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INTRODUCTION

Have you heard about Mindset? Mindset Network, a South African non-profit organisation, was founded in 2002. We develop and distribute quality and contextually relevant educational resources for use in the schooling, health and vocational sectors. We distribute our materials through various technology platforms like TV broadcasts, the Internet (www.mindset.co.za/learn) and on DVDs. The materials are made available in video, print and in computer-based multimedia formats.

At Mindset we are committed to innovation. In the last three years, we have successfully run a series of broadcast events leading up to and in support of the Grade 12 NSC examinations.

Now we are proud to announce our 2012 edition of Spring School. During Spring School we will provide revision lessons in seven subjects - Mathematics, Physical Sciences, Life Sciences, Mathematical Literacy, English 1st Additional Language, Accounting and Geography. In Exam School, we'll also add in lessons for Economics and Business Studies.

This year we’ve increased the number of topics we’ll be covering for each exam paper. In each one hour session, our expert teachers will give you study tips and work through detailed solutions to questions taken from recent previous examination papers. During Spring School we’ll also have a 1½ hour live show for each subject – that’s two live shows every day! To get the most out of these shows, we need you to participate by emailing us questions, calling in or posting on twitter, peptxt or facebook. Look out for the daily competition questions too. There are great prizes to be won!

You asked us for late night study sessions and that’s what we’ve planned! If you can’t watch our Spring School during the day, we’ll repeat the day's programmes from 10:30 pm starting with a repeat of the live show.

GETTING THE MOST FROM SPRING SCHOOL

This year, you'll find the exam overviews and more tips and hints in this booklet. So make sure you read through this booklet and use it to revise. Before you watch the broadcast of a topic, read through the questions for the topic and try to answer them without looking up the solutions. If you get stuck and can’t complete the answer don’t panic. Make a note of any questions you have. When watching the session, compare the approach you took to what the teacher does. Don’t just copy the answers down but take note of the method used. If you still don’t understand post your question on Facebook – you’ll get help from all the other Mindsetters on the page. You can also send an email to helpdesk@learnxtra.co.za and we’ll get back to you within 48 hours.

Make sure you keep this booklet. You can re-do the questions you did not get totally correct and mark your own work. Exam preparation requires motivation and discipline, so try to stay positive, even when the work appears to be difficult. Every little bit of studying, revision and exam practice will pay off. You may benefit from working with a friend or a small study group, as long as everyone is as committed as you are.

If you find Mindset Learn Xtra Spring School a useful way to revise and prepare for your exams, we’ll be doing in Exam School too. We’ve included more topics so you’ll be really well prepared for each exam paper. We’ll start broadcasting Exam School from 15 October from 10:30pm. We’ve also scheduled more live broadcasts in the afternoon from two days before you are due to write the exams. So don’t miss out. See the schedules on pages 5 - 8.
We are pleased to announce that we’ll be running special radio broadcasts on community radio stations in Limpopo, Eastern Cape and KZN. This programme is called MTN Learn. Find out more details at www.mtnlearning.co.za. You can also listen online or download radio broadcasts of previous shows. Tuning into radio will give you the chance to learn extra!

Mindset believes that the 2012 Learn Xtra Spring School will help you achieve the results you want. All the best to the Class of 2012!

CONTACT US
We want to hear from you. So let us have your specific questions or just tell us what you think through any of the following:

LearnXtra helpdesk@learnxtra.co.za
@learnxtra 086 105 8262
www.learnxtra.co.za

BROADCAST SCHEDULES
Exam School (Dstv and Toptv 319)

20 November

<table>
<thead>
<tr>
<th>Time</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>13:30</td>
<td>Macroeconomics</td>
</tr>
<tr>
<td>14:30</td>
<td>Microeconomics</td>
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<tr>
<td>15:30</td>
<td>Live</td>
</tr>
<tr>
<td>17:00</td>
<td>Macroeconomics</td>
</tr>
<tr>
<td>18:00</td>
<td>Microeconomics</td>
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<tr>
<td>22:30</td>
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21 November

