 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**HOME SCHOOLING SELF-STUDY ANSWER SHEET**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SUBJECT** | **ECONOMICS** | **GRADE** | **12** | **DATE** | **22/04/2020** |
| **TOPIC** | **MICROECONOMICS MARKS: 40** | **TERM 1**  **REVISION** |  | **TERM 2 CONTENT** | **X** |

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| **QUESTION 1 MICROECONOMICS 40 MARKS – 30 MINUTES** | | |  |
| 1.1 | **Answer the following questions.** | |  |
|  | 1.1.1 | **Give any TWO examples of positive externalities.** |  |
|  |  | * Education 🗸 * Healthcare 🗸 * Skills training 🗸 * Job creation 🗸 * Infrastructure development 🗸   (Accept any other correct relevant response) (2x1) | (2) |
|  | 1.1.2 | **Why do people in rural areas sometimes pay higher prices for goods and services than those living in urban areas?** |  |
|  |  | * Most manufactured goods are produced in factories, which are situated in urban areas, the cost of transporting it to rural areas are included that will lead to higher prices / imperfect information / lack of competition / scarcity/insufficient facilities / lack of technology🗸🗸   Accept any relevant correct response (1x2) | (2) |
|  |  |  |  |
| 1.2 | **DATA RESPONSE** | |  |
|  |  | |  |
|  | 1.2.1 | **Identify any factor that can influence the prices of goods and services for the monopoly.** |  |
|  |  | * Highest revenue level 🗸 * Demand for the product 🗸   Accept any relevant correct response | (1) |
|  |  |  |  |
|  | 1.2.2 | **At what price must the monopolist sell to obtain maximum revenue?** |  |
|  |  | * 50 🗸 | (1) |
|  |  |  |  |
|  | 1.2.3 | **What is the nature of the product of a typical monopolist?** |  |
|  |  | * The monopolist is providing a unique product 🗸🗸 * There is no close substitute for the product 🗸🗸 | (2) |
|  |  |  |  |
|  | 1.2.4 | **Which curves are required to determine how much profit the monopolist will make?** |  |
|  |  | * The marginal cost (MC) and marginal revenue (MR) 🗸🗸 average cost (AC) and average revenue (AR) curves 🗸🗸 total cost (TC) and total revenue (TR).🗸🗸 | (2) |
|  |  |  |  |
|  | 1.2.5 | **Why will you discourage the monopolist from increasing the price of the product drastically?** |  |
|  |  | The monopolist should not increase the price because:   * consumers will buy alternate products due to budget constraints 🗸🗸 * the total revenue will decline because the demand will decrease 🗸🗸 * loss of revenue could compromise the efficiency of the business operation 🗸🗸 * it might lead to closing the operation due to loss in market share / income 🗸🗸   Accept any relevant correct response (2x2) | (4) |

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| 1.3 | **DATA RESPONSE** | |  |
|  | 1.3.1 | **In the information above, who is more likely to use a CBA when making decisions?** |  |
|  |  | * Government 🗸 | (1) |
|  |  |  |  |
|  | 1.3.2 | **Identify ONE project in the data above that the government is considering for this community.** |  |
|  |  | * A-Road / B-park / C-hospital / D-airport 🗸 | (1) |
|  |  |  |  |
|  | 1.3.3 | **Give a reason why a CBA will NOT be of use to the mechanic in the cartoon.** |  |
|  |  | * Cost-benefit analysis is applicable on large government projects on not on a one-man business 🗸🗸 * A mechanic only considers private costs and private benefits 🗸🗸 * CBA involves external benefits/costs. 🗸🗸   Accept any relevant correct response. | (2) |
|  |  |  |  |
|  | 1.3.4 | **According to the data above, which project would be best for the community?** |  |
|  |  | * C / hospital 🗸🗸 | (2) |
|  |  |  |  |
|  | 1.3.5 | **Why do you think it is important to do a CBA when deciding about large projects?** |  |
|  |  | **It is important to do a CBA because:**   * resources are scarce, therefore we must consider (evaluate) the cost and benefits of a project before allocating resources to a project 🗸🗸 * it allows planners to work out if going ahead with the proposed project is a good decision 🗸🗸 * it helps to bring greater objectivity to decision making 🗸🗸 * it ensures that the project's benefits exceed the cost of implementing the project 🗸🗸   Accept any relevant correct response. (2 x 2) | (4) |
|  |  |  |  |
| **1.4** | **Explain the nature of the product and market entry as characteristics of perfect competition.** | |  |
|  | Nature of the product   * All products are homogeneous/the same 🗸🗸 * The products are identical regarding appearance and quality 🗸🗸 * Customers in such a market consider one business's product to be as good as another's 🗸🗸 (Max 4)   Market entry   * There are no barriers to entry that stop new businesses entering the market 🗸🗸 * There is complete freedom to entry and to exit the market 🗸🗸 * Sunk costs are low – money invested in a business that cannot be recovered if the business close down 🗸🗸 * Entry is not subjected to any kind of restriction in the form of legal, financial, technological or other barriers 🗸🗸 * Less capital is required to enter the market 🗸🗸   (Accept any other correct relevant response) (Max 4)  (Allocate a maximum of 4 marks for mere listing of facts/examples) | | (8) |
|  |  | |  |
| **1.5** | **How will a monopolistic competitor, like KFC, compete with other fast-food chicken outlets to increase its market share?** | |  |
|  | * The monopolistic competitor can increase its market share by competing on non-price factors 🗸🗸 * KFC might use unique spices (recipe) or new product lines (e.g. mealie pap) to offer a differentiated product 🗸🗸 * Using unique red/white packaging to promote KFC-branding 🗸🗸 * Aggressive advertising campaigns can be launched by focusing on the use of bill boards / sponsor ships like mini cricket 🗸🗸 * Extending shopping hours at more KFC branches, will be more convenient for customers in close vicinity to make use of their services (e.g. 24 hour service) 🗸🗸 * Providing more free deliveries within a certain range of the business will ensure an edge over other competition 🗸🗸 * The monopolistic competitor can increase its market share by competing on promotional specials based on price 🗸🗸   (Accept any other correct relevant response)  (Allocate a maximum of 2 marks for mere listing of facts/examples) | | (8) |
|  |  | | **[40]** |