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higher education & training

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REPUBLIC OF SOUTH AFRICA

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NOVEMBER EXAMINATION

NATIONAL CERTIFICATE

ECONOMICS N4

(2020034)

26 November 2013 (X-Paper)
09:00–12:00

REQUIREMENTS: Graph paper must be provided

Calculators may be used.

This question paper consists of 15 pages.

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DEPARTMENT OF HIGHER EDUCATION AND TRAINING
REPUBLIC OF SOUTH AFRICA

NATIONAL CERTIFICATE
ECONOMICS N4
TIME: 3 HOURS
MARKS: 200

NOTE: If you answer more than the required number of questions, only the required number of questions will be marked. All work you do not want to be marked must be clearly crossed out.

INSTRUCTIONS AND INFORMATION

1. SECTION A is COMPULSORY.
2. Answer any THREE questions in SECTION B.
3. Read ALL the questions carefully.
4. Number the answers according to the numbering system used in this question paper.
5. ALL graphs must be clearly labelled.
6. Write neatly and legibly.

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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–D) next to the question number (1.1.1–1.1.20) in the ANSWER BOOK.

1.1.1 Refer to Table 1 below and answer the questions:

TABLE 1

PRICE	QUANTITY DEMANDED	QUANTITY SUPPLIED
R1	600	80
R2	510	150
R3	480	220
R4	300	300
R5	240	450
R6	120	560

Based on the information provided above, the equilibrium price is ...

A R1
B R4
C R5
D R3

1.1.2 A shortage on the market will exist if ...

A there are too many suppliers.
B the price is below the equilibrium.
C the price is above the equilibrium.
D All of the above-mentioned.

1.1.3 Under perfect competition, a firm's average revenue is ...

A equal to the price.
B total revenue divided by the total cost.
C the revenue received by the firm per unit of labour hired.
D price multiplied by the quantity sold.

1.1.4 A firm will stop existing only when ...

A marginal revenue equals average revenue.
B zero economic profits are made.
C marginal revenue equals price.
D marginal revenue equals marginal cost.

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1.1.5 The sum total of the utility derived from consuming a product is ...

A total utility.
B marginal utility.
C diminishing utility.
D average utility.

1.1.6 The convex shape of the indifference curves can be expressed in terms of ...

A the law of supply.
B the diminishing marginal rate of substitution.
C the law of diminishing marginal utility.
D the law of demand.

1.1.7 If a product has an inelastic demand, it means that ...

A producers are relatively insensitive to a change in the price of the product.
B consumers are relatively sensitive to a change in the price of the product.
C producers are relatively sensitive to a change in the quantity demanded.
D consumers are relatively insensitive to a change in the price of the product.

1.1.8 If one needs to start a business you will consider the following factors of production:

A Rent, wages, interest, profits
B Households, companies, government
C Individuals and institutions
D Land, labour, capital, entrepreneurship

1.1.9 Economics is primarily a study of ...

A how the stock exchange functions.
B how to manage a business successfully.
C the allocation of scarce resources and the ways in which man utilises them.
D government expenditure.

1.1.10 If an increase in the price of product A causes the demand curve for product B to shift to the right, then ...

A product B must be a normal product.
B product A and B must be complementary products.
C the price of product A must be higher than the price of product B.
D products A and B must be substitute products.

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1.1.11 As increasing quantities of a product is consumed ...

A the average utility increases.
B the total utility decreases.
C the marginal utility increases.
D the marginal utility decreases.

1.1.12 A horizontal demand curve ...

A has an income elasticity of 0.
B applies to most products.
C has a price elasticity of 0.
D has an infinite price elasticity.

1.1.13 Perfect competition occurs in a market where there are many firms each selling ...

A labour-intensive products.
B unique products.
C similar products.
D all of the above-mentioned.

1.1.14 When we refer to fixed cost, we look at ...

A cost that increases with a decrease in the output level.
B cost that decreases with an increase in the output level.
C cost that does not vary with the level of output.
D cost that increases with an increase in the output level.

1.1.15 Any point inside the production possibility curve represents ... of resources.

A underemployment
B unemployment
C an insufficient use
D All of the above-mentioned

1.1.16 Which of the following is regarded as a natural resource?

A An amount of money put aside to purchase land.
B The equipment purchased for the production of furniture.
C The land used for the cultivation of a crop.
D The machinery used to plough the fields in agriculture.

