2.4 B - people who enjoy goods and services without paying for them ✓
 1.2.5 F - monetary policy approach used by the SARB to keep price changes within 3-6% ✓
 1.2.6 I - activities of people visiting places to enjoy the natural environment ✓
 1.2.7 C - the activities of people travelling to and staying in places outside their usual environment ✓
 1.2.8 A - method used to prevent the extinction of non-renewable resources ✓ (8 x 1) (8)

1.3 GIVE THE TERM

- 1.3.1 Unregulated market / Perfect market / Free market ✓
 1.3.2 Market share ✓
 1.3.3 Cost benefit analysis ✓
 1.3.4 Cost-push inflation ✓
 1.3.5 World heritage site ✓
 1.3.6 Global warming ✓ (6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

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

QUESTION 2: MICROECONOMICS**40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 **Name any TWO examples of oligopoly markets.**

- Car manufacturing ✓
- Airline industry ✓
- Shipping industry ✓
- Banking ✓
- Insurance ✓
- Mobile network ✓
- Fuel ✓

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

2.1.2 **Why would a perfectly competitive firm consider shutting down its operations?**

A perfectly competitive firm will shut down because its average revenue cannot cover all the average variable cost or total revenue is not able to cover its variable cost of production. ✓✓

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

2.2 **DATA RESPONSE**

2.2.1 **Identify the profit maximisation quantity in the table above.**

8 ✓ (1)

2.2.2 **Name the concept that refers to the income earned by a business for each unit sold.**

Average revenue ✓ (1)

2.2.3 **Briefly describe the term *implicit cost*.**

The value of inputs owned by the entrepreneur and used in the production process. ✓✓

(Accept any other correct relevant response) (2)

2.2.4 **Why is the marginal revenue the same for a perfectly competitive firm when production increases?**

A perfectly competitive firm sells every additional unit of a product at the same prices ✓✓

(Accept any other correct relevant response) (2)

2.2.5 **Use the information in the above table to calculate the marginal cost (A) if 10 units are produced. Show all calculations.**

$$\begin{aligned}
 \text{Marginal cost (A)} &= \Delta TC / \Delta Q \\
 &= (R256 - R196) \checkmark / (10 - 8) \checkmark \\
 &= 60 / 2 \checkmark \\
 &= \underline{30} \checkmark
 \end{aligned}
 \tag{4}$$

2.3 DATA RESPONSE

2.3.1 **Identify the original equilibrium price in the graph above.**

P ✓ (1)

2.3.2 **Give any ONE example of a direct tax.**

- Pay As You Earn/PAYE/Personal income tax ✓
 - Corporate tax / Company tax ✓
 - Capital Gain Tax/CGT ✓
- (Accept any other correct relevant response) (1)

2.3.3 **Briefly describe the term *Pareto efficiency*.**

A situation whereby resources are allocated in such a way that no one can be made better off without making someone else worse off. ✓✓

(Accept any other correct relevant response) (2)

2.3.4 **Why does the government impose excise duties, such as sin tax, on demerit goods?**

- To recover the external costs that are caused by the consumption of demerit goods. ✓✓
 - To discourage the consumption of demerit goods by making them more expensive ✓✓
- (Accept any other correct relevant response) (2)

2.3.5 **How can producer subsidies positively influence the economy?**

- Producers will incur lower cost of production which may reduce inflation in the economy ✓✓
 - Businesses may be encouraged to produce more goods and services which stimulates economic growth ✓✓
 - Increase in production may create more job opportunities thereby reducing unemployment in the economy ✓✓
 - Consumers may pay lower prices for goods and services leading to higher consumers spending. ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

2.4 **Briefly discuss the *immobility of factors of production* and *lack of information* as factors that may lead to misallocation of resources in markets.**

Immobility of factors of production

- Most markets do not adjust rapidly to changes in supply and demand due to immobility of factors of production. ✓✓
- Labour may take time to move into new occupations due to skills that may need to be upgraded / The supply of skilled labour cannot be increased immediately because of the time it takes to be trained. ✓✓
- Labour may take time to move geographically to meet the changes in consumer demand due to high relocation cost and social ties. ✓✓
- Physical capital, such as factory buildings and infrastructure cannot be moved to fit a change in demand. ✓✓
- Other physical capital, such as machinery and equipment, may be moved from one place to another at higher cost. ✓✓
- Technological applications change production methods, but it takes time for most industries to adapt. ✓✓ For example, the use of robots rather than physical labour. ✓
- Greater technological change requires workers to be flexible and update their skills to change employment, occupations and work patterns which may take time. ✓✓ (2 x 2)

