

NORMAN HENSILWOOD HIGH SCHOOL
EXAMINATIONS



DATE	31 MAY 2011
GRADE	12
SUBJECT AND PAPER	ECONOMICS
TIME	9.00 – 12.00
MARKS	300
EXAMINER	Mr Z Hendricks
MODERATORS	Mrs Y Miller/Mrs K Poole

INSTRUCTIONS AND INFORMATION

1. Answer **SIX** questions as follows in your answer book:
 - SECTION A: COMPULSORY
 - SECTION B: Answer any **THREE** questions
 - SECTION C: Answer any **TWO** questions
2. Write the question number above each answer.
3. Number the answers correctly according to the numbering system used in this question paper.
4. Read the questions carefully and start each question on a **NEW** page.
5. Leave 2 – 3 lines between subsections of questions.
6. Answer the questions in full sentences and ensure that the format and content of your answer comply with the cognitive requirements of the question.
7. Write neatly and legibly.
8. Answer only the required number of questions. Answers in excess of this number will **NOT** be marked.
9. Use only black or blue ink. Answers in pencil will **NOT** be marked.
10. Non-programmable calculators may be used.

SECTION A - This section is compulsory. Answer **ALL** the questions.

QUESTION 1

Various possible answers are provided for each of the following questions. Write the **letter only** of the correct answer next to the relevant question number.

- 1.1 In a circular flow, money consists of:
- A factors of production and final goods
 - B income and expenditure
 - C factors of production only (2)
- 1.2 The public sector in South Africa has ... levels.
- A two
 - B five
 - C three (2)
- 1.3 A market in which no single buyer or seller has a stronger influence on the price of a product, is known as...
- A an imperfect market.
 - B a perfect market.
 - C a monopoly. (2)
- 1.4 The value of the multiplier increases if the marginal propensity to ... increases
- A consume
 - B save
 - C invest (2)
- 1.5 A ... shows what can be produced when using the factors of production in the most efficient way possible.
- A balance of payments account
 - B market equilibrium curve
 - C production possibility curve (2)
- 1.6 Maximum profit is earned at the point where marginal revenue is equal to ...
- A marginal cost
 - B average cost
 - C total cost (2)

-
- 1.7 An example of a cartel is ...
- A the Organisation of Petroleum Exporting Countries (OPEC)
 - B Coca-Cola
 - C Pick 'n Pay
- (2)
- 1.8 When $I+G+X > S+T+Z$, the level of national income will ...
- A rise
 - B fall
 - C remain the same
- (2)
- 1.9 The rationale for a cost-benefit analysis is ...
- A high prices
 - B efficient resource allocation
 - C the redistribution of wealth
- (2)
- 1.10 An advantage of import substitution is that the domestic economy becomes ...
- A less competitive
 - B more diversified
 - C less protected
- (2)
- 1.11 One of the characteristics of merit goods is that they are
- A over-consumed in a free market economy
 - B capable of preventing new businesses from entering the market
 - C often not highly rated by the market
- (2)
- 1.12 If the rand/US dollar exchange rate changes from R6,80 to R7,00 the demand for dollars will ...
- A remain the same
 - B increase
 - C decrease
- (2)

[24]**TOTAL FOR QUESTION 1 - 24 marks**

QUESTION 2

Choose **ONE** word/term for each of the following descriptions by choosing a word/term from the list below. Write only the word/term next to the question number on your answer sheet.

Economic profit, lagging indicators, Medium-Term Expenditure Framework, social, leading indicators, normal profit, total, monopolistic competition, cartel, National Budget

- | | | |
|-----|--|-----|
| 2.1 | Green taxes and subsidies are aimed at adjusting ... costs to account for the negative effects of externalities. | (2) |
| 2.2 | Formal agreement between oligopolies to form a collective monopoly. | (2) |
| 2.3 | The minimum earnings required to prevent the entrepreneur from leaving the market, are called ... | (2) |
| 2.4 | Indicators that change before the economy changes. | (2) |
| 2.5 | Shows income and expenditure estimates for a three-year period. | (2) |

[10]**TOTAL FOR QUESTION 2 - 10 marks**

QUESTION 3

Choose an appropriate description from COLUMN B to match the concept in COLUMN A. Write only the letters (A–H) to indicate your choice next to each question number (3.1–3.8) in your answer book.

