



**KWAZULU-NATAL PROVINCE**

**EDUCATION**  
REPUBLIC OF SOUTH AFRICA



**CURRICULUM GRADE 10 -12 DIRECTORATE**

**NCS (CAPS) SUPPORT**

**JUST IN TIME REVISION TEACHER GUIDE**

**ECONOMICS PAPER 1**

**GRADE 12**

**2021**

TOPIC 1: THE CIRCULAR FLOW

ACTIVITY 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 numbers (1.1.1. to 1.1.5) in the ANSWER BOOK e.g.

1.1.6.A

1.1.1 Money withdrawn from the economy is called -----

- A. injections
- B. imports
- C. leakages ✓✓
- D. Money flow



1.1.2 A small initial increase in spending produces a proportionately larger increase in aggregate national income -----

- A. marginal propensity to consume
- B. multiplier ✓✓
- C. investment expenditure
- D. savings

1.1.3 The method used to derived total remuneration on factors of production is called the -----method

- A. Production
- B. income ✓✓
- C. expenditure
- D. circular

1.1.4 Household spending which is independent of income is known as ... consumption.

- A. Autonomous ✓✓
- B. Induced
- C. Fixed
- D. Stable

1.1.5 The national aggregate that represents the value added in each phase of production is known as the Gross Domestic -----

- A. Expenditure
- B. Market
- C. Income
- D. Product ✓✓

(5X2)

**ACTIVITY 2**

2.1 Study the table below and answer the questions that follow

Gross Value Added (GVA)	2020 (R)
Compensation of employees	875 162
Net operating surplus	(-----B---)
Consumption of fixed capital	236 380
Gross Value Added at -----A-----	1 750 324

Sources: SARB QUARTELY BULLETIN

2.1.1 Name the method of calculating the national income that is shown on the table above. (1)

Income method ✓

2.1.2 Identify what is represented by the letter A on the table above? (1)

Factor cost ✓

2.1.3 Briefly describe the term *consumption of fixed capital*. (2)

Amount of money put aside to replace worn out machines and fixed assets. /

To maintain fixed assets. ✓✓

(Accept any other relevant and correct response)

- 2.1.4 Explain the impact of Corona Virus /COVID 19 on the national income. (2)

National income will decrease since our government will have to increase government expenditure to cover the costs of this pandemic. ✓✓

People will lose jobs and demand of goods and services will decrease ✓✓

(Accept....

- 2.1.5 Calculate the contribution by net operating surplus (B) on the national income.

Show all calculations.

(4)

1 750 324 ✓ -236 380 ✓ +875 162 ✓

1 750 324 -1111 542

=638 782 ✓

- 2.2 Discuss how the government can use the multiplier concept to reduce unemployment? (8)

By manipulating the levels of leakages and injections. ✓✓

Jobs created there will result in more income and spending in the economy which will lead even more jobs being created. ✓✓

Government can also decrease taxation putting more money in the pockets of the consumer. ✓✓

The extra money will be spent by the consumer leading to increased employment. ✓✓

Government can decrease company taxes that might lead to increases investment by business focusing on labour intensive production methods. ✓✓

Accept any other relevant answer.

### ACTIVITY 3

- 3.1 Study the cartoon below and answer the questions that follow:



- 3.1.1 Name the economic concept that the MPS is related to. (1)

Multiplier ✓

- 3.1.2 Identify other variable of income is used to calculate the multiplier (1)

3.1.3 Briefly describe the term *Induced consumption*. (2)

Induced consumption is the consumption that depends on income. ✓✓

(Accept any other relevant and correct response)

3.1.4 Explain the impact of an increase in the multiplier on households. (4)

If the multiplier increases spending on the economy will increase and employment will increase. ✓✓

Incomes of households will increase ✓✓

There will be an increase the standard of living. ✓✓

3.1.5 Distinguish between Gross Domestic Expenditure and Expenditure on Gross Domestic Product. (8)

GROSS DOMESTIC EXPENDITURE	EXPENDITURE ON GROSS DOMESTIC PRODUCT
<ul style="list-style-type: none"> <li>Gross domestic expenditure is the total expenditure on final goods and services produced within the borders of the country. ✓✓</li> <li>It is calculated by adding all expenditure of four participants within the borders of the country. ✓✓</li> <li>It does not distinguish between local produced goods and imported goods. ✓✓</li> <li>Formula is <math>GDE=C+I+G</math> ✓✓ (Accept any correct relevant answer)</li> </ul> <p style="text-align: right;">( Max.4)</p>	<ul style="list-style-type: none"> <li>The level of production goods and services inside the borders of the country. ✓✓</li> <li>It is calculated by adding the expenditure on goods produced within the borders of the country. ✓✓</li> <li>Formula is <math>GDP(E) = C+I+G+(X-M)</math> ✓✓ (Accept any correct relevant answer)</li> </ul> <p style="text-align: right;">(Max.4 Marks)</p>

#### ACTIVITY 4

4.1 Study the table below and answer the questions that follow.

EXPENDITURE ON GROSS DOMESTIC PRODUCTS	
R millions( At Constant 2015 prices)	2020
Final consumption expenditure by Households	2 058619
Final Consumption expenditure by general government	1087418
Gross capital formation	398204
<b>Gross Domestic Expenditure</b>	---(A)
Residual item	20 097
Exports of goods and services	2616669

Import of goods and services	1 540 215
<b>GDP@ market prices</b>	<b>4 640 792</b>

Source: SARB QUARTELY BULLETIN

- 4.1.1 Which year does the South African Bank currently use as a base year? (1)  
 2015✓
- 4.1.2 Identify the component used to cater for errors and omissions when calculating gross domestic product at market price. (1)  
 Residual item✓
- 4.1.3 Briefly explain the term basic prices. (2)  
 Basic prices are prices used when GDP is calculated according to the production method and represent the production cost of the firms. ✓✓  
 (Accept any correct relevant answer)
- 4.1.4 What effect would an increase in imported clothes have on domestic textile manufacturer? (2)  
 Increase in imports results in the increase in supply of goods and services and results to a loss of profit of domestic textile manufacture. ✓✓  
 Demand of local products will decrease and profits will go down. ✓✓  
 (Accept any correct relevant answer)
- 4.1.5 Calculate the value for A. Show all the calculations. (4)  
 2058619✓ + 1087418✓ + 398204✓  
 = 3544241✓

**Activity 5**

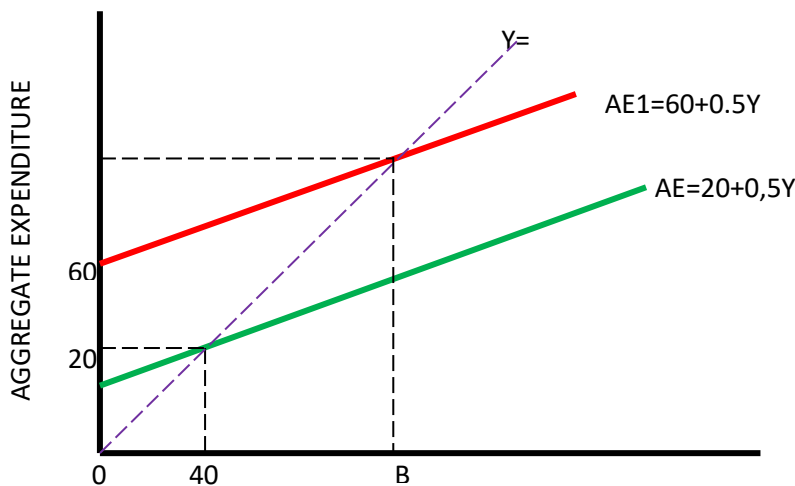
**5.1 Study the extract below and answer the questions that follow:**

<p><b>THE STATE OF THE SOUTH AFRICAN ECONOMY</b></p> <p>The recovery in domestic economic activity following the sharp contraction in the second quarter of 2020 continued in the fourth quarter as the coronavirus disease 2019 (COVID 19) lockdown restrictions were eased further. However, growth in real gross domestic product (GDP) moderated markedly to an annualised rate of 6.3% in the fourth of 2020, from a revised 67.3% in the third quarter. For the year a substantial 7.0% after a marginal increase of only 0.2% in 2019. The national lockdown-induced contraction since 1920, when the real GDP fell by 11.9% and was also about five times larger than the contraction of 1,5% that followed the global financial crisis (GFC) IN 2009.</p> <p style="text-align: right;">Source (SARB Quarterly Bulletin 2021)</p>
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- 5.1.1 Name the international institution that guides the compilation of South Africa's national account aggregates. (1)  
 United Nations (UN) ✓
- 5.1.2 Identify the trend of the South African economy since the lockdown. (1)  
 Decreasing /negative trend ✓
- 5.1.3 Briefly describe the term disposable income. (2)  
 Disposable income is household income after taxes/income that is available for households to spend on goods and services. ✓✓  
 (Accept any correct relevant answer)
- 5.1.4 Explain the effect of an increase in Gross National Income on households. (2)  
 An increase in Gross National Income will increase the per capita income of households. ✓✓  
 The increase in the national income will lead to the increase in the standard of living of households ✓✓
- 5.1.5 Why are national accounts important to a country? (4)
- National account aggregates are important for the country because they indicate the performance of the economy. ✓✓
  - The government and businesses can use them to understand how variables like economic growth, employment and inflation have performed. ✓✓
  - It allows them to make informed decisions. ✓✓

**ACTIVITY 6**

6.1 Study the diagram below and answer the questions that follow:



- 6.1.1 Identify ONE economic multiplier in a TWO sector model. (1)  
 Household ✓  
 Businesses ✓
- 6.1.2 What is the value of the marginal propensity to consume in the above diagram? (1)  
 0.5 ✓
- 6.1.3 Describe the term multiplier effect. (2)

