 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** | **20/04/2020** |
| **TOPIC** | **MICROECONOMICS MARKS: 80** | **TERM 2**  **REVISION** |  | **TERM 2 CONTENT** | **X** |

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| **QUESTION 1: 40 MARKS** |  |
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| **Markets are broadly categorised into perfect and imperfect markets. However, in reality very few examples of perfect markets exist.** |  |
| * ***Examine the conditions for the existence of a perfect market in detail. (26)*** |  |
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| * ***Illustrate by means of graphs the position of the industry and firm in the long term if a loss was incurred in the short term. (10 )*** | **[40]** | |
| **INTRODUCTION** |  | |
| * It is a market structure with a large number of participants who are price-takers. 🗸🗸 * The price is determined by the market demand and supply, This market is most efficient in the allocation of resources 🗸🗸 (Max 2) | (2) | |
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| **BODY** |  | |
| **MAIN PART** |  | |
| **Characteristics:** |  | |
| **a) Products must be homogenous (i.e. identical)**🗸 |  | |
| * Products must be identical. There should be no differences in style, design and quality. 🗸🗸 * In this way products compete solely on the basis of price and can be purchased anywhere. 🗸🗸 |  | |
| **b) There should be a large number of buyers and seller**🗸 |  | |
| * It should not be possible for one buyer or seller to influence the price. 🗸🗸 * When there are many sellers the share of each seller to the market is so small that the seller cannot influence the price🗸🗸 * Sellers are price-takers, they accept the prevailing market price. 🗸🗸 |  | |
| **c) No preferential treatment/discrimination**🗸 |  | |
| * Buyers and sellers base their actions solely on price, homogenous product fetch the same price and therefore no preference is shown for buying from or selling to any particular person.🗸🗸 |  | |
| **d) Free competition/Unregulated market**🗸 |  | |
| * Buyers must be free to buy whatever they want from any firm and in any quantity. 🗸🗸 * Sellers must be free to sell what, how much and where they wish 🗸🗸 * There should be no state interference and no price control. 🗸🗸 |  | |
| **e) Efficient transport and communication**🗸 |  | |
| * Efficient transport ensures that products are made available everywhere.🗸🗸 * In this way changes in demand and supply in one part of the market will influence the price in the entire market 🗸🗸 * Efficient communication keeps buyers and sellers informed about market conditions. 🗸🗸 |  | |
| **f) All participants must have perfect knowledge of market conditions** 🗸 |  | |
| * All buyers and sellers must be fully aware of what is happening in any part of the market. 🗸🗸 * Technology has increased competition as information is easily obtained via the Internet 🗸🗸 |  | |
| **g) Freedom of entry/exit** 🗸 |  | |
| * There is complete freedom of entry and exit, that is to say the market is fully accessible.🗸🗸 * Buyers and sellers are completely free to enter or to leave the market 🗸🗸 |  | |
| **h) Mobility of factors of production**🗸 |  | |
| * All factors of production are completely mobile, in other words labour, capital and all other factors of production can move freely from one market to another.🗸🗸 |  | |
| **i) No collusion** |  | |
| * In a perfectly competitive market, each buyer and seller acts independently from one another 🗸🗸 |  | |
| NOTE: A maximum of 8 x 1 marks will be allocated for headings Max (26) | (26) | |
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| **ADDITIONAL PART** |  | |
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|  |  | |
| (Max 10) | **(10)** | |
| **CONCLUSION** |  | |
| * The characteristics above indicate that the market has to meet strict requirements before it can be described as perfectly competitive🗸🗸 * Although there are very few examples, the conditions of a perfect market does serve a frame of reference when studying other markets. 🗸🗸   (Accept any other correct relevant conclusion.) (Max 2) | **(2)** | |
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|  | [40] | |
| **QUESTION 2: 40 MARKS** |  |
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| **Sometimes free market fail to produce the quantities of goods and services that people want at the prices that reflect marginal utilities and relative scarcities.** |  |