COLUMN A		COLUMN B	
3.1	Repo rate	A	Large public corporations run according to business principles
3.2	JSE Securities Exchange	B	Absence of restrictions on imports and exports
3.3	Parastatal	C	The main operational instrument used by the SARB
3.4	Free trade	D	Produces given goods at a lower input cost than other countries
3.5	Price wars	E	An instrument of the government's fiscal policy
3.6	Advertising	F	At a price less than average variable cost (AVC)
3.7	Comparative advantage	G	Plays an important role in non-price competition
3.8	Shut-down point	H	A typical example of a perfect market
		I	Lowering prices to harm competitors' profits
		J	At a price less average cost (AC)

[16]

TOTAL FOR QUESTION 3 - 16 marks

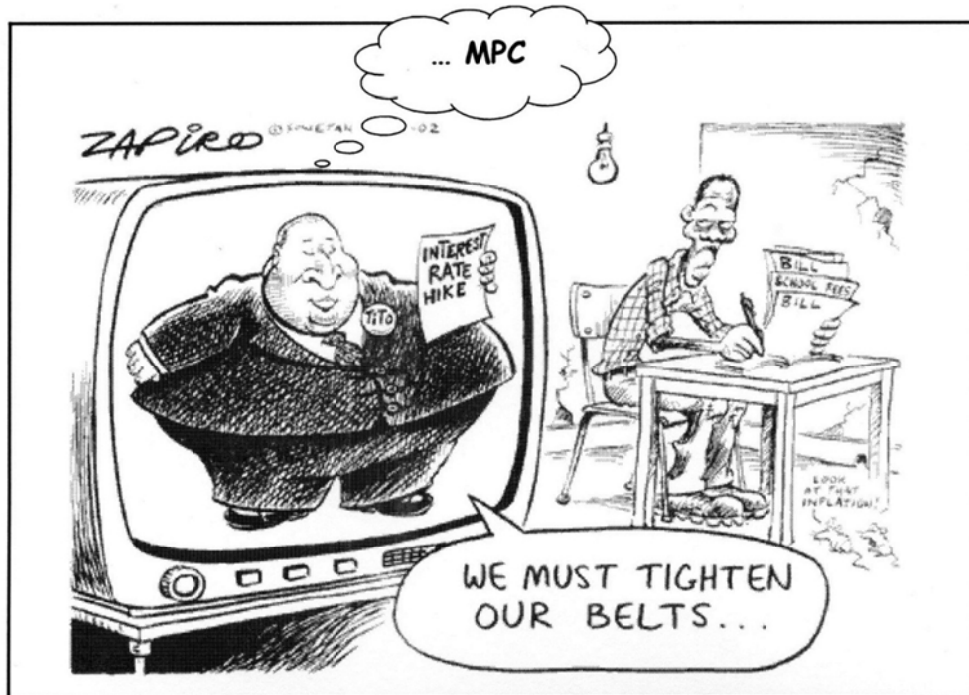
TOTAL FOR SECTION A - 50 marks

SECTION B - Answer **ONLY THREE** questions from this section.

