

**GAUTENG DEPARTMENT OF EDUCATION
PROVINCIAL EXAMINATION
JUNE 2016
GRADE 10**

**ECONOMICS
(PAPER 2)**

MEMORANDUM

17 pages

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PROVINCIAL EXAMINATION

ECONOMICS
(PAPER 2)

MEMORANDUM

SECTION A
QUESTION 1

1.1 MULTIPLE CHOICE QUESTIONS

- 1.1.1 C value ✓✓
1.1.2 A constant ✓✓
1.1.3 A revenue ✓✓
1.1.4 A utility ✓✓
1.1.5 C rank various combinations of goods and services in order of preference. ✓✓
(5x2) (10)

1.2 MATCHING ITEMS

- 1.2.1 F ✓ (A few sellers control the market)
1.2.2 A ✓ (Show alternative combination of goods that can be purchased with a given income at given prices)
1.2.3 D ✓ (Taxes imposed on goods that the government deems undesirable)
1.2.4 G ✓ (A study of the behaviour of individual decision-making units)
1.2.5 C ✓ (The trade-off between two products)
1.2.6 B ✓ (Supplied by the government) (6x1) (6)

1.3 TERMINOLOGY

- 1.3.1 Market ✓
1.3.2 Optimum consumption / Optimum point / Equilibrium point ✓
1.3.3 Substitute products ✓
1.3.4 Public goods ✓

(4x1) (4)

TOTAL SECTION A: 20

SECTION B

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

QUESTION 2: MICRO-ECONOMICS

2.1 Answer the questions that follow.

2.1.1 List any TWO reasons for the existence of imperfect markets.

- There is only one large supplier or a few large suppliers. ✓
- Goods and services are unique and have no close substitution. ✓
- Entry to the market is restricted. ✓
- Incomplete information about market conditions ✓

(Any 2x1) (2)

2.1.2 Briefly explain the concept of *common goods*.

Common goods are goods that don't belong to anybody. ✓✓ (2x1) (2)

2.2. Data response

2.2.1 Which service received the biggest amount according to the diagram?

Economic Affairs and Agriculture ✓ (1)

2.2.2 How much did the government spend on welfare services in the 2016/17 budget?

R167,5 Bn ✓ (1)

2.2.3 In 2016/17 the government's total expenditure was R1 463,30 Bn. Calculate the percentage that was allocated to welfare services (Show ALL calculations).

$\frac{R167,5 \text{ Bn}}{R1 463,30 \text{ Bn}} \times 100\%$ ✓
 $= 11,45\% / 11,5\%$ ✓✓ (4)

2.2.4 **What is the purpose of welfare grants?**

- Welfare refers to providing a social care bottom line to the needy.
- To supplement the incomes of the poor.

(Any relevant answer) (2x2) (4)

2.3 **Study the cartoon below and answer the questions that follow:**

2.3.1 **What type of market is illustrated in the cartoon above.**

Monopoly ✓ / Imperfect market ✓ (1)

2.3.2 **Give an example of such a market in South Africa.**

- Eskom ✓
- Telkom ✓
- Transnet ✓
- DSTV ✓

(Any 1x1) (1)

2.3.3 **Name TWO other types of market structures except for the one identified in Question 2.3.1**

- Oligopoly ✓
- Monopolistic competition ✓
- Perfect market ✓

(Any 2x1) (2)

2.3.4 **Give a reason for your choice of answer to Question 2.3.1.**

- There is only one supplier of bread. ✓✓
- It is the only bakery in town. ✓✓

(Credit learner if the reason is relevant to the response in 2.3.1)

(Accept any other relevant characteristic of a monopoly)

(Any 1x2) (2)

2.3.5 **Explain how another bakery would benefit the community.**

- Greater variety of baking ✓✓
- Better quality baked products ✓✓
- Better services ✓✓
- More competition ✓✓
- Lower prices ✓✓

(Accept any other relevant response.)