Lack of information

- Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make rational decisions. ✓✓
- Despite the advances in technology, consumers still lack information about products and producers to maximise their utility. ✓✓
- Workers may be unaware of job opportunities outside their current employment to ensure that they use their labour effectively. ✓✓
- Entrepreneurs may lack information about the costs, availability and productivity of some factors of production which may lead to productive inefficiency. ✓✓ (2 x 2)

(Accept any other correct relevant response)

(A maximum of 4 marks may be allocated for mere listing of facts/examples)

(8)

2.5 **Why would a firm in a perfect market always make normal profit in the long-run?**

- The absence of barriers to entry allows new businesses to enter the market when the existing firms make economic profit in the short-run. ✓✓
- New entrants/businesses may compete for the economic profit until the existing firms earn normal profit in the long-run. ✓✓
- An increase in the number of businesses in a perfect market may increase the market supply resulting in a decrease in prices. ✓✓
- Profits will decline up to a point where average revenue is equal to average cost or total revenue is equal to total cost ($AR = AC$ or $TR = TC$). ✓✓
- Some existing businesses may be forced to exit/leave the market when they make economic loss in the short-run. ✓✓
- A decrease in the number of businesses will reduce market supply which results in an increase in price. ✓✓
- The economic loss will be reduced until all the firms make normal profit in the long-run. ✓✓
- Normal profit in the long-run will remain as there is incentive to enter or leave the market. ✓✓

(Accept any other correct relevant response)

(4 x 2)

(A maximum of 2 marks may be allocated for mere listing of facts/examples)

(8)
[40]

QUESTION 3: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 **Name any TWO approaches used in command and control systems for ensuring environmental sustainability.**

- Quality standards ✓
 - Quantity standards ✓
 - Social impact standards ✓
- (2 x 1) (2)

3.1.2 **Why is the tourism industry regarded as labour-intensive?**

- Tourism activities require a large workforce because the industry involves human interaction and personal services. ✓✓
 - Tourism creates more jobs opportunities, in both formal and informal sector, for every unit of capital invested compared to any other industry. ✓✓
- (Accept any other correct relevant response) (1 x 2) (2)

3.2 **DATA RESPONSE**

3.2.1 **Identify a government initiative that provides financial assistance to tourism investments in the extract above.**

Tourism Transformation Fund / TTF ✓ (1)

3.2.2 **Name the economic sector under which tourism is classified.**

Tertiary sector ✓ (1)

3.2.3 **Briefly describe the term *cultural tourism*.**

The activities of people travelling to museums and art galleries to learn and engage more in the culture of the place they are visiting. ✓✓
(Accept any other correct relevant response) (2)

3.2.4 **Explain the importance of public-private partnerships (PPPs) in developing tourist destinations.**

- Public-private partnerships allow the government and private sector businesses to share resources and costs in developing tourist destinations in the country. ✓✓
 - The government may provide capital to develop infrastructure in tourist destinations while private sector businesses provide capital to establish tourism businesses. ✓✓
 - The public sector may provide financial incentives to the private sector for tourism investments. ✓✓
- (Accept any other correct relevant response) (2)

- 3.2.5 **How can natural disasters negatively impact the tourism industry?**
- Natural disasters, such as floods and cyclones, may create unfavourable conditions for tourists to participate in certain tourism activities. ✓✓
 - Damaged infrastructure due to natural disasters may discourage people to visit tourists' destinations. ✓✓
 - Natural disasters can result in loss of wildlife, beaches, forests and cultural sites which may reduce tourism activities. ✓✓
- (Accept any other correct relevant response) (2 x 2) (4)

3.3 DATA RESPONSE

- 3.3.1 **Identify, in the cartoon above, the international agreement that refers to the world summit on sustainable development.**
- Johannesburg summit 2002 ✓ (1)
- 3.3.2 **State the environmental problem that relate to the removal of trees.**
- Deforestation ✓ (1)
- 3.3.3 **Briefly describe the term *marketable permit*.**
- A license that is sold by the government to a business to allow it to pollute the environment to a certain degree. ✓✓
(Accept any other correct relevant response) (2)
- 3.3.4 **Explain the impact of the loss of indigenous knowledge on the environment**
- Environmental damage may increase as future generations will not be able to co-exist with the environment without indigenous knowledge. ✓✓
 - Loss of indigenous knowledge may lead to over-exploitation of natural resources. ✓✓
- (Accept any other correct relevant response) (2)
- 3.3.5 **Why do markets fail to ensure environmental sustainability?**
- The market views the environment as a common resource where many parts of the environment are not privately owned, such as the air and the seas. ✓✓
 - Most of the resources provided by the environment do not have a price, so there is no economic incentive to economise on their use. ✓✓
 - Markets may cause environmental damage due to lack of knowledge even if they would like to be more environmentally friendly in their activities. ✓✓