The multiplier effect is when a small initial increase in spending produces a proportionately larger increase in aggregate income. ✓✓

6.1.4 Briefly explain how the government influence the size of the multiplier. (2)

If the government expenditure increases the size of the multiplier will also increase. ✓✓

6.1.5 Calculate the value of B in the above diagram. Show all calculations. (4)

$$mpc = 1$$

$$1/0, 5 ✓$$

$$= 2 ✓$$

$$2 \times 40 ✓$$

$$= 80 ✓$$

## TOPIC 2: BUSINESS CYCLES

### ACTIVITY 1

#### 1.1. MATCHING ITEMS

- 1.1.1 F - Subsidy used by government to encourage exporting businesses to locate in neglected areas. ✓
- 1.1.2 D - Price of one currency expressed in terms of another currency. ✓
- 1.1.3 E - People within the labour force that are willing and able to work but unable to work. ✓
- 1.1.4 A - Expenses that are incurred by the businesses but not directly related to production. ✓
- 1.1.5 G - The use of government spending and taxation to influence the economy. ✓
- 1.1.6 H - When economic growth and full employment is achieved by increasing demand for goods and services. ✓
- 1.1.7 B - When the central bank buys government bonds in order to manipulate creation of money. ✓
- 1.1.8 C - Price of one currency expressed in terms of another currency. ✓

(8x 1) (8)

1.2. Give ONE term for EACH of the following descriptions. Write only the term next to the question numbers (1.3.1 to 1.3.6) in the ANSWER BOOK. Abbreviations, acronyms and examples WILL NOT be accepted.

1.2.1. A policy used by the central bank to control the supply of money in the economy.

Monetary ✓

1.2.2. Exchange rate system that uses forces of demand and supply.

Free floating ✓

1.2.3. Removal regulations and government control measures that interfere with free trade.

Deregulation ✓

1.2.4. A specific range in which monetary policy (central bank) is steering the economy.

Inflation targeting ✓



1.2.5. A sustained general increase in the price level of goods and services.

Inflation ✓

1.2.6. An economic measure used by the government to stimulate aggregate supply in the economy.

Supply-side policy ✓

(6 x 1) (6)

## ACTIVITY 2

2.1. Answer the following questions.

2.1.1. Name any TWO fiscal policy instruments.

(1x2)(2)

Taxation ✓

Government spending ✓

Public debt ✓

2.1.2. How can demand-side policies be used to stimulate economic activity? (2)

The government can stimulate economic activity by using fiscal and monetary policies to encourage consumer spending. ✓✓

(Accept any other relevant and correct response)

2.2. Study the extract below and answer questions that follow.

### DOES THE ECONOMY HAVE ROOM FOR EXPANSION?

An economy's ability to grow can be constrained by factors that limit its ability to produce goods and services – "supply-side" factors like poor infrastructure or a lack of education. It can also be constrained by a lack of funds to purchase the goods and services it does produce – "demand-side" factors.

The International Monetary Fund and South Africa's national treasury argue that the country's poor growth performance over the past decade is due to supply-side factors. These include infrastructural bottlenecks in electricity generation and supply, over-regulated (formal) labour markets, and increases in product market concentration (as seen in rising profit mark-ups).

Source: [www.wits.ac.za](http://www.wits.ac.za)

2.2.1. Identify ONE example of economic infrastructure from the above extract.

(1)

Electricity ✓

2.2.2. Name any ONE policy in which the new economic paradigm is embedded.

(1)

Supply-side policy/ demand-side policy ✓

2.2.3. Briefly describe the term *cash incentives*.

(2)

It is money that government gives to firms as a support to cover their cost of production and increase production. ✓✓

(Accept any other relevant and correct response)

2.2.4. Explain the shortage of skilled workers as a supply constraint.

- It causes lack of productivity. ✓✓
- Less goods and services are produced due to lack of skills. ✓✓
- Shortage of skills may leads to poor quality of goods and services being produced. ✓✓
- Businesses may incur cost as they will need to spend more on training workers. ✓✓
- The shortage of skills may force the country to import certain products which has a negative impact on the economic growth. ✓✓

(Accept any other relevant and correct response)

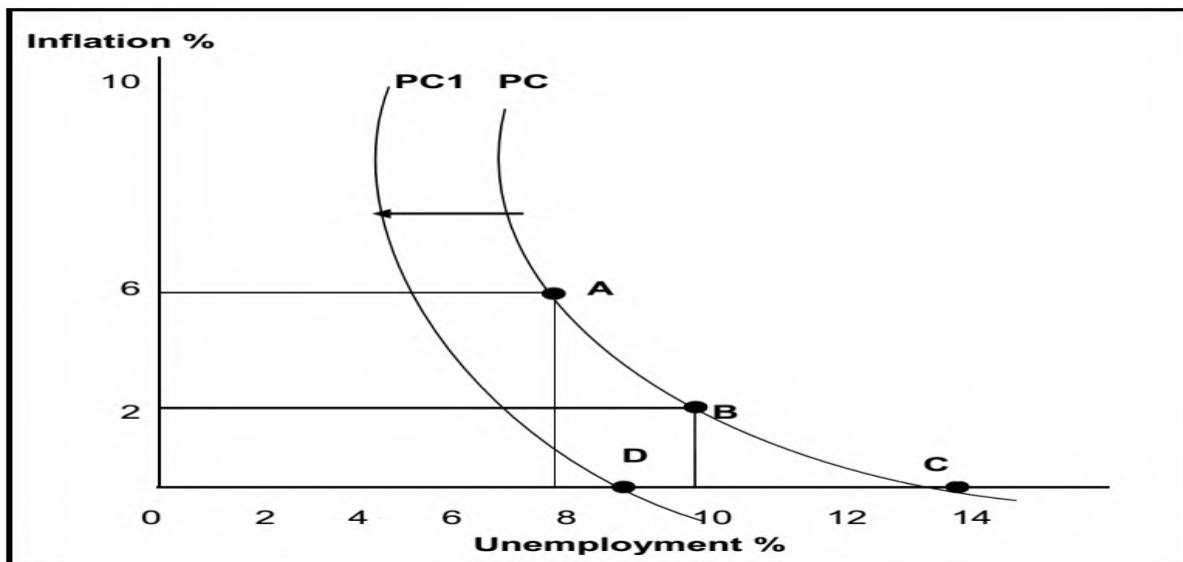
2.2.5. Why is it necessary to dampen an overheating economy?

(4)

- It causes a shortage of supply and lead to inflation. ✓✓
- The value of the rand may become too strong and lead to a decrease in exports. ✓✓
- Resources may get depleted as firms try and increase production in response to demand. ✓✓

(Accept any other relevant and correct response)

2.3. Study the graph below and answer the questions that follow.



2.3.1. What is depicted on the graph above?

(1)

Phillips curve ✓

2.3.2. Identify ONE economic phenomenon that is demonstrated by the graph above?

(1)

Inflation ✓ / unemployment ✓

2.3.3. Briefly describe the term *business cycle*.

(2)

Business cycle is a fluctuation in the level of economic activities which lead to contraction or expansion over time. ✓✓

(Accept any other relevant and correct response)

2.3.4. What impact does a decrease in unemployment have on the economy?

(2)

- Aggregate demand increases as more people start earning an income ✓✓

- Prices of goods and services increases which lead to inflation. ✓✓

- Government will collect more tax thus improving economic growth and development. ✓✓

(Accept any other relevant and correct response)

2.3.5. How can the government use fiscal policy to achieve economic growth? (4)

- The government can increase government spending to create employment opportunities through infrastructure development, to stimulate economic activity. ✓✓

- Government may also decrease taxes which help consumers to have more disposable income. ✓✓

- Consumers may then increase their spending which will lead to economic growth. ✓✓

(Accept any other relevant and correct response)

2.4. Discuss *reduction of costs* as a supply-side policy. (4x2)(8)

- Reduction of costs means that a greater output can be supplied at any given price. ✓✓

- The government can roll out measures that can reduce costs of production of enterprises directly and indirectly. ✓✓

- Infrastructure costs can add substantial amounts to the total costs of the businesses; this can be eased by the infrastructural service offered by the government. ✓✓

- The government can reduce administration costs by eliminating regulations and by-laws which places a burden to businesses. ✓✓

- The supply-side policy also means that the state provides cash incentives to businesses located in neglected areas as a measure of creating job opportunities. ✓✓

- The government can be offered to exporters of certain costs they incur in the development of export market. ✓✓

(Accept any other relevant and correct response)

2.5. How can the government use fiscal policy to stimulate economic growth through demand side?

- The government can increase spending which will increase aggregate demand, the multiplier will kick in positively and total spending will increase. ✓✓

- Decrease taxes which will result in consumers and producers having a larger part of their incomes available to spend on goods and services. ✓✓

- Rising government spending and simultaneously decreasing taxes will have a double effect. ✓✓

- Government spending increases and consumers and producers has more to spend. ✓✓

- The government can use the credit facility of the IMF or World Bank to access funds that can be used to stimulate the economy. ✓✓

(Accept any other relevant and correct response)

**ACTIVITY 3**

3.1 Discuss in detail the new economic paradigm in the smoothing of business cycles. (26)

3.2 How successful is the South African Reserve Bank (SARB) in dealing with the economic downturn caused by COVID-19? (10)

**INTRODUCTION**

The new economic paradigm discourage policy makers in using monetary and fiscal policies to fine-tune the economy, however they are encouraged to resort to policies related to demand and supply. ✓✓

(Accept any other correct relevant introduction) (2)

**BODY: MAIN PART**

**The demand-side policies**

- Demand side policies refer to decisions taken by the government to influence the aggregate demand for goods and services in the country. ✓✓
- The government may try to increase consumer spending by stimulating aggregate demand. ✓✓
- This can grow the economy but can lead to bottlenecks such as inflation, unemployment and balance of payments deficit. ✓✓

**a.) Inflation** ✓✓

- When aggregate demand increase faster that aggregate supply, general price levels will also increase. ✓✓
- If supply does not react to the changes in demand, prices will increase.
- This will lead to inflation. ✓✓
- Supply-side measures can be used to create a situation where supply is more flexible. ✓✓

**b.) Unemployment** ✓✓

- Demand-side policies can stimulate economic growth. ✓✓
- Economic growth increases the demand for labour and this reduces unemployment. As a result people will be employed and unemployment will decrease. ✓✓
- But as unemployment falls, inflation starts to rise. ✓✓
- This relationship is shown using the Phillips curve. ✓✓

**(Max. 13 Marks)**

**Supply-side policies**

These are measures undertaken by authorities to influence the level of aggregate supply of goods and services in the country to meet changes in demand. ✓✓

**a.) Reduction of costs** ✓✓

- The reduction of costs of production means that a great output can be supplied at any given price level ✓✓.

