

**GAUTENG DEPARTMENT OF EDUCATION
PROVINCIAL EXAMINATION
JUNE 2018
GRADE 10**

**ECONOMICS
PAPER 2**

MARKING GUIDELINE

17 pages

GAUTENG DEPARTMENT OF EDUCATION
PROVINCIAL EXAMINATIONECONOMICS
(Paper 2)**SECTION A (COMPULSORY)****QUESTION 1****1.1 MULTIPLE CHOICE ITEMS**

- 1.1.1 C✓✓ Homogenous products
- 1.1.2 B✓✓ Indifference
- 1.1.3 C✓✓ Butter
- 1.1.4 A✓✓ A surplus in labour
- 1.1.5 D✓✓ A shortage

(5x2) (10)

1.2 MATCHING ITEMS

- 1.2.1 B ✓ A tax levied on goods and services rather than on income and profits.
- 1.2.2 G ✓ The value of the alternative that you did not choose and gave up or sacrificed when you had to make a choice.
- 1.2.3 F ✓ The worldwide economic interfacing with trade as an important element.
- 1.2.4 C ✓ A graph that shows the combinations of two products that can be produced using all the available resources efficiently.
- 1.2.5 A ✓ The quantity at which all the goods supplied is sold and the demand is completely satisfied at a particular price.
- 1.2.6 D ✓ Goods that the state provides to improve the welfare of citizens.

(6x1) (6)

1.3 GIVE ONE TERM

- 1.3.1 Public sector ✓
- 1.3.2 Microeconomics ✓
- 1.3.3 Subsidy✓
- 1.3.4 Marginal Utility ✓

(4x1) (4)

TOTAL SECTION A: [20]

SECTION B

Answer any ONE of the two questions.

QUESTION 2: MICROECONOMICS**2.1 Answer the following questions****2.1.1 Give two functions of markets**

- Markets allocate resources ✓
- Markets are self-regulatory ✓
- Markets bring producers and consumers together ✓ (Any 2x1) (2)

2.1.2 What is market equilibrium?

- Market equilibrium is where the supply of a product is equal to the demand for that product. ✓✓ (1x2) (2)

2.2 Data Response**2.2.1 Identify the building shown in the cartoon.**

- The national parliament ✓ (1)

2.2.2 Suggest the event for which this cartoon was drawn.

- The budget speech ✓ (1)

2.2.3 Describe the type of taxes being depicted in the cartoon and discuss the man's words 'going up' regarding these taxes.

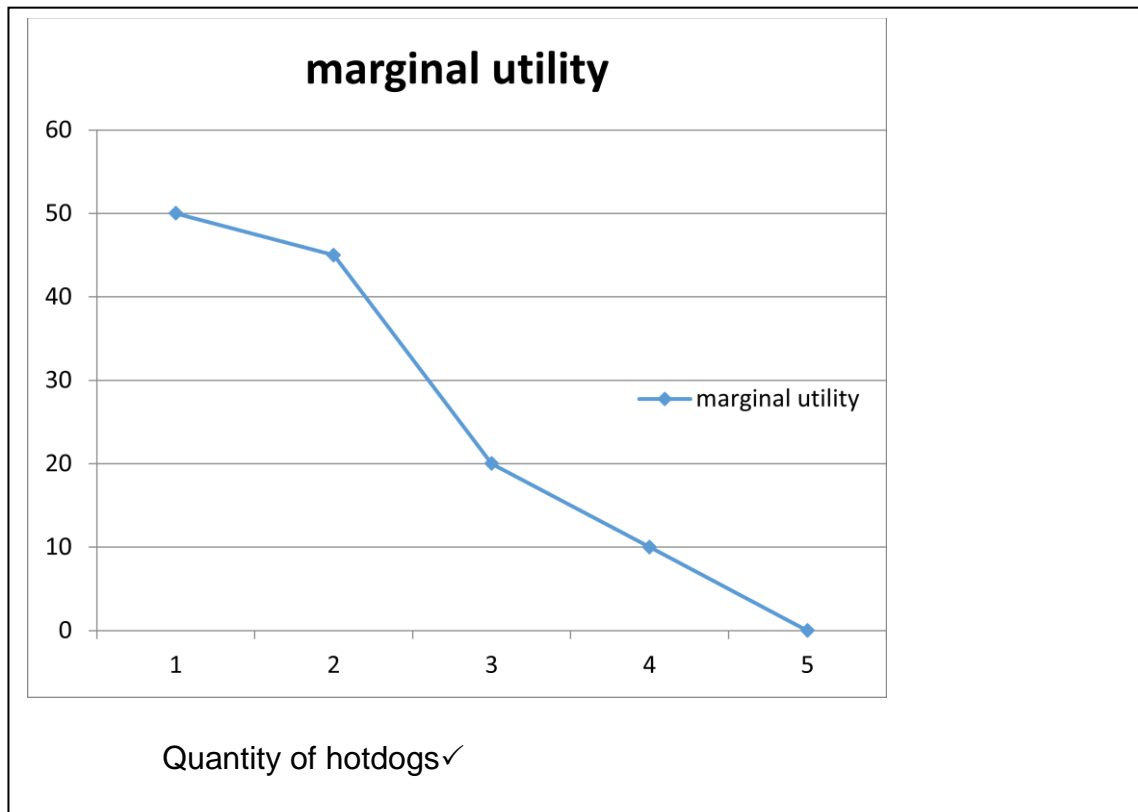
- Indirect taxes are the taxes being depicted in the cartoon. These are consumption taxes levied on the producers and consumers of goods and services. ✓✓
- These are taxes that are charged when money is spent on products. Examples are VAT, excise duty, custom duty, fuel levy. ✓✓
- 'Going up' refers to the fact that the Minister of Finance is likely to increase the taxes in his budget. ✓✓
(Accept any relevant correct answer) (Any 2x2) (4)