- Consumers and businesses show carelessness as they continue with various harmful practices and leave future generations to worry about their environmental consequences. ✓✓
- Businesses overproduce goods that cause negative externalities because they do not bear the external costs which result in environmental degradation. ✓✓
- Markets are driven by the profit motive and they may reduce their cost of production at the expense of the environment. ✓✓
(Accept any other correct relevant response) (2 x 2)

(4)

3.4 **Briefly discuss the effects of tourism on gross domestic product (GDP) and poverty.**

Gross Domestic Product (GDP)

- Tourism impacts more on the service industry and contributes to the country's GDP directly and indirectly to the economy. ✓✓
- The direct contribution of tourism reflects internal spending on tourism by residents and non-residents for business and leisure purposes on items such as food, accommodation, transport, etc. ✓✓
- The indirect contribution includes purchases from suppliers of goods and services by the sectors dealing directly with tourists, including purchases of cleaning services by hotels, fuel and catering services by airlines, and services by travel agents. ✓✓ (2 x 2)

Poverty

- Tourism is widely recognised as one of the fastest and more effective redistribution mechanisms in bringing development to the poor in rural areas. ✓✓
- Tourism provides an alternative to urbanisation, permitting people to continue a rural family lifestyle and enfranchising both women and the youth. ✓✓
- Tourism offers opportunities to diversify sources of income for poor people. ✓✓
- Tourism allows people to start and operate small-scale tourism businesses around community assets, such as forests, parks and rivers. ✓✓
- Households may establish SMMEs to provide services to tourists, such as retail, transport and accommodation. ✓✓
- Tourism empowers people in rural communities to exploit opportunities of on-the-job and other training. ✓✓
- Tourism may create partnerships for rural communities by linking up with mainstream tourism businesses supplying goods or services. ✓✓ (2 x 2)
(Accept any other correct relevant response)

(A maximum of 4 marks may be allocated for mere listing of facts/examples)

(8)

3.5 Analyse the various international measures in reducing climate change.

- United Nations Framework Convention on Climate Change (UNFCCC) was established to reduce greenhouse gas emissions in the atmosphere. ✓✓
- Most countries agree on taking measures to protect the environment, but they differ on who is most responsible for the damage and how to set emissions-reduction goals. ✓✓
- The UNFCCC did not succeed because it was voluntary for individual countries. ✓✓
- The Kyoto Protocol was an improvement on the UNFCCC as it attempted to get developed countries to commit to reducing their emission of greenhouse gases. ✓✓
- The Kyoto Protocol established binding targets whereby industrialised countries agreed to reduce their emissions. ✓✓
- The major shortcoming of the Kyoto Protocol was its focus on developed countries only and developing countries were excluded from the agreement. ✓✓
- Kyoto Protocol failed as countries that did not meet targets were not penalised. ✓✓
- Big polluters (like the USA) failed to meet the targets set by Kyoto Protocol and still contribute to global warming and are less interested in solving the crises due to expensive technology to reduce pollution. ✓✓
- Major polluters like the USA pulled out and this impacted negatively on the success of the agreement. ✓✓
- The Paris Agreement was an improvement on the Kyoto Protocol as its goal is to limit global warming to well below 2 °C, preferably to 1,5 °C, compared to pre-industrial levels. ✓✓
- Assistance in the form of subsidies was pledged to developing countries to reduce greenhouse emissions. ✓✓
- The success of Paris Agreement will be determined by the financial, technical and capacity-building support offered to countries who need it. ✓✓
- Global warming targets are not met as we are fast approaching an increase in global temperatures of 2 °C. ✓✓
- There was a lack of strict law enforcement because penalties were not imposed on those who did not meet the targets. ✓✓

(Accept any other relevant response)

(4 x 2)

(A maximum of 2 marks may be allocated for mere listing of facts/examples)

(8)
[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES
40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 **Give any TWO examples of private costs associated with the building of a school.**

- Building material costs ✓
- Labour costs ✓
- Overhead costs ✓
- The cost of land ✓
- Water and electricity ✓

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

4.1.2 **How can soil erosion impact agricultural production?**

- Soil erosion may reduce soil fertility which will lead to a decrease in agricultural production output. ✓✓
- Soil erosion may damage the landscape and close water sources, such as dams, which disrupts agricultural production. ✓✓
- Soil erosion may encourage farmers to adopt soil conservation techniques, such as terracing, which improves long-term productivity. ✓✓

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

4.2 **DATA RESPONSE.**

4.2.1 **Identify the reason for the unequal distribution of income and wealth from the cartoon above.**

Discrimination ✓ (1)