QUESTION 4 – MACRO ECONOMICS

- 4.1 Choose the correct term in brackets. Write only the term next to the question number (4.1.1–4.1.4) in your answer book.
- 4.1.1 Payment for goods and services represent (real/money) flow in the circular flow model. (2)
- 4.1.2 Business cycles are measured from trough to (peak/tough). (2)
- 4.1.3 The curve that helps one to understand the impact of tax on work is the (Lorenz/Laffer) curve. (2)
- 4.1.4 The method of predicting the future of a business cycle, based on historical data, is known as (estimation/extrapolation). (2)
- [8]**
- 4.2 List **THREE** arguments in favour of privatisation. **[6]**

4.3 Study the cartoon below and answer the questions that follow:



[Source: Zapiro, Mail & Guardian, 6 May 2008]

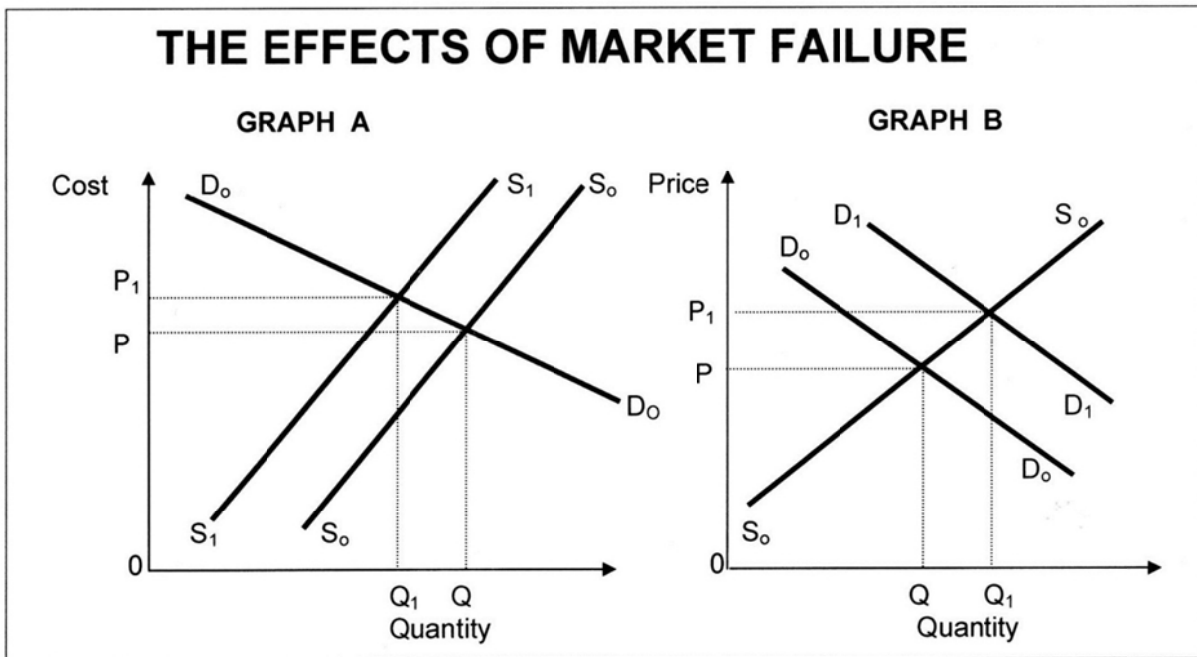
- 4.3.1 Name the policy that is used by the Central Bank to control the money supply. (2)
 - 4.3.2 What does the abbreviation 'MPC' stand for? (2)
 - 4.3.3 What is meant by "We must tighten our belts..." as indicated in the cartoon? (3)
 - 4.3.4 What is the current inflation target set by the SARB? (3)
 - 4.3.5 State any **THREE** effects that an increase in the repo rate will have on the economy. (6)
 - 4.3.6 In your opinion, which **TWO** factors could have led to the rapid increase in the oil prices in South Africa during 2011? (4)
- [20]**
- 4.4 With the use of an illustration or diagram, explain the effect where one person's spending becomes another person's income. (*The multiplier effect*) (16)