<table>
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<th>Subject</th>
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<tbody>
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<td>Macroeconomics</td>
</tr>
<tr>
<td>01:00</td>
<td>Microeconomics</td>
</tr>
<tr>
<td>02:00</td>
<td>Macroeconomics</td>
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<td>03:00</td>
<td>Microeconomics</td>
</tr>
<tr>
<td>04:00</td>
<td>Macroeconomics</td>
</tr>
<tr>
<td>05:00</td>
<td>Microeconomics</td>
</tr>
</tbody>
</table>
PREPARING FOR EXAMINATIONS

1. Prepare well in advance for all your papers and subjects. You need to start your planning for success in the final examination now. You cannot guarantee success if you only study the night before an exam.

2. Write down the date of your prelim and final exam so that you can plan and structure a study time table for all your subjects.

3. Set up a study time-table according to your prelim and final Grade 12 exam time-table and stick to your study schedule. If you study a small section every day, you will feel you have achieved something and you will not be as nervous by the time you have to go and write your first paper.

4. Your study programme should be realistic. You need to spend no more than 2 hours per day on one topic. Do not try to fit too much into one session. When you cover small sections of work often, you will master them more quickly. The broadcast schedule may help you to make sure you have covered all the topics that are in the exam.

5. When studying don’t just read through your notes or textbook. You need to be active by making summary checklists or mind maps. Highlight the important facts that you need to memorise. You may need to write out definitions and formulae a few times to make sure you can remember these. Check yourself as often as you can. You may find it useful to say the definitions out aloud.

6. Practise questions from previous examination papers. Follow these steps for using previous exam papers effectively:
   - Take careful note of all instructions - these do not usually change.
   - Try to answer the questions without looking at your notes or the solutions.
   - Time yourself. You need to make sure that you complete a question in time. To work out the time you have, multiply the marks for a question by total time and then divide by the total number of marks. In most exams you need to work at a rate of about 1 mark per minute.
   - Check your working against the memo. If you don’t understand the answer given, contact the Learn Xtra Help desk (email: helpdesk@learnxtra.co.za).
   - If you did not get the question right, try it again after a few days.

7. Preparing for, and writing examinations is stressful. You need to try and stay healthy by making sure you maintain a healthy lifestyle. Here are some guidelines to follow:
   - Eat regular small meals including breakfast. Include fruit, fresh vegetables, salad and protein in your diet.
   - Drink lots of water while studying to prevent dehydration.
   - Plan to exercise regularly. Do not sit for more than two hours without stretching or talking a short walk.
   - Make sure you develop good sleeping habits. Do not try to work through the night before an exam. Plan to get at least 6 hours sleep every night.
EXAM TECHNIQUES

1. Make sure you have the correct equipment required for each subject. You need to have at least one spare pen and pencil. It is also a good idea to put new batteries in your calculator before you start your prelims or have a spare battery in your stationery bag.

2. Make sure you get to the exam venue early - don’t be late.

3. While waiting to go into the exam venue, don’t try to cram or do last minute revision. Try not to discuss the exam with your friends. This may just make you more nervous or confused.

4. Here are some tips as to what to do when you receive your question papers:

   Don’t panic, because you have prepared well.
   - You are always given reading time before you start writing. Use this time to take note of the instructions and to plan how you will answer the questions. You can answer questions in any order.
   - Time management is crucial. You have to make sure that you answer all questions. Make notes on your question paper to plan the order for answering questions and the time you have allocated to each one.
   - It is a good idea always to underline the key words of a question to make sure you answer it correctly.
   - Make sure you look any diagrams and graph carefully when reading the question. Make sure you check the special answer sheet too.
   - When you start answering your paper, it is important to read every question twice to make sure you understand what to do. Many marks are lost because learners misunderstand questions and then answer incorrectly.
   - Look at the mark allocation to guide you in answering the question.
   - When you start writing make sure you number your answers exactly as they are in the questions.
   - Make sure you use the special answer sheet to answer selected questions.
   - Think carefully before you start writing. It is better to write an answer once and do it correctly than to waste time rewriting answers.
   - DO NOT use correction fluid (Tippex) because you may forget to write in the correct answer while you are waiting for the fluid to dry. Rather scratch out a wrong answer lightly with pencil or pen and rewrite the correct answer.
   - Check your work. There is usually enough time to finish exam papers and it helps to look over your answers. You might just pick up a calculation error.
MACROECONOMICS