(Any 2x2) (4)

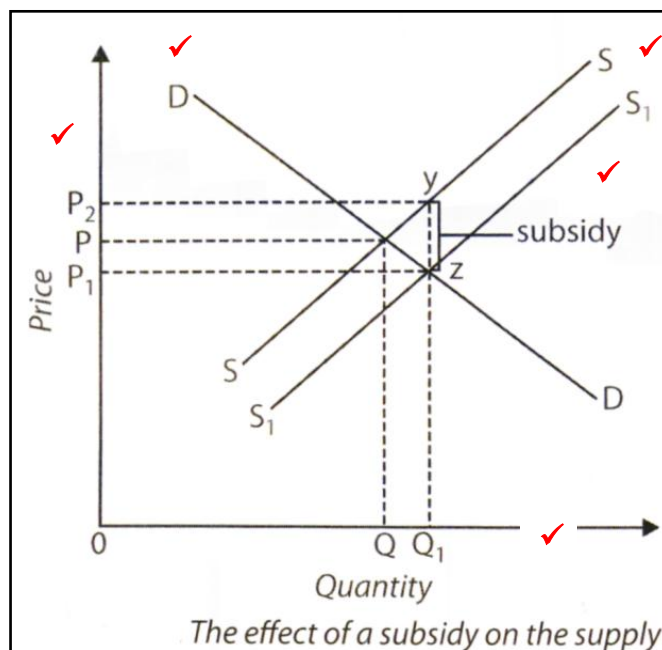
2.4 Explain what is meant by *pareto efficiency* and how it relates to *productive* and *allocative efficiency*.

- Pareto efficiency occurs when it is not possible to change the existing allocation of resources in such a way that someone is made better off without making someone else worse off.
- Pareto efficiency is also called pareto optimality ✓ is achieved when productive and allocative efficiency coincide. ✓✓
It is a combination of the following:
- **Productive efficiency** – occurs when it is possible to produce more of one item without having to produce less of another. ✓✓
- In order to achieve this kind of economic efficiency, it is necessary for producers to avoid wasting resources. ✓✓
- **Allocative efficiency** – occurs when the use of factors of production reflects consumer tastes and preference. ✓✓

(Any 4x2)

(8)

2.5 With the aid of a graph, explain how a subsidy on milk would influence the milk-producer and the consumer.



Allocation of marks:

- 1 mark for labelling of axes Price / Quantity
- 1 mark for numbering the axes
- 1 mark for Supply curve
- 1 mark for Demand curve
- 1 mark for indicating subsidy

(Max 4)

- Subsidy directly paid to the producer will decrease the production costs.
- The supply of milk will increase (S1) and the price will decrease (P1).
- Consumers will benefit from the lower price.
- They consume more at a lower price.
- Producers will benefit from the price increase (P – P2) and supply more milk at a higher subsidised price. ✓✓ (Max 4)

[8]
[40]

QUESTION 3: MICRO-ECONOMICS

3.1 Answer the following questions.

3.1.1 List TWO effects of productive inefficiency.

- Imperfect markets ✓
 - Externalities ✓
 - Common goods ✓
 - Inefficient use of resources ✓
 - Unequal opportunities and poverty ✓
 - Instability, employment, inflation ✓
- (Accept any other relevant answer)

(Any 2x1) (2)

3.1.2 How would the increase in sin tax influence the price of cigarettes?

The price will increase and cigarettes will become more expensive. ✓✓

(1x2) (2)