- 2.2.4 **Mention TWO reasons why government has put a zero-rating for VAT on basic foods and petrol.**
- To protect the poorer people, since they spend a large part of their incomes on basic foods such as maize meal, rice, fruit and vegetables. ✓✓
 - To make food affordable for the poor since their earnings are low. ✓✓
 - There is excise duty on petrol thus VAT would be double taxation. ✓✓
- (Accept any relevant correct answer) (Any 2x2) (4)

2.3 Data Response

- 2.3.1 **Which hot dog gives the greatest satisfaction?**
- 1 / First✓ hotdog gives the greatest satisfaction. (1)
- 2.3.2 **Identify which hot dog gives no extra satisfaction when consumed?**
- 5 / fifth✓ hotdog gives no extra satisfaction. (1)
- 2.3.3 **Calculate the values A and B.**
- $A = 45$ ✓✓
 - $B = 115$ ✓✓ (4)

2.3.4 Use the information from the table and draw a clearly labelled marginal utility graph.



Quantity / x axis= 1 mark
 Utility / y axis = 1 mark
 Curve down correctly= 2 marks
 Max = 4 marks

2.4 Distinguish between price ceilings and price floors

Price ceilings (maximum prices)

- This is the highest price at which producers can sell a product. ✓✓
- Prices may not rise above the ceiling, that is above a certain maximum price. The ceiling forces the price down. ✓✓
- If the state feels that in some markets the prices are pushed up too high by producers, the government can intervene by offering subsidies to the businesses to reduce the price. ✓✓
- Examples are: rent control, medical products, bread, maize and electricity. ✓
(max 4)

Price floors (minimum prices)

- They protect producers from low prices and poor profits. ✓✓
- The state may feel that in some markets the prices are too low and they need to aid the suppliers. ✓✓
- In this case, the state can intervene in markets by setting a minimum price. Many producers, such as farmers, face stiff competition from other suppliers. ✓✓
- Although government is happy for consumers to pay affordable prices, it is important for producers to make a profit to stay in business otherwise unemployment will increase. ✓✓

(max 4)
(4x2) (8)

2.5 Briefly discuss four reasons why the state grants subsidies

- To benefit consumers as subsidised goods are cheaper. ✓
When the state subsidises products, consumers are able to buy the cheaper products. ✓✓
- To encourage export ✓
Products become cheaper in other countries because the government subsidises exporters. ✓✓
- To encourage new industries ✓
The costs of production are reduced and it becomes easier for many new businesses to be formed because they are assisted in starting up. ✓✓
- To increase employment opportunities ✓
As new and many businesses are formed, employment opportunities increase and ultimately the country's unemployment rate reduces. ✓✓

