Province of the

EASTERN CAPE

EDUCATION

DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)

HOME SCHOOLING SELF-STUDY ANSWER SSHEET

SUBJECT	**ECONOMICS**	**GRADE**	12	**DATE**	**01/07/2020**
TOPIC	**MICROECONOMICS**	**TERM 1 REVISION**		**TERM 2 CONTENT**	x

QUESTION 1 **40 MARKS – 40 MINUTES**

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower-order response. • A good starting point would be to define the main concept related to the question topic. • Do not include any part of the question in your introduction. • Do not repeat any part of the introduction in the body. • Avoid mentioning in the introduction what you are going to discuss in the body.	Max. 2
Body **Main part:** Discuss in detail/In-depth discussion/Examine/Critically discuss/ Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain	Max. 26

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/ How/Suggest	Max. 10
Conclusion Any higher-order conclusion should include: • A brief summary of what has been discussed without repeating facts already mentioned • Any opinion or value judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations	Max. 2

Markets are the backbone of economic activities in any country.

- Compare the market structure of a monopolistic competitor to that of a perfect market. (26)
- Explain, with the aid of a graph, how economic profit is achieved for a perfect competitor. (10)

(SC DBE / 2017) [40]

INTRODUCTION

- A market is an institution or mechanism that brings together the buyers and sellers of goods or services / • A market structure is a framework of how a market is organised / • Monopolistic competition is a monopolistic market structure with many buyers and sellers where entry is relatively easy but the product is differentiated / • Perfect competition is a market structure with many buyers and many sellers (Accept any other correct relevant response) Max (2)

MAIN PART

Number of businesses

- There is a number of sellers that are so large □ in the perfect market that individual market participants are insignificant in relation to the market as a whole □ An example of a perfect market is the Securities Exchange, or the produce market □ • A large number of sellers are active in the monopolistic competitive market □ Examples of monopolistic markets are producers of cleaning materials, cold drinks, toothpaste or soap □

Nature of the product □ • All products sold in the perfect market are homogeneous □ All these products are exactly the same regarding quality, appearance □□ it makes no difference to a buyer where and from whom he or she buys the product. □□ • Goods produced by businesses in a monopolistic competitive market are heterogeneous □ They may differ slightly in appearance, shape, size and taste □□ Differences may be imaginary □□ e.g. medicine may have different brand names, but contain exactly the same basic ingredients □□

Entry and exit from the market □ • There is complete freedom of entry and exit of buyers and sellers in the perfect market □ Entry is not subject to any restrictions in the form of legal, financial, technological or other barriers □□ • Entry into the monopolistic competitive market is easy and free □ There are no barriers □□ such as licences, permits, patents and other restrictions □

Market knowledge □ • Both buyers and sellers have complete knowledge about prevailing market conditions in the perfect market □ It is assumed that buyers and sellers instinctively know, e.g. available quantities; price at which product is sold □□ • Market information in the monopolistic competitive market is incomplete □ The many brands, variety of products or marginal difference causes a lack of information for sellers and buyers □□

Control over price □ • There are so many businesses in the perfect market that the individual business is so small that no single business has control over the price of the product □ The price is determined through market forces. In other words, the business can be regarded as a price taker □□ • The individual business in the monopolistic competitive market has some control over the price of a product □ The control over price depends entirely on the strength of brand loyalty □□ The business can be regarded as a price setter □□

Collusion □ • Collusion is not possible under perfect market conditions □ There is no need for businesses to collude because they have no control over price setting □□ In addition, the market share of the individual business is so small and insignificant that it cannot manipulate the market in any way □□ • Collusion does not occur in the monopolistic competitive market □ Individual businesses rely on brand loyalty to determine prices □□ Prices can be manipulated by the strength of their brand loyalty □□ Prices are normally higher in cases where brand loyalty is intense □□ Control over the market (output) is subject to brand loyalty due to product differentiation □□

Marketing □ • There is no need for marketing strategy in the perfect market due to complete market knowledge □□ • Marketing strategy is applied in the monopolistic competitive market □ Deliberate advertising campaigns is launched to create brand loyalty □□