- The government can use measures that can reduce costs of production for businesses directly or indirectly. ✓✓
  - **Infrastructure services**✓: The government can target transport, communication, water and energy as areas of focus. ✓✓
  - **Administration costs**✓: This includes removing the burden placed by inspections, reports on the application of various laws, regulations and by-laws, tax returns providing statistical information. ✓✓
  - **Cash incentives**✓: These include subsidies and compensation of exporters who operate in neglected sectors. ✓✓

**b.) Improving the efficiency of inputs**✓✓

- **Tax rates**✓: High rates of personal income tax and corporate income tax are disincentives as they reduce increase costs and reduce profits✓✓.
- **Capital consumption**✓: Replacing capital goods regularly creates opportunities for businesses to keep up with technological development. ✓✓
- **Human resources development**✓: Improving working conditions can improve the quality of human resources and enhance the efficiency of businesses. ✓✓
- **Free advisory services**✓: The government involvement in promoting opportunities to export and establishing new business ventures in other countries. ✓✓

**c.) Improving the efficiency of markets**✓✓

- **Deregulation**✓: This includes the removal of laws, regulations and by-laws, and other form of government controls that interfere in markets and make the markets free. ✓✓
- **Competition**✓: This entails arranging the markets in such a way that allows for new businesses, increase competition and invites Foreign Direct Investment. ✓✓
- **Levelling the playing fields**✓: Government policy should protect the private sector as well. Public enterprises are protected by legislation and they survive on government resources. This disadvantages the private sector. ✓✓

(Max. 13 marks)

(Accept any other relevant correct answer)

(26)

**How successful is the South African Reserve Bank (SARB) in dealing with the economic downturn caused by COVID-19?**

The South African Reserve Bank (SARB) is successful in dealing with the economic downturn caused by COVID-19 because:

- It has effectively used the repo rate to reduce interest rates so as to allow borrowing during the economic downturn therefore restoring business confidence. ✓✓

- It has used the money supply target to increase the circulation of money through buying government securities in the open market. ✓✓
- It has protected the value of currency to domestic consumer price by allowing the free-floating exchange rates to correct economic fluctuations. ✓✓
- It has managed to keep the inflation rate within the target range of 3%-6%. ✓✓
- It has allowed banks to occasionally change the minimum balances requirements so as to allow clients to manipulate money creation activities. ✓✓
- It has made credit available by relaxing lending criteria and keeping reasonable amounts of money in reserve. ✓✓

(Accept any other relevant and correct response)

OR

**The South African Reserve Bank (SARB) is not successful in dealing with the economic downturn caused by COVID-19 because:**

- The repo rate of 3.50% is not sufficient in reducing interest rates which are meant to boost business confidence. ✓✓
- The money supply target strategy to increase the circulation of money is not yielding good results as many people lost their income in the midst of COVID-19. ✓✓
- The subscription to free-floating exchange rates system did not assist the country but instead exposed it to the global financial crisis. ✓✓
- The current inflation rate still leaves most South Africans vulnerable to poverty caused by unaffordable prices for goods and services. ✓✓
- In the wake of COVID-19 most South Africans find themselves unemployed and therefore are unable to take advantage of money creation activities made available by banks. ✓✓
- It is difficult to access the credit facilities because of the hefty processes to get credit while banks are using their money in reserves to finance restructuring that is required to comply with COVID-19 protocols. ✓✓

(Accept any other relevant correct response)

### CONCLUSION

The government should strike a balance between supply -side and demand- side policies so as to avoid provoking inflation and unemployment. ✓✓

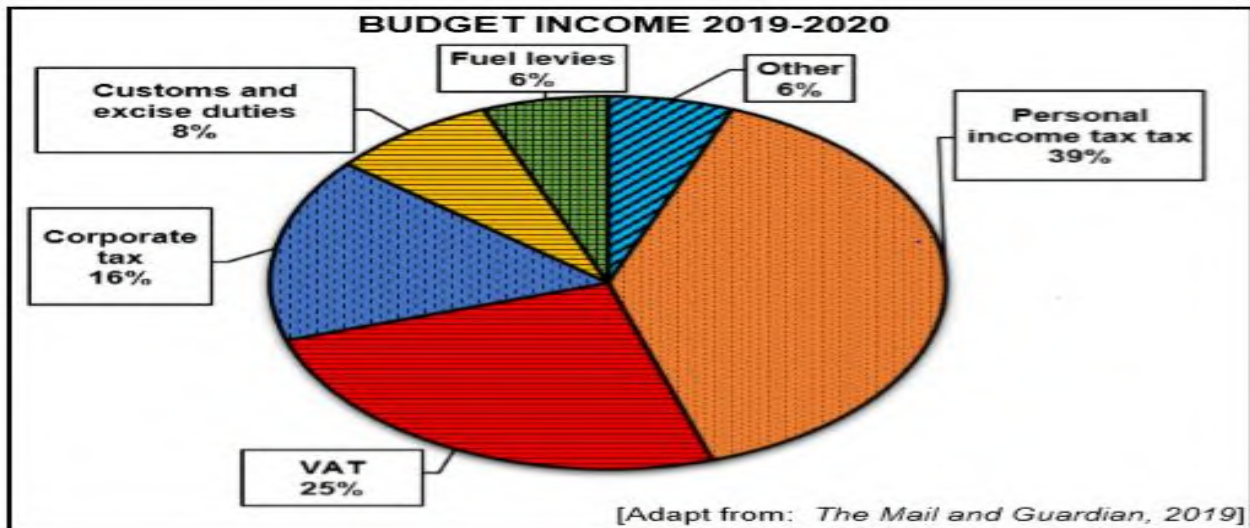
(Accept any other correct relevant conclusion)

(2)

[40]

### **TOPIC 3: PUBLIC SECTOR**

Activity 1



1.1.1 Name the biggest contributor of revenue to the State (1)

Personal income tax (39%)✓

1.1.2 Identify ONE method that government can use to make brown bread more affordable for the consumer. (1)

subsidies✓/maximum prices✓

1.1.3 Briefly describe the term indirect tax. (2)

A tax that is charged when money is spent on products✓✓  
(Accept any other correct relevant response)

(1 x 2) (2)

1.1.4 What is the financial implication of a 1% increase in VAT for the government? (2)

The financial implication for the SA government will be:

- Increase revenue through taxation✓✓
  - Increased social spending✓✓
- (Accept any other correct relevant response)

(1 x 2) (2)

1.1.5 How can the effective use of budgets help provinces in efficient service delivery? (2 x 2) (4)

Effective budgets will:

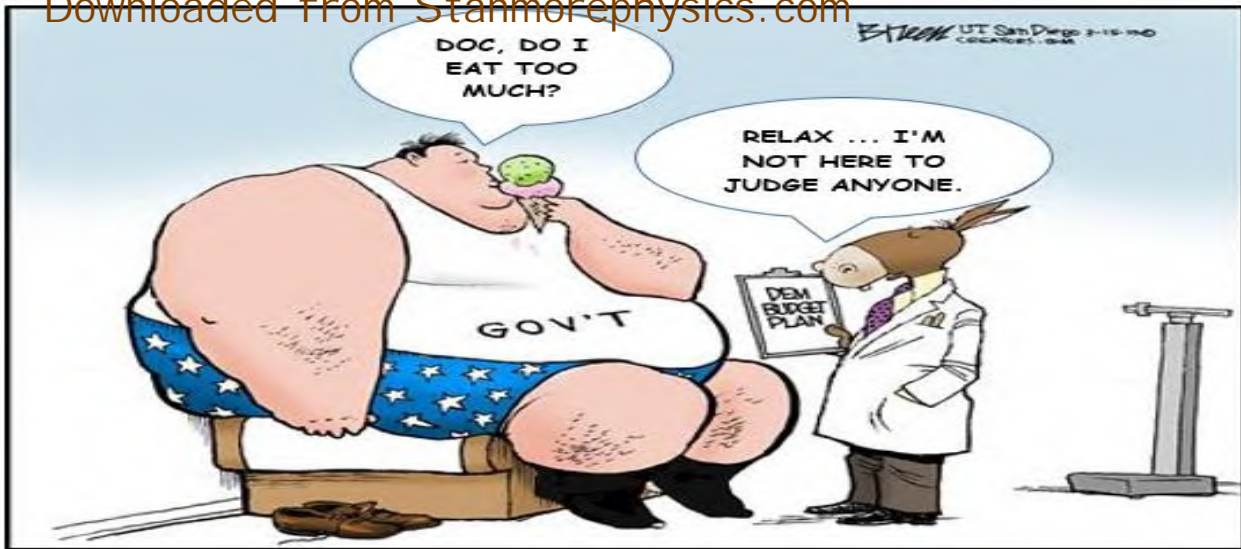
- Ensure that money allocated to certain projects, like refuse removal will occur✓✓
  - That state officials will be held accountable when it comes to deadlines✓✓
  - That there would be transparency with the finances✓✓
- (Accept any other correct relevant response)