1.1.17 If the consumer's demand for fish increased because of an increase in the price of chicken, the products mentioned are examples of ... products.

A inferior
B competitive
C normal
D substitute

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1.1.18 Opportunity cost refers to the …

A cost with reference to an optimal level of production.
B variable cost of production.
C cost of one product obtained expressed in terms of the alternative forfeited.
D value of the best activity.

1.1.19 The question of what, how and for whom to produce in a perfect competitive market is determined by ...

A the central government.
B the consumers.
C the producers
D the market forces of demand and supply.

1.1.20 Which ONE of the following is NOT a characteristic of the command system?

A Production factors are fully mobile.
B The central government owns and controls almost all means of production.
C People are usually trained according to ability.
D Limited competition as a result of state industries.

(20 x 2) (40)

1.2 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question number (1.2.1–1.2.5) in the ANSWER BOOK.

1.2.1 Choices by both producers and consumers are made based on the grounds of the principle of rationality.

1.2.2 A decrease in demand combined with an increase in supply will cause the equilibrium price to drop.

1.2.3 If a person buys less of a product when his/her income increases, the product concerned can be regarded as an inferior product.

1.2.4 The demand for luxury products is relatively elastic.

1.2.5 The perfect competitive firm has full control over the price it charges for its products.

(5 x 2) (10)

TOTAL SECTION A: 50

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SECTION B

Answer any THREE of the four questions in this SECTION.