[40]

(A

QUESTION 3: MICROECONOMICS**3.1 Answer the following questions.****3.1.1 State any TWO characteristics of utility.**

- Utility differs from place to place ✓
- Utility differs from time to time. ✓
- There is no standard way of measuring utility each consumer's satisfaction and then comparing it. ✓ (Any 2x1) (2)

3.1.2 How does the law of diminishing marginal utility affect the quantity consumed?

- As consumption increases, the additional satisfaction decreases. Consumers can not continue increasing their consumption if it will not increase their additional satisfaction. ✓✓ (1x2) (2)

3.2 Data Response**3.2.1 Describe the slope of the supply curve.**

- The supply curve has a positive slope / slopes upwards from left to right ✓ (1)

3.2.2 Identify the quantity produced before the subsidy was issued.

- Q_e ✓ (1)

3.2.3 Describe what has happened to the price and quantity in the graph

- The supply has increased to Q_1 because producers have more finance to buy more raw materials and produce more. ✓✓
- The price has dropped to P_1 because the government subsidy allows the producers to sell at a lower price. ✓✓ (2x2) (4)

3.2.4 Explain the law of supply.

- The law of supply states that there is a direct relationship between supply and price. ✓✓
- As price goes up, so does quantity supplied and vice versa. This is due to the fact that as suppliers are offered more per unit, they are able to supply more. ✓✓
- There is a positive relationship between the price and quantity supplied. ✓✓ (Any 2x2) (4)

3.3 Data Response

- 3.3.1 **What does the abbreviation ACSA stand for**
 • ACSA – Airports Company South Africa ✓ (1)
- 3.3.2 **Name ONE strategy, according to the case study, that has changed the airline industry.**
 • Competition ✓ (1)
- 3.3.3 **The writer states that “you can increase fares and tell your passengers to ‘suck’ it up”. Briefly discuss why he makes this statement?**
 • Passengers have no choice in the taxi fare price because they desperately need the transport. ✓✓
 • Therefore whatever fare is being charged by the taxi owner, passengers will have to pay it. ✓✓
 • Passengers have no reliable, cheaper alternative in South Africa so they have to use the taxi. ✓✓
 (Accept any correct relevant answer) (Any 2x2) (4)
- 3.3.4 **Discuss what would make the taxi business in South Africa a perfectly competitive market**
 • There must be more taxi owners offering the service ✓✓
 • They should be price takers ✓✓
 • There should be no barriers to entry ✓✓
 • Taxi drivers should be able to enter or exit the market freely ✓✓
 • The taxi owners and passengers must have complete information ✓✓
 (Accept any correct relevant answer) (Any 2x2) (4)

Differentiate between complementary goods and substitute goods.

Complementary Goods

- These are goods that are combined together to satisfy a need. ✓✓
- Goods that cannot be used independently. ✓✓
- Goods that need to be consumed together with one another. ✓✓
- E.g. CD and a CD player. ✓ (max 4)

Substitute Goods

- These are goods that can replace other goods to satisfy the same need. ✓✓
 - Goods that are so similar that they can be bought or used instead of the original goods. ✓✓
 - Usually the substitute good is cheaper. ✓✓
 - E.g. butter and margarine. ✓
- (Accept any correct relevant answer) (max 4) (4x2) (8)

3.5 Discuss the characteristics of indifference curves

- **Always downward-sloping / negatively sloping** – When the quantity of one product increases the other must decrease, as the curve represents all the combinations that give the same utility. The gradient of the slope shows the marginal rate of satisfaction. ✓✓
- **Higher indifference curves are preferred** – There are many different combinations of the consumer's choice between the two products. The further the curve is away from the origin of the graph the greater is the satisfaction that is gained. ✓✓
- **They bend inwards (convex)** – The slope of an indifference curve represents the marginal rate of substitution (MRS). This is the rate at which the consumer trades off one product (of which they have a greater quantity) for the other product (of which they have a smaller supply). ✓✓
- **Do not cross or touch** – As all points on the curve represent the same utility, and all combinations of two goods on a particular curve will yield the same satisfaction to the consumer this means all points will always give the same satisfaction. It is therefore impossible for the consumer to be indifferent. ✓✓
- **Differently shaped curves from consumer to consumer** – An indifference curve only reflects the preferences and utility gained by the individual consumer. ✓✓

(8)
(Listing / Graph only = Max 4)

[40]

TOTAL SECTION B: 40

SECTION C

Answer any **ONE** of the two questions in this section in the **ANSWER BOOK**.