Any (2 x 2) (4)

Activity 2

2.1 Study the cartoon below and answer the questions that follow





[Source: [www.google.com](http://www.google.com)]

2.1.1 Name any ONE budget plan that the government oversees. (1)

- Main budget ✓
- Medium-Term Expenditure Framework (MTEF) ✓
- Medium-Term Budget Policy Statement (MTBPS) ✓

2.1.2 What challenge is the government facing as depicted in the cartoon above? (1)

- Poor spending of public funds ✓
- Mismanagement of public funds ✓
- Corruption ✓
- Ineffective governance ✓

(Accept any other relevant response)

2.1.3 Briefly describe the term budget. (2)

A document containing details about the expected revenue and projected expenditure. ✓✓

2.1.4 Why will an increase in tax rate not necessarily increase government revenue? (2)

Instead of paying more taxes the individuals may:

- Avoid paying tax ✓✓
- Evade paying tax ✓✓
- They may decide not to work ✓✓

(Accept any other relevant correct re

2.1.5 How can the government effectively reduce management failure? (2 x 2) (4)

Government can reduce management failure by:

- Employing people according to skills, competence levels and qualifications ☐☐

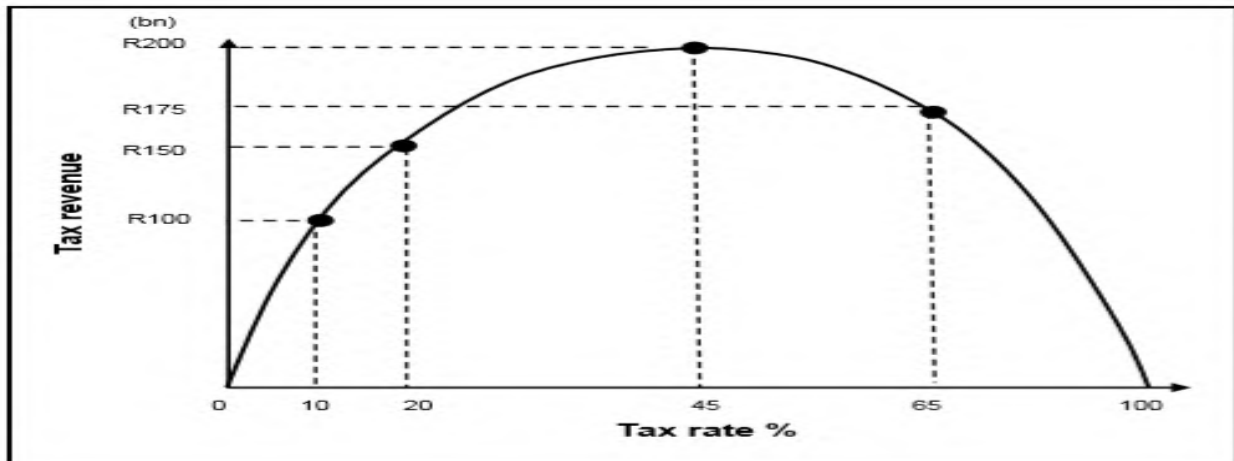


- Providing leadership workshops and training
  - Ensuring that no one's welfare is improved at the expense of someone else
- (Accept any other relevant and correct response).

(2 x 2)(4)

### Activity 3

3.1 Study the graph below and answer the questions that follow



3.1.1 Identify the curve in the graph above. (1)

Laffer ✓

3.1.2 At what tax rate will government revenue be maximised? (1)

45% ✓

3.1.3 How much revenue will the government receive if the tax rate is 100%? (2)

No revenue / zero ✓✓

3.1.4 What effect will a decrease in the tax rate from 65% to 45% have on tax revenue? (2)

A decrease in the tax rate will lead to an increase in tax revenue (from R175 to R200) by encouraging people to work ✓✓  
(Accept any other correct relevant response)

3.1.5 What consequences could a 1% VAT increase have on the different role players in the South African economy? (2 x 2) (4)

The increase of VAT by 1% could affect role-players by:

- increasing the revenue to the government if the same/more is spend by businesses and households ✓✓
  - resulting in a fall in output (production) because fewer consumers will be able to afford to buy the same goods and services as before ✓✓
  - leading to a decline in the satisfaction of wants of consumers, mainly poor consumers in buying luxury goods ✓✓
  - causing an increase in tax - especially the high income earners (luxury goods) where they are responsible for 85% of VAT income ✓✓
  - 19 basic food items are excluded from VAT ✓✓ that benefit most lower income earners
  - leading to a decrease in sales that will reduce profits ✓✓
- (Accept any other correct relevant response)

TOPIC 9: INTERNATIONAL TRADE

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 The systematic record of all the transactions of a country's inhabitants with the rest of the world, is known as the ...

- A. trade balance
- B. balance of payments ✓✓
- C. national budget
- D. current account

1.1.2 The value of visible exports minus visible imports is...

- A. exchange rate
- B. net balance
- C. trade balance ✓✓
- D. net profit/loss

1.1.3 Portfolio investment is known as... investments

- A. property
- B. banks
- C. shares ✓✓
- D. capital

1.1.4 The financial account in the balance of payments records the transactions related to ...

- A. production
- B. assets and liabilities ✓✓
- C. net gold exports
- D. consumption

1.1.5 Payment for services forms part of the .... in the balance of payments.

- A. financial account
- B. current account ✓✓
- C. capital transfers account
- D. trade

1.1.6 Withdrawal of capital investment from a company or a country...

- A. Injections
- B. Investments
- C. Sanctions

D. Disinvestment ✓✓



(6x2) (12)

1.2 Choose the description from COLUMN B that matches an item in COLUMN A. Write only the letter (A -I) next to the question number in the answer book.

COLUMN A		COLUMN B
1.2.1 Capital transfer account	(B) ✓	A. the value of exports minus imports.
1.2.2 Special drawing rights	(D) ✓	B. records transactions of migrants
1.2.3 Trade balance	(A) ✓	C. the purchase of financial assets such as shares.
1.2.4 Portfolio investment	(C) ✓	D. a financial instrument distributed among the member countries of the IMF.
1.2.5 Direct investment	(I) ✓	E. an entry that is used to capture the effects of errors, omissions and timing differences.
1.2.6 Unrecorded transactions	(E) ✓	F. the outflow is greater than the inflow of funds.
1.2.7 Deficit	(F) ✓	G. all currencies of other countries in the possession of the South African Reserve Bank.
1.2.8 Foreign reserves	(G) ✓	H. the exchange of goods and services across the international borders.
		I. Acquisition of more than 10% share in a business.

(8X1) (8)

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) in the ANSWER BOOK. Acronyms and abbreviations will NOT be accepted.

1.3.1 The sum of net direct investment, net portfolio investment and other investment.

Financial account ✓

1.3.2 An international organization that lends money to countries with ongoing balance of payments problems.

*International monetary fund* ✓

1.3.3 Financial contract that derive their value from underlying assets.

*Financial derivatives* ✓

1.3.4 The ratio between the import and export indices.

*Terms of trade* ✓

1.3.5 Rights issued by the IMF that can be used when a country experiences balance of payments difficulties.

*Special drawing rights* ✓

1.3.6 Total visible exports minus total visible imports.

*Trade balance* ✓

(6x1) (6)

## ACTIVITY 2

2.1.1 Give any TWO sub- accounts of the balance of payments.

(2x1) (2)

*Current account* ✓

*Financial account and* ✓

*Capital transfer account* ✓.

2.1.2 How can South Africa improve its Terms of Trade?

(1x2) (2)

*South Africa can improve its terms of trade by increasing exports prices and or decreasing imports prices.* ✓✓

2.2 Study the table below and answer the questions that follow

**Current account of the balance of payments**

R billions Seasonally adjusted and annualised	2019			2020		
	Q3	Q4	Year	Q1	Q2	Q3
<b>Current account credits (Receipts)</b>						
Goods and services	1 543	1 567	1 516	1 590	1 156	1 594
Exports of goods	1 328	1 352	1 303	1 389	1 069	1 507
Merchandise exports (free on board)	1 258	1 260	1 236	1 292	990	1 379
Net gold exports	70	93	67	97	79	129
Services receipts	215	215	213	201	87	87
Primary income receipts	117	121	117	129	119	114
Secondary income (current transfers) receipts	27	29	27	29	39	32
<b>Current account debits (Payments)</b>						
Goods and services	1 510	1 480	1 490	1 396	1 142	1 195
Merchandise imports (free on board)	1 284	1 250	1 264	1 187	998	1 054
Services payments	226	230	226	208	144	142
Primary income payments	303	241	260	225	223	168
Secondary income (current transfers) payments	63	65	62	64	74	81

Source: (stats SA & SARB)

- 2.2.1 Identify the item that captures the income earned by South Africans from the rest of the world? (1)

*Primary income receipt. ✓*

- 2.2.2 Which quarter of 2020 shows the general improvement in the current account? (1)

*Quarter 3 / Q3 ✓*

- 2.2.3 Briefly describe the concept balance of payments. (2)

*It is a systematic record of one country's transaction with the rest of the world. ✓✓*

- 2.2.3 Why is gold exports listed as a separate item in South Africa's BOP? (2)

*It is because South Africa is a measure exporter of gold and earns a lot of income from gold. ✓✓*

- 2.2.5 Calculate the trade balance for Q2 of 2020. (Show all calculations) (4)

