



Education and Sport Development

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NORTH WEST PROVINCE

PROVINCIAL ASSESSMENT

ECONOMICS P2

June examination marking guidelines

GRADE 11

MARKS: 150

TIME: 2 hours

This question paper consists of 15 pages

Grade11 June examination

Marking guideline

SECTION A:

Question 1

1.1 MULTIPLE CHOICE QUESTIONS

- 1.1.1 B/(Marginal utility) ✓✓
- 1.1.2 A/ (Relative prices) ✓✓
- 1.1.3 C / (Oligopoly) ✓✓
- 1.1.4 B/(Inelastic price of demand) ✓✓
- 1.1.5 B/ (Variable costs) ✓✓
- 1.1.6 A(/ Right) ✓✓
- 1.1.7 C/ (Oligopoly) ✓✓
- 1.1.8 C/(Marginal revenue) ✓✓ **(8x2)(16)**

1.2 MATCHING ITEMS

- 1.2.1 F-monopolistic competition✓
- 1.2.2 E-Utills✓
- 1.2.3 G-Average revenue✓
- 1.2.4 A -Economies of scale✓
- 1.2.5 H-Monopoly✓
- 1.2.6 C-price elasticity✓
- 1.2.7 D-short Run✓
- 1.2.8 B-luxury goods ✓ **(8x1) (8)**

1.3 GIVE ONE TERM

- 1.3.1 nominal price✓
- 1.3.2 long run✓
- 1.3.3. elastic supply✓
- 1.3.4 total revenue✓
- 1.3.5 explicit cost✓
- 1.3.6 perfect/unregulated market ✓ **(6x1) (6)**

SECTION B**QUESTION 2****2.1.1 List two ways of using relative prices****(2 X 1) (2)**

- Alternatives ✓
- Indexes ✓
- percentages ✓

2.1.2 What is the importance cross elasticity of demand

- To measures the responsiveness of the quantity demanded of a particular good and changes in the prices of related goods. ✓✓

Any relevant answer (1x2)(2)

2.2 DATA RESPONSE:**2.2.1 Which market is depicted on the above cartoon and give an example of the market structure mentioned above****(2)**

- Monopoly ✓
- Examples ESKOM, ISCOR ✓

2.2.2 Explain TWO features in the market structure above.**(2x3) (6)**

- Only one supplier
The monopolist has full control over of a certain product, because the monopolist is only is the only seller, the monopolist, however does not have control over the demand. ✓✓
- Product is unique
Monopoly produces a unique product with no close substitutes the buyer can only buy from the monopoly, or will have to go without the product. ✓✓
- Barrier block entry
Barriers protect the monopoly against the entry by other sellers. so the monopoly has no competitors. ✓✓
- Monopoly can exploit consumers.
The monopoly produces fewer goods at higher price compared to business in the perfect market. ✓✓

2.2.4 How can monopolist raise the level of profit

- reducing his output and prices will rises ✓✓

2.3 DATA RESPONSE:**2.3.1 Which goods are indicated in the above graph (2)**

- Car and Petrol

2.3.2 Comment on the reactions of the consumers in relation to the price of substitute goods? (2x2)(4)

- If the price of one product increases, consumers look for cheap similar product.

2.3.3 How will the demand for cars be affected if the price of petrol decreases? (2x2)(4)

- The demand for cars will increase as the demand shifts to the right.
- The quantity of cars demanded will increase as the curve will shift to the right

□

2.4 Distinguish between Economies of scale and diseconomies of scale**Economies of scale**

- The cost advantage that a business can use by increasing their scale of production in the long run. ✓✓ The cost of production drops in relation to an increase in output so large scale production results in unit lower cost ✓✓.