4.2.2 **Provide an economic term which refers to the lowest remuneration of labour set by the government.**

Minimum wage ✓ (1)

4.2.3 **Briefly describe the term *progressive income tax*.**

People who earn higher income pay higher tax rates while those who earn lower incomes pay lower tax rates. ✓✓

(Accept any other correct relevant response) (2)

4.2.4 **Why do markets undersupply goods that generate positive externalities?**

- Goods that generate positive externalities, such as education, are often not highly rated by the market which leads to undersupply. ✓✓
- Businesses do not fully account for the benefits that accrue to the society, as a result they may not be incentivised to produce enough of the goods leading to undersupply. ✓✓
- Goods with positive externalities are not profitable because businesses are not rewarded for the external benefits. ✓✓
(Accept any other correct relevant response)

(2)

4.2.5 **How can the government use redress methods to redistribute wealth in South Africa?**

- The Employment Equity Act can be used to promote affirmative action to give first preference to previous disadvantage in employment opportunities. ✓✓
- Broad Based Black Economic Empowerment (BBBEE) can be used to significantly increase the number of black people who own, manage and control businesses. ✓✓
- Property subsidies and free housing (RDP) can be used to help the previously disadvantaged groups to own residential properties. ✓✓
- Land restitution aims to return land or pay cash compensation to those who lost their land because of discriminatory laws and practices after 1913. ✓✓
- Land redistribution aims to redistribute the country's agricultural land to previously disadvantaged persons. ✓✓
(Accept any other correct relevant response)

(2 x 2)

(4)

4.3 **DATA RESPONSE**

4.3.1 **Identify the environmental problem that relates to the reduction of plants and animal species in the extract above.**

Biodiversity loss ✓

(1)

4.3.2 **Name the method used by the government to create environmental awareness.**

Education ✓

(1)

4.3.3 **Briefly describe the term *land pollution*.**

Occurs when household and industrial waste is introduced on land surface. ✓✓
(Accept any other correct relevant response)

(2)

4.3.4 **Explain the impact of chemical waste on the environment.**

- Chemical waste, such as insecticides and pesticides, may cause immediate death on animal and plant species. ✓✓
- Chemical waste may soak into the underground which may contaminate drinking water. ✓✓
- Animals may become infertile due to chemical waste. ✓✓
(Accept any other correct relevant response)

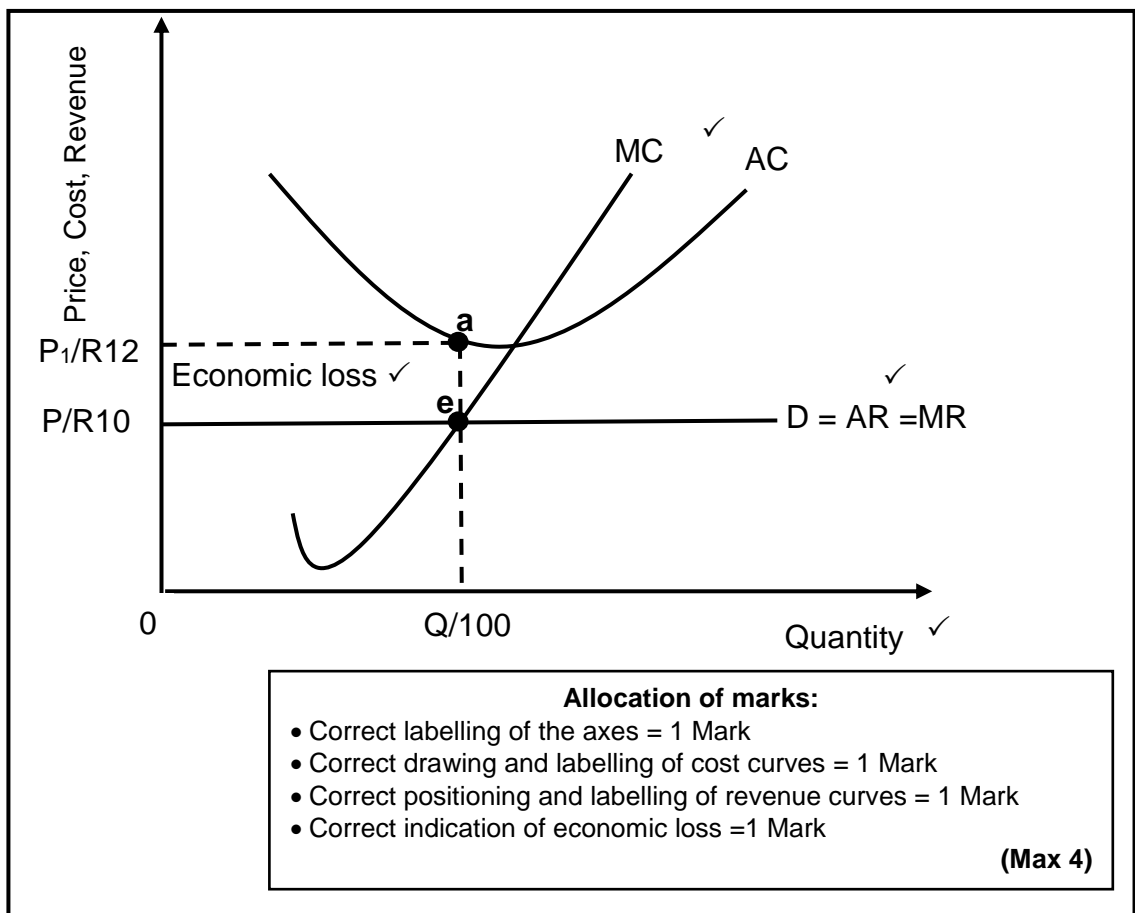
(2)

