



PREPARING FOR PAPER 2

Checklist

Paper 2 consists of the following:

Micro-Economics	Contemporary Economic Issues
<ul style="list-style-type: none"> • Perfect markets • Imperfect markets • Market failures 	<ul style="list-style-type: none"> • Inflation • Tourism • Environmental sustainability

LAYOUT OF THE PAPER

- Total marks: 150 MARKS.
- The duration of each paper is 1½ HOURS.
- The paper consists of THREE sections
 - **SECTION A:** QUESTION 1 is COMPULSORY.
 - **SECTION B:** Consists of THREE questions: QUESTIONS 2–4 You must choose only TWO
 - **SECTION C:** Consists from TWO questions: QUESTIONS 5–6 You must choose only ONE

SECTION A

(COMPULSORY)

TOTAL: 30

QUESTION 1

1.1	Multiple-choice items	(8 x 2) (16)
1.2	Matching COLUMN A and B	(8 x 1) (8)
1.3	Identify the concept	(6 x 1) (6)

SECTION B

(ANSWER TWO QUESTIONS FROM THIS SECTION)

TOTAL: 80

QUESTIONS 2–4 (THREE QUESTIONS)

ONE question per MAIN TOPIC and ONE combination question (marks not necessarily equally distributed in the combination question) between the 2 MAIN TOPICS

2.1	Short items	
2.1.1		(2 x 1) (2)
2.1.2		(1 x 2) (2)
2.2	Data response: Study the following graph/cartoon/table/extract, etc. and answer the questions follow.	(10)
2.3	Study the following graph/cartoon/table/text, etc. and answer the questions that follow.	(10)
2.4	ONE single question	(2 x 4) OR (4 x 2) (8)
2.5	ONE single question	(2 x 4) OR (4 x 2) (8)



[40]

SECTION C

ANSWER ONE QUESTION FROM THIS SECTION)

TOTAL: 40

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	Max 2
<p>Body:</p> <p>Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/Analyse/Compare/Evaluate/Distinguish/Explain/Assess/Debate</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</p>	<p>Max 26</p> <p>Max 10</p>
Conclusion	Max 2
Total	40



Exam Questions

SECTION A (COMPULSORY)

Question 1

1.1 Various options are provided as possible answers to the following questions.

Choose the answer and write only the letter (A–C) next to question number (1.1.1 – 1.1.8) in the ANSWER BOOK.

1.1.1 When a business becomes too large and leads to higher unit costs

- A Diseconomies of scale
- B Economies of Scale
- C Break-even point

1.1.2 The situation where one business sets the price and the other business accepts it as the market price.

- A Cartels
- B Collusion
- C Price leadership

1.1.3 Number of businesses in monopolistic competition

- A Few
- B One
- C Many

1.1.4 Shape of the demand curve in perfect competition.

- A Kinked
- B Horizontal
- C Downward

1.1.5 The additional costs of making a single extra unit above the number already planned.

- A Opportunity cost
- B Average cost
- C Marginal cost



Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A–I) next to the question number (1.2.1–1.2.8).

1.2.1	A business will produce at this point according to the profit maximizing rule	A. Duopoly
1.2.2	Method to compare social cost with alternative projects	B. Price fixing
1.2.3	Costs that citizens need to pay even when they are not directly involved	C. Cost benefit analysis
1.2.4	A market structure where there is only two firms like Nu-Metro and Ster-Kinekor	D. Price maker
1.2.5	Market forces enable the monopolist to set his own prices	E. $AR = AC$
1.2.6	A characteristic of oligopolies	F. Negative externalities
1.2.7	Signals that calibrate the wishes of consumers with the cost of supplying goods.	G. $MR = MC$
1.2.8	The producer uses a patent to enjoy exclusive rights to produce the product.	H. Prices
		I. Perfect competition
		J. Price taker
		K. Artificial monopoly

1.3 Give one **term** for each of the following descriptions. Write only the term next to the question number (1.3.1 – 1.3.6).

1.3.1 Steers and KFC are examples of this market structure.

1.3.2 Goods and services which are provided by the government.

1.3.3 The nature of the product when Coca-Cola produces a variety of cold drinks.

1.3.4 Cost benefit analysis is generally used in this sector when evaluating large-scale projects.

1.3.5 This competition body accepts or rejects recommendations and passes judgments, similar to a court of law.

1.3.6 The profit that perfect competition is making in the long run. (6x1) (6)



SECTION B

Answer any TWO of the THREE questions from this section in the ANSWER BOOK.

Question 2:

MICROECONOMICS

40 MARKS – 20 MINUTES

- 2.1.1 List TWO cost items that can be regarded as *explicit costs*. (2x1) (2)
- 2.1.2 Define *economic profit*. (1x2) (2)
- 2.2 Study the following extract and answer the questions that follow.

OPEC output steady, IEA says OPEC static amid forecasts of slow growth from non-members.