Diseconomies of scale

- While diseconomies when LARC per unit rises with an increase with output ✓✓ Firms cannot go on increasing their production forever at some point diseconomy of scale develops ✓✓

2.5 If the price decreases by 5% and the quantity supplied decrease by 10% calculate the PES and say whether supply is price elastic or price inelastic. (2x4)(8)

- $PES = \frac{\% \Delta Q_s}{\% \Delta Q_p}$
- $= \frac{-10}{-5}$
- $= 2$ ✓✓
- the supply is price elastic ✓✓

3.1.1 Name two types of demand relationship (2 X1) (2)

- Substitutes✓
- complements✓

3.1.2 Why is the AVC curve roughly U shaped (1X2) (2)

- Because it first decreases and then increases ✓✓

3.2 DATA RESPONSE:**3.2.1 Identify TWO variables used to calculate total cost (2)**

- Fixed cost and variable cost

3.2.2 Define fixed cost (2)

- The cost that remains constant even if output varies.

3.2.3. Calculate the value of A, B, C (6)

- A= 140
- B=30
- C= 70

3.3 DATA RESPONSE:**3.3.1 How many shoe buckles are produced per minute by one employee (2)**

- Five (5) shoe buckles✓

3.3.2 What type of production factor is the needle and thread in the above example (2)

- Equipment ✓✓

3.3.3 What can be done to increase the number of shoe buckles (2)

- Buy another needle and thread and employ another worker ✓
- Scheduling short breaks every few minutes to speed of the work.

Any (2x2) (4)**3.3.4 How can the business increase in the number of buckles of shoes in the long run and the short run**

- In the short run the business can only hire more workers✓✓
- capital is fixed so they cannot buy more needles and the space available is also fixed as the business cannot extend the workshop. ✓✓
- In the long run business can increase capital✓✓
- More capital can extend the building so that production can increase✓✓

Any (2x2) (4)**3.4 Distinguish between relative prices and absolute prices.****Use examples to show the difference****(2 x 4) (8)****Absolute prices**

- This is the price used to plot demand or supply curve ✓✓
- It is expressed in terms of rands and cents ✓✓
- Absolute price refers to the monetary value of the rand or service ✓✓

Relative prices

- Relative price refers to the ratio between the price of a product and the price of other products. ✓✓
- If all prices increase by 10%, the ratio between the prices will remain constant. ✓✓
- The buying decision of the customers change when the relative prices of products change ✓✓
- They will always try to replace those products of which the relative prices have increased with similar products with lower relative prices ✓✓

3.5 How does the price mechanism work in conditions of perfect markets.**(2x4) (8)**

- At the equilibrium price, demand and supply are equal and there is no shortage or surplus. ✓✓
- If the price rises, consumers will buy fewer goods and the quantity demanded will decrease / drop. ✓✓
- This will result in a surplus in the market as supply exceeds demand. ✓✓
- Producers will then have to reduce their prices and the price returns to equilibrium. ✓✓
- If the price drops below equilibrium, demand will increase and there will be a shortage in the market as demand exceeds supply. ✓✓
- This will cause the price to rise again and it returns to equilibrium. ✓✓
- The firm is the price taker in the perfect market ✓✓
- No individual producers can influence the market price ✓✓
- Individual producers cannot sell above or below the market price ✓✓

(any 2x4)(8)**QUESTION 4**

4.1.1 List two factors that determines the elasticity of supply (2 X 1) (2)

- Time ✓
- Availability of capital ✓
- Availability of labour ✓
- Availability of natural resources ✓

(Any 2 x1)(2)

4.1.2 What will happen to marginal utility when consumption increases 1x2)

- An additional stock goods increases , marginal utility thereof decreases

4.2 DATA RESPONSE:**4.2.1 Indicate the profit maximization point of the monopolist (1)**

- C ✓

4.2.2 How many units will be produced at the maximization point ✓ (1)

- 100 units ✓

4.2.3 Determine whether the business is making an economic profit or an economic loss. (4)

- $TR = P \times Q$ ✓ $TC = AR \times Q$ ✓
- 6×100 ✓ 4×100 ✓
- $= 600$ ✓ $= 400$ ✓
- $600 - 400 = 200$ economic profit ✓✓

4.2.4 What favourable conditions may the monopolist enjoy in comparison to other market structures (2x2)(4)

- Determine prices ✓✓
- makes an economic profit ✓✓
- barriers that prevents other market entry ✓✓