TOTAL FOR QUESTION 4 - 50 marks

QUESTION 5 – MICRO ECONOMICS

- 5.1 Choose the correct term in brackets. Write only the term next to the question number (5.1.1–5.1.4) in your answer book.
- 5.1.1 The main objective of the Competition (Commission/Tribunal) of South Africa is to investigate and evaluate restrictive business practises. (2)
- 5.1.2 To enumerate and evaluate the total social cost and benefits associated with an economic project, a (feasibility study/cost-benefit analysis) should be done. (2)
- 5.1.3 High developmental costs can be a possible reason for the existence of a/an (perfect/imperfect) market. (2)
- 5.1.4 A monopolistic competitor is able to make (normal/economic) profit over the short and long term. (2)
- [8]**
- 5.2 With reference to oligopolies, list any **THREE** forms of non-price competition. **[6]**

5.3 Study the graphs below and answer the questions that follow.



- 5.3.1 Define the concept *externality*. (3)
 - 5.3.2 Which **ONE** of the above graphs indicates a negative externality (3)
 - 5.3.3 Give **TWO** examples of positive externalities. (6)
 - 5.3.4 Which demand curve in **GRAPH B** represents the social benefit? (2)
 - 5.3.5 Explain the impact of positive externalities on costs/prices and quantities of goods. Refer to the relevant graph above. (6)
- [20]**
- 5.4 Discuss collusion by oligopolies. **[16]**

TOTAL FOR QUESTION 5 - 50 marks

QUESTION 6 – MACRO ECONOMICS

- 6.1 Choose the correct term in brackets. Write only the term next to the question number (6.1.1–6.1.4) in your answer book.
- 6.1.1 A country that trades internationally, has a(n) (closed/open) economy. (2)
- 6.1.2 Business cycles occur (regularly/periodically). (2)
- 6.1.3 The policy tool used to control the inflation rate is known as inflation (hike/targeting). (2)
- 6.1.4 The process whereby the state takes control of privately owned assets is called (privatisation/nationalisation). (2)
- [8]**
- 6.2 List **THREE** types of exchange rate systems. **[6]**

6.3 Study the comic strip and graph below to answer the questions that follow.

BRU & BOEGIE - the kiffest comic in the WORLD!
by Mike Scott

I AM AS BROKE AS A PAUPER ON STEROIDS.

YOU SPENT YOUR ENTIRE MONTH'S INCOME ON PIZZA, DVD RENTALS, BOOZE AND AIRTIME.

OWW, PIZZA, OWW, DVD'S, OWW, MONEY.

Current account

Rbn

Year	Current Account (Rbn)
1999	-10 000
2000	-10 000
2001	-10 000
2002	-10 000
2003	-10 000
2004	-50 000
2005	-70 000
2006	-110 000

SOURCE: SA RESERVE BANK

[Source: Financial Mail, May 2007]

- 6.3.1 Define the term 'balance of payments.' (3)
- 6.3.2 Which trend is indicated in the current account from 2002 to 2006? (3)
- 6.3.3 Explain the correlation between the comic strip and the trend shown by the current account. (4)
- 6.3.4 What is the major reason for the trend of the current account in the last 4 years? (3)
- 6.3.5 What action can the reserve bank take to correct this phenomenon? (3)
- 6.3.6 What will be the implication of the trend in the current account on foreign direct investment and the exchange rates? (4)

[20]

6.4 Evaluate the necessity of the public sector in a South African context – mention and explain **FOUR** factors. (16)

[16]

TOTAL FOR QUESTION 6 - 50 marks

QUESTION 7 – MICRO ECONOMICS

- 7.1 Choose the correct term in brackets. Write only the term next to the question number (7.1.1–7.1.4) in your answer book.
- 7.1.1 Collusion is typical of the (oligopolistic/monopolistic) market. (2)
- 7.1.2 Redistribution of income in South Africa is effected through the (tax/banking) system. (2)
- 7.1.3 The demand curve of a perfect competitor is the same as his marginal (revenue/cost) curve. (2)
- 7.1.4 The market supply (can/cannot) be controlled by the monopolist. (2)
- [8]**
- 7.2 List any **THREE** characteristics of monopolist competition. **[6]**
- 7.3 Study the newspaper extract below and then answer the questions that follow.

