 Province of the

EASTERN CAPE

EDUCATION

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

**HOME SCHOOLING SELF- STUDY ANSWER SHEET**

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| **SUBJECT** | **ECONOMICS** | **GRADE** | **12** | **DATE** | **13/05/2020** |
| **TOPIC** | **MICROECONOMICS MARKS: 40** | **TERM 1**  **REVISION** |  | **TERM 2 CONTENT** | **X** |

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| **QUESTION 1: MICROECONOMICS 40 MARKS – 30 MINUTES** | | |  |
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| 1.1 | Answer the following questions. | |  |
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|  | 1.1.1 | **Give any TWO examples of variable costs.**   * Raw materials √ * Electricity / Water √ * (Accept any other correct relevant responses) (2 x 1) | (2) |
|  |  |  |  |
|  | 1.1.2 | **Why is it difficult for new firms to enter an oligopoly market?**   * High start-up capital required/existing firms may use aggressive marketing which is expensive √√ * Difficult to compete with established existing brands due to high advertising costs √√   (Accept any other correct relevant response) (1 x 2). | (2) |
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| 1.2 | **DATA RESPONSE** | |  |
|  |  |  |  |
|  | 1.2.1 | **What market structure is depicted above?**  Perfect competition √ | (1) |
|  |  |  |  |
|  | 1.2.2 | **What is the market price at which the business will sell his/her product?**  R50 √ | (1) |
|  |  |  |  |
|  | 1.2.3 | **Briefly describe the term opportunity cost.**  The value of next best alternative that is given up √√ | (2) |
|  |  |  |  |
|  | 1.2.4 | **Why is it not possible for a single business to adjust its selling price?**   * There are many sellers in the market and a single business is very small to influence the market price √√ * They are price takers, if they increase prices they won’t sell anything / If they decrease prices they will make a loss √√   (Accept any other correct relevant response) | (2) |
|  |  |  |  |
|  | 1.2.5 | **Explain the effect on the market in the long run if the businesses above in a perfect market made an economic profit.**   * This will attract new entrants into the market which will result in the market supply curve shifting to the right √√ * Market equilibrium price will fall which will reduce profits √√ * Normal profit will be achieved in the long run √√   (Accept any other correct relevant response) (2 x 2) | (4) |

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| 1.3 | **DATA RESPONSE** | |  |
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|  | 1.3.1 | **Identify the type of monopoly depicted in the cartoon.**  Artificial √ | (1) |
|  |  |  |  |
|  | 1.3.2 | **How many firms usually dominate this type of market?**  One √ | (1) |
|  |  |  |  |
|  | 1.3.3 | **Describe the nature of the product produced by a monopoly.**   * The product is unique. There is no close substitute for the product √√   (Accept any other correct relevant response) | (2) |
|  |  |  |  |
|  | 1.3.4 | **How are natural monopolies created?**  Natural monopolies are created by:   * associating with high development or input cost √√ * being owned or regulated by the government √√   (Accept any other correct relevant response) | (2) |
|  |  |  |  |
|  | 2.3.5 | **Why will this monopolist always make economic profit in the long run?**  The monopolist will always make economic profit in the long run because:   * entry of other firms into the market is limited due the barriers of entry. Entry is blocked √√ * this monopolist has a patent which give him exclusive to manufacture a product √√ * monopolies normally produce less than the market demand in order to sell their products at higher price √√ * if the monopolist makes a loss in the short run he can always adjust prices so that he makes an economics profit in the long run √√   (Accept any other correct relevant response) (2 x 2) | (4) |
|  |  | |  |
| 1.4 | **Explain the aims of South Africa's anti-monopolistic policy.**   * To promote economic transformation of the economy by making sure that there is no restriction on entry in any industry √√ * To curb the economic power of big businesses in South Africa in order to achieve a more equitable distribution of income and wealth √√ * To help South African businesses to become more competitive / lower prices √√ * To ensure that South African competition law is in line with international standards √√ * To prevent monopolies and other powerful businesses from abusing their power. √√ * To regulate the formation of mergers and acquisitions who wish to exercise market power. √√ * To stop firms from using restrictive practices like fixing prices, dividing markets √√ * Regulates transfer of ownership in keeping with public interest √√ * All South Africans gets equal opportunity to participate fairly in net economy √√ * Provides markets in which consumers have access to freely select quantity and variety √√ * Provides environment to compete effectively in internal markets √√   Accept any other correct relevant response)  (A maximum of 4 marks may be allocated for the mere listing of facts/examples) (4 x 2) | | (8) |
|  |  | |  |
| 1.5 | **Why do oligopolies often collude, although it is illegal in South Africa?**  Collusion between oligopolies occur because:   * it is an effort to reduce uncertainty √√ * they can enjoy the advantage of higher profit and limit other businesses to enter the market (to control the market / to form a collective monopoly) √√ * the cost of doing business in an oligopoly market is very high, that is why these firms use non-price competition such as advertising, and this can cost a very large amount of money √√ * firms are mutually interdependent and large amounts of money is often required to monitor one another's actions √√ * it increases the firms' total cost of doing business √√ * this often makes firms to engage in cooperation with one another instead of competing even though it is illegal in South Africa √√   (A maximum of 2 marks may be allocated for mere listing of facts/ examples)  (Accept any other correct relevant response) (4 x 2) | | (8) |
|  | **DBE/Feb-Mar. 2018** | | **[40]** |