(any 2x2) (4)**4.3 DATA RESPONSE:****4.3.1 What is the marginal and total utility of unit 3 (2x1)(2)**

- 34 TU and 7 MU ✓

4.3.2 Calculate the values for A and B (2x2)(4)

- $A = 15$ ✓✓
- $B = 12$ ✓✓

4.3.3 Define the term *disutility* (2)

- Disutility is the point when there is no satisfaction from further consumption is over derived ✓✓

4.3.4 What happens to total utility when marginal utility becomes negative (2)

- Total utility decreases ✓✓

4.4 How does the factor market relate to the product markets (8)

- Household present their four factors of production to business enterprises on the factor markets and receive the income. ✓✓
- The four factor market can be subdivided into markets such as the capital market, labour market, natural resources and entrepreneur market. ✓✓
- Each of these can again be subdivided further for example in the natural resource market, the following can be distinguished, the agriculture, fish, forestry and mining markets. ✓✓
- When supply of one factor production changes, it affects the rest of the factor markets and the product market. ✓✓ for example when scarcity of cotton is experienced due to drought, it will lead to less cotton available for manufacturing cotton clothing. ✓✓
- The reduced supply of cotton will have a negative effect on the factor market factories will produce less cotton clothing receive less income and less profit. ✓✓
- The goods and services of business enterprise are sold on the product market and the business enterprise receive the spending from household in return. ✓✓
- The product market is subdivided into the following markets: capital goods market (such as buildings, machinery and vehicles) consumer and goods market (such as non durable consumer goods semi-durable goods) services market (such as wholesale and retail transport and financial.) ✓✓
- When the demand for a certain product market, the demand for a certain product increase during summer, the demand for natural resource milk will also increase. ✓✓

4.5 Briefly discuss the characteristics of utility. (8)

Satisfaction is abstract because utility cannot be measured. □

- There is no standard way to measure someone's satisfaction or utility, so economists sometimes simply assign it a value and call the measurement utils. □□

Utility is subjective because it differs from person to person. □

- The satisfaction that two people get from consuming the same product differs depending on personal preferences e.g. some people will find that ice cream has a high utility, while others would prefer to have cold drinks. □□

Utility differs from one situation to another, from time to time □

- Warm clothes provide satisfaction in winter as opposed to summer.

Utility differs from place to place. □

A swimming costume will be satisfying at the beach but not in the classroom.□□

QUESTION 5

- Discuss three ways in which profit can be expressed: accounting profit, normal profit and economic profit. (26)
- Draw two separate graphs to illustrate Economic profit and Economic loss (10)

INTRODUCTION

- Accountants record transactions that have already taken place. business publish the profit in their annual reports when they give an overview of transactions of the previous year.□□□□□□□□□□□□□□□□□□(2)

Any relevant introduction.

MAIN PART

Accounting profit

- A company's total earnings are calculated according to accounting principles and only include the explicit costs of conducting a business.□□□
- The accounting profit is the amount left over after all the explicit costs incurred by the business have been paid□□
- The problem with only using accounting profit is that it could give a wrong impression of the profit made as both opportunity costs and implicit costs are omitted.□□□

