 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**HOME SCHOOLING SELF-STUDY ANSWER SHEET**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SUBJECT** | **ECONOMICS** | **GRADE** | **12** | **DATE** | **16/04/2020** |
| **TOPIC** | **MICROECONOMICS MARKS: 70** | **TERM 1**  **REVISION** |  | **TERM 2 CONTENT** | **X** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **QUESTION 1** | | | | | | |  |
| 1.1 |  |  | | | | |  |
|  | 1.1.1 | B | | the Johannesburg Securities Exchange 🗸🗸 | | |  |
|  |  |  | | | | |  |
|  | 1.1.2 | C | | Zero 🗸🗸 | | |  |
|  |  |  | | | | |  |
|  | 1.1.3 | A/C | | differentiated/unique 🗸🗸 | | |  |
|  |  |  | | | | |  |
| 18 | 1.1.4 | D | | Decreases 🗸🗸 | | |  |
|  |  |  | |  | | |  |
|  | 1.1.5 | A | | selling price 🗸🗸 | | |  |
|  |  |  | |  | | |  |
|  | 1.1.6 | C | | Positive | | |  |
|  |  |  | |  | | |  |
|  | 1.1.7 | B | | heterogeneous | | |  |
|  |  |  | |  | | |  |
|  | 1.1.8 | A | | kinked (8x2) | | | (16) |
|  |  |  | |  | | |  |
| 1.2 |  | | | | | |  |
|  | 1.2.1 | | E | | 🗸 | buyers and sellers do not have market power |  |
|  |  | |  | |  |  |  |
|  | 1.2.2 | | G | | 🗸 | do not change as output change |  |
|  |  | |  | |  |  |  |
|  | 1.2.3 | | A | | 🗸 | the holder is the only one who can produce the product |  |
|  |  | |  | |  |  |  |
|  | 1.2.4 | | F | | 🗸 | cannot be recovered should the firm leave the industry |  |
|  |  | |  | |  |  |  |
|  | 1.2.5 | | B | | 🗸 | makes super-normal profit in both the short and long term |  |
|  |  | |  | |  |  |  |
|  | 1.2.6 | | I | | 🗸 | often exploited due to absence of ownership |  |
|  |  | |  | |  |  |  |
|  | 1.2.7 | | C | | 🗸 | is an example of a negative externality |  |
|  |  | |  | |  |  |  |
|  | 1.2.8 | | D | | 🗸 | Used in making the decision whether to accept/reject the project |  |
|  |  | |  | |  | (8x 1) | (8) |
|  |  | | | | | |  |
| 1.3 | Give the correct concept for each of the following phrases. | | | | | |  |
|  |  | | | | | |  |
|  | 1.3.1 | | Artificial 🗸 | | | |  |
|  |  | |  | | | |  |
|  | 1.3.2 | | Price leadership / tacit collusion 🗸 | | | |  |
|  |  | |  | | | |  |
|  | 1.3.3 | | Oligopoly 🗸 | | | |  |
|  |  | |  | | | |  |
|  | 1.3.4 | | Price discrimination 🗸 | | | |  |
|  |  | |  | | | |  |
|  | 1.3.5 | | Industry 🗸 | | | |  |
|  |  | |  | | | |  |
|  |  | |  | | | |  |
|  | 1.3.6 | | Marginal product 🗸 (6x1) | | | | (6) |
|  |  | |  | | | | **[30]** |

|  |  |
| --- | --- |
| **QUESTION 2:** |  |
|  |  |
| **Markets are the backbone of economic activities in any country.** |  |
| * **Compare the market structure of a monopolistic competitor to that of a perfect market. (26)** |  |
|  |  |
| * **Explain, with the aid of a graph, how economic profit is achieved for a perfect competitor. (10)** | **[40]** | |
|  |  | |
| **INTRODUCTION** |  | |
| * A market is an institution or mechanism that brings together the buyers and sellers of goods or services / * A market structure is a framework of how a market is organised / * Monopolistic competition is a monopolistic market structure with many buyers and sellers where entry is relatively easy but the product is differentiated / * Perfect competition is a market structure with many buyers and many sellers 🗸🗸   (Accept any other relevant introduction) | **(2)** | |
|  |  | |
| **MAIN PART** |  | |
|  |  | |
| **Number of businesses** 🗸 |  | |
| * There is a number of sellers that are so large 🗸 in the perfect market that individual market participants are insignificant in relation to the market as a whole 🗸 An example of a **perfect market** is the Securities Exchange, or the produce market 🗸 * A large number of sellers are active in the **monopolistic competitive market** 🗸 Examples of monopolistic markets are producers of cleaning materials, cold drinks, toothpaste or soap 🗸 |  | |
| **Nature of the product** 🗸 |  | |
| * All products sold in the perfect market are homogeneous 🗸 All these products are exactly the same regarding quality, appearance 🗸🗸 it makes no difference to a buyer where and from whom he or she buys the product. 🗸🗸 * Goods produced by businesses in a monopolistic competitive market are heterogeneous 🗸 They may differ slightly in appearance, shape, size and taste 🗸🗸 Differences may be imaginary 🗸🗸 e.g. medicine may have different brand names, but contain exactly the same basic ingredients 🗸🗸 |  | |