4.3.5 **How does the Basel Convention help to manage hazardous waste?**

- The Basel Convention allows parties to the convention to only export a hazardous waste to other parties that have not banned imports of such waste. ✓✓
- The Convention does not allow parties to import from or export to non-parties. ✓✓
- Parties are obliged to prevent the import or export of hazardous wastes if they have reasons that the wastes will not be treated in an environmentally-friendly manner at their destination ✓✓
(Accept any other correct relevant response)

(2 x 2) (4)

4.4 **With the aid of a correctly labelled graph, explain economic loss for a perfectly competitive firm.**



- A firm minimises loss at point e, where $MR = MC$ / At point e, the firm produces 100 units at the price of P/R10. ✓✓
- The firm will make economic loss because the average revenue of (P/R10) is less than the average cost of (P₁/R12). ✓✓
- The firm makes total economic loss of $TR (P \times Q) - TC (AC \times Q) = (10 \times 100) - (12 \times 100) = R1\ 000 - R1\ 200 = -R200$. ✓✓
(Accept any other correct relevant response) (Max 4) (8)

4.5 **Analyse the strategies (ways) that can be used to promote tourism in South Africa.**

- South Africa may promote tourism through increased marketing and advertising of different tourist destinations to create awareness and encourage travelling. ✓✓ For example, the Shot 'left campaign ✓
- Improving infrastructure, such as communication and transport, in tourist destinations can help to attract tourists to different tourist sites around the country. ✓✓
- Establishing new tourist sites and properly maintaining the existing ones may improve South Africa's tourism profile and attract more tourists. ✓✓
- Rewarding businesses and individuals who improve the quality of tourism services may help to promote excellence in tourism. ✓✓
- Enhancing the efficiency of tourism information services may help to distribute tourists to different tourist sites across the country. ✓✓
- Promoting special holiday packages, such as the special off-season rates, may encourage domestic tourists to travel within the country ✓✓
- Making use of tourism indaba to showcase South Africa's best tourism products may attract international visitors from across the world. ✓✓
- Promoting local culture and offering tourists an authentic experience at cultural villages may help to increase international tourist arrivals, e.g. the Shangana village in Mpumalanga ✓
- Promoting the World Heritage Sites, such as the Robben Island, may attract tourists to visit and experience the environmental and cultural uniqueness of South Africa ✓✓
- Promoting art festivals, such as the National Arts Festival held in Grahamstown (Makhanda), may attract more international tourists to visit South Africa. ✓✓
- Imposing fair taxes on tourism activities may encourage foreign tourists to visit South Africa. ✓✓
(Accept any other correct relevant response) (4 x 2)
(A maximum of 2 marks may be allocated for mere listing of facts/examples)

(8)
[40]

TOTAL SECTION B: 80

SECTION C

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

QUESTION 5: MICROECONOMICS**40 MARKS – 40 MINUTES**

- **Discuss in detail the characteristics of a monopoly market structure, including a graph showing long-run economic profit.** (26 marks)
- **How can the government prevent the abuse of market power by dominant businesses?** (10 marks)

INTRODUCTION

Market structure describes how buyers and sellers are organised and interact in a market / Refers to the characteristic of a market that influence its performance and the level of competition. ✓✓

(Accept any other correct relevant introduction)

(Max. 2)

BODY**MAIN PART****MONOPOLY MARKET STRUCTURE****Number of firms/businesses ✓**

- The monopolist is the only supplier of a product which implies that there is no competition in this market structure. ✓✓
- The monopoly is responsible for the industry's total output ✓✓, for example Eskom is responsible for the thermal electricity industry. ✓