Your answer will be assessed as follows:

STRUCTURE OF THE ESSAY	MARK ALLOCATION
<p>Introduction The introduction is a lower-order response.</p> <ul style="list-style-type: none"> • A good starting point would be to determine the main concept related to the question topic • Do not include any part of the question in your introduction • Do not repeat any part of the introduction in the body • Avoid saying in the introduction what you are going to discuss in the body 	Max. 2
<p>Body: Main part: Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Explain</p> <p>Additional part: Give own opinion / Critically discuss / Evaluate / Critically evaluate / Draw a graph and explain / Use the graph given and explain / Complete the given graph / Calculate / Deduce / Compare / Explain / Distinguish / Interpret / Briefly debate / How / Suggest</p>	<p>Max. 26</p> <p>Max. 10</p>
<p>Conclusion Any higher-order conclusion should include</p> <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned • Any opinion or value judgement on the facts discussed • Additional support information to strengthen the discussion analysis • A contradictory viewpoint with motivation, if required • Recommendations 	Max. 2
TOTAL	40

QUESTION 4: MICROECONOMICS

- Discuss in detail, using diagrams, how the forces of demand and supply determine the equilibrium price in the product market. (26)
 - Explain the factors that influence the demand of a product. (10)
- (40)**

INTRODUCTION:

- Product markets are composed of the businesses attempting to sell goods and services and the households / consumers who might buy them. The prices and quantities are based on the interaction that occurs between them. ✓✓

(Accept any relevant introduction)

(Max. 2)

**BODY:
MAIN PART****DEMAND**

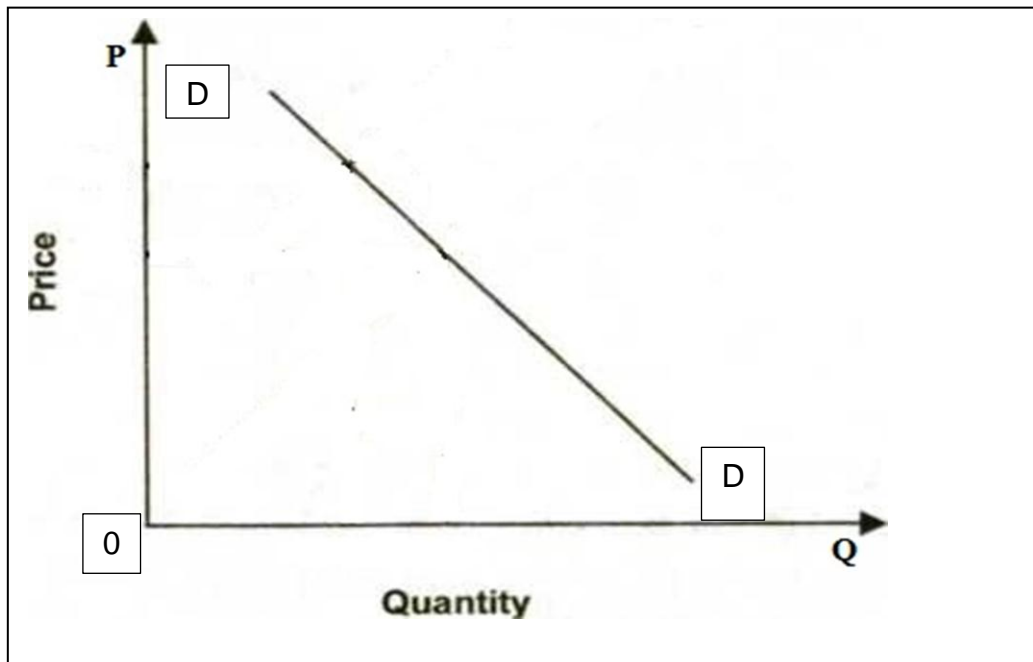
- A demand for a product is the result of decisions made by consumers about which needs and wants to satisfy. ✓✓

LAW OF DEMAND ✓

- The law of demand states that as the price of the product increases, the quantity demanded of the product decreases, and as the price of the product decreases, the quantity demanded of the product increases. ✓✓