*Trade balance = merchandise exports + net gold export - merchandise imports*

$$= 990✓ + 79✓ - 998✓$$

$$= \underline{R71 \text{ billion}✓}$$

- 2.4 Discuss how import substitution and export promotion be used achieve a surplus on the balance of payment? (4x2) (8)

**Import substitution**

*Countries can give incentives to encourage domestic production of goods instead of importing. ✓✓*

*The will impose certain measures such as tariffs, quotas and embargo to restrict imports. ✓✓*

**Export promotion**

*Exports may be encouraged by reducing export duties and lowering interest rate used for financing exports. ✓✓*

*The government will grant subsidies and incentives to local manufactures and exporters to improve their competitiveness abroad. ✓✓*

*(Accept any other relevant answers)*

2.5 Evaluate the impact of the Terms of trade to the balance of payment. (8)

*Negative impact of terms of trade on bop ✓✓*

*An improvement does not necessarily mean an improvement on balance of payment. ✓✓*

*If terms improve, this means that export prices have increased more than import prices. ✓✓*

*This indicates deterioration (decline) in competitiveness and may lead to a fall in export demand. ✓✓*

*How much export falls will depend on the price elasticity of demand for exports. ✓✓*

**Positive impact**

*A decrease in the terms of trade may actually indicate an improvement in competitiveness this is because import have risen more than export prices, possible showing that export are more competitive. ✓✓*

*The demand for exports may rise leading to an improvement in the current account. ✓✓*

**ACTIVITY 3**

3.1.1 Give any TWO examples of merchandise exports. (2X1) (2)

*Mineral products ✓, agricultural products ✓, iron ✓ and steel ✓, wine ✓*

3.1.2 What negative effect can surpluses on the BOP have on the country's economy? (1x2) (2)

*It may lead to inflation due to high demand of domestic products in the long run. ✓✓*

*(Accept any other relevant answer)*

3.2 Study the table below and answer the questions that follow.

Terms Of Trade	
2010= 100	2020

Exports prices	186.2
Import prices	158.0

Source (google)

3.2.1 Identify the base year on the above table. (1)

2010 ✓

3.2.2 Name the institution responsible for publishing terms of trade figures (1)

South African Reserve Bank. ✓

3.2.3 Briefly describe the term exchange rate (2)

It refers to the ratio between index exports and index imports of the country with the rest of the world.

✓✓

3.2.4 How will an increase in the Terms of Trade have a positive effect on the welfare of the country. (2)

An increase in the terms of trade can be beneficial because the country fewer exports to buy a given number of imports. ✓✓

3.2.5 Calculate the Terms of trade for the year 2020. (Show all the calculations). (4)

$$\begin{aligned}
 \text{Terms of trade} &= \frac{\text{index export prices}}{\text{Index imports prices}} \times \frac{100}{1} \\
 &= \frac{186.2}{158.0} \times \frac{100}{1} \checkmark \checkmark \\
 &= 117.8 \checkmark \checkmark
 \end{aligned}$$

3.4 Discuss the financial account as a component of the balance of payment. (8)

- All transactions relating to assets and liabilities are recorded in the financial account. ✓✓
- Direct Investment, linked to the investment in foreign businesses for the purpose of getting a meaningful percentage share of control of such business, include investment in real estates ✓✓
- Portfolio Investment, Refers to the purchase of financial assets e.g. shares (equities) or bond. These investments are highly liquid. ✓✓
- Other investments. It contains all transactions that cannot be classified as portfolio direct investments or reserve assets. They consist of loans, trade credits, currency and deposits. ✓✓

*Imports can be targeted to reduce deficit on the balance of payment by:-*

- *Consuming less and encouraging personal savings to the individuals so that there will be a decline from luxury imported goods. ✓✓*
- *Reduce the value of exchange rate to make imports more expensive and reducing foreign travelling. ✓✓*
- *Providing incentives and subsidies to local producers to reduce the cost of production and promote local buyers to buy their local goods then imported goods. ✓✓*
- *Controlling of volumes of import by imposing import duties and constricting import through quotas and incentives. ✓✓*
- *Banning unnecessary imported goods (embargo) from other countries. e.g. drugs ✓✓*

*(Accept any other relevant answers)*

#### ACTIVITY 4

4.1.1 Give any TWO items relating outflow of funds from the current account (2x1) (2)

*Merchandise imports ✓*

*Payment for services ✓*

*Income payments ✓*

4.1.2 How can taxes be used to decrease deficits on the BOP? (1x2) (2)

*By increasing taxes such as import tariffs to make import expensive. ✓✓*

*(Accept any other relevant answers)*

4.2 Study the extract and answer questions that follow

**IMPROVEMENT IN SOUTH AFRICA'S TRADE SURPLUS**



South Africa's export volumes bounced back in the third quarter of 2020 in step with global trade, following the easing of COVID-19 lockdown restrictions and the related rebound in economic activity. As a result, South Africa's *trade surplus* increased more than six fold from R71.4 billion in the second quarter of 2020 to R453.6 billion in the third quarter. The improvement in the trade balance resulted from the *value* of merchandise exports increasing substantially more than imports. The higher value of merchandise exports resulted primarily from higher volumes while merchandise imports reflected an increase in prices.

(Source: stats SA)

4.2.1 Identify the term that shows that South Africa is trading with the rest of the world. (1)

Global trade ✓

4.2.2 What is the value of the change in the trade surplus between the second quarter and the third quarter of 2020? (1)

R382, 2 billion ✓

4.2.2 Briefly describe the term Portfolio investments. (2)

Portfolio investment refers to the purchase of financial assets such as shares on the stock exchange.

✓✓

4.2.4 Why is the unrecorded transactions entry important in the balance of payment? (2)

Unrecorded transactions arise due to errors and omission that occur in compiling balance of payment and are the balancing item. ✓✓

4.2.5 Explain how strict Covid-19 lockdown restrictions have affected export volume? (4)

Exports of non-essential goods dropped drastically due to a decrease in demand. ✓✓

The demand for exported essential goods like citrus fruits increases as a source of vitamin C. ✓✓

4.4 Discuss the composition of the current account in the balance of payment. (8)

Current account record the value of exports and imports of both goods and services and international transfers of capital. ✓✓

Items of the current account

\*merchandise export is where visible and tangible goods are sold to the rest of the world. ✓✓

\* Net gold export- income earned from the sale of gold as a commodity. ✓✓

\* net gold export is a separated from other merchandise export because the gold is the most contributors to the GDP of the country. ✓✓

\* Services-income earned or expenditure paid for invisible services. E.g. insurance. ✓✓

\* Income- include all income earned by the South African from abroad in the form of salaries and dividends. ✓✓

\* current transfers- goods transferred from South African resident to non-resident, vice versa with rendering any service. e.g donation, gifts. ✓✓

4.5 Why mainly focusing on import substitution cannot help to solve balance of payment problems? (8)

Countries may not completely eliminate imports because resources are unevenly distributed because they will still need capital and intermediate goods from other countries. ✓✓

Import substitution measures may lead to retaliation by trading partners and they may stop buying our local goods which will negatively affect bop. ✓✓

Countries use export led growth strategies have better BOP than countries using import restrictions because export market are much bigger than domestic market and have more trading opportunities. ✓✓

Domestic production can be inefficient because it is isolated from international competition hence lead to a decrease in exports. ✓✓

Import restrictions discourage foreign direct investment which may negatively affect the net direct investment of the BOP. ✓✓

(Accept any other relevant answers.)

## ACTIVITY 5

5.1.1. Give any TWO items of the Financial Account of the balance of payment. (2X1) (2)

Direct investments, portfolio investments, other investments and reserves assets. ✓✓

5.2 Study the cartoon below and answer the questions that follow



Source (google)

5.2.1 Identify the statement that records the country's transactions with the rest of the world (1)

Balance of payment ✓

5.2.2 Name ONE item imported by South Africa. (1)

Capital goods, crude oil, chemicals, vaccines ✓

5.2.3 Briefly describe the term Trade balance. (2)

Trade balance refers to a difference between visible exports and visible imports. ✓

5.2.4 Briefly explain the importance of the balance of the current account? (2)

It is an important signal of competitiveness and the level of import and exports. ✓✓

It assists the authorities to know when and how to intervene. ✓✓

5.2.5 What will be the impact of a strong economic expansion on the current account? (4)

Economic expansion might increase the volume of exports since on the expansion period more goods are produced and the excess of these goods may be exported. ✓✓

A higher rate of economic growth will cause higher levels of consumer spending. Therefore, there will be a rise in import spending causing a decline in the current account. ✓✓

ACTIVITY 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 (1.1.1-1.1.5) in the ANSWER BOOK, for example 1.1.9 C

1.1.1 The price of a country in terms of the other is called...

A. Exchange rate ✓✓

B. Amount

C. Repo rate

D. Inflation rate

1.1.2 A market where a currency can be exchanged for another country's currency.

A. Currency market

B. Foreign market

C. Foreign exchange market ✓✓

D. Capital market

1.1.3 An exchange rate system where the forces of supply and demand entirely establish the value of a currency is called a ... exchange rate system.

A. Fixed

B. Managed

C. Floating

D. Free floating ✓✓

1.1.4 The exchange rate system used by South Africa is called the ... exchange rate system.

A. Fixed

B. Managed floating

C. Free-floating ✓✓

(4 X 2= 8)

1.2. Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A-G) next to the question number (1.2.1-1.2.5) in the ANSWER BOOK

COLUMN A	COLUMN B
1.2.1  F✓	A. A market where a currency can be exchanged for another country's currency
1.2.2 Exchange rate  D✓	B. A fall in the value of a currency in terms of its exchange rate versus an exchange rate of other currencies
1.2.3 Foreign exchange market  A✓	C. A national central bank to intervene regularly in foreign exchange market to change the direction of the currencies float
1.2.4 Depreciation  B✓	D. Price of the country's currency in terms of another country's currency
1.2.5 Managed floating exchange rate system  C✓	E. Visible export minus visible import
	F Expresses a country's exports prices
	G. when a countries currency is valued too high

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question (1.3.1-1.3.5) in the ANSWER BOOK.