QUESTION 2

2.1 Study the following graph and answer the questions:

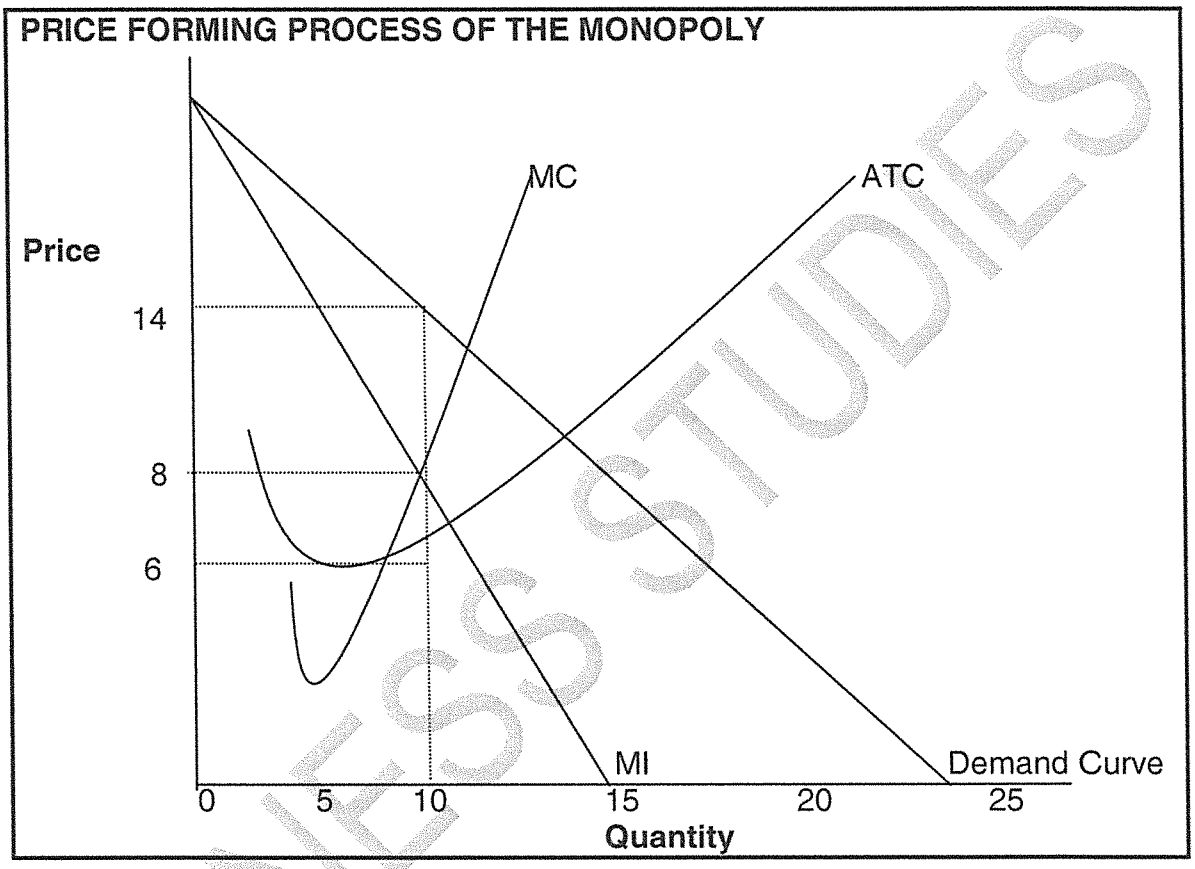


FIGURE 1

2.1.1 What is the profit maximising level of production of the monopolist? (2)

2.1.2 What is the price at which the monopolist maximises his/her profits? (2)

2.1.3 Calculate the total income of the monopolist at the profit maximising level. (Show ALL calculations) (4)

2.1.4 Calculate the total profit of the monopolist at the profit maximising level. (Show ALL calculations) (6)

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2.2 As South Africans we are constantly reminded to save by both government and financial institutions. However, whether we save or not is depended on various motives.

Name THREE motives for saving and provide an example of each (3 x 2) (6)

2.3 Complete the following sentences/paragraph(s) by filling in the missing word(s). Write only the word(s) next to the question number (2.3.1–2.3.5) in the ANSWER BOOK.

2.3.1 ... includes all human effort undertaken to create goods and services.

2.3.2 ... cost refers to the additional cost incurred in order to produce one more unit of a product.

2.3.3 The products on a perfect market are ...

2.3.4 Economics is a ... science.

2.3.5 Wages fulfil a(n) ... function.

(5 x 2) (10)

2.4 The production possibility curve has very distinct features that allow us to distinguish it from other curves in economics.

Name TWO characteristics of the production possibility frontier. (2 x 2) (4)

2.5 We use elasticity to determine with more accuracy how price influences quantities demanded or supplied in economics.

Construct a graph for each of the following types of elasticity. Ensure that you label all graphs correctly.

2.5.1 Completely elastic supply

2.5.2 Unit elastic supply

2.5.3 Completely inelastic supply

(3 x 4) (12)

2.6 Land is globally regarded as a very important resource and serves a specific purpose.

Briefly name TWO functions that land fulfils. (2 x 2) (4)

[50]

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QUESTION 3

3.1 Choose a/an item/word/description from COLUMN B that matches a/an description/word/item in COLUMN A. Write only the letter (A–J) next to the question number (3.1.1–3.1.10) in the ANSWER BOOK.

	COLUMN A		COLUMN B
3.1.1	Fixed capital	A	the income of physical production per unit of changing factor of production
3.1.2	Economic growth	B	if increasing quantities of variable production factors are combined with a fixed quantity of production factors, the average and marginal output will increase, reach a maximum and then eventually decrease
3.1.3	Average income	C	the use of a product over a period of time.
3.1.4	Transfer earnings	D	has a negative slope, a convex nature and can take on many different shapes
3.1.5	Inventories	E	the curve is bowed outwards, which indicates an increase in the slope of the curve
3.1.6	Postponed consumption	F	that portion of the price of a piece of land that is equal to the price it could command in the next best use it could be put to
3.1.7	Indifference curve	G	unsold stock, raw materials and components used in the production process
3.1.8	Law of diminishing returns	H	the consumer applies his/her available income in such a way on the purchase of products that he/she obtains maximum satisfaction
3.1.9	Production possibility	I	any process that results in a quantitative long-term change in an economic structure
3.1.10	Consumer equilibrium	J	durable goods that are used to produce other goods and services

(10 x 2) (20)

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3.2 Suppose the income of a consumer increases with 12% and the demand for a specific product decreases with 8%.