DEMAND CURVE ✓

- A demand curve indicates the quantity of a product that is demanded at different prices. ✓✓
- It slopes down from left to right. This indicates that the demand curve has a negative slope. ✓✓
- It is the result of the inverse relationship between the price of a product and the quantity demanded of the product. ✓✓



Quantity / x axis= 1 mark
 Price / y axis = 1 mark
 Demand Curve drawn
 correctly= 2 marks
 Max = 4 marks

SUPPLY

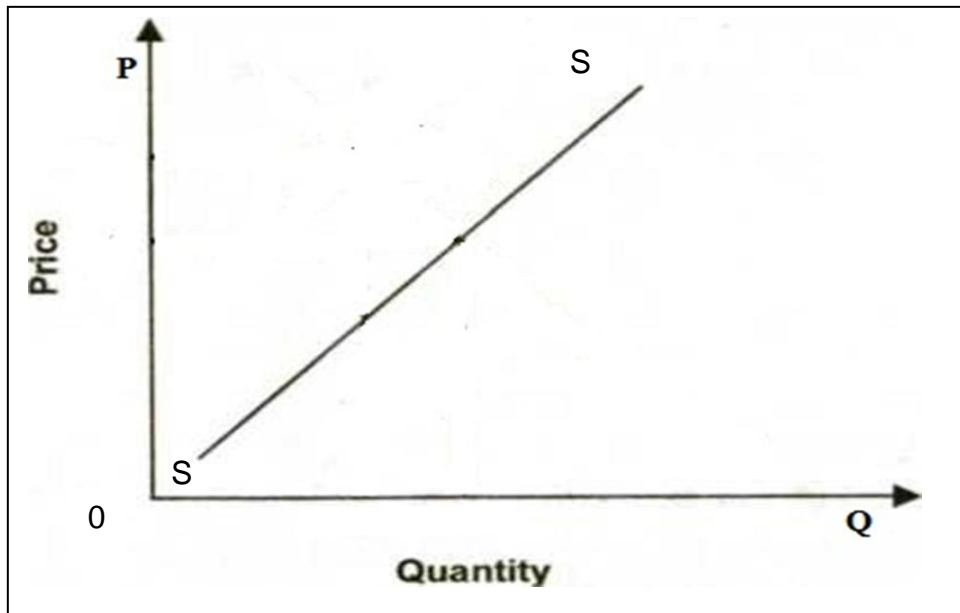
- Supply is the quantity of a product that individual producers plan to sell at a certain price. ✓✓

Law of Supply ✓

- The law of supply states that as the price of the product increases, the quantity supplied of the product increases. ✓✓
- There is a direct relationship between the quantity and price. ✓✓

Supply Curve ✓

- A supply curve indicates the quantity of a product that is supplied at different prices. ✓✓
- It slopes up from left to right. This indicates it has a positive slope. ✓✓
- It shows the result of the direct relationship between the price of a product and the quantity supplied of the product. ✓✓



Quantity / x axis= 1 mark
 Price / y axis = 1 mark
 Supply Curve drawn
 Correctly = 2 marks

PRICE FORMATION

- The price that is formed therefore represents a level at which the plans of buyers (consumers) exactly match the plans of sellers (suppliers). ✓✓

