NATIONAL SENIOR CERTIFICATE

GRADE 11

NOVEMBER 2013

ECONOMICS P2 MEMORANDUM

MARKS: 150

This memorandum consists of 12 pages.
SECTION A (Compulsory)

QUESTION 1

1.1 1.1.1 B ✓ ✓ utility.
1.1.2 C ✓ ✓ substitute
1.1.3 C ✓ ✓ oligopoly.
1.1.4 A ✓ ✓ relative
1.1.5 B ✓ ✓ returns
1.1.6 A ✓ ✓ globalisation.
1.1.7 B ✓ ✓ Multinational companies
1.1.8 C ✓ ✓ green

1.2 1.2.1 E ✓
1.2.2 G ✓
1.2.3 D ✓
1.2.4 A ✓
1.2.5 F ✓
1.2.6 H ✓
1.2.7 B ✓
1.2.8 C ✓

1.3 1.3.1 TRUE ✓
1.3.2 FALSE ✓
1.3.3 TRUE ✓
1.3.4 global warming ✓
1.3.5 marginal revenue ✓
1.3.6 explicit cost ✓

TOTAL SECTION A: 30
SECTION B  (ANSWER ANY TWO QUESTIONS FROM THIS SECTION)

QUESTION 2  [40 marks]

2.1  • Car and petrol ✓ ✓
     • Tea bags and cups ✓ ✓
     • Any appropriate example can be credited (Any 2 x 2) (4)

2.2  DATA RESPONSE

2.2.1  Elastic demand/Relative elastic demand ✓ ✓ (2)

2.2.2  • Percentage change in the quantity demanded will be more than the percentage change in price. ✓ ✓ ✓
     • E.g. 10% change in price will lead to more than 10% change in quantity demanded ✓ ✓ ✓
     • Demand will be very sensitive to changes in price. ✓ ✓ ✓ (Any 2 x 3) (6)

2.2.3  Luxury goods – washing machines, dish washers, big screen TVs (Any other appropriate example) ✓ ✓ (2)

2.3  DATA RESPONSE

2.3.1  • A = 18 ✓ ✓
     • B = -2 ✓ ✓ (4)

2.3.2  The utility of an additional unit consumed. ✓ ✓ (2)

2.3.3  ✓ ✓ (proper shape and accuracy of the curve) (4)
2.4 • It measures the responsiveness of demand for one good to a change in the price of a related good. ✓ ✓
  • \[ \frac{\text{XEd}}{\text{CED}} = \% \text{ change in the quantity demanded of product A} \]
  \[ \% \text{ change in the price of product B} \]
  • If an increase in the price of A leads to a decrease in the demand for B, then these two are complementary goods. ✓ ✓
  • If an increase in the price of A leads to an increase in the demand for B, then these two are substitute products. ✓ ✓
  • A positive change shows that they are substitutes ✓ ✓
  • A negative change shows they are complementary goods. ✓ ✓
  • A zero change shows that they are unrelated goods. ✓ ✓ (Any 4 x 2) (8)

2.5 • It is the erosion of the natural environment through depletion of resources. ✓ ✓
  • It is the destruction of the ecosystems and the extinction of plant, fresh water and animal species. ✓ ✓
  • It is mainly caused directly or indirectly by humans. ✓ ✓
  • Caused by mining, deforestation, pollution, burning of fossil fuels. ✓ ✓
  • It is also caused by natural events such as earthquakes or volcanic activities. ✓ ✓
  • Globalisation is damaging the planet. ✓ ✓
  • The state of our environment is continuously declining. ✓ ✓
  • Consumption patterns of the richer countries are the main source of environmental destruction and lead to global warming. ✓ ✓ (Any 4 x 2) (8) [40]

QUESTION 3 [40 marks]

3.1 • Monopoly ✓ ✓
  • Oligopoly ✓ ✓
  • Monopolistic competition ✓ ✓ (Any 2 x 2) (4)