Question 1: (Adapted from Nov 2011, NSC, Question 2.1)

Choose the correct word from those given in brackets.

1.1 Household savings are channelled through the (labour/financial) market.
1.2 Real and money flows move in the (same/opposite) direction in the economic circular flow model.
1.3 Terms of (trade/agreement) describes the relationship between export prices and import prices.
1.4 Financial aid schemes in rural areas form part of government's (economic/social) services. (4 x 2) (8)

Question 2: (Adapted from Nov 2011, NSC, Question 2.2)

List any THREE examples of community goods. (3 x 2) (6)

Question 3: (Adapted from Nov 2011, NSC, Question 2.3)

Study the table below and answer the questions that follow.

**BALANCE OF PAYMENTS FOR SOUTH AFRICA**

<table>
<thead>
<tr>
<th>CURRENT ACCOUNT</th>
<th>R MILLIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise exports</td>
<td>503 656</td>
</tr>
<tr>
<td>Service receipts</td>
<td>100 681</td>
</tr>
<tr>
<td>Service payments</td>
<td>123 579</td>
</tr>
<tr>
<td>Merchandise imports</td>
<td>544 161</td>
</tr>
<tr>
<td>Income receipts</td>
<td>34 075</td>
</tr>
<tr>
<td>Income payments</td>
<td>87 593</td>
</tr>
<tr>
<td>Net gold exports</td>
<td>52 776</td>
</tr>
</tbody>
</table>

[Source: Quarterly Bulletin, SARB, June 2010]

3.1 Define the concept *balance of payments*. (3)
3.2 Calculate the trade balance in the balance of payments. (3)
3.3 How will the trade balance be affected if a major South African retailer imports more clothes from China? (2)
3.4 Name the item omitted, which is required to calculate the balance of the current account. (2)

Question 4: (Adapted from Nov 2011, NSC, Question 2.4)

Study the extract below and answer the questions that follow.

**FISCAL CHANGES LIKELY TO CONTINUE**

The Medium-term Budget Policy Statement (MTBPS) shows a planned increase in government expenditure to R977 bn in 2011/12 – a rise of 8%, including a 'jobs fund' totalling R9 bn over the next three years and R20 bn in
tax allowances and tax breaks to promote investment in the manufacturing sector.

The Industrial Policy Action Plan (IPAP) and New Growth Path Framework (NGPF) prioritise the manufacturing sector as a creator of jobs for semi- or unskilled workers. For the national budget to be consistent with stated government objectives, government expenditure will increasingly have to support a growth agenda.

South Africa's first priority is economic growth and job creation. The government's efforts with regard to social and redistribution issues exceeds those devoted to creating a growth-friendly environment.

[Adapted from Business Report, February 2011]

4.1 What does fiscal changes mean? (2)
4.2 Give ONE reason why you think the government is targeting the manufacturing sector as a creator of jobs. (2)
4.3 What do you understand by ‘… government expenditure will increasingly have to support a growth agenda’? (4)
4.4 Select a phrase from the extract to show why there is insufficient growth in the economy. (2)

Question 5: (Adapted from Nov 2011, NSC, Question 2.5)
Discuss the endogenous approach as a cause of business cycles. (4 x 2) (8)

Question 6: (Adapted from Nov 2011, NSC, Question 2.6)
Discuss the interaction between households and the state as participants in the economic circular flow. (4 x 2) (8)

Question 7: (Adapted from Nov 2011, NSC, Question 7)
Discuss the main supply reasons for international trade.
MICROECONOMICS

Question 1: (Adapted from Nov 2011, NSc, Question 3.1)

Choose the correct word(s) from those given in brackets.