1.3.1 An increase in the price of a currency in terms of another due to market forces.

Appreciation✓

1.3.2 The exchange rate that is used by in South Africa.

Free floating exchange rate system✓

1.3.3 An exchange rate system where the forces of supply and demand entirely establish the value of a currency.

Free floating exchange rate system ✓

1.3.4 Compares the country's export prices to its imports prices by means of indexes.

Terms of trade ✓

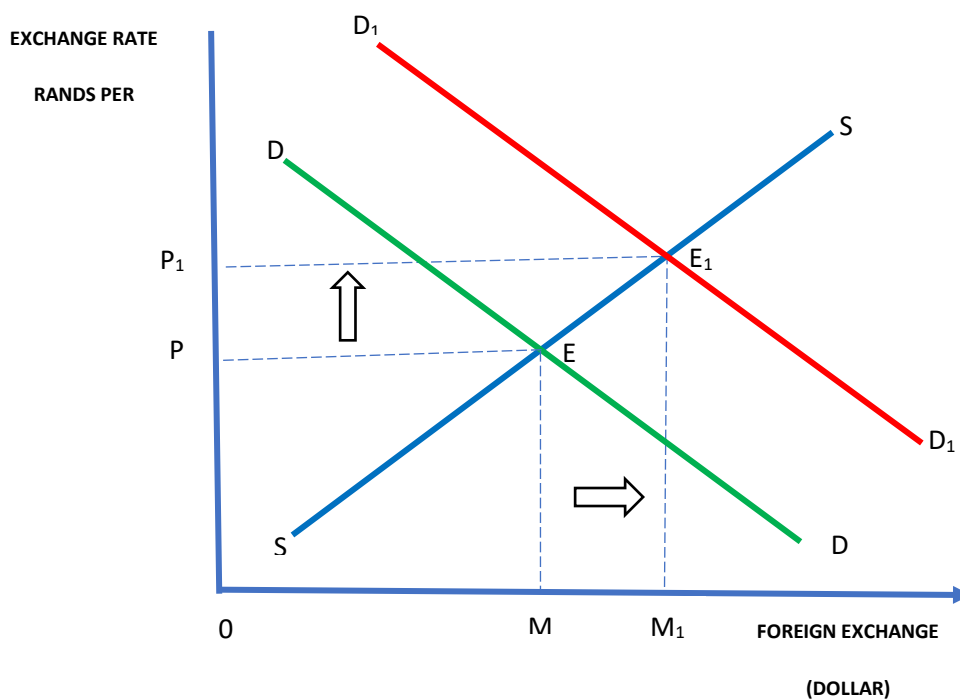
1.3.5 When authorities deliberately increase the value of currency.

Revaluation ✓

(5 X 1=5)

## ACTIVITY 2

2.1 Study the graph below and answer questions that follow:



2.1.1 Which market is depicted by the graph above? (1)

• Foreign exchange market ✓

2.1.2 What effect does the shift in demand have on the price of dollars? (1)

• The price of dollars increase/ appreciates ✓

2.1.3 Briefly describe the term exchange rate. (2)

• Exchange rate is the price of one country's currency expressed in terms of another currency. ✓✓

(Accept any relevant correct response)

2.1.4 Explain the negative effect of a depreciation of currency in the economy. (2)

**Depreciation of currency reduces the purchasing power parity of money which means that South Africans need more money (Rands) when buying from other countries. ✓✓**

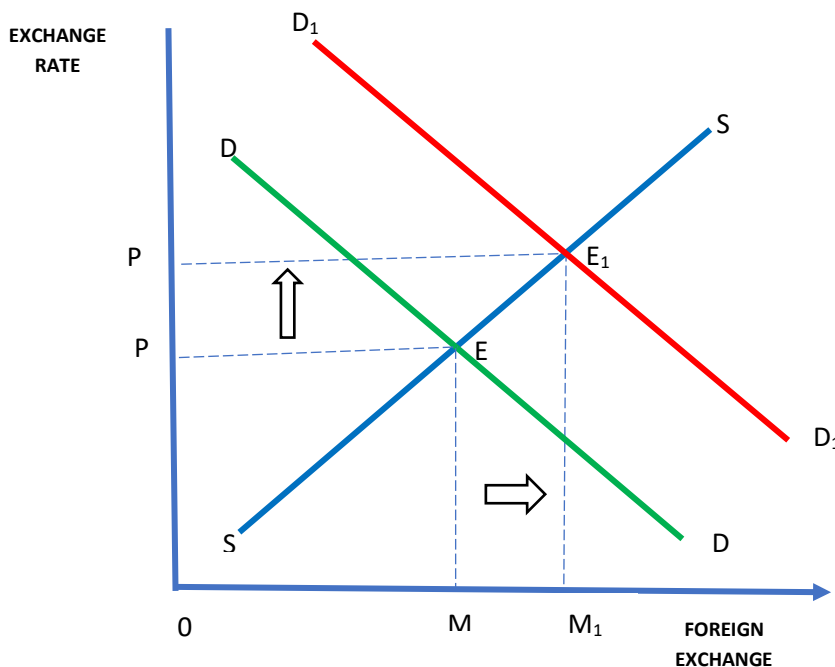
- **Depreciation of currency has a potential of increasing prices of imported goods which limits the variety of goods that consumers are able to buy. ✓✓**

2.1.5 How can an increase in the demand for dollars negatively affect the South African economy? (4)

**It negatively affects the South African economy by:**

- **Increasing the costs of imported goods like capital and intermediate goods. ✓✓**
- **Making it hard to pay for trade deficit that is owned to overseas creditors/ South African economy can be downgraded by credit rating institutions like Moody's ✓✓**

2.4 Discuss by means of a fully labelled graph, the effect on the value of the rand if there is a sharp increase in the number of South African tourists visiting the USA. (8)



**Mark allocation:**

**Correct labelling of axes= 1 mark**

Correct labelling on axes=1 mark

Shift of supply curve to the right=2 marks

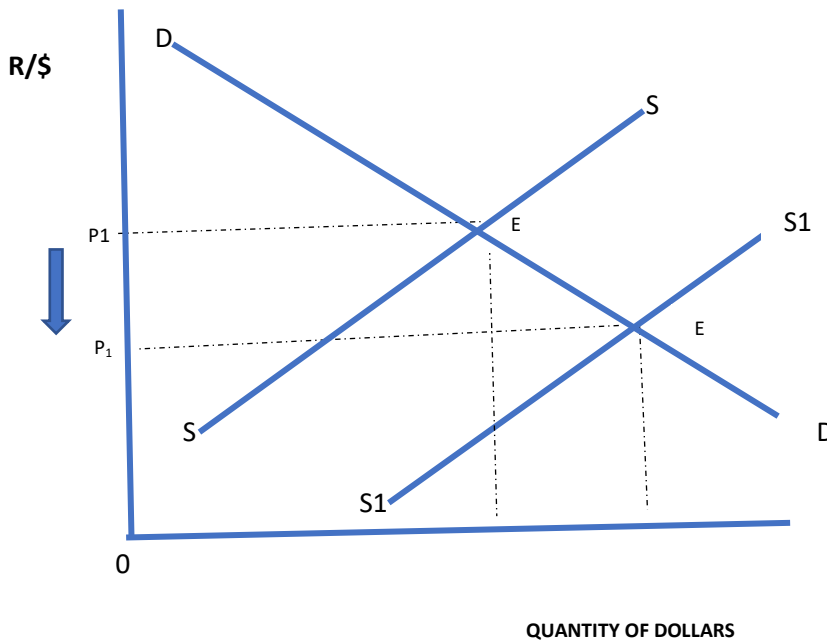
Max. 4 marks

An increase in tourists visiting the USA will result in SA tourists demanding more dollars.

- This will shift the demand curve (for dollars) to the right (from DD to D1D1). ✓✓
- This will result in the value of dollars increasing (from P1 to P2) ✓✓

(Accept any other relevant response)

OR



Mark allocation:

Correct labelling of axes= 1 mark

Correct labelling on axes= 1 mark

Shift of supply curve to the right=2 marks

Max. 4 marks

- An increase in tourists visiting the USA will result in SA tourists offering more rands. ✓✓



- This will shift the supply curve (for dollars) to the right (from SS to S1S1). ✓✓
- This will result in the value of the US dollar appreciating and the rand depreciating (from P to P<sub>1</sub>) ✓✓ (8)

### ACTIVITY 3

3.1 Study the table below and answer the questions that follow:

FOREX		
CURRENCY	1 ZAR	INVERSE
Japanese	8 4766	R0.118
EURO	0 0685	R14.5992
British Pound	0 058	R17.2267
US Dollar	0 0748	R13.3641

3.1.1 What does ZAR above represent? (1)

**Rand** ✓

3.1.2 Which currency is the most expensive for South African rand according to the table above? (1)

**British pound**

3.1.3 Briefly describe the term current transfers. (2)

**Involves transfers of funds from SA residents and the rest of the world e.g. gifts, donations.** ✓✓

3.1.4 Explain the primary role of foreign exchange market? (2)

The primary role of foreign exchange market is

To facilitate the conversion of one currency into another. ✓✓

It is the market where the buyers and sellers are involved in the buying and selling of foreign currencies? ✓✓

(Any 1 x 2 = 2)

3.1.5 Calculate how much would be paid in rands, if a jacket that cost 105 was bought. Show all calculations. (4)

- \$ 105 ✓ x R13,3641 ✓  
= R 1403, 23 ✓✓

3.2 Differentiate between a free-floating exchange rate system with a managed floating exchange rate system.

(2 x4) (8)