Market equilibrium✓

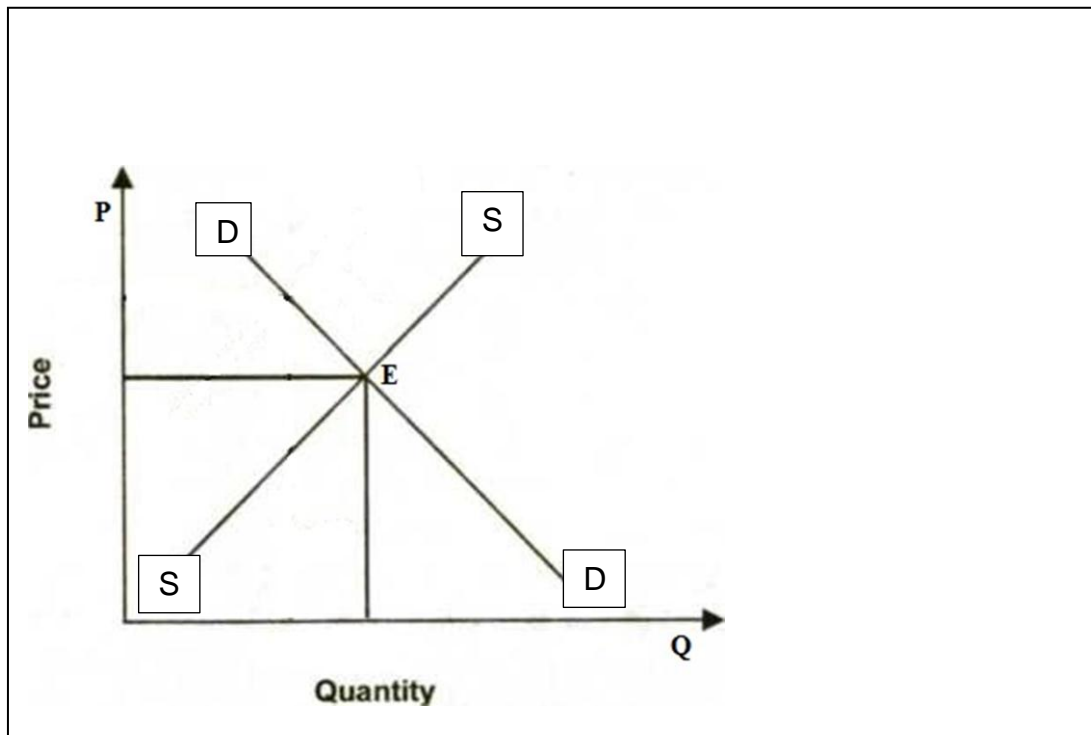
- The best place for a market to operate is where the quantity demanded by the households is equal to the quantity supplied by businesses. ✓✓

Equilibrium price (Market price) ✓

- This is the price at which demand and supply are the same. It is the price at which quantity demanded is equal to quantity supplied. ✓✓

Equilibrium quantity✓

- This is the quantity of goods that are produced and sold at a particular price in order to completely satisfy the household demand and where there will be no left over goods or services, i.e. quantity supplied is equal to quantity demanded. ✓✓



Quantity / x axis= 1 mark
 Price / y axis = 1 mark
 Equilibrium Point= 2 marks

(Allocate a maximum of 8 marks for headings, subheadings or examples)

(Max 26)

ADDITIONAL PART

Factors that influence the demand of a product

- **The price of the product**✓
 When the price is low, consumers demand more while as the price increases consumers demand less✓✓
- **The consumers' taste and buying behavior**✓
 Consumers may like a certain product and therefore demand more of it while if they don't like it they demand less✓✓
- **The consumers' income**✓
 Sometimes when incomes of consumers increase the consumers demand more products because they can afford those products✓✓
- **The availability and price of substitute products**✓
 When a product has no close substitutes consumers demand it even when its price goes up because they have no choice, while when it has substitutes consumers can demand more of the other choice when the other is expensive✓✓
- **The availability and price of complementary products**✓
 When the compliment product is cheap and available consumers may demand more of a product✓✓

(Accept any other correct relevant answer)

(Max 10)

Conclusion

The equilibrium price is not static but dynamic. It could change at any time if there is a change in the demand for the product by consumers or a change in the supply of the product by producers. ✓✓

(Any other correct relevant conclusion)

(Max. 2)
[40]

QUESTION 5: MICROECONOMICS

- Discuss in detail the characteristics of perfect and imperfect markets. (26)
 - What steps can government take to prevent market failure? (10)
- (40)**

Introduction

- A market exists wherever buyers and sellers meet to exchange goods and services at a price. ✓✓
 - A market is any place where buyers and sellers meet in order to determine the price and quantity of goods or services that will be exchanged. ✓✓
- (Accept any other relevant introduction) (Max 2)

Body**MAIN PART****PERFECT MARKETS**

A perfect market is one in which no supplier is able to manipulate the price. ✓✓

The characteristics of perfect markets are as follows:

Number of buyers and sellers ✓✓

- There are a large number of buyers and sellers. ✓✓
- No individual participant can affect the price through their own supply or demand of goods. ✓✓