3.2 Data Response

3.2.1 At what price will buyers and sellers be satisfied?

R10 000 ✓

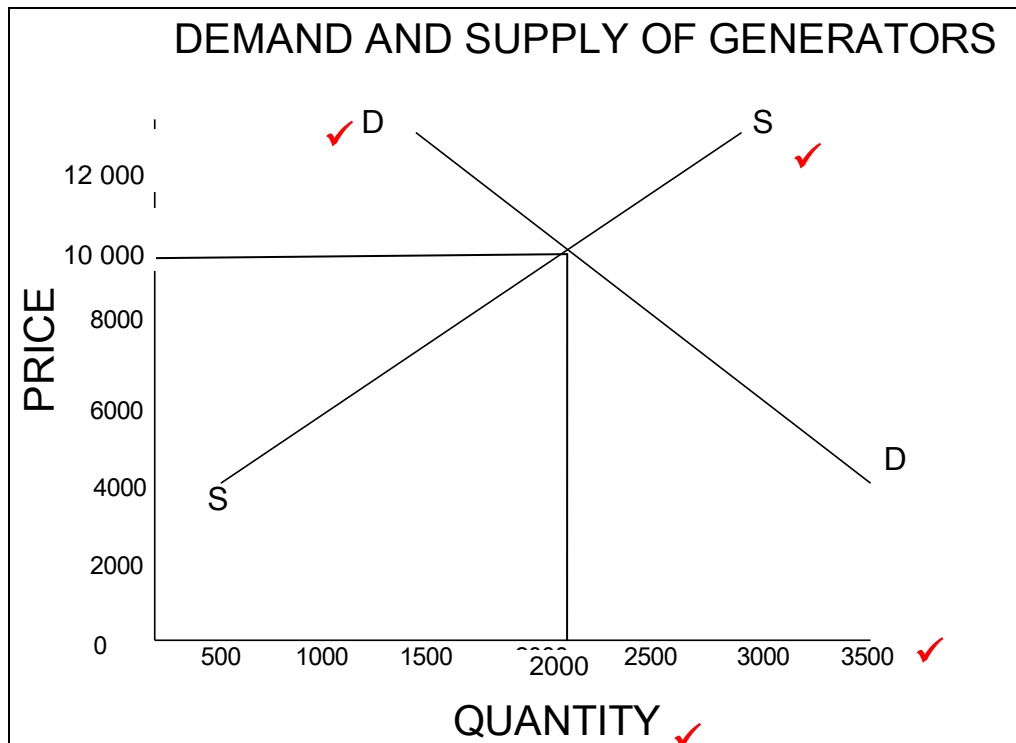
(1)

3.2.2 What is this price called?

Equilibrium price ✓ / market price ✓

(Any 1) (1)

3.2.3 Draw the original demand and supply curves on the same axis.



Allocation of marks:

- 1 mark for labelling of axes Price / Quantity
- 1 mark for numbering on the axes
- 1 mark for Supply curve
- 1 mark for Demand curve
- 1 mark for Equilibrium point

(Max 4)

3.2.4 Name any TWO reasons for the increase in the demand for generators.

- An increase in consumer income ✓✓
 - An increase in the price of a substitute product ✓✓
 - A decrease in the price of a complementary item ✓✓
 - An increase in the size of the population ✓✓
 - An increased desire by consumers to purchase generators because of load shedding/ power failures ✓✓
- (Any relevant answer)

(Any 2x2)

(4)

3.3 Data Response**3.3.1 What is the purpose of the production possibility curve?**

It is a graph that shows the combinations of any two goods or services than can be produced or offered when the available resources are fully and efficiently employed. ✓✓ (2)

3.3.2 How many apples will be produced if all the resources are allocated to the production of apples?

600 apples ✓✓ (2)

3.3.3 Is production obtainable at Point H? Give a reason for your answer.

- No. ✓
- Point H shows an unobtainable combination of lemons and apples because of the limited supply of the factors of production. ✓✓
- Point H illustrates the concept of scarcity. ✓✓
(Any relevant answer)

(Max 3)

3.3.4 Which point shows inefficiency? Substantiate your answer

- W ✓
- Production to the left of the production possibility curve, for example at W, is possible, but implies that scarce resources are being used inefficiently. ✓✓

(3)