3.2.1 Calculate the income elasticity of demand based on the information provided above. (Show ALL calculations) (6)

3.2.2 What type of elasticity is represented above? (2)

3.2.3 Substantiate your answer in QUESTION 3.2.2 above. (2)

3.2.4 What type of product is applicable in this instance? (2)

3.3 As humans, we have various needs which have to be satisfied using limited means. These needs have specific characteristics.

Name FIVE characteristics of human needs (5 x 2) (10)

3.4 Refer to TABLE 2 below and answer the questions based on the cost of production.

TABLE 2

LABOUR (Number of workers)	TOTAL PHYSICAL PRODUCTION	TOTAL FIXED COST	TOTAL VARIABLE COST	TOTAL COST
0	0	50	0	(a)
1	6	50	30	80
2	11	50	40	90
3	15	50	(b)	100
4	18	50	60	110
5	21	50	70	(c)

3.4.1 Calculate the values of (a), (b) and (c). (6)

3.4.2 What is the average total cost for producing 18 products per day? (2)

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QUESTION 4

4.1 Indicate whether the following statements are TRUE or FALSE. Choose the answer and write only 'true' or 'false' next to the question number (4.1.1–4.1.5) in the ANSWER BOOK.

4.1.1 The government could use elasticity to decide on which type of products they will levy indirect taxes.

4.1.2 If the individual demand or MIP curves are added together, the market demand curve for labour is obtained.

4.1.3 The demand for labour is an allocated demand.

4.1.4 The monopolist always makes an abnormal profit.

4.1.5 As a consumer's income increases, the demand for other goods and services increase.

(5 x 2) (10)

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4.2 The following graph represents equilibrium price fixing on a perfect competitive market. Study the graph and answer the questions.

