 Province of the

EASTERN CAPE

EDUCATION

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

**HOME SCHOOLING SELF-STUDY ANSWER SHEET**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SUBJECT** | **ECONOMICS** | **GRADE** | **12** | **DATE** | **15/04/2020** |
| **TOPIC** | **MICROECONOMICS MARKS: 40** | **TERM 1**  **REVISION** |  | **TERM 2 CONTENT** | **X** |

|  |  |  |  |
| --- | --- | --- | --- |
|  | | |  |
| **QUESTION 1:** | | |  |
|  | | |  |
| 1.1 | Answer the following questions. | |  |
|  | 1.1.1 | **Name any TWO characteristics of monopolistic competition.** |  |
|  |  | * Large number of producers 🗸 * Differentiated product 🗸 * Free market entry 🗸 * Producers have little control over price / price setter 🗸 * Incomplete market information 🗸 * Non-price competition and branding 🗸 * Collusion not possible 🗸 * Hybrid market structure 🗸   (Accept any other correct relevant response) (2x1) | (2) |
|  | 1.1.2 | **Why would a lack of information to entrepreneurs lead to market failure?** |  |
|  |  | * A lack of information regarding cost and availability of the factors of production will result in a misallocation of resources / will result in inefficiency in production 🗸🗸   (Accept any other correct relevant response) (1x2) | (2) |
|  |  |  |  |
| 1.2 | **Data response** | |  |
|  |  | |  |
|  | 1.2.1 | **Identify the quantity the firm will produce at equilibrium point** |  |
|  |  | * 180 🗸 | (1) |
|  |  |  |  |
|  | 1.2.2 | **What curve represents the market price for the perfect competitor?** |  |
|  |  | * AR/MR/dd 🗸 |  |
|  |  |  | (1) |
|  | 1.2.3 | **Briefly describe term *normal profit*** |  |
|  |  | * The minimum earning required to prevent an entrepreneur from leaving the market / where total cost is equal to total revenue 🗸🗸 (Accept any other correct relevant response). (1x2) | (2) |
|  |  |  |  |
|  | 1.2.4 | **What would the impact on the market be if many firms leave this industry?** |  |
|  |  | * The supply curve in the market will shift to the left / decrease in supply 🗸🗸 * Market price will increase 🗸🗸 * (Accept any other correct relevant response). | (2) |
|  |  |  |  |
|  | 1.2.5 | **Redraw the above graph and insert the average variable cost curve (AVC) to clearly indicate the shut-down point.**       |  | | --- | | **Marking grid**   * Correct drawing and labelling of AVC curve = 2 marks * Correct labelling of the shutdown point = 2 marks   **Maximum 4 marks** | |  |

|  |  |  |  |
| --- | --- | --- | --- |
| 1.3 | **DATA RESPONSE** | |  |
|  | 1.3.1 | **In which sector is the cost benefit analysis generally used?** |  |
|  |  | * Public 🗸 | (1) |
|  |  |  |  |
|  | 1.3.2 | **Give any ONE redress method used by government to enforce redistribution of income.** |  |
|  |  | * BEE 🗸 * Affirmative action 🗸 * Empowerment 🗸 * Land restitution 🗸 * Land redistribution🗸 * Property subsidies for RDP houses 🗸   (Accept any other correct relevant response). | (1) |
|  |  |  |  |
|  | 1.3.3 | **Briefly describe the term cost benefit analysis.** |  |
|  |  | * A technique used to compare social cost and benefit of undertaking a project. 🗸🗸   Accept any relevant correct response. | (2) |
|  |  |  |  |
|  | 1.3.4 | **Why is it necessary to do a cost benefit analysis for large projects?** |  |
|  |  | A cost benefit analyses will ensure:   * efficient allocation of scarce resources🗸🗸 * objectivity in decision making process / evaluate social costs and benefits of the project 🗸🗸 * the elimination of subjectivity in the absence of price signals 🗸🗸   Accept any relevant correct response. | (2) |
|  |  |  |  |
|  | 1.3.5 | **Why are some projects undertaken although the financial cost is very high?** |  |
|  |  | * Government is concerned about efficient public service rather than private cost 🗸🗸 * The long-term social benefit is of greater importance than the initial money spent 🗸🗸 * The focus is on whether a project will benefit the country as a whole 🗸🗸 (2x2)   Accept any relevant correct response. | (4) |
|  |  |  |  |
| **1.4** | **Use the graph below to explain the effect of positive externalities in the market.** | |  |
|  | * If, for example, the cost of school fees is at P, many learners will not be able to afford quality education 🗸🗸 * Q represents what the market provides, and Q1 represents a growing demand for quality education (what society requires) 🗸🗸 * Therefore the market is under-producing 🗸🗸 * A subsidy is given which enable parents to afford quality education therefore the demand curve shifts to the right (D1) 🗸🗸 * More learners (Q1) will receive quality education without having to pay more * The welfare gain (positive externality) is indicated by the shaded area 🗸🗸   OR   * DD represents the demand from individuals, that is, the private benefits gained from purchasing a particular good or service 🗸🗸 * SS represents the direct cost of providing that good or service 🗸🗸 * If it was possible to quantify the external benefits associated with the provision of this good or service, the social benefit accruing to society could be represented by D₁D₁. 🗸🗸 * If the external benefits were to be taken into consideration, output will increase to Q₁ and the price would be P₁. 🗸🗸 * In this case, freely operating markets were failing because they produce less than required of a socially useful good 🗸🗸   (Accept any other correct relevant response) (4x2)  (Allocate a maximum of 4 marks for mere listing of facts or examples) | | (8) |
|  |  | |  |
| 1.5 | **Discuss the challenges a monopolist will face if excessively high prices are charged for the products.** | |  |
|  | The monopolist would not charge very high prices because:   * increasing the price might reduce the demand for the product that will reduce revenue and decrease profits 🗸🗸 * consumers with limited budgets might switch to substitutes even though substitutes might not be close to the product of the monopolist 🗸🗸 * their price increases are sometimes restricted by regulatory bodies such as NERSA (price of electricity) 🗸🗸if electricity becomes too expensive, consumers can switch to gas or firewood 🗸 * a business might close down due to a persistent reduced demand and the loss of revenue 🗸🗸 * doing so could encourage other businesses to enter the market and provide cheaper alternatives but not of the same quality 🗸🗸   Accept any other correct relevant response)  (Accept any other correct relevant response) (4 x 2) (Allocate a maximum of 2 marks for mere listing of facts or examples) | | **(8)** |
|  |  | | **[40]** |