Normal profit

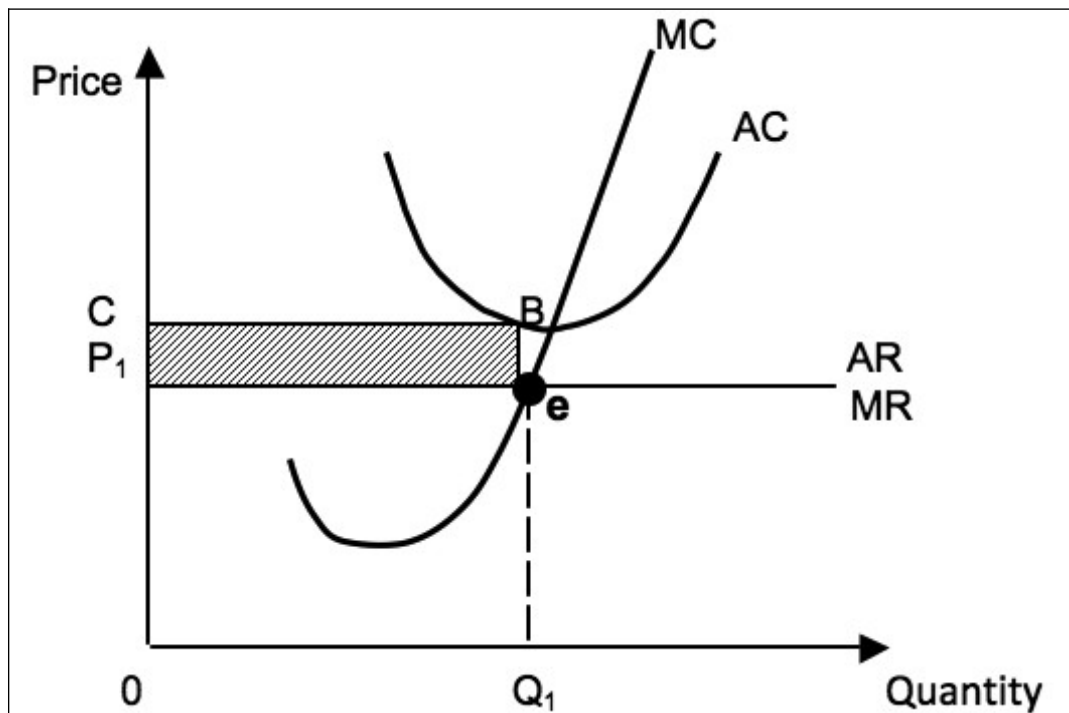
- It is the minimum level of profit needed for a company to remain competitive in the market□□
- Occurs when the resources available to the firm are being efficiently used and could not be put to better use anywhere else□□
- Is different to accounting profit because opportunity cost is considered.□□
- Normal profit is included in the average total cost□□
- It is acquired when the business revenue is equal to explicit and implicit cost.□□□