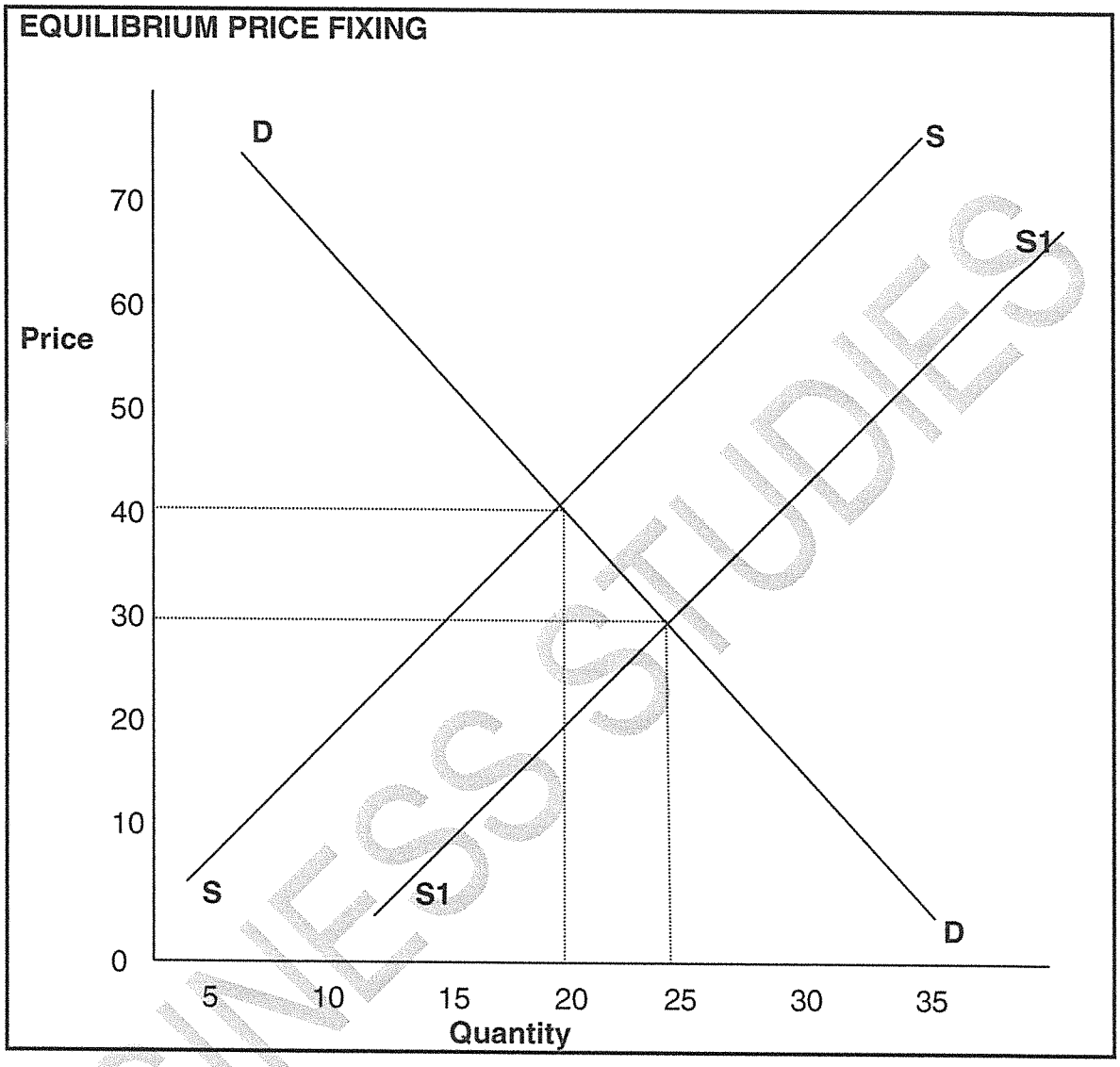


FIGURE 2

4.2.1 DD and SS being the original curves, indicate the equilibrium price and quantity at the original equilibrium position. (2)

4.2.2 An increase in the supply of the product is indicated by curve ... (1)

4.2.3 What is the new equilibrium price and quantity? (2)

4.2.4 A market ... will exist at a price of R50. (2)

4.2.5 Calculate the total revenue at the new equilibrium position. (Show ALL calculations) (4)

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4.3 Briefly describe the following concepts:

4.3.1 Market constraints

4.3.2 Average income

4.3.3 Consumer equilibrium according to the *utility theory*

(3 x 3) (9)

4.4 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (4.4.1–4.4.5) in the ANSWER BOOK.

4.4.1 If the price of raw materials increases, supply will (increase/decrease).

4.4.2 A perfect competitor will maximise profits where the price equals (marginal/total) costs.

4.4.3 The cost of production of the monopolist's product is often (higher/lower) than the cost of production for a perfect competitor.

4.4.4 Due to the fact that the intensity of a need determines the utility value of consumer goods, the utility (increases/decreases) in the process of consumption.

4.4.5 The total utility will (increase/decrease) as soon as marginal utility is below zero.

(5 x 2) (10)

4.5 The South African labour market is characterised by an oversupply of unskilled labour.

Briefly explain the following FIVE characteristics of labour in relation to the above statement.

4.5.1 Size and composition of the labour force

4.5.2 Labour time

4.5.3 Inborn aptitude

4.5.4 Labour ability

4.5.5 Training

(5 x 2) (10)
[50]

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QUESTION 5

5.1 Indicate whether the following are characteristics of a free-market system or a command system.

Give ONE word/term for each of the following descriptions. Write only the word/term next to the question number (5.1.1–5.1.5) in the ANSWER BOOK .

5.1.1 The consumer does not buy goods that he/she dislikes.

5.1.2 The central government owns and controls almost all means of production.

5.1.3 The prices of goods are fixed by the state.

5.1.4 The price mechanism plays an important role in the solution of economic problems.

5.1.5 Expected profits and possible losses are the only reason for the expansion or decreasing of economic activities.

(5 x 2) (10)