By Daniel J. Graeber | July 11, 2014 at 9:02 AM

VIENNA, July 11 (UPI) --Lower oil production from Iraq was offset by gains elsewhere from members of OPEC, the International Energy Agency said Friday.

The Organization of Petroleum Exporting Countries said in its monthly market report for June production from Iraq had declined. IEA, based in Paris, said it saw little overall change from the 12 members that combine to represent about 60 percent of the total petroleum traded internationally

"OPEC supplies were virtually unchanged in June at 30.03 million barrels per day, as lower Iraqi production offset gains in Saudi Arabia, Iran, Nigeria and Angola," IEA said in its monthly market report.

Libya, a once-major North African oil producer, has struggled to return to a pre-war production level of around 1.4 million barrels of oil per day. A Sunni-led insurgency in Iraq, meanwhile, is threatening the country's oil sector.

OPEC in a June statement said there is sufficient oil production from OPEC members and steady growth from non-members to keep markets satiated.

(http://www.upi.com/Business_News/Energy-Resources/2014/07/11/OPEC-output-steady-IEA-says/3691405082504/)

- 2.2.1 What does OPEC stand for? (2)
- 2.2.2 Give ONE reason for the decline in Libya's oil production levels. (2)
- 2.2.3 In your opinion, why can OPEC not be regarded as a perfect market structure? Give TWO reasons. (2x2) (4)
- 2.2.4 Name the market structure referred to in the article. (2)



2.3 Study the following table and answer the questions that follow.

OUTPUT	PRICE	AR	MR	TR	AC	MC	TC
1	21	21	21	21	24	24	24
2	18	18	15	36	A	14	38
3	15	15	9	B	15	7	45
4	12	C	3	48	14	11	56
5	9	9	D	45	15	19	75

Cost and Revenue for a monopolistically competitive firm

- 2.3.1 Complete the table by filling in the missing values, marked A–D. (4)
- 2.3.2 Identify the profit-maximising level. (2)
- 2.3.3 In your opinion, explain why monopolistically competitive firms use advertising. (4)
- 2.4 Analyse South Africa’s anti-monopoly policy. (4x2) (8)
- 2.5 Discuss any TWO criteria that determine the perfect market structure. (2x4) (8)
- [40]**

Question 3:

CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 20 MINUTES

Question 4:

MICROECONOMICS & CONTEMPORARY ECONOMIC ISSUES 40 MARKS – 20 MINUTES

TOTAL SECTION B: [80]



SECTION C

Question 5:

MICROECONOMICS 40 MARKS – 35 MINUTES

“Imperfect competition occurs when any one of the conditions of perfect competition are not met.”

- Compare monopolistic competition with perfect competition in the long-term and pay specific attention to the price, profit, output and production levels. (26 marks)
- Use TWO correctly labelled graphs as part of your discussion. (10 marks)

[40]

Question 6:

CONTEMPORARY ECONOMIC ISSUES

40 MARKS – 35 MINUTES

TOTAL SECTION C: [40]

GRAND TOTAL: [150]



Solutions to Paper 2 Questions

SECTION A (COMPULSORY)

Question 1

1.1.1 A Diseconomies of scale

1.1.2 C Price leadership

1.1.3 C Many

1.1.4 B Horizontal

1.1.5 C Marginal cost

1.2.1 E

1.2.2 C

1.2.3 F

1.2.4 A

1.2.5 D

1.2.6 B

1.2.7 H

1.2.8 K

1.3

1.3.1 Monopolistic Competition

1.3.2 Public goods

1.3.3 Differentiated

1.3.4 Public sector

1.3.5 Competition Tribunal

1.3.6 Normal Profit

(6x1) (6)

SECTION B

Question 2

2.1.1 Wages

Leasing of land / buildings

Interest on borrowed capital

Purchase on the hire of inputs

2.1.2 Excessive profits where AR exceeds AC.

Profit that is made in addition to normal profit

2.2.1 Organization of Petroleum Exporting Countries

2.2.2 War

2.2.3 There are too few suppliers for perfect market structures to exist.

OPEC/ crude oil market is an Oligopoly/Cartel.

It is a large organisation that of oil-producing countries that control prices.

Quotas are prescribed to member countries.

(Any other relevant answer)

2.2.4 Oligopoly

2.3.1 A - 19

B - 45

C - 12

D - (3)

2.3.2 Output 3, where $TR = TC$

2.3.3 It is part of non-price competition.

Differentiate products.

2.4 This was a boost for the competition policy in South Africa.

New trade agreements made it compulsory for the South African Competition Law to comply with International requirements.

South African businesses had to become more competitive as South Africa became part of the world economy

NO restrictions on entry to any industry as this would be to the detriment of the previously disadvantaged groups.

Equitable distribution of income and wealth in South Africa should be achieved and the power of big conglomerates curbed.

2.5 **Number of businesses.**

So many that no single business can influence the market price.

Nature of the product.

Homogeneous e.g. maize.



Output.