Nature of product ✓

- The product is unique and it has no close substitutes ✓✓ for example, De Beers selling unique diamonds ✓
- Consumers' choice is limited to the product sold by the monopolist. ✓✓
- The product has relatively inelasticity demand which means that quantity demanded is less responsive to price changes. ✓✓

Market entry ✓

- Entry into a monopoly market structure is completely blocked which implies that new businesses cannot enter the market. ✓✓
- A monopoly is protected by barriers to entry, which allows it to enjoy favourable market conditions. ✓✓
- These barriers to entry divide monopoly into the following two broad types: -
Natural monopolies ✓
 - High development costs are frequently a reason for the existence of natural monopolies. ✓✓
 - In South Africa, Eskom is an example of natural monopoly because the provision of electricity requires building power stations and transmission lines costing billions of rand. ✓✓
 - A single business in the industry can serve the whole market at a lower price than two or more businesses as it is regulated by the government. ✓✓

Artificial monopolies ✓

- Artificial monopolies exist due to barriers to entry that are not being economic in nature, such a patent. ✓✓
- A patent is the legal and exclusive right of a patent holder to manufacture a product using his or her unique invention. ✓✓
- Licenses protect monopolies against the entry of competitors and is another way in which an artificial monopoly may exist. ✓✓
- In South Africa licenses are required for radio and TV broadcasting and telephone communication networks. ✓✓

Control over price ✓

- A monopolist can influence the market price and it is regarded as a price maker. ✓✓
- A monopolist can decide on a price-quantity combination that suits it the best, on the demand curve. ✓✓
- There is always the possibility of consumer exploitation because a monopolist is the only supplier of a product. ✓✓
- A monopoly business may restrict output or supply of the product to charge higher price although it is limited by market demand. ✓✓
- A monopoly cannot charge excessively high prices because consumers have limited budgets. ✓✓
- The monopolist's product has to compete for consumers' favour (and money) with all the other products available in the economy. ✓✓

Market information ✓

- Both buyer and the seller have full knowledge about the market conditions which shows that there is complete market information. ✓✓
- A high degree of transparency exist in the market as there is no incentive for the monopoly to hide information from consumers. ✓✓
- In some cases, a monopoly maybe characterised by incomplete information to make informed decisions. ✓✓
- The monopolist may withhold information which leads to exploitation of consumers and restriction of new firms from entering the market. ✓✓

Demand curve ✓

- A monopolist is faced with a normal demand curve which slopes downwards from left to right. ✓✓
- The demand curve is relatively inelastic because the product has no close substitutes. ✓✓
- The demand curve for a monopoly is equal to its average revenue curve. ✓✓
- For every additional unit sold by a monopoly, marginal revenue is less than the price, thus marginal revenue curve lies below the demand curve. ✓✓

Economic profit/loss ✓

- A monopolist can earn an economic profit or economic loss in the short run. ✓✓
- Economic loss in the short-run will force the monopoly to build a new production plant that yields economic profit in the long-run. ✓✓
- Economic profit in the short-run allows the monopoly to expand its production scale or capacity in order to make more economic profit in the long-run. ✓✓

Decision making ✓

- A monopoly business makes decisions independently because there are no competitors ✓✓
- A monopoly's decisions may be influenced by government laws and regulations. ✓✓