3.4 Discuss any TWO functions of a market.

Bringing supply and demand together

- Markets are the interaction of consumers and producers to negotiate prices and exchange goods and services.
- Because markets create contact between consumers and producers, it is in markets that supply and demand comes together. ✓✓
- Through the interaction of demand and supply, prices are determined. ✓✓
- Markets therefore serve a *price-forming function/price formation*. ✓✓

Allocating resources ✓

- Market prices direct the economic decisions of both consumers and producers. ✓✓
- Producers will consider the relative prices of goods and services before they decide what, how and for whom to produce. ✓✓
- Producers make these decisions so as to maximize their profits. ✓✓
- Consumers, in contrast, will consider the relative prices of goods and services before they decide how to spend their money. ✓✓
- Consumers make these decisions so as to maximize their utility. ✓✓
- Profit maximization and utility maximization lead to an efficient allocation of resources. ✓✓
- Thus markets serve the function of allocating resources *efficiently*. ✓✓

Self-regulation ✓

- Prices are determined by the forces of supply and demand. ✓✓
- Markets do not require any direct intervention or control from outside forces. ✓✓
- They are said to be guided by "an invisible hand", which ensures that prices are set in such a way that resources are allocated efficiently. ✓✓
- In the absence of markets, some regulating body would have to decide what goods would be produced, in what quantities, and for what price. ✓✓
- Within markets, these decisions are made automatically. ✓✓

(Any 2x4)

(8)

3.5 Explain any TWO common characteristics of indifference curves.

- **Indifference curves are downward sloping.**
The slope of an indifference curve reflects the rate at which the consumer is willing to substitute one item for another.
- **Higher indifference curves are preferred to lower ones. ✓✓**
Consumers usually prefer more of something to less of it. ✓✓
- **Indifference curves do not cross/intersect. ✓✓**
They also never touch. ✓✓
- **Indifference curves are bent inwards. ✓✓**
The slope of an indifference curve is the marginal rate of substitution (MRS). ✓✓
The rate at which the consumer is willing to trade-off one item for the other. ✓✓

(Any 2x4)

(8)

[40]

TOTAL SECTION B:

40

SECTION C

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

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max 2
Body: Main part: Discuss in detail / In depth discussion / Examine/ Critically discuss / Analyse / Compare / Evaluate/ Distinguish / Differentiate / Explain / Assess / Debate Additional part: Give your 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	Max 26 Max 10
Conclusion Any relevant higher order conclusion should include one of the following: <ul style="list-style-type: none"> • A summary of what has been discussed without repeating facts already mentioned in the body • An opinion or value judgement on the facts discussed • Additional support information to strengthen the discussion • A contradictory viewpoint with motivation • Recommendations 	Max 2
TOTAL	40

QUESTION 4: MICRO-ECONOMICS

“Markets are a phenomenon of the private enterprise system.”

- **Discuss market structures in detail according to the characteristics: *Number of producers, nature of the product, barriers to entry and availability of information*** (26)
- **Briefly explain the conditions that an item or service must meet for it to be suitable for trade in the world market.** (10)
[40]

Introduction

Markets are all those buyers and sellers who influence the price of a particular item or service.

The common feature of all markets is that there are interactions between buyers and sellers.

(Accept any other relevant response.)

(Max 2)

Body

Main part:

1. **The number of producers**
 - In some markets (Monopoly) there is only a single large producer of the item or service. ✓✓
For example, Eskom is the sole provider of electricity in South Africa. ✓
 - In other markets (Perfect markets) there are many producers of goods or services. ✓✓
For example, many farmers produce meat. ✓
 - In between these two extremes are markets in which there are only a few producers of goods or a services (Oligopoly). ✓✓
 - For example, the producer of motor cars, shoes and coffee in South Africa. ✓

2. **The nature of the product.**

Goods are homogeneous (identical). ✓

 - Goods that are mass-produced, they serve the same purpose. ✓✓
 - Such goods are often easy to produce, resulting in a large number of suppliers that compete for sales. (Perfect market) ✓✓
 - Prices are bid downwards. ✓✓
 - Example: cups, plates, toothpaste and shoes, are usually homogeneous. ✓