3.2 DATA RESPONSE

3.2.1 Eskom ✓ ✓ (or any other relevant example) (2)

3.2.2 • Firms in this market can influence output and price. ✓ ✓
  • Price makers ✓ ✓
  • They will reduce output to increase the price. ✓ ✓ (Any 1 x 2) (2)

3.2.3 • Market power ✓ ✓
  • Price makers ✓ ✓
  • Products are heterogeneous ✓ ✓
  • Not many producers/sellers ✓ ✓
  • Barriers to entry ✓ ✓ (Accept any appropriate characteristic) (Any 3 x 2) (6)
3.3 DATA RESPONSE

3.3.1 • Coal ✓✓
• Diesel ✓✓
(4)

3.3.2 It reduces emissions/pollution ✓✓
(2)

3.3.3 • Technological innovations ✓✓
• Pricing policy ✓✓
• Public opinion ✓✓
• Government action ✓✓
• Reduction of vehicle emissions ✓✓
• Reduction and recycling of industrial waste ✓✓
(Any 2 x 2) (4)

3.4 • Prices are determined by the forces of demand and supply. ✓✓
• There are no external forces making it higher or lower. ✓✓
• Entry of new firms will bring the prices down. ✓✓
• Price of an individual firm is the same as the market. ✓✓
• If the firm charges a higher price, it will lose all the customers. ✓✓
• Firms under perfect competition are price takers. ✓✓
(Any 4 x 2) (8)

3.5 • Many buyers ✓✓
  o There are many buyers for the same product. ✓✓

  There are many sellers ✓✓
  o There are many sellers for the same product. ✓✓

  Low prices prevail ✓✓
  o Producers cannot charge higher prices as it will result in losing market share. ✓✓
  o Sellers are price takers. ✓✓

  High output and bigger choice. ✓✓
  o Since there are many sellers, there is no shortage and consumers have plenty of sellers to choose from. ✓✓
  o No collusion ✓✓
  o No government intervention ✓✓
  o Factors of production are mobile ✓✓

  Homogenous products ✓✓
  o Products offered are identical with no obvious difference in quality. ✓✓

  Barriers to entry/exit ✓✓
  o Low barriers to entry/exit ✓✓
  o Nothing can stop new producers from entering the market ✓✓

  Perfect information ✓✓
  o Buyers and sellers have perfect knowledge of the characteristics and the prevailing price of the product. ✓✓

  (Accept any other characteristic) (Any 2 x (2 + 2)) (8) [40]
QUESTION 4 [40 marks]

4.1
- Scarcity of resources ✓ ✓
- Mass production and mass marketing ✓ ✓
- Development of transport ✓ ✓
- Development of communication and technology and global information systems ✓ ✓
- Emergence of multinational companies ✓ ✓
- Free movement of capital ✓ ✓
- Development of technology ✓ ✓ (Any 2 x 2) (4)

4.2 DATA RESPONSE

4.2.1
- A = R20/20 ✓ ✓
- B = R6.50/6.5 ✓ ✓ (4)

4.2.2
- Fixed costs
  - Costs that the business always has to pay/costs that do not change with output. ✓ ✓

- Variable costs
  - Costs that change with the number of units produced. ✓ ✓ (4)

4.2.3 The additional cost of producing an additional unit of a product. ✓ ✓ (2)

4.3 DATA RESPONSE

4.3.1
- Short-run
  - A period of time in which the business is faced with at least one of its production factors being fixed/The business is unable to change one of its inputs. ✓ ✓ ✓

- Long-run
  - A period of time in which the business is able to change all of its inputs. ✓ ✓ ✓ ✓ (6)

4.3.2 It is the amount that the business earns for every unit sold. ✓ ✓ (2)

4.3.3 TR = Price x Quantity ✓ ✓ (2)
4.4  • Accounting profit ✓✓
    o Also known as total profit ✓✓
    o It is the difference between total revenue from sales and total costs. ✓✓
    o Accounting profit = Revenue minus explicit costs ✓✓