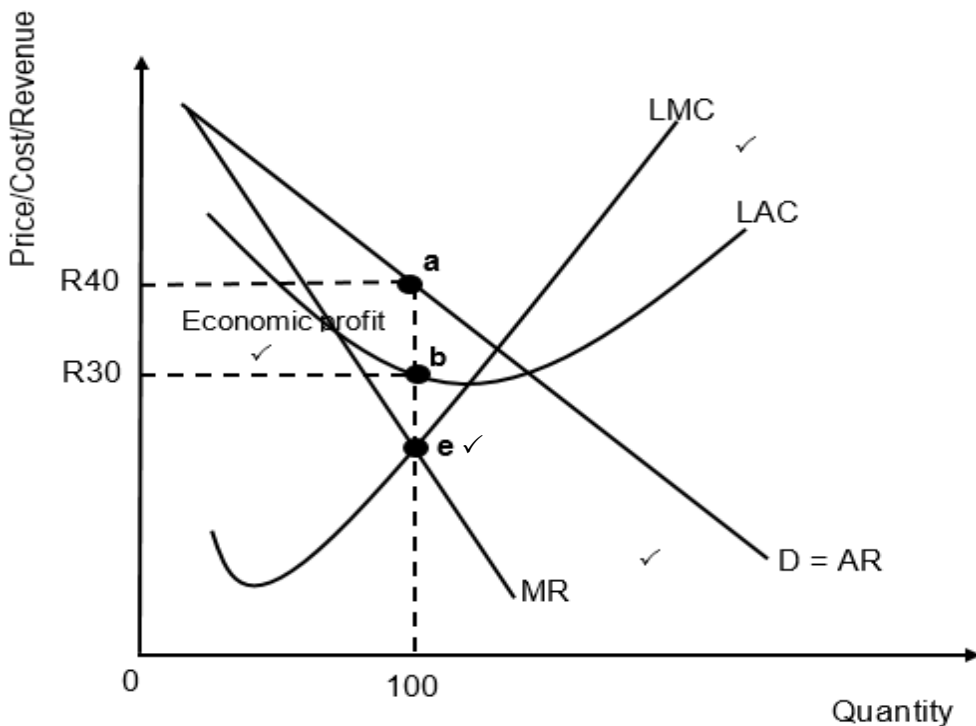
Collusion ✓

- Collusion is irrelevant because there is one business in the market. ✓✓

Productive and allocative efficiency ✓

- A monopoly does not achieve productive efficiency because output is produced without minimising the average cost. ✓✓
 - Allocative efficiency is not achieved because the output produced by a monopoly does not correspond with the quantity demanded by consumers. ✓✓
 - Monopoly produces output level where the price is above the marginal cost. ✓✓
- (Max. 22)

Long-run Economic profit



Allocation of marks:

- Correct positioning and labelling of cost curves = 1 Mark
- Correct drawing and labelling of revenue curves = 1 Mark
- Correct indication of equilibrium / profit maximisation point = 1 Mark
- Correct indication of economic profit = 1 Mark

(Max 4)

(Accept any other correct relevant response) **(Max. 26)**
(Allocate a maximum of 8 marks for headings/subheadings/examples)

ADDITIONAL PART:

- The government may regulate the pricing of goods and services by monopolies to prevent excessively high prices, ✓✓ for example NERSA regulates the pricing of electricity by Eskom ✓
- Reduce or remove barriers to entry, such as patents and licenses, in oligopoly and monopoly industries to attract new businesses and increase competition. ✓✓
- Encourage private sector investments through subsidies and incentives to reduce the dominance of state monopolies in industries such as electricity, rail transport. ✓✓
- Intensify the implementation of the Competition policy which promotes fair competition through the Competition Commission, Competition Tribunal and Competition Appeal Court. ✓✓
- The Competition Commission may intensify its investigations on oligopolies and monopolies that may abuse their market powers by deploying more officials to monitor business practices. ✓✓
- The Competition Tribunal should impose penalties on all dominant businesses that are found guilty of abusing market powers at the expense of other businesses and consumers. ✓✓
- Prevent the market dominance by prohibiting mergers and takeovers that may lead to monopolies that could exploit consumers. ✓✓

(Accept any other correct relevant response)

(Max. 10)

(Allocate a maximum of 2 marks for mere listing of facts)

CONCLUSION

Monopolies may result in low economic growth and high inflation which may lead to low standard of living. ✓✓

(Accept any other correct relevant higher-order conclusion)

(Max. 2)

[40]

QUESTION 6: CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 40 MINUTES

- **Discuss in detail the measures to combat inflation.** (26 marks)
- **How can South Africa's trading partners, such as USA and China, influence the domestic inflation rate?** (10 marks)

INTRODUCTION

Inflation is a considerable and sustainable increase in the general price level of goods and services over a period of time. ✓✓

(Accept any other correct relevant introduction)

(Max. 2)

BODY**MAIN PART:****MEASURES TO COMBAT INFLATION****MONETARY POLICY MEASURES ✓**

- Monetary policy in South Africa is formulated and implemented by the SARB within an inflation targeting framework of 3% - 6% ✓✓
- Monetary policy measures that can be taken include: -

Interest rates ✓

- The SARB curbs inflation by increasing the repo rate, which makes it more expensive to borrow money. ✓✓
- Banks pass on the increased cost of borrowing (repo rate) to their households and businesses by increasing the interest rate. ✓✓
- High interest rate discourages consumers from taking unnecessary credit, which helps to reduce consumer spending. ✓✓
- A decrease in credit creation results to a reduction of money supply thereby reducing demand-pull inflation. ✓✓
- The increase in interest rates stabilises the value of the currency, which helps to reduce cost-push inflation through lower import cost. ✓✓

Open market transactions / Open market operations ✓

- The SARB can directly decrease the supply of money by selling government securities in the open market. ✓✓
- When banks buy securities money flows from banks to the SARB which, reduces money supply. ✓✓
- Reduction in money supply will reduce aggregate demand controlling demand-pull inflation. ✓✓