| * ***Discuss the causes of market failure by referring to externalities and missing markets. (26)*** |  |
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| * ***How does the government discourage or encourage externalities? (10 )*** | **[40]** | |
| **INTRODUCTION** |  | |
| A market failure is when the optimal production quantity is not produced and inefficiency occur🗸🗸 (Max 2) | (2) | |
|  |  | |
| **BODY** |  | |
| **MAIN PART** |  | |
| **Externalities** |  | |
| * Externalities are costs not included in the pricing of goods/services, and consequently there is a difference between the private costs/benefits and the social costs/benefits of production. 🗸🗸 * Private costs are the cost of producing the good or service which translate into the prices that consumers pay. Also called internal costs 🗸🗸 * Private benefits are internal benefits that accrue to those who produce goods and buy these goods, e.g. producing a bicycle (for producer) and using the bicycle (consumer). 🗸🗸 * Social costs are total costs incurred by society as a whole 🗸🗸 * Social cost = private costs plus external costs. 🗸🗸 * Social benefits include the total benefit experienced by society as a whole.🗸🗸 * Social benefits = private benefits plus external benefits. 🗸🗸 |  | |
| **Negative externalities:** |  | |
| * Are things like pollution, tobacco smoking and alcohol abuse 🗸 * The costs of negative externalities are paid by society rather than by the producers🗸🗸 |  | |
| **Missing markets** |  | |
| * Markets are incomplete because they cannot meet the demand for certain goods.🗸🗸 |  | |
| **Public goods** 🗸 |  | |
| This includes community and collective goods and has two features:   * Non-rivalry: Consumption by one person does not reduce consumption by another individual, 🗸🗸 e.g. a lighthouse. 🗸 * Non-excludability: Consumption can’t be confined to those who pay for it (free riders can use them), 🗸🗸e.g. radio and television 🗸 * Social benefits outstrip private benefits 🗸🗸: e.g. health care and education. 🗸 * Non-rejectability: Individuals are not able to abstain from consumption, 🗸🗸 e.g. street lighting.🗸 * Continuous consumption. 🗸🗸 E.g. traffic lights 🗸 |  | |
| **Community goods** 🗸 |  | |
| * These are goods such as, defence, police services, prison services, street-lighting, flood control, storm water drainage and lighthouses. 🗸 |  | |
| **Collective goods** 🗸 |  | |
| * These are goods such as parks, beach facilities, streets 🗸 |  | |
| **Merit goods** 🗸 |  | |
| * These are highly desirable for general welfare, but not highly rated by the market, e.g. health care, education and safety. 🗸🗸 * If people had to pay the market price for them, very little would be consumed. The market fails because the market produces less than the desired quantity. 🗸🗸 |  | |
| **Demerit goods** 🗸 |  | |
| * These are over-consumed goods, e.g. cigarettes, alcohol and drugs. 🗸🗸 |  | |
| NOTE: A maximum of 8 x 1 marks will be allocated for headings Max (26) | (26) | |
|  |  | |
| **ADDITIONAL PART** |  | |
| The government has used three methods to reduce negative externalities: |  | |
| * The government has carried out campaigns in order to change/persuade people from causing negative externalities. 🗸🗸 * Levying taxes on goods that cause negative externalities. E.g. Taxes are levied on cigarettes and alcohol. 🗸🗸 * Passing laws and regulations to prevent activities that cause negative externalities. 🗸🗸 E.g. Tobacco companies are not allowed to advertise. There are laws that regulate the amount of air pollution and waste. (5)   The government **encourages positive externalities** by:   * Advertising on the radio or television. 🗸🗸 * Providing education, health care and other services at a low cost or free. 🗸🗸 * Providing consumer subsidies. 🗸🗸 * Consumer subsidies lower the cost of a good and encourage its usage. 🗸🗸 (5)   Accept any relevant measure taken by the government (10) |  | |
| (Max 10) | **(10)** | |
| **CONCLUSION** |  | |
| * When market failures occur, it causes inefficiency and misallocation of resources and the government will have to intervene to recover the instability. 🗸🗸   (Accept any other correct relevant conclusion.) (Max 2) | **(2)** | |
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| **TOTAL [80]** | [40] | |