R53 MILLION FINE FOR PRICE FIXING
COLLUSION: Health group fixed prices of medical supplies

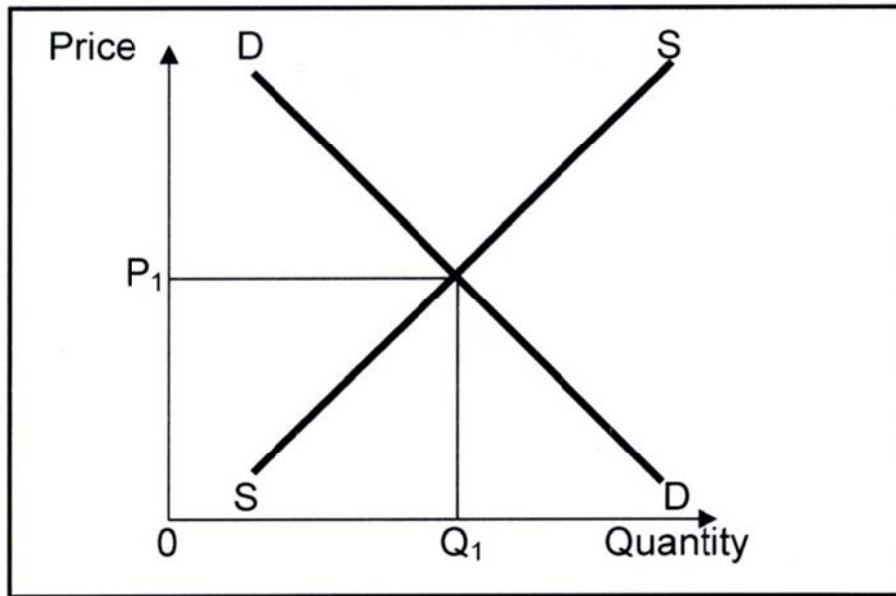
Tiger Brands CEO says their firm is 'upset and embarrassed' by the involvement of Adcock Ingram Critical Care (AICC) in collusion, for which it will pay a R53 million penalty. This follows yesterday's announcement that AICC admitted to being involved in collusive tendering with its competitors for a state tender for intravenous medical products.

The Competition Commission said the penalty it imposed on AICC equates to eight percent of the division's annual turnover, and that the penalty is the highest imposed by it to date – in percentage terms – for collusive behaviour. The commission has referred the matter to its sister body, the Competition Tribunal, to confirm the order.

[Adapted from: *Business Times*, 2007]

- 7.3.1 State **TWO** aims of competition policy in South Africa. (4)
- 7.3.2 Explain the role played by the Competition Tribunal regarding AICC's anti-competitive behaviour. (3)
- 7.3.3 Which body/institution can AICC approach if it had not been happy with the penalty imposed by the Competition Tribunal? (3)
- [10]**