1.1 In a (positive/negative) externality the private cost of production is less than the social cost of production.

1.2 Governments intervene and ensure that sufficient quantities of staple foods are produced by setting (minimum/maximum) prices for these goods.

1.3 The shape of the demand curve for a monopolistic competitor is (the same/not the same) as that of a monopolist.

1.4 When the product mix does not reflect the consumer's taste, it indicates a/an (productive/allocative) inefficiency. (4 x 2) (8)

Question 2: (Adapted from Nov 2011, NSc, Question 3.2)

List THREE ways in which the government can use tax revenue to reduce the unequal distribution of income. (3 x 2) (6)

Question 3: (Adapted from Nov 2011, NSc, Question 3.3)

Study the graph below and answer the questions that follow.

3.1 Which point on the graph indicates optimum production? (2)

3.2 Describe the nature of the product supplied. (2)

3.3 Is the firm making an economic profit or economic loss? Show ALL calculations. (6)
Question 4: (Adapted from Nov 2011, NSc, Question 3.4)

Study the cartoon below and answer the questions that follow.

![Cartoon Image]

[Source: Zapiro, Mail & Guardian, 2008]

4.1 Identify the market structure in the above cartoon. (2)
4.2 Describe the message expressed in the cartoon. (2)
4.3 How can a firm in this industry increase its market share? (2)
4.4 Name any TWO industries that have been investigated by the Competition Commission for price fixing in South Africa. (4)

Question 5: (Adapted from Nov 2011, NSc, Question 3.5)

Briefly explain the rationale of cost-benefit analysis. (4 x 2) (8)

Question 6: (Adapted from Nov 2011, NSc, Question 3.6)

Discuss the aims of the competition policy in South Africa. (2 x 4) (8)

Question 7: (Adapted from Nov 2011, NSc, Question 8)

Use graphs to analyse the various short-run equilibrium positions for an individual business in the perfect market. [50]
**SOLUTIONS TO MACROECONOMICS**

**Question 1:** (Adapted from Nov 2011, NSC, Question 2.1)
1.1 financial ✓✓
1.2 opposite ✓✓
1.3 trade ✓✓
1.4 economic / social ✓✓  
\[ (4 \times 2) \] (8)

**Question 2:** (Adapted from Nov 2011, NSC, Question 2.2)
- defence ✓✓
- police  ✓✓
- street lighting ✓✓
- flood control ✓✓
- Any other example that is non-excludable  \[ (\text{Any } 3 \times 2) \] (6)

**Question 3:** (Adapted from Nov 2011, NSC, Question 2.3)
3.1 It reflects a country's trade and financial transactions ✓ with the rest of the world ✓ over a particular period of time. ✓ Any other relevant definition is acceptable.  
\[ (3) \]

3.2 Merchandise exports $R503\,656$ million ✓
+ Net gold exports $R52\,776$ million ✓
- Merchandise imports $R554\,161$ million ✓
\[ R2\,271 \text{ million} \] ✓✓ ✓  
\[ (3) \]

3.3 It will reduce the Trade Balance / negatively affected / imports exceed the exports ✓✓  
\[ (2) \]

3.4 Current transfers ✓✓  
\[ (2) \]

**Question 4:** (Adapted from Nov 2011, NSC, Question 2.4)
4.1 Any changes (increases or decreases) in government spending ✓✓ and taxation ✓✓ / Any changes that have been announced by the Minister of Finance ✓✓  
\[ (2) \]

4.2 • It is more labour intensive ✓✓ /
• Greatest contributor to the GDP in terms of unskilled labour ✓✓
• Accept any other relevant answer  
\[ (2) \]

4.3 Government must focus on prioritising economic growth ✓✓ through effective budgeting ✓ i.e. infrastructure, employment ✓ Accept any other relevant answer.  
\[ (4) \]