Output is high and consumers has large variety to choose from.

Barriers to entry.

There are no barriers to entry.

Collusion

Secret communication between sellers is not possible.

Information

All firms and buyers have complete information.

Profit

Only normal profits are made.

[40]

TOTAL SECTION B: [80]

SECTION C

QUESTION 5: MICROECONOMICS 40 MARKS – 35 MINUTES

“Imperfect competition occurs when any one of the conditions of perfect competition are not met.”

- Compare monopolistic competition with perfect competition in the long-term and pay specific attention to the price, profit, output and production levels. (26 marks)
- Use TWO correctly labelled graphs as part of your discussion. (10 marks)

[40]

INTRODUCTION

A monopolistic competitor sells differentiated goods whereas in the perfect competition, homogenous goods are sold.

(Any other relevant answer) **Max 2**

PROFIT

In both cases the price of the product equals the AC.

No difference between monopolistic competitor and perfect competitor.

PRICE

There is a difference between the two market forms.

Generally prices are higher for the monopolistic competitor.

The perfect competitor produces in the long term at point (H).

The monopolistic competitor produces at point (I).

Consumers pay a higher price under monopolistic competition

Monopolistic competitor does not produce at the minimum point of the LAC curve.

Comparison can be made on graph E.g. Compare points H and I again.



OUTPUT

Output levels are lower for monopolistic competitive markets.

The output of the perfect competitor (Q_3) is more than the monopolistic competitor (Q_4)

PRODUCTION

Monopolistically competitive firms are productively inefficient as the AC of production is not at its minimum

The ideal production level of the monopolistic competitor is (Q_5), the minimum point of the LAC curve

Production takes place at (Q_4) which is less than the ideal

The difference between Q_4 and Q_5 is known as surplus capacity of the monopolistic competitor

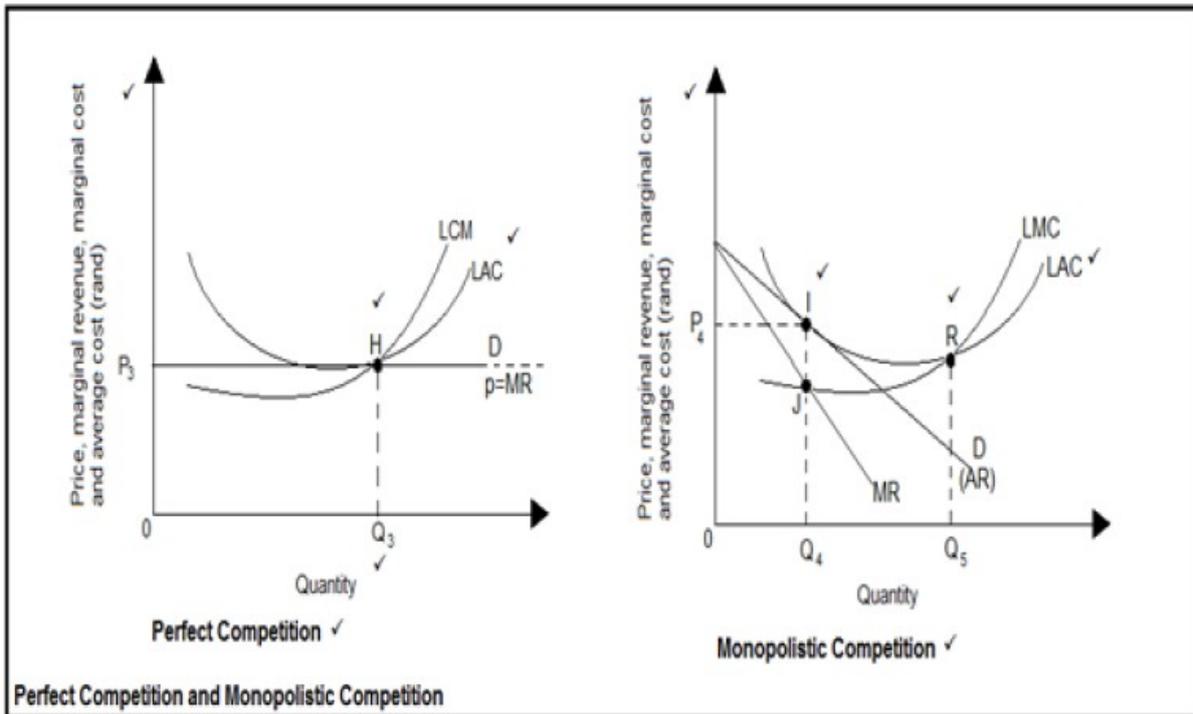
The perfect competitor produces the ideal production quantity at the minimum of the LAC curve.

No surplus capacity for the perfect competitor.

Max 26

ADDITIONAL PART

The following graphs show the long-term equilibrium position of the business under perfect competition and monopolistic competition.



TOTAL SECTION C: [40]

GRAND TOTAL: [150]