• Normal profit ✓✓
    o It is the minimum return required by the owners ✓✓ to continue with the business. ✓✓
    o It is the remuneration for entrepreneurship. ✓✓
    o It is included in the total cost of production. ✓✓
    o When revenue is equal to explicit cost plus implicit costs. ✓✓

• Economic profit ✓✓
    o It is the extra profit that the firm makes. ✓✓
    o It is the profit that the business makes in addition to the normal profit. ✓✓
    o It is also known as surplus or excess or extra profit. ✓✓
    o Economic profit = Revenue minus explicit plus implicit costs ✓✓ (Any 2 (2 + 2)) (8)

4.5  • Absolute advantage
    o Refers to the ability of a country to produce more of a good or service ✓✓ than its competitors can produce using the same amount of resources. ✓✓
    o Developed countries with their large capital resources have absolute advantage over developing countries. ✓✓
    o E.g. South Africa is producing gold at an absolute advantage ✓✓

• Comparative advantage
    o Refers to the ability of a country to produce the same output using fewer resources. ✓✓
    o It occurs when a country specialises in a product that it can make more efficiently compared to other products. ✓✓
    o Countries benefit more by producing and exporting goods they can produce more efficiently. ✓✓
    o E.g. both South Africa and Brazil can produce maize and coffee at a comparative advantage. ✓✓ (Any 2 x (2 + 2)) (8)

TOTAL SECTION B: 80
QUESTION 5

ESSAY RESPONSE

Fully explain the factors affecting price elasticity of demand.
In addition mention the different types of price elasticity of demand. [40]

INTRODUCTION
Price Elasticity of Demand is a measure of the responsiveness of demand to changes in price. (Any other relevant introduction is acceptable) (3)

BODY

The proportion of income spent on the product

- If consumers spent a small amount of their income on a good, the demand will be unresponsive to changes in price. ✓✓
- E.g. a 20% price reduction in TVs will cause more demand than a 40% reduction in the price of salt. ✓✓

The frequency with which the product is purchased ✓✓

- Consumers will not respond to a change in price if it is not bought regularly. ✓✓
- E.g. the money spent on holidays or Christmas gifts. ✓✓
- Frequent purchases will make the consumer aware of change in prices and they will respond quickly. ✓✓
- E.g. change in the price of food. ✓✓

Time ✓✓

- If unlimited time is available to shop around consumers will be more responsive to changes in price. ✓✓
- If the product is urgently needed, demand will be less responsive. ✓✓
- More elastic in the long run than in short run. ✓✓

Availability of substitutes ✓✓

- If there are no substitutes available for a product, demand will not be responsive to changes in price – inelastic. ✓✓
- E.g. consumers will not respond to changes in the price of petrol. ✓✓
- If substitutes are available, demand will be elastic. ✓✓
- E.g. consumers will respond to changes in price. ✓✓
**Addictive and irreplaceable products/Habit forming ✓ ✓**
- Goods that are essential daily will not respond as goods that are not needed daily. ✓ ✓
- E.g. petrol is an example of a product that is essential for many people. ✓ ✓
- Demand for addictive goods such as cigarettes will not respond even when the price doubles. ✓ ✓
- Demand tends to be inelastic. ✓ ✓

**Uniqueness ✓ ✓**
- Demand will be less elastic if the article is unique. ✓ ✓
- E.g. demand for meat will be less elastic than demand for beef and beef will be less elastic than demand for rump. ✓ ✓

**Urgency ✓ ✓**
- If the demand for an article is urgent, it will be less elastic. ✓ ✓

**Necessity/Luxury ✓ ✓**
- Demand will be inelastic if the article is a necessity. ✓ ✓
- Demand will be elastic if the article is a luxury. ✓ ✓

(Any 10 x 2) (20)

**Types of price elasticity of demand**
- Perfectly inelastic ✓ ✓
- Perfectly elastic ✓ ✓
- Relatively elastic/Elastic ✓ ✓
- Relatively inelastic/Inelastic ✓ ✓
- Unitary elastic/Elasticity of one ✓ ✓