4.4 '… The government’s effort with regard to social and distribution issues exceeds those devoted to creating a growth-friendly environment.' ✓✓  
\[ (2) \]
Question 5: (Adapted from Nov 2011, NSC, Question 2.5)

- Also known as the Keynesian Approach or Interventionists ✅
- Hold the view that markets are inherently unstable ✅
- Level of economic activity constantly tend to be continually above or below its potential ✅
- Price mechanism fails to co-ordinate demand and supply in markets ✅
- Prices are not flexible enough e.g. wages ✅
- Endogenous forces e.g. ripple effect / indirect links, mismatches and disequilibria responsible for cyclical fluctuations ✅
- Business cycle is an inherent feature of market economy ✅
- Peaks and troughs are smoothed out by government's interventionist policies ✅
- Perceptions / predictions about the future ✅
- Factors within the market ✅
- Accept the graph for a maximum of 2 marks

![Graph of Real output over time]

- Economy’s growth path is indicated by thin black line. Bold cyclical movements around it are actual route followed by the economy – peaks and troughs are smoothed out by government’s interventionist policies ✅
- Examples given max 2 marks (Any 4 x 2) (8)

Question 6: (Adapted from Nov 2011, NSC, Question 2.6)

Household sector provides the state with labour ✅ and receive income ✅
The state provides the household with public goods and services ✅ (e.g.) parks, hospitals ✅ for which they pay taxes ✅ This is income for the state ✅
(Any 2 X 4) (8)

Question 7: (Adapted from Nov 2011, NSC, Question 7)

INTRODUCTION

No country can survive on its own as trade is the basic component of economic activity and is undertaken for mutual advantage ✅✅/ Countries offer goods for trade because they have resources that other countries do not have ✅✅/ International trade is trade across borders ✅✅
Any other relevant introduction. (Max 3 marks)

BODY
SUPPLY REASONS:

1. **Natural resources** (factors of production)
   - They are not evenly distributed across all countries of the world
   - They vary from country to country and can only be exploited in places where there are such resources
   - Each country has its own unique mix of natural resources that makes it possible for them to produce certain goods and services more efficiently and at a relatively lower price
   - (E.g.) South Africa's gold and diamond resources has given us an advantage in producing gold and diamonds

2. **Climatic conditions**
   - Differences in climatic conditions between countries make it possible for some countries to produce certain goods at a lower price than other countries
   - Many crops can only be cultivated in certain climatic conditions and areas and in certain kinds of soil
   - Topography

3. **Labour resources**
   - The quality, quantity and cost of labour also differ between countries
   - Some countries have highly skilled labour with high productivity rates
   - This enables them to produce goods and services at a lower price than they are produced in other countries
   - Certain individuals have greater ability and aptitude for certain tasks
   - It is a worldwide phenomenon that some countries have developed a skill and aptitude for the production of a certain commodity
   - E.g. The Swiss (watch making)

4. **Technology**
   - Some countries have access to technological resources that enable them to produce certain goods and services at a low unit cost
   - Improved production processes, the availability of equipment and machinery, and other technological factors all influence the supply of goods and services and thereby contribute to cost differences between countries
   - (e.g.) Japan

5. **Specialisation**
   - Some countries specialize in the production of certain goods and services
   - By specializing in the production of certain goods and services, a country is able to take advantage of economies of scale and therefore produce the goods at a comparatively cheaper unit cost
   - (e.g.) Japan has specialized in the production of certain electronic goods and the sell them at a much lower price than they can be produced in other countries
   - This often results in mass production because of division of labour and automation and mechanization
   - Cost differences occur because goods and services can be produced at lower costs in one country than another because of the theory of comparative advantage
6.  **Capital**
- Cannot be obtained as easily in some countries as in others
- Developed countries usually enjoy an advantage over undeveloped countries
- Due to a lack of capital some countries cannot produce all the goods they require themselves, or they may not have the favourable conditions of other countries
- Physical infrastructure