Cash Reserve Requirements ✓

- Commercial banks are required to hold a certain minimum cash reserve with the central bank. ✓✓
- An increase in the cash reserve requirement limits the amount of money that banks can give out as credit and helps to curb inflation. ✓✓

Moral suasion / Persuasion ✓

- The SARB can persuade commercial banks to act in a responsible manner when granting credit under inflationary conditions. ✓✓
- Moral suasion helps to reduce inflation because credit will be granted to fewer consumers. ✓✓

FISCAL POLICY MEASURES✓

- Fiscal policy refers to the measures taken by the Minister of Finance regarding taxation and expenditure. ✓✓
- The following are actions that can be taken:

Government expenditure ✓

- The state can reduce expenditure by postponing some government projects such as road, hospital and school construction. ✓✓
- Aggregate demand will decrease thereby reducing demand-pull inflation. ✓✓
- The government may finance a budget deficit from the non-banking sector to limit inflation. ✓✓

Taxation✓

- Government can increase direct taxation, such as personal income tax to decrease demand. ✓✓
- An increase in indirect taxation (VAT) causes spending to decrease because goods become more expensive. ✓✓
- The state can impose surcharges on imported goods, which will increase their prices thus discouraging consumer spending. ✓✓
- A loan levy can be used to reduce disposable income of consumers. ✓✓
- The government may reduce taxes on savings or introduce tax-free savings accounts to encourage saving and reduce spending. ✓✓

OTHER MEASURES

Additional measures that can be used to combat inflation include:

Increase productivity: ✓

- Improving education and training to increase productivity which helps to reduce the average cost of production and increase aggregate supply. ✓✓
- Investing in technology to improve productivity which will reduce the cost of production. ✓✓

Promote competition: ✓

- Promoting competition domestically and from abroad which helps to control high profit margins by businesses. ✓✓
- Promoting small business development to increase competition and increase the supply of goods and services. ✓✓

Price Control ✓

- The government ensures that certain essential goods remain affordable by imposing price controls, such as maximum prices. ✓✓

Wage Policy: ✓

- Implementing a wage policy to break the inflationary spiral of increased wages and prices. ✓✓

Stricter conditions for consumer credit: ✓

- The National Credit Regulator may impose strict requirement on consumer credit which will reduce aggregate demand. ✓✓

Import controls relaxation: ✓

- More imports may help to supplement local supply of goods and services, reducing inflation caused by product shortages. ✓✓
- Reduction of import controls helps to reduce the cost imported production inputs, such as agricultural chemical and reduce cost of production. ✓✓

Floating exchange rate: ✓

- Prices are automatically adjusted to international conditions, which allow free operation of the price mechanism (real prices). ✓✓

Decrease in the cost of doing business ✓

- Improve the efficiency of infrastructural services, such energy and transport, to reduce the cost of doing business in the economy. ✓✓
- Providing subsidies to producers of certain goods and services to reduce their cost of production. ✓✓
- Reducing taxes paid by business to reduce their cost of production which allows them to produce output. ✓✓

Indexation: ✓

- 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)

(Allocate a maximum of 8 marks for headings/subheadings/examples)**ADDITIONAL PART:**

- Growth of the economies of South Africa's trading partner may increase demand for a variety of locally produced goods without a corresponding increase in supply, which increases demand-pull inflation. ✓✓
- Price increases in trading partner countries may lead to imported inflation as South Africa import goods and services at higher prices. ✓✓
- The removal of tariffs on South African exports in trading partner countries, such as China, may increase demand for local product contributing to higher inflation. ✓✓
- Increase in prices of commodity imports may lead to higher cost of importing production inputs, such as oil and gas contributing to cost push inflation. ✓✓
- Increase in demand for commodity exports, such as gold and coal by trading partner countries may increase export earnings leading to demand pull inflation. ✓✓
- Political tensions between South Africa and its trading partner countries, such as USA may disrupt the supply of production inputs which leads to a decrease in production output and higher prices for goods and services. ✓✓
- Increase in import tariffs especially on imported production inputs may increase the cost of production resulting in cost push inflation. ✓✓
- Imports from South Africa's trading partners may increase competition on local markets which helps to control prices increases. ✓✓
- Import tariffs imposed by South Africa's trading partners may reduce demand for South African exports which helps to control demand-pull inflation. ✓✓
- Decrease in prices of imported production inputs may reduce the cost of production in South Africa which reduces the domestic inflation rate. ✓✓

(Accept any other correct relevant response)

(Max. 10)

(Allocate a maximum of 2 marks for mere listing of facts)

CONCLUSION

Inflation reduces the purchasing power of money which means consumers can buy fewer goods resulting in a decrease in the standard of living. ✓✓

(Accept any other correct relevant higher-order conclusion)

(Max. 2)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150