Nature of product ✓✓

- The goods or services supplied are homogeneous products, such as cups, plates, toothpaste, shoes and soaps, are usually mass-produced products. ✓✓
- The products on offer are all more or less the same (identical). ✓✓
- The goods all serve the same purpose and are often easy to produce. This results in a large number of suppliers that compete for sales, which keeps prices low. ✓✓

Barriers of entry✓

- Sellers have unrestricted and easy entry and exit into the market. ✓✓
- Sellers can enter the market at will and they are able to sell their products just as easily as any other seller will, they can also leave the market whenever they want to. ✓✓

Information availability

- These markets have perfect or complete information. Buyers know exactly what each seller's price is. ✓✓
- There is also full and complete information available to producers and consumers about market conditions. ✓✓

Ability of suppliers to change prices✓

- The seller has no control over the prices, they are price takers. ✓✓
- Sellers have to accept the prevailing market price. If they increase prices above prevailing market prices, they will not sell anything. No supplier can influence the price in the market. ✓✓
- In reality there are few perfect markets, however there are some sectors such as mining (for example, oil and gold)✓, agriculture for example, (beef ✓or maize) and the Johannesburg Stock Exchange (JSE). ✓

IMPERFECT MARKETS

- Imperfect markets are markets in which suppliers are able to manipulate the price. There are three specific types of imperfect markets, namely Monopolies, Oligopolies and Monopolistic competition. ✓✓

The characteristics of imperfect markets are as follows:**Number of buyers and sellers**✓

- There is only one large supplier of a good or service (monopoly) or a few large suppliers (oligopoly). ✓✓
- These producers have a direct influence on the price of the product, and are not held back by any competitors and are able to affect the price. Also there may be many suppliers but one producer is able to significantly change the demand at the other producers (monopolistic competition). ✓✓

Nature of product✓

- The goods or services supplied are heterogeneous or unique products. ✓✓
- The products in the market are quite different from each other and consumers look for specific qualities of each product. ✓✓
- The seller supplies products that are unique and have no close substitutes. ✓✓
- These products may differ on price or feature or bonus offers. Sometimes products differ due to location or advertising. ✓✓

Ability of suppliers to change prices✓

- The seller has control over the prices, they are price makers. ✓✓
- The producers of the goods and services can set the prices and buyers are not able to bargain or affect the prices in a significant way. ✓✓

Information availability ✓✓

- These markets have imperfect information. ✓✓
- Producers and consumers have incomplete knowledge about market conditions. ✓✓
- It is not easy, and sometimes not possible, for buyers to know what all the prices of a product are within the market. ✓✓

Barriers of entry

- Entry into the market is restricted or completely blocked so that new suppliers cannot enter the market. ✓✓
- Other sellers are prevented from entering the market. ✓✓
- The seller is protected from competition through patents, control of resources and government restrictions. ✓✓
- There are many examples of imperfect markets, these include Eskom, ✓Telkom, ✓DSTV, cellphone companies, petrol stations, restaurants, computer and car manufacturers. ✓

(Allocate a maximum of 8 marks for headings, sub-headings or examples) **(Max 26)**

ADDITIONAL PART

- The state can provide some goods and service to the public ✓✓ for example Eskom ✓
- State funding can be used to provide public goods and services ✓✓
- Government can pass laws that encourage competition and prohibit price fixing ✓✓
- They can ban the sale of cigarettes to children and prevent certain products ✓✓, for example drugs from being sold ✓
- Government can set maximum working hours and a minimum wage for certain jobs ✓✓
- They can address issues of income equity and fairness in the workplace ✓✓
- Implement fiscal policies which help households and firms to use the resources effectively ✓✓
- They can increase indirect tax on sin tax, for e.g. liquor and cigarettes ✓✓
- They can provide subsidies or tax relief to firms producing products ✓✓
- They can adjust welfare payments for certain individuals, for example single parents and disabled people ✓✓
- Government can inform the market of all the actual costs and benefits of using certain products and services, for example marketing campaign to promote public transport ✓✓

(Accept any other correct relevant answer)

(Max 10)

Conclusion

Markets play a vital role in the economy. Market failure will always occur in an economy but it can be solved through government intervention ✓✓

(Accept any other relevant conclusion)

(Max. 2)

[40]

TOTAL SECTION C: 40

TOTAL: 100