7.  **Economic freedom and competitiveness**

8.  **Stable government**

**CONCLUSION**
It is obvious from the above mentioned that supply-reasons have a definite impact on international trade

**SOLUTIONS TO MICROECONOMICS**

**Question 1:** (Adapted from Nov 2011, NSc, Question 3.1)
1.1  negative
1.2  maximum / minimum
1.3  the same
1.4  allocative

**Question 2:** (Adapted from Nov 2011, NSc, Question 3.2)
- Subsidizing goods and services for the poor e.g. hospitals
- Transferring income directly to poor households e.g. grants, old age pension, feeding schemes, food parcels
- Providing goods free of charge e.g. public goods like no-fee schools
- Implementing job creation programmes / e.g. public work programme
- Any other relevant fact or example

**Question 3:** (Adapted from Nov 2011, NSc, Question 3.3)
3.1  A / MC = MR
3.2  Unique product with no close substitutes
3.3  Economic profit
   
   **Income**  
   = 200 \times R80  
   = R16 000

   **Cost**  
   = 200 \times R60  
   = R12 000

   Economic profit  
   = R4 000  
   / OR

   Accept alternative calculation of profit e.g.
   80 – 60  
   = 20
   20 \times 200  
   = R4 000
Question 4: (Adapted from Nov 2011, NSc, Question 3.4)

4.1 Oligopoly / imperfect market structure

4.2 Price fixing / cartels are hurting the poor

4.3 Use of non-price competition e.g.
   • advertising and marketing
   • Loyalty rewards
   • After sales service
   • Doing business over the internet
   • Extended shopping hour e.g. Sunday trading
   • Door-to-door sales
   • Product proliferation

3.4 cement
   • Food / e.g. bread, Premier foods
   • Building materials
   • Medicine
   • Local airline tickets
   • Steel
   • Soda ash
   • Piping
   • Gas
   • Fertiliser
   • Bicycles
   • Dairy industry
   • Any other relevant industry, example or company/businesses

Question 5: (Adapted from Nov 2011, NSc, Question 3.5)

• CBA helps to make better decisions on how scarce resources are allocated to satisfy wants
• Involves making decisions based on comparing economic benefits with economic costs of a project
• The feasibility of the project is determined by subtracting costs from benefits
• If the difference is positive (benefits > costs) then the project will be undertaken
• Besides efficient use of resources, CBA also ensures the right combination of goods is produced
• It also provides us with deciding alternate solutions to specific problems
• Thus a project that maximizes benefits compared to costs should be chosen
• There is a need to consider the time value of money because the project will only occur in the future
• Therefore future benefits and costs are discounted to present values
• In the market economy, resources are allocated through interaction of demand and supply in the market
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Economics Learner’s Guide
Exam School 2012

www.learnxtra.co.za

• Decisions by people, businesses and governments are important for the society – involves allocation of scarce resources ✓ ✓
• The right combination of goods and services produced to satisfy needs and wants ✓ ✓
• Brings objectivity to decision-making – identify relevant benefits and costs of project and quantify them in money terms to make informed decisions ✓ ✓

(Any 4 x 2) (8)

Question 6: (Adapted from Nov 2011, NSc, Question 3.6)

• Prevent the abuse of economic power ✓ ✓ e.g. by a monopolist ✓ ✓
• Regulate the growth of market power ✓ ✓ by means of takeovers and mergers ✓ ✓
• Prevent restrictive practices, especially by oligopolists ✓ ✓ such as fixing of selling prices, collusion in respect of tenders or price discrimination ✓ ✓
• Contribute to the developmental objectives of the state ✓ ✓ own example ✓ ✓
• To improve efficiency of markets ✓ ✓ through legislation ✓ ✓
• Improve equity in markets ✓ ✓ e.g. Employment Equity Act ✓ ✓
• Protect the consumer against unfair prices and inferior products ✓ ✓ e.g. Competition Act ✓ ✓ (Any 2 X 4) (8)

