 Province of the

EASTERN CAPE

EDUCATION

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

**HOME SCHOOLING SELF-STUDY ANSWER SHEET**

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| --- | --- | --- | --- | --- | --- |
| **SUBJECT** | **ECONOMICS** | **GRADE** |   12 | **DATE** | **24/06/2020** |
| **TOPIC** | **MICROECONOMICS**  | **TERM 1****REVISION** |  | **TERM 2 CONTENT** | **X** |

**QUESTION 1 40 MARKS − 40 MINUTES**

* Discuss in detail, without the use of graphs, the market structure of an oligopoly. (26 marks)
* How effective is the competition policy in regulating mergers and takeovers in South Africa? (10 marks)

 **(SC DBE 2019)**  **[40]**

**INTRODUCTION**

An oligopoly exists when a small number of large companies are able to influence the supply of a product or service to a market **√√**

(Accept any other correct relevant introduction) Max (2)

**MAIN PART**

**Number of businesses** **√**

* + The market consists of few firms that dominate the market **√√** e.g. banks **√**
	+ Each firm is aware of the actions of the others in the market and this has an impact on decision-making **√√**
	+ This means each producer not only influences others but he also has to consider them **√√**
	+ If there is two firms in the market, it is called a duopoly **√√**

**Nature of the product** **√**

* + Products sold may be homogeneous or heterogeneous**√√**
	+ When product are homogenous, the market is called a pure oligopoly **√√** e.g. petrol **√**
	+ When products are different, the market is referred to as a differentiated oligopoly **√√** e.g. motor cars **√**

**Entry into the market** **√**

* + It is difficult to enter the market due to various barriers **√√**
	+ A large amount of capital is usually required to enter the market **√√**
	+ It is often difficult to overcome barriers imposed by consumer preferences brands **√√**
	+ Firms usually spend a lot of money on advertising to create brand loyalty **√√**
	+ The existing firms may often be enjoying economies of scale and this may be a further barrier **√√**

**Control over price** **√**

* + Oligopolists have influenced the price but not as much as the monopolist does **√√**
	+ Price wars is often a feature when the existing firms want to limit entrance in the market **√√**

**Demand curve of the oligopoly √**

* + An oligopoly faces a kinked demand curve. This demand curve consists of two sections **√√**
	+ The top section that relates to high prices has a very elastic slope (i.e. demand is very sensitive to ‘n price change) **√√**
	+ The bottom section that relates to lower prices is very inelastic (i.e. demand is not sensitive to a price change) **√√**

**Collusion** **√**

* + Firms often cooperate instead of competing with one another **√√**
	+ This may be by forming cartels (explicit collusion), which are formal agreements for firms to work together **√√**
	+ At times collusion can be in the form of price leadership, which is an unspoken agreement among firms **√√**
	+ Price leadership (tacit/implicit collusion) involves one firm serving as a price leader while others follow **√√**
	+ When the price leader changes its price the other do the same **√√**
	+ Collusion is illegal in South Africa, may not negotiate agreements that can limit competition. Behaviour is liable to large fines by the Competition Commission **√√**

**Market information** **√**

* + Buyers and sellers have incomplete information about market conditions **√√**
	+ Even though the oligopolists monitor one another’s actions, they do not always know how the competitor will react to their actions **√√**

**Price and profits** **√**

* + Prices are higher in general than under perfect competition **√√**
	+ Oligopolists develop brand loyalty among consumers to generate economic profit **√√**

**Mutual dependence** **√**

* + There are only a few businesses that sell that particular product – each business is influenced by the action of others √√ **(Max 26)**

(Accept other correct relevant responses)

**ADDITIONAL PART**

**The competition policy is effective in**:

* + putting in place the competition commission, competition tribunal and competition appeal court to investigate and approve mergers and takeovers, investigating whether it is going to substantially prevent or lessen competition **√√**
	+ taking into account the public interest effects such as its impact on employment **√√**
	+ considering the ability of small businesses owned by disadvantaged to become competitive **√√**
	+ the merger of Massmart and Wallmart where they ensured that no job losses will occur for a certain period of time **√√**
	+ providing services to local businesses to ensure sustainability of local producers**√√**
	+ ensuring that mergers are not for the sake of creating market power **√√**
	+ looking into the details of each case and come to a suitable decision **√√**
	+ declining the merger where Air Link wanted to acquire SAfair in 2018, to limit competition due to a few firms in that market **√√**
	+ approving mergers with conditions, e.g. between Regent and Hollard insurance companies in 2017 **√√**
	+ The condition was that no employees may be retrenched for a period of 3 years after the merger **√√**
	+ approving a successful merger with no conditions attached, in the Mondi acquiring Excelsior technologies in 2017 **√√**

 **(Max 10)**

(Accept other correct relevant higher order response) (Allocate a maximum of 2 marks for mere listing of facts or examples)

**CONCLUSION**

The correct application of the Competition Policy is crucial for ensuring that imperfect markets such as oligopoly operate fairly **√√** Max (2)

(Accept other correct relevant higher order responses)

 **[40]**