5.2 Study the following graph and answer the questions:

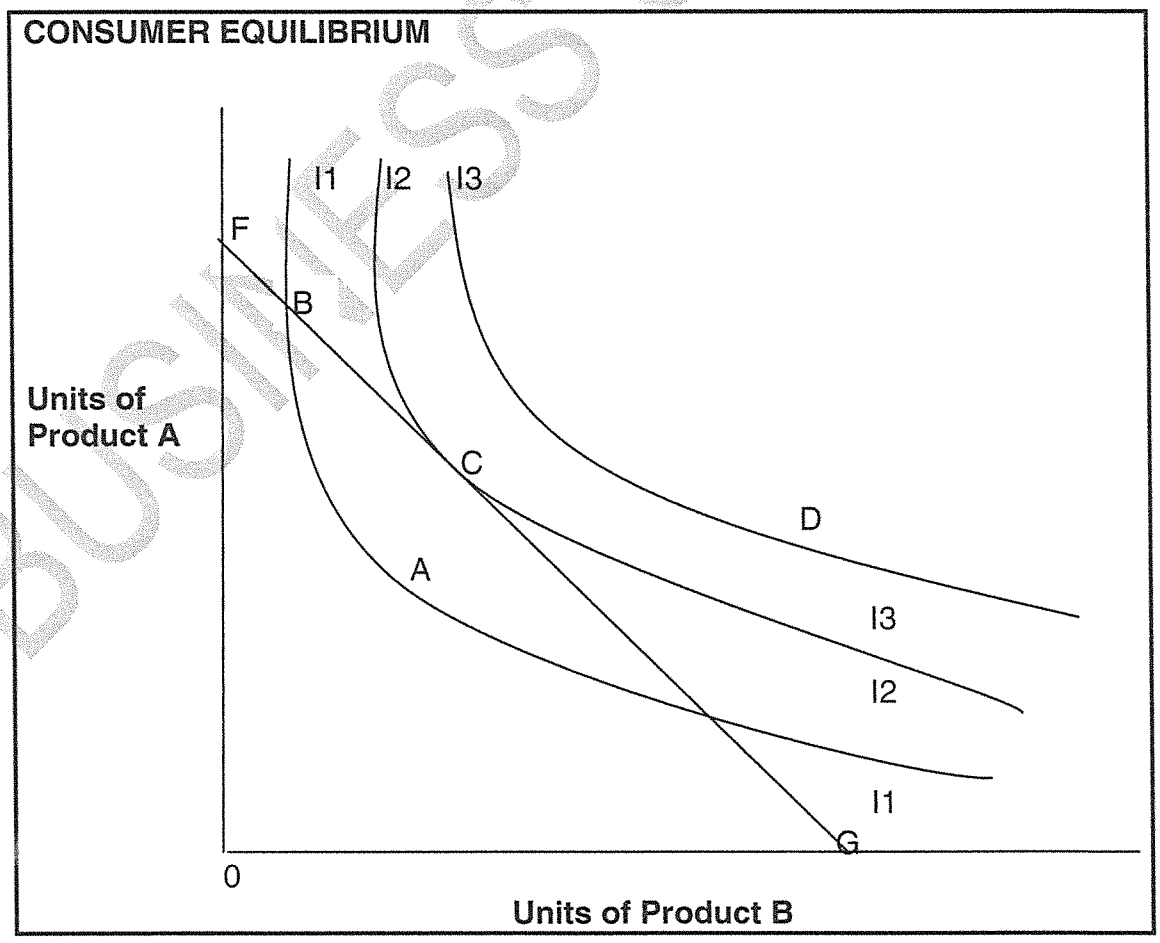


FIGURE 3

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5.2.1 At which point on the graph will the consumer maximise his/her satisfaction? (2)

5.2.2 Which theory is applicable in this instance? (2)

5.2.3 Line FG is referred to as the ... (2)

5.2.4 Which indifference curve represents the greatest level of satisfaction? (2)

5.2.5 Will the consumer opt for the combinations represented by point A? Motivate your answer. (4)

5.3 Within any economy, one can identify a specific flow between goods, services and money.

Use a diagram to illustrate the circular flow of goods, services and money in the economy. (10)

5.4 The following table represents the market demand for tomatoes. Study the table and answer the questions:

TABLE 3

PRICE	QUANTITY DEMANDED
R10	10
15	8
20	6
25	4
30	2

5.4.1 Construct the demand curve for tomatoes using the information provided in Table 3. (8)

5.4.2 If all other factors remain constant and the demand for tomatoes increases with 4 bags at each price level, calculate the new quantities demanded on the market. (5)

5.4.3 Use the graph in QUESTION 5.3.1, and construct the new demand curve on the SAME GRAPH, using the new quantities demanded. (5)
[50]

TOTAL SECTION B: 150
GRAND TOTAL: 200

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