Free floating exchange rate system:

- Free floating can be defined as exchange rates which are determined by the market forces of demand and supply. ✓✓
- They work automatically if import increases the demand for foreign exchange increases. The currency depreciates as the result of the working of market forces. ✓✓
- Depreciation makes a country's imports more expensive and exports cheaper. ✓✓
- Imports decreases, and exports increases, and the currency appreciates as the result of the working of market forces/ exchange rate fluctuates as the market conditions change. ✓✓
- South Africa has a free-floating exchange rate system. ✓✓
- Disequilibria are automatically corrected. ✓✓

(Any 2x2) = (4)

Managed floating exchange rate system:

- A system where central banks intervene in the exchange rate markets stabilising the currency. ✓✓
- Central banks use their reserves to influence the exchange rates. ✓✓
- E.g. when the value of the currency declines/ depreciates the central bank will sell currency in the market to increase the demand and price/ exchange rate. ✓✓
- Over the long-term currencies have to find their equilibrium levels. ✓✓

(Any other relevant fact (2 x 2) (4)

#### ACTIVITY 4

4.1 Study the table below and answer the questions that follow:

SOUTH AFRICA: TERMS OF TRADE			
Year	Index of import prices	Index of export prices	Terms of trade
2017	141	171	121.3
2018	153	191	124.8
2019	163	200	<b>A</b>
2020	179	214	119.6

[Adapted: SARB Quarterly Bulletin, December 2020

4.1.1 Identify the index of export prices of 2018 from the graph above. (1)

191 ✓

4.1.2 What is the trend in the index of import prices? (1)

The index of import prices is increasing (from 141 to 179) ✓

4.1.3 Briefly describe the term 'terms of trade'. (2)

The ratio of the index of export prices to the index import prices expresses a country's export prices in terms of its import prices. ✓✓

The relationship between export price and import prices expresses a country's export prices in terms of its import prices. ✓✓

It expresses a country's export prices in terms of its import prices. ✓✓

4.1.4 Briefly explain why an increase in the terms of trade will have a positive effect on the welfare of the country. (2)

There will be increasing economic welfare because more revenue is earned with the same expenditure ✓✓

(Accept any other relevant fact)

4.1.5 Calculate the terms of trade for 2019 (A). Show ALL calculations. Round off your answer to ONE decimal place. (4)

$$200 \checkmark / 163 \checkmark \times 100 \checkmark \\ = 122.7 \checkmark$$

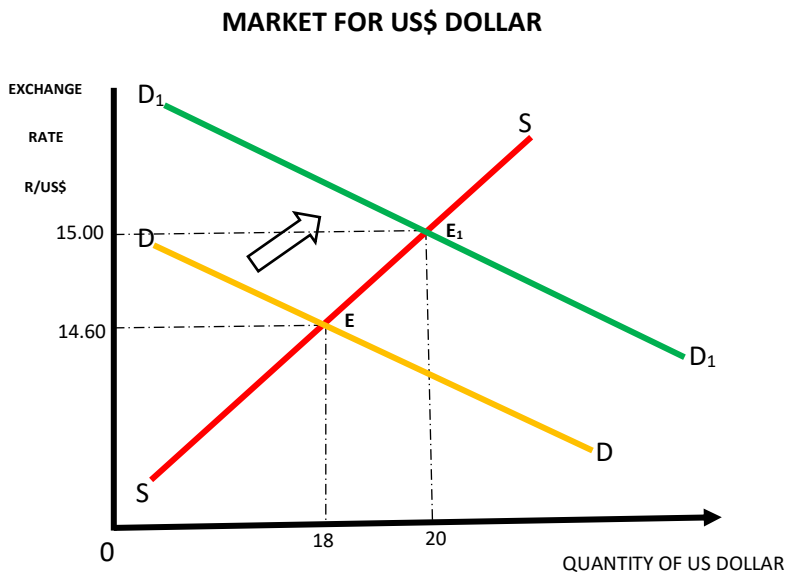
4.4 How does an improvement in the terms of trade influence the balance on the current account. (8)

An improvement in the terms of trade influences the balance on the current account by:

- The terms of trade indicates the ratio of the index of export prices to import prices. ✓✓
- An increase in export prices/ a decrease in import prices will improve the terms of trade. ✓✓
- This will result to an improvement of export compared to imports affecting the current account positively. ✓✓
- This can lead to a reduction in the deficit or an increase in the surplus on the current account. ✓✓
- This will reduce the pressure on the reserves ✓✓.
- Might however, over the long term-result in a decrease in sales volumes, depending on the price elasticity of demand in the foreign countries. ✓✓
- Less income being generated by exports leading to a welfare loss ✓✓

(Accept any other relevant response. (4 x2) (8)

## ACTIVITY 5



5.1.1 Identify the demand curve that indicates an increase in the demand for dollars. (1)

$D_1D_1$  ✓

5.1.2 What type of exchange rate system is currently used in South Africa? (1)

Free Floating exchange rate system / flexible exchange rate system ✓

5.1.3 Briefly describe the term devaluation. (2)

Devaluation refers to the deliberate decreasing in the value of the currency in terms of another currency as a result of central bank intervention ✓✓

5.1.4 Explain ONE factor that can influence the demand for the dollar. (2)

- Importing goods increases demand of foreign good, therefore payment need to be made in foreign currency
- Payment for services from foreign countries needs to be made in foreign currency ✓✓
- Buying shares or assets in another country increases the demand ✓✓
- Tourists spending money overseas. ✓✓

(Accept any other correct relevant response)

5.1.5 What is the effect on the rand when there is a decrease in the demand for dollars? (4)

A decrease in the demand of dollars will:

- US Dollar-depreciates ✓✓

- The Rand appreciates. Reason: the demand for Rand increases from DD to D<sub>1</sub>D<sub>1</sub> and the equilibrium point from e to f. The price will be fixed at R10 from which is higher than R8 ✓✓  
{Accept any other correct relevant response}

## ACTIVITY 6

6.1 Study the cartoon below and answer the question that follow .

### EXCHANGE RATES



- 6.1.1 Identify the currency used in Japan. (1)  
¥✓
- 6.1.2 Which currency is commonly used when countries trade (2)  
Dollar✓
- 6.1.3 Briefly describe the term revaluation (2)  
A revaluation is a calculated upward adjustment to a country's official exchange rate relative to a chosen baseline. ✓✓
- 6.1.4 Explain the impact of trade when countries currency depreciates. (4)  
Exports are cheaper to foreign customers ✓✓  
Imports more expensive ✓✓  
Devaluation cause inflation higher growth an increase demand for export ✓✓
- 6.1.5 How does a country devalue its currency? (4)

Devaluation occurs when a government wishes to increase its balance of trade (Export minus imports) by decreasing the relative of its currency ✓✓

The government does this by adjusting the fixed or semi- fixed exchange rate of the currency versus that another country. ✓✓

6.4 How can the government manipulate the exchange rate? (8)

Exchange rate can be manipulated by buying or selling currencies on the foreign exchange market. ✓✓

Rates can also be manipulated through interest rates, which affect the demand and supply ✓✓

Government manipulate through export promotion ✓✓

Government manipulate imports controls ✓✓

(Accept any correct relevant response)

## ECONOMIC PURSUITS

### PROTECTIONISM AND FREE TRADE

#### ACTIVITY 1

#### ARGUMENTS IN FAVOUR OF PROTECTIONISM

1.1 Discuss in details the arguments in favour of protectionism (26 marks)

1.2 Why should free trade be favoured instead of protectionism? (10 marks)

#### Introduction

Protectionism refers to an international trade policy that may be used to discourage the import of certain goods and services in order to protect local industries. ✓✓

#### BODY

#### MAIN PART

#### • Infant industry argument

- Newly established industries especially in developing countries find it difficult to cope with well- established industries from developed countries. ✓✓
- Protectionism is suitable for protecting infant industries against established foreign industries which often use unfair competing methods such as price cutting. ✓✓
- In their early years, businesses are faced with higher than average cost of production therefore vulnerable to failure if not protected. ✓✓

#### • Stable wage levels and high standard of living

- Countries with high wages often believe that the standard of living will be undermined if cheaper goods are imported from countries with low wage levels. ✓✓

- Imports from countries with relatively low wage levels can constitute unfair competition. ✓✓
- These imports threaten the standard of living of the domestically well paid workers. ✓✓
- Protection is required to prevent local standard of living from falling and local firms from closing down. ✓✓

#### • Increased employment

- Countries with high levels of unemployment are always under political pressure to impose trade restrictions in order to protect local jobs. ✓✓
- They often implement protection policy to stimulate industrialisation. ✓✓
- Import restriction may result in increase in consumption of locally produced goods and this may increase employment. ✓✓

#### • Self-sufficiency and strategic industries

- In times of conflict, cut-off or friction between countries can occur and make a country unable to trade with others. ✓✓
- A country can protect local industries which produce goods that are of national importance such as agriculture, electricity and military equipment. ✓✓



#### • Prevention of dumping

- - Dumping happens when foreign firms sell goods at a lower price than the products cost of production in the country of origin. ✓✓
- This causes local producers to lose profit as many consumers may enjoy buying from the foreign firms at lower price. ✓✓
- In the long run the local industries can be forced out of the market.
- To prevent dumping from happening countries can use tariffs to make foreign products more expensive than locally produced products. ✓✓

#### • Stable exchange rates and Balance of Payments

- When imports are much higher than exports, there can be an unsustainable deficit in the current account of the balance of payments. ✓✓
- Countries can impose protection measures to reduce imports.
  - Reduced imports can lead to an improvement in the Balance of payment and the value of currencies. ✓✓