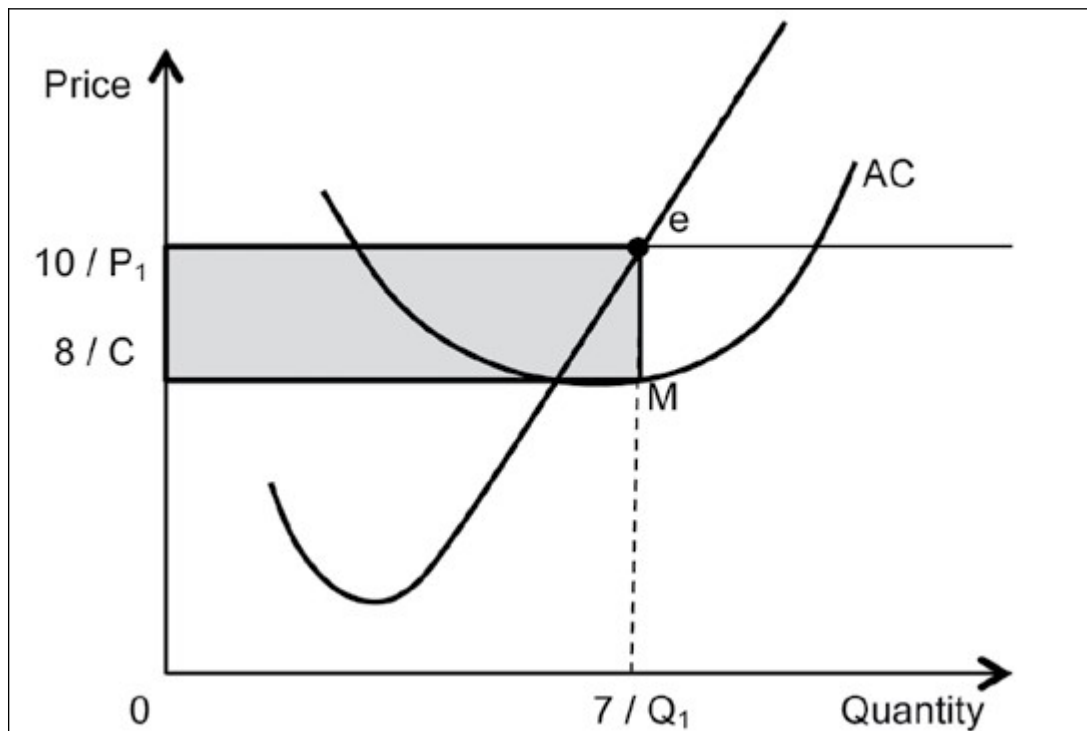
Economic profit

- It is profit above normal profit ☐☐
- Is the difference between the revenue (income) received from the sale of output and the opportunity cost of the inputs used plus the explicit costs☐☐
- Shows how well resources are being used relative to all the possible options☐☐
- Shows that the firm is earning more than it could earn in any other production process anywhere else.☐☐☐
- Economic profit will lure new business to the industry☐☐
- It will lead to a n increase in production at the current business☐☐

(Maximum marks 26)**ADDITIONAL PART**

- Draw two separate graphs to illustrate Economic profit and Economic loss.

Economic loss

Economic profit**Marking guideline for the graph**

Headings 1 mark each

Labeling of/on axes = 1 mark

Correct labelling and drawing of curves =
1 mark each

Correct indication of profit point = 1 mark

MAXIMUM = 5MARKS for each graph**Conclusion**

When there is economic profit, it means that the difference between total revenue and total cost is equal nought, opportunity costs using the same resources for another purpose are deducted from revenues earned.

QUESTION 6.

- With the aid of graphs explain the following price elasticities of supply (26)

Perfectly inelastic demand
Unit elasticity of demand
Perfect elastic demand

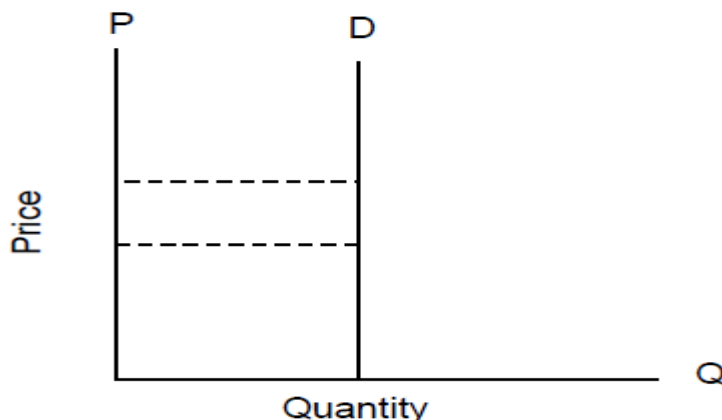
- Factors that influence the price elasticity of supply? (10)

INTRODUCTION

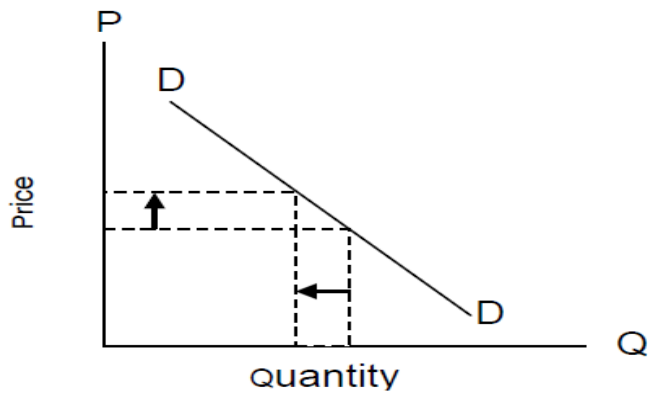
Price elasticity of demand refers to the responsiveness of quantity demanded to a change in price; the word responsiveness means that there is a stimulus-reaction □□□