Goods are heterogeneous (different). ✓

 - Agricultural products are usually heterogeneous, but homogeneity is obtained by: ✓✓
grading, for example, tomatoes; ✓
sorting, for example, eggs; and ✓
classifying, for example, wool. ✓
 - Such homogeneity makes them easier to sell. ✓✓

Brand names / Unique products ✓

 - Suppliers of mass-produced goods often use *brand names* to make their goods appear to be unique and to convert homogeneity into heterogeneity. ✓✓

- In general, consumers are willing to pay more for unique goods and in effect allow a producer to become a sole supplier (Monopoly)
- Think of Coca-Cola, for example. Such a supplier can then charge a higher price or gain by selling larger volumes.

3. Barriers to entry

- There are barriers in some markets that prevent new producers from entering the market and supplying the goods or services. ✓✓
- The market for cellular telephone service providers in South Africa serves as an example, since a producer can enter the market only if it has a government license to provide this service. ✓✓
- The government controls entry into this market by issuing only a few ✓✓ such licences. ✓
- In this example, the licence is said to act as a barrier to entry into the market. ✓✓
- In a perfect market and monopolistic competition entry is free. ✓✓
- In a monopoly entry is blocked. ✓✓

4. Availability of information

- In some markets there is full and complete information about the market conditions. ✓✓
- For example, on the JSE there is detailed information available about how many shares have been sold in a given period. ✓✓
- The highest and lowest prices offered and paid, and the price that was paid for the last share sold at the close of trade are public information. ✓✓
- In other markets, producers and consumers have to make decisions based on incomplete information. ✓✓

(When answered in table format, answers must be in full sentences for 2 marks)

(Max 8 marks for headings, subheadings and examples and Max 18 for content)

Max (26)

ADDITIONAL PART

- There must be a wide demand for goods and services such as basic necessities. ✓✓
- Goods must be transportable, land and buildings are impossible to transport, services are limited by distance and labour is immobile. ✓✓
- The cost of transport must be small in relation to the value of the goods. ✓✓
- Goods must be durable, goods that perish quickly require specialised logistical arrangements. ✓✓
- Entry must not be restricted by government regulations. ✓✓
(Accept any other relevant response.)

(Any 5 x 2) (10)

Conclusion

Buyers as a group determine the demand and the sellers as a group determine the supply. Markets are established by the interactions between buyers and sellers.

(Accept any other relevant response.)

(Max 2)

[40]

QUESTION 5: MICRO-ECONOMICS

“One way to combat poverty in South Africa is to impose minimum wage laws.”

- **Critically analyse this statement by referring to the reasons for the implementation and the impact of minimum wages in South-Africa.** (26)
 - **With the aid of an appropriately labelled graph, explain the effect of minimum wages on the labour market.** (10)
- [40]**

Introduction

Wages that are set by the government. Annual changes are made by the government. Not paying the minimum wage is a punishable offence. ✓✓
(Accept any other relevant response.) (Max 2)

Body**Main part**

In 2002 minimum wages were announced by the government for domestic workers and farm workers in South-Africa. ✓✓

Reasons for implementation of minimum wages:

- It is only fair that domestic workers earn sufficient income to cover the basic costs of living. / To reduce exploitation of lower paid workers. ✓✓
- Every South African should earn enough money to satisfy their basic needs and wants. / This can ensure that workers earn enough money to cover their basic costs of living. ✓✓
- In a free market system, wages are determined by the forces of supply and demand. ✓✓
- There is no guarantee that workers will be paid enough to ensure that they do not live below the poverty line. ✓✓
- Under these circumstances the government should intervene and set minimum wages. ✓✓
- Workers have very little bargaining power and minimum wages will put them in a better position. ✓✓