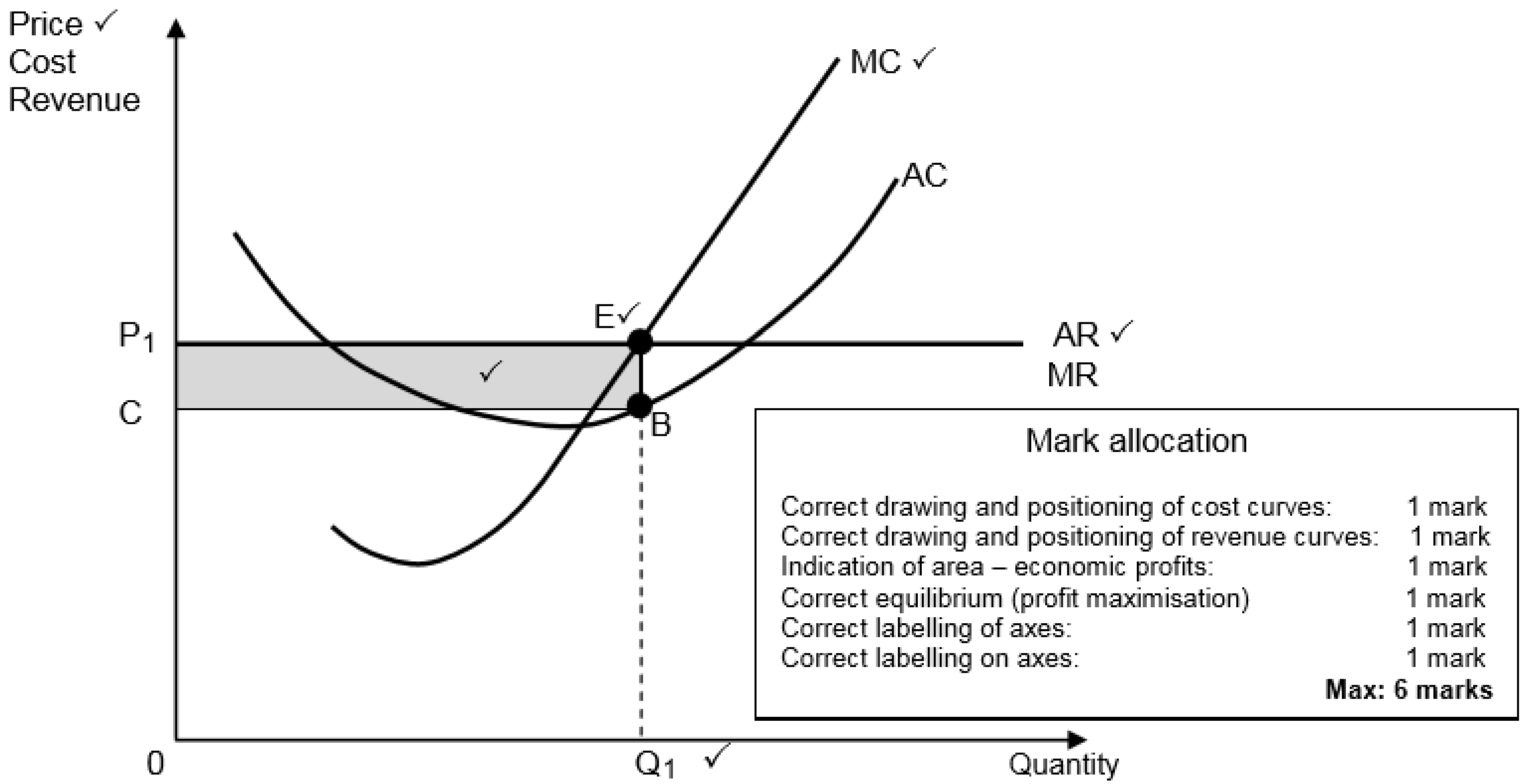
Profits □ • The firm can realise economic profits in the short term, but only normal profits in the long run in the perfect market □□ • The firm can realise economic profits in the short term as well as the long run in the monopolistic competitive market □□

Demand curve □ • The demand curve for the firm in the perfect market is horizontal □□ • D=AR=MR □□ • The demand curve for the firm in the monopolistic competitive market is downward sloping. □□ • AR=D (average revenue curve is also known as the demand curve) □□ • The MR curve lies below AR curve □□ (Allocate a maximum of 8 marks for mere listing of facts/examples) (Accept any other correct relevant response) Accept tabular form

Max (26)

ADDITIONAL PART

Explain, with the aid of a graph, how economic profit is achieved for a perfect competitor.



Mark allocation	
Correct drawing and positioning of cost curves:	1 mark
Correct drawing and positioning of revenue curves:	1 mark
Indication of area – economic profits:	1 mark
Correct equilibrium (profit maximisation)	1 mark
Correct labelling of axes:	1 mark
Correct labelling on axes:	1 mark
	Max: 6 marks

- The minimum point of the short-term average cost (AC) is lower than the market price P1 ⍰⍰ • The business is maximising profit at MR = MC at point E, the business will therefore produce quantity Q1 at the market price P1 ⍰⍰ • Total revenue is equal to 0P1 x 0Q1 and total cost is equal to 0C x 0Q1 ⍰⍰ • Total revenue exceeds total cost, which means the business is making a profit that is represented by area P1CBE ⍰⍰ • This profit is known as economic profit, which is profit that is made in addition to normal profit ⍰⍰ Max (6) for graph - Max (6) explanation (Max 10)

CONCLUSION

Whilst perfect market does not exist, it serves as a standard that imperfect markets, such as monopolistic competition, should strive to achieve

Max (2) (Accept any other correct relevant response) [40]