BODYPerfectly inelastic

- When a given change in price causes an infinite small percentage change in demand □□□
 - the product has inelastic demand □□□
 - e.g. basic goods □□□
 - addictive goods and services □□□□
 - elasticity is equal to 0 □□

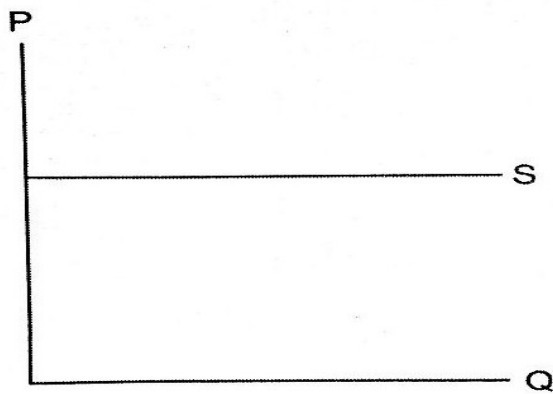
Unit price elasticity

- Occurs when a percentage change in price results in equal percentage change in demand □□□
- coefficient is equal to 1 □□□

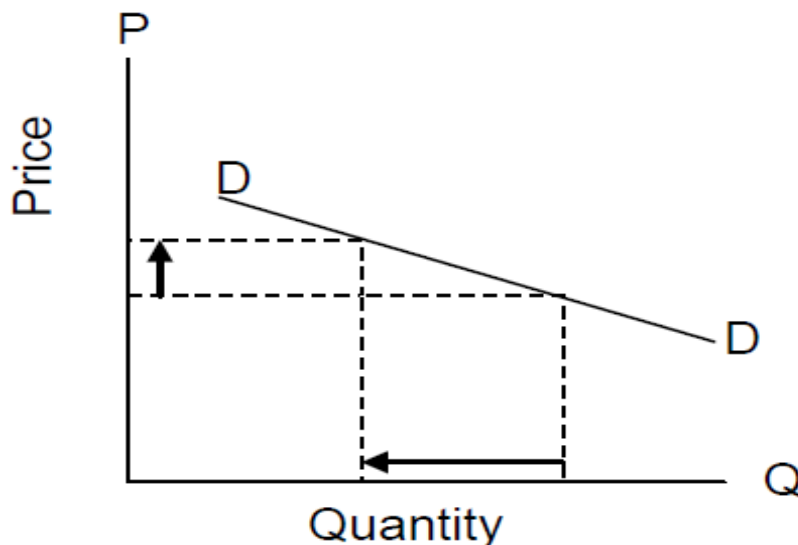


Relative elastic demand

- A small change in price will lead to a larger change in quantity demanded □□
 - the coefficient is > 1 □□□
 - e.g. luxury items □□□



Mark allocation for graphs:
1 mark: Price and quantity axes
1 mark: Labelling of s-curve
1 mark: Drawing of s-curve correctly
1 mark: Indicating changes in QS
 (Max. 4 marks per graph)



ADDITIONAL PART

- Factors that influence the price elasticity of supply?

The level of spare capacity

- If an industry is operating below full capacity, supply will be elastic. □□
- The industry can produce more by employing more factors of production. □□

The level of employment

- Under full employment, supply will be inelastic. □□
- Supply can be increased by improving productivity. □
- Supply in the domestic market will be elastic if imports are available. □

The ability to store the product

- Supply will be elastic if the product can be stored easily. □
- If the product can be stored easily, supply can be adjusted to changes in price. □

The nature of the product

- Agricultural products will be inelastic in the short term. □
- The supply of agricultural products depends on several factors. □□
- The supply of mining commodities will also be inelastic. □
- It takes a long time to increase the capacity of the mines. □
- The supply of manufactured goods will be more elastic. □
- It is easier for the manufacturing industries to change the supply of goods. □□

Time

- Time is an important factor affecting elasticity of supply. □□
- Due to the technical nature of production, supply can be adjusted effectively in the long run. □□