Impact of minimum wages

- The effect of minimum wage laws would thus be to increase the level of wages for workers who remain employed. However, some would lose their jobs and sacrifice their wages.
- The aim of minimum wages is to increase the level of wages but the consequence is that some workers lose their jobs. ✓✓
- Minimum wage laws contribute to the problem of unemployment and hence exacerbate levels of poverty. ✓✓
- The disadvantage of minimum wages is that fewer workers will be employed after the announcement of minimum wage laws. ✓✓
- Minimum wages cause an increase in production costs. ✓✓
- There is an over-supply in the labour market. ✓✓ / The quantity of labour supplied is higher than the quantity demanded. ✓✓
- There can be a risk of higher inflation, because companies can increase the selling price to adapt to higher wages. ✓✓
(Accept any relevant response)

Advantages:

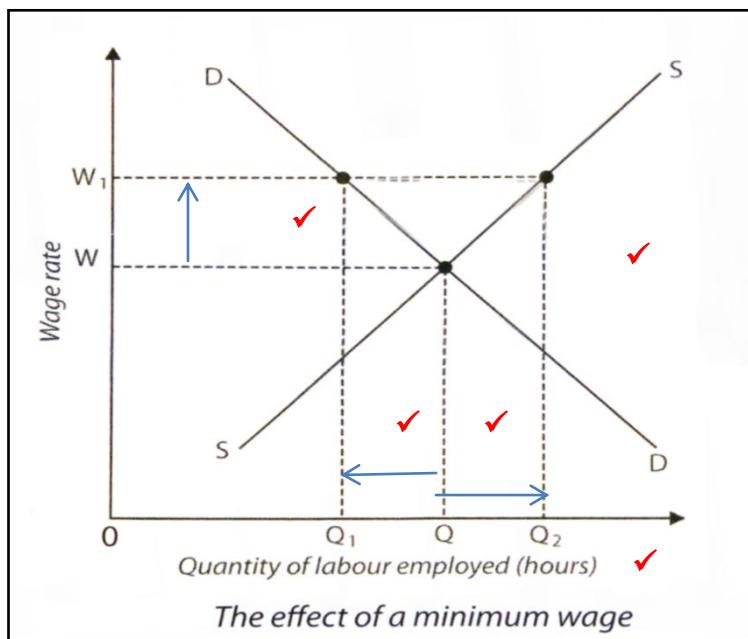
- To encourage more people to enter the workforce. ✓✓
- To reduce the burden of the state to pay income support. ✓✓
- To decrease income equality by boosting incomes of low income households. ✓✓
- To reverse the effects of employer discrimination. ✓✓

Disadvantages:

- There is a fall in employment due to higher wage cost. ✓✓
- Damages to the competitiveness of some firms, due to the higher cost of production. ✓✓
- Free-market economists believe that a minimum wage creates artificial distortions in the way the labour market works – they would like to let wages find their own level. ✓✓

(Accept any other relevant answer.)

(Max 26)

Additional part**Allocation of marks:**

- 1 mark for labelling of axes (Wages/Quantity of labour)
- 1 mark for numbering the axes
- 1 mark for demand and supply curve
- 1 mark for increase in wages
- 1 mark for decrease in demand of labour
- 1 mark for increase in supply of labour

(Max 6)

- In the absence of government intervention wages would be at W and the quantity of labour employed is at Q . ✓✓
- If minimum wage is set at W_1 , the number of workers employed would fall to Q_1 . ✓✓.
- Labour supply will increase from Q to Q_2 . ✓✓
- It can be seen from the graph that the result of a minimum wage is that less labour is employed after the minimum wages are imposed. ✓✓

Max (4)
[10]

Conclusion

It appears that there are differences of opinion about the implementation of minimum wages for domestic workers. Some arrangements can be made to secure a lower income, rather than no income, for instance to work shorter hours. ✓✓
(Accept any other relevant response.)

(Max 2)
[40]

TOTAL SECTION C: 40
TOTAL: 100