(Any 5 x 2) (10)

**CONCLUSION**
- PED explains how consumers respond to a change in price which differs from one product to another and from one consumer to another. ✓ ✓

(2)

**Use the following assessment table together with the above to assess the discussion.**

<table>
<thead>
<tr>
<th>MARKS</th>
<th>INTERPRETATION OF TOPIC</th>
</tr>
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<tbody>
<tr>
<td>0</td>
<td>Candidate has shown no understanding of the topic.</td>
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<tr>
<td>1</td>
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(5)

[40]
QUESTION 6

ESSAY RESPONSE

Fully explain the effects/consequences of globalisation. In addition briefly explain the 'north-south divide'.

INTRODUCTION
The impact of globalisation can be seen as the rich industrialised countries dominate trade because most of the trade takes place between them. (Any other relevant introduction is acceptable) (3)

BODY

**Interdependence between countries has increased**
- Because of globalisation countries are more and more affected by the economic success and failures of other countries. 

*Trade interdependence*
- There is an increase in the volume of trade between countries.
- Higher interdependence is the effect of higher volumes of trade and labour movements between countries.

*Financial interdependence*
- The financial transactions make countries interdependent.
- There are large scale investments in businesses and shares of other countries.

*Increase in competition*
- It has led to improved quality of products and services.
- Local manufactures are forced to improve their quality to compete with foreign companies.

*Unfair competition*
- The levels of competition between developed and less developed countries are not the same.
- Industrialised countries have not opened their markets to developing countries.
- Subsidies in developed countries enable them to sell their products at a lower price on the international markets.
- Technical difficulties and stricter health conditions make it difficult for developing countries to compete.

*Increase in employment opportunities/changes in employment conditions*
- Expansion of industries to other countries led to the increase in employment opportunities.
- It also contributed to higher wage levels and productivity.
- MNEs create many job opportunities across the world.
Increase in international cooperation
- Formation of trade blocs like North America Free Trade Agreement, European Union, Asia-Pacific economic cooperation, BRICS and other bilateral and multilateral agreements.

Spread of education and technical knowhow
- There is a constant flow of information between countries.
- One of the positive effects of globalisation is the spread of education.

Spread of culture/cultural change
- Different cultures can also circulate freely through labour migration.
- People can pick up and practise positive things from other cultures.

Increase in environmental concerns/environmental degeneration
- Increased production leads to increased damage to the environment.
- Exhaustion of resources such as water.
- Rich countries are the main cause.

Manipulation by multinational corporations
- The ownership of companies across the world is in the hands of the multinational corporations.
- These corporations can influence economic and political decisions.
- They can also influence employment and production in the global economy.

Economic growth
- The economies that are involved in globalisation grew faster than other economies.
- It is because of their access to international markets.

Changing pattern of trade/increased foreign trade
- The pattern of trade has changed due to trade agreements, removal of trade barriers, etc.
- Increased trade provided access to a wide range of foreign goods.

Free movement of people/labour
- Globalisation brought free movement of people of different nations.
- Because of the influence of the MNEs there is free movement of labour between countries.

Changing structure of economies
- Innovations of developed countries have spread to developing countries.
- It also changed the structure of economies and improved the people of the country.
North-South divide

- This is an imaginary separation between the developed countries and the less developed countries.

- The developed countries collectively known as the ‘north’ because most of them are in the northern hemisphere.

- The developing countries are generally known as the ‘south’ as they are from the southern hemisphere.

- The causes of the north-south divide are:
  - Colonialism
  - Dependence on natural resources
  - Influence of MNEs
  - Economic and political reasons
  - Level of education
  - Number of population
  - Etc.

CONCLUSION

- Globalisation can affect the lives of people all over the world in positive and negative ways.

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TOTAL SECTION C: 40
GRAND TOTAL: 150