Question 7: (Adapted from Nov 2011, NSc, Question 8)

INTRODUCTION

A perfect market is a market structure which has a large number of buyers and sellers who are not able to influence the price. Sellers are therefore price -takers Accept any relevant definition of perfect markets. (Max 3 marks)

BODY

1. THE INDIVIDUAL BUSINESS

1.1 In the market

• Market price determined by interaction of demand + supply ✓ ✓
• DD slopes downwards from left to right and SS slopes upwards from left to right ✓ ✓
• Individual business forms small portion of market – does not influence market price – price taker ✓ ✓
• Won’t charge higher/lower price – reasons ✓ ✓
• Graphs:
For each unit sold, business receives same price: therefore $P_1 = AR = MR$ equals individual demand curve.

Economic cost = opportunity cost = explicit cost + implicit cost.

Explicit cost = actual expenditure of business e.g. wages, interest, leasing of land, raw materials.

Implicit cost = value of inputs owned by entrepreneur + used in production process (forfeited rental, interest + salary).

1.2 Production, profits, losses and supply

1.2.1 Maximum profit for individual business

- Demand curve for individual business is a horizontal line at market price.
- To obtain maximum profits, the market price + own cost structure is taken into account to determine production output.
- Graphs:

- Horizontal demand curve represents $MR + AR$.
- MAXIMUM PROFIT: point of intersection of $MC + MR$ – point $e$.
- To the right of $e$ ($q_3$), production cost exceeds revenue ($MC > MR$) – a loss is made.
- Point $e = profit maximized = equilibrium$.
- Expand production up to point where short-term marginal cost = marginal revenue – on ascending section of $MC$ (descending section – maximum loss).
1.2.2 Production + supply for business

- Maximum profit where MC = MR – used to derive business’s supply curve
- Take different market prices and determine how much business would produce at each price – production determines supply
- Add average variable cost (AVC) e.g. labour cost, material cost, fuel + electricity
- Graphs:
  - Market price rises due to increase in demand
  - Horizontal demand curve for business’ product shifts upwards – intersecting SMC curve at point to right of previous point of intersection (e1, e2, e3)
  - Each point shows maximizing profit where MC = MR
  - Points e plot business’s supply at different market prices – supply begins at e
  - Points left to e1 – where business cannot cover its variable costs + close doors = closing down point

Equilibrium positions:

- In a perfect market the individual business faces a perfectly horizontal demand curve.
- The market price is determined by the industry (demand and supply curves).
- This means that individual businesses are price takers i.e. they are not able to influence prices.
- An individual business can increase or decrease output in order to maximize profit.
- Profit is maximized where MR = MC.
- This is the point at which profit is maximized; (loss minimized) which is known as equilibrium point.
Equilibrium is at E₁ i.e. The firm will produce where \( MC = MR \).
At this point Q₁ goods are produced at a price of P₁.
The averages cost for Q₁ units is point R on the AC curve.
Price /AR is greater than AC. (TR > TC)
Therefore economic profit is represented by the area P₁S₁R₁E₁.

Equilibrium is at E₁ i.e. The firm will produce where \( MC = MR \).
At this point Q₁ goods are produced at a price of P₁.
At equilibrium (point E₁) average cost is equal to price / the AC curve is tangent to the demand curve which means that P/AR = AC (TR = TC).
The business makes normal profit which is the \textit{minimum earnings} required to prevent the entrepreneur from leaving and using his factors of production elsewhere.
• Equilibrium is at E₁ i.e. the firm will produce where MC = MR.

• At this point Q₁ goods are produced at a price of P₁.

• At equilibrium (point E₁) price/AR is less than average cost / the AC curve is lies above the demand curve which means that P/AR < AC (TR < TC).

• The business makes an economic loss.

CONCLUSION

Freedom of entry and exit into the perfect market alter the supply of goods on the market. This result in changes in price which influences the profit or loss of a business.

✓✓ If price falls to a level where it is equal to the AVC then the firm will shutdown.

(Max 2)