7.4 Study the graph below and answer the questions that follow.



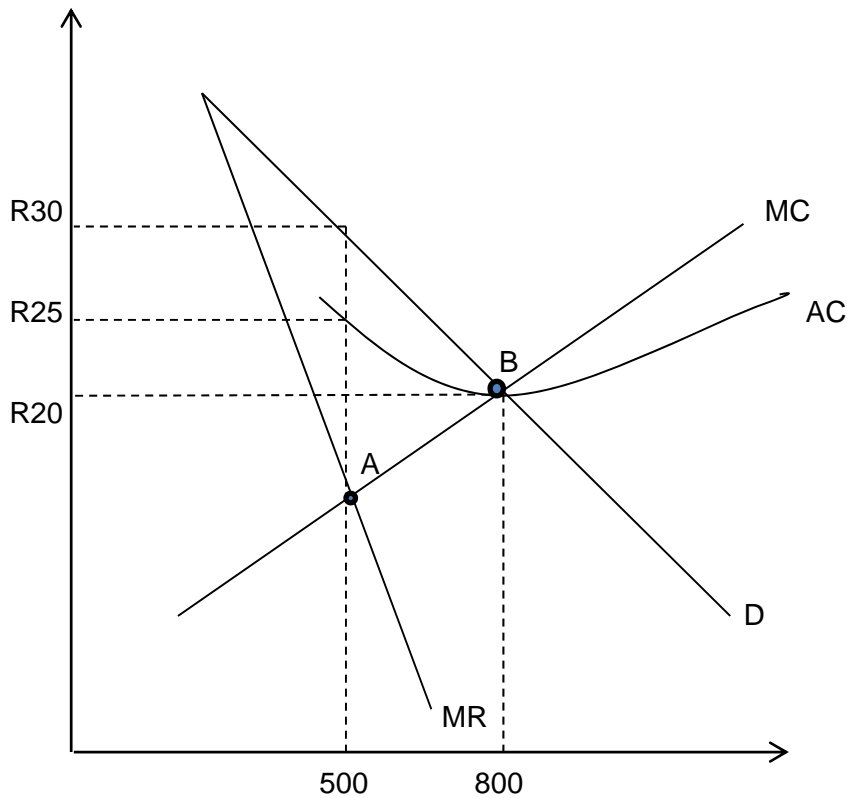
- 7.4.1 Which type of market does this graph represent? (2)
- 7.4.2 Explain how price is determined in the above market. (4)
- 7.4.3 Copy the above diagram in your answer book and show what would happen to the market price if firms left the market. (4)
- [10]
- 7.5 Discuss any **FOUR** characteristics of a perfect market. [16]

TOTAL FOR QUESTION 7 - 50 marks

QUESTION 8 – MACRO & MICRO ECONOMICS

- 8.1 Choose the correct term in brackets. Write only the term next to the question number (7.1.1–7.1.4) in your answer book.
- 8.1.1 Balance of payments deficits can be corrected by (increasing/decreasing) interest rates. (2)
- 8.1.2 A deliberate measure by the state to reduce the value of the currency is known as (devaluation/depreciation). (2)
- 8.1.3 (Consumer preferences/Technology) are/is a factor influencing the efficiency in the production of goods and services. (2)
- 8.1.4 Labour is traded in the (factor/financial) market. (2)
- [8]**
- 8.2 List any **THREE** factors influencing the demand for foreign exchange. **[6]**

8.3 Study the following graph and answer the questions that follow.



- 8.3.1 At what point does the monopolist maximise profits? (3)
- 8.3.2 At what point does the perfect competitor maximise profits? (3)
- 8.3.3 What is the price that the monopolist will charge? (3)
- 8.3.4 What is the price under perfect competition? (3)
- 8.3.5 What is the quantity supplied under perfect competition? (3)
- 8.3.6 What is the average cost of production for the monopolist? (3)
- 8.3.7 How much economic profit is made under perfect competition? (2)

[20]

8.4 With the aid of the Laffer curve, explain the relationship between tax and revenue.

[16]

TOTAL FOR QUESTION 8 - 50 marks

TOTAL FOR SECTION B - 150 marks

SECTION C - Answer **ONLY TWO** questions from this section.

QUESTION 9 – MACRO ECONOMICS

Analyse the components of the balance of payments and suggest ways in which the government can correct a sustained deficit.

[50]

QUESTION 10 – MICRO ECONOMICS

Discuss FIVE reasons for market failures and briefly describe the South African government's attempts to improve income/wealth distribution.

[50]

QUESTION 11 – MACRO ECONOMICS

"It is the work of economists to analyse events as they happen, to explain them and to predict or forecast their future behaviour." Mike Levin

Discuss how business cycles are used in forecasting and make use of a diagram to explain a typical business cycle.

[50]

TOTAL FOR SECTION C - 100 marks

[TOTAL: 300 marks]