| **Entry and exit from the market** 🗸 |  | |
| * There is **complete freedom of entry and exit** of buyers and sellers in the **perfect market** 🗸 Entry is not subject to any restrictions in the form of legal, financial, technological or other barriers 🗸🗸 * Entry into the **monopolistic competitive market** is easy and free 🗸 There are no barriers 🗸🗸such as licences, permits, patents and other restrictions 🗸 |  | |
| **Market knowledge** 🗸 |  | |
| * Both buyers and sellers have complete knowledge about prevailing market conditions in **the perfect market** 🗸 It is assumed that buyers and sellers instinctively know, e.g. available quantities; price at which product is sold 🗸🗸 * Market information in the **monopolistic competitive market** is incomplete 🗸 The many brands, variety of products or marginal difference causes a lack of information for sellers and buyers 🗸🗸 |  | |
| **Control over price** 🗸 |  | |
| * There are so many businesses in the perfect market that the individual business is so small that **no single business has control over the price** of the product 🗸 The price is determined through market forces. In other words, the business can be regarded as a price taker 🗸🗸 * The individual business in the **monopolistic competitive market** has some control over the price of a product 🗸 The control over price depends entirely on the strength of brand loyalty 🗸🗸 The business can be regarded as a price setter 🗸🗸 |  | |
| **Collusion** 🗸 |  | |
| * Collusion is not possible under **perfect market** conditions 🗸 There is no need for businesses to collude because they have no control over price setting 🗸🗸 In addition, the market share of the individual business is so small and insignificant that it cannot manipulate the market in any way 🗸🗸 * Collusion does not occur in the **monopolistic competitive market** 🗸 Individual businesses rely on brand loyalty to determine prices 🗸🗸 Prices can be manipulated by the strength of their brand loyalty 🗸🗸 Prices are normally higher in cases where brand loyalty is intense 🗸🗸 Control over the market (output) is subject to brand loyalty due to product differentiation 🗸🗸 |  | |
| **Marketing** 🗸 |  | |
| * There is no need for marketing strategy in **the perfect market** due to complete market knowledge 🗸🗸 * Marketing strategy is applied in the **monopolistic competitive market** 🗸 Deliberate advertising campaigns is launched to create brand loyalty 🗸🗸 |  | |
| **Profits** 🗸 |  | |
| * The firm can realise economic profits in the short term, but only normal profits in the long run in the **perfect market** 🗸🗸 * The firm can realise economic profits in the short term as well as the long run in the **monopolistic competitive market** 🗸🗸 |  | |
| **Demand curve** 🗸 |  | |
| * The demand curve for the firm in the perfect market is horizontal 🗸🗸 * D=AR=MR 🗸🗸 * The demand curve for the firm in the monopolistic competitive market is downward sloping. 🗸🗸 * AR=D (average revenue curve is also known as the demand curve) 🗸 * The MR curve lies below AR curve 🗸🗸   (Allocate a maximum of 8 marks for mere listing of facts/examples)  (Accept any other correct relevant response)  Accept tabular form Max | **(26)** | |
|  |  | |
| **ADDITIONAL PART** |  | |
|  |  | |
| **Explain, with the aid of a graph, how economic profit is achieved for a perfect competitor.** |  | |
|  |  | |
| * The minimum point of the short-term average cost (AC) is lower than the market price P1 🗸🗸 * The business is maximising profit at MR = MC at point E, the business will therefore produce quantity Q1 at the market price P1 🗸🗸 * Total revenue is equal to 0P1 x 0Q1 and total cost is equal to 0C x 0Q1 🗸🗸 * Total revenue exceeds total cost, which means the business is making a profit that is represented by area P1CBE 🗸🗸 * This profit is known as economic profit, which is profit that is made in addition to normal profit 🗸🗸 |  | |
| Max (6) for graph - Max (6) explanation Max | **(10)** | |
| **CONCLUSION** |  | |
|  |  | |
| Whilst perfect market does not exist, it serves as a standard that imperfect markets, such as monopolistic competition, should strive to achieve 🗸🗸  Accept any relevant higher order conclusion | **(2)** | |
|  | **[40]** | |