#### • Protection of natural resources

- Free trade can easily exhaust the natural resources of a country because the entire world can now share these resources and consume them. ✓✓

- With protectionism, local firms will be producing only for the local market as such natural resources can be conserved. ✓✓
- South African government has taken steps to protect Rooibos tea as a natural resource and to safeguard the indigenous knowledge that allows for Hoodia plant to be used for medicinal purposes ✓✓

### ADDITIONAL PART:

Free trade should be favoured over protectionism because free trade:

- would be benefitting the country that specialises in the production of certain products or services to make use of resources as efficiently as is possible ✓✓
- compared to protectionism where it is difficult to design a policy of protection and decide whether a particular industry is beneficial to the whole country or not ✓✓
- is opening up markets and enhances more competition in the international markets ✓✓
- compared to protectionism which encourages import substitution, not the export of goods PP
- is making available a variety of goods and services into the local markets and spoils consumers with more choices ✓✓ compared to protectionism which can activate the inflation spiral, because the costs involved in protection leads to more expensive locally produced goods ✓✓
- assists businesses or enterprises finding better ways to improve their economies of scale while at the same time producing quality outputs ✓✓
- compared to protectionism where the disadvantages of higher prices against the advantages of lower imported prices is difficult to weigh up in the long term ✓✓
- is bringing new technology and innovations in the way of doing business the most cost-effective manner possible ✓✓
- compared to protectionism where economic growth (increase in production) and job creation is dampened ✓✓
- is contributing to the movement of people and goods between nations with ease ✓✓
- compared to the more rigid approach of protectionism where it is difficult to identify infant industries that maybe granted temporary protectionism ✓✓
- reducing the knowledge and expertise gaps amongst nations due to ease and simple way of interaction amongst nations compared to protectionism where industries that have been granted protection, tend to become dependent on it and cannot survive without it ✓✓

### CONCLUSION

(Accept any other relevant conclusion)



## ECONOMIC GROWTH AND DEVELOPMENT

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 An increase in the level of economic welfare is ....

- A. Economic growth
- B. Economic development ✓✓
- C. Globalisation
- D. Technology

1.1.2 The SARB can decide either to sell or buy securities on the .....

- A. open market transaction ✓✓
- B. cash reserve requirement
- C. interest rate
- D. moral suasion

1.1.3 A tax system where high income-earners pay higher rate of tax is called...

- A. Regressive
- B. capital formation
- C. proportional
- D. progressive ✓✓

1.1.4 Lowering the repo rate can be seen as a ... approach to economic growth.

- A. fiscal
- B. demand-side ✓✓
- C. supply -side
- D. value-added

1.1.5 A development policy which works with Sectoral Education Training Authorities is ...

- A. Joint Initiative on Priority Skills Acquisition. ✓✓
- B. Export Processing Zones.
- C. Reconstruction and Development Programme.
- D. Expanded Public Works Programme.

1.1.6 A redress policy that focuses on land for residential and production farm for previously disadvantaged groups.

- A. Affirmative action

B. Black Economic Empowerment

C. Land redistribution ✓✓

D. Land restitution

1.1.7. The application of new scientific knowledge in the form of inventions and innovations is

A. Capital

B. Natural resources

C. Technology ✓✓

D. entrepreneurship

1.1.8. The SARB use ..... policy to influence supply of money in an economy

A. Fiscal

B. Economic growth

C. Interest rate

D. Monetary ✓✓

(8X2) (16)

**1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A-K) next to the question number (1.2.1 – 1.2.10) in the ANSWER BOOK.**

Column A	
1.2.1	K. government use progressive personal income tax ✓
1.2.2	D. increased or decreased interest rates ✓
1.2.3	B. an initiative to aid the development of urgently needed skills to facilitate job creation ✓
1.2.4	A. the SARB consults with the banks and persuade them to act in a desirable manner suitable for prevailing economic conditions ✓
1.2.5	E. the worldwide interaction of economies with trade as an important element ✓
1.2.6	J. it focuses on production of goods and services ✓
1.2.7	I. adjust towards the fourth industrial revolution ✓
1.2.8	H. government maintains it is committed to improving the ease of doing business in South Africa ✓
1.2.9	G. introduced to create jobs and redistribution of income ✓
1.2.10	F. it is measured using education ✓

(10 x 1) (10)

**1.3 Provide the economic term/concept for each of the following descriptions. Write only the term/concept next to the question number. No abbreviations, acronyms or examples will be accepted.**

1.3.1 The increases in peoples' standard of living

- 1.3.2 The return of land to those that have lost it due to discriminatory laws in the past  
Economic development ✓  
Land restitution ✓
- 1.3.3 The policy used by the SARB to regulating money supply  
Monetary policy ✓
- 1.3.4 Increase in capacity of a country to produce goods and services  
Economic growth ✓
- 1.3.5 A plan to bring disadvantaged group to participate in the mainstream of economic activities  
Broad Based Black Economic Empowerment ✓
- 1.3.6 Duties paid to the estate of the deceased  
Estate duties ✓
- 1.3.7 A labour-intensive government programme to create employment  
Expanded Public Works Programme ✓
- 1.3.8 Refers to the developed countries in the Northern hemisphere and developing countries in the Southern hemisphere  
North-South Divide ✓
- 1.3.9 Grants like old age pension, child support grants to provide for the poor  
Social security/ cash benefit ✓
- 1.3.10 Tax levied on gains earned on the sale of capital goods, such as properties and shares  
Capital gains tax ✓

(10 x 1)

## ACTIVITY 2

### 2.1 Lower order cognitive level (Easy questions)

- 2.1.1 Name TWO growth policies in South Africa. (2 x 1) (2)  
Growth Employment and Redistribution ✓  
New Growth Path ✓  
Accelerated and Shared Growth Initiative for South Africa ✓
- 2.1.2 Name any TWO characteristics of countries of the South-divide. (2 x 1) (2)  
Low standards of living ✓  
Low GDP per capita ✓  
Low education levels ✓  
High poverty levels ✓  
Low economic growth ✓
- 2.1.3 Name TWO fiscal policy instruments (2 x 1) (2)  
Taxation ✓

Government spending ✓

2.1.4 Name TWO current redress measures in South Africa. (2x 1) (2)

- Progressive personal income tax ✓
- Wealth taxes ✓
- Cash benefits (old-age, disability grants, child support, unemployment insurance) ✓
- Benefits in kind (school feeding schemes; free education; health care) ✓
- Land restitution and land redistribution ✓
- Property subsidies ✓

2.1.5 Name TWO monetary policy instruments. (2x 1) (2)

- Interest rates ✓
- Money supply ✓
- Open market transactions ✓
- Moral suasion ✓

## 2.2 Middle order cognitive level (Easy to moderate questions)

2.2.1 What is the effect of affirmative action on the Black labour force in South Africa? (2)

More black people will be employed in the country. ✓✓

2.2.2 How does an increase in household income affect economic growth? (2)

Economic growth will increase because more spending will take place. ✓✓

2.2.3 How can SMMEs contribute to economic growth in South Africa? (2)

SMMEs can support economic growth by:

- increasing production processes ✓✓
- creating employment opportunities for structurally unemployed people
- increasing competition ✓✓
- increasing opportunities for exports ✓✓
- increased entrepreneurial skills that will lead to higher production and investment ✓✓

(Accept any other correct relevant response)

2.2.4 What effect will a huge increase in electricity costs have on small businesses in South Africa? (2)

- A huge increase will be detrimental for small businesses because their cost of production will increase, this will lead to higher selling prices ✓✓
- These businesses might not enjoy economies of scale as larger businesses ✓✓

(Accept any other correct relevant response)

2.2.5 How can the cost of doing business influence the supply of goods and services? (2)

- High input or production cost will lead to fewer goods be produced by businesses ✓✓

(Accept any other correct relevant response)

- 2.2.6 How can lower interest rates lead to higher economic growth?
- Lower interest rates – reduce the cost of borrowing and increase consumer spending and investment ✓✓
- (Accept any other correct relevant response)

### ACTIVITY 3

3.1 Study the cartoon below and answer the questions that follow



3.1.1 Name any ONE development policy of South Africa other than mentioned above. (1)

- Broad based black economic empowerment (BBBEE) ✓
- Small business Development Promotion Programme (SBDPP) ✓
- Expanded public works programme (EPWP) ✓

3.1.2 In which year does the National Development Plan want to accomplish its main objective? (1)

2030 ✓

3.1.3 Briefly describe the term globalisation (2)

The worldwide interaction of economies with trade as an important element.

3.1.4 Explain ONE possible reason for the increase in the unemployment rate in 2020.

- SA hard lock-down which resulted in the decrease of economic activities and closing of businesses. ✓✓ (2)

(Accept any other correct relevant response)

3.1.5 Why would the cost of assessing funds for critical programmes of government become expensive?

(4)

- When a country is classified as junk status – it becomes very difficult to attract investors ✓✓
- Credit on the international market is also very expensive. Higher interests rates and shorter repayment periods. ✓✓

(Accept any other correct relevant response)

Study the extract below and answer the questions below.

### ECONOMIC GROWTH AND DEVELOPMENT POLICIES IN SOUTH AFRICA

Over the years South Africa implemented various policies with the aim of growing and developing the economy. One of such policies is NDP which aims to create 11 million jobs by 2030.

However, the economic growth problem is still persisting as the country has been recording real GDP of less than 2% since 2016.

[Adapted from: www.google.co.za]

3.2.1 Identify the measure of economic growth in the above extract (1)

Real GDP ✓

3.2.2 Name the development policy that was implemented by government since 1994. (1)

Reconstruction Development Programme (RDP) ✓

3.2.3 Describe the concept economic growth. (2)

An increase in productive capacity of an economy over time/ goods and services of the economy over a period of time / increase in real GDP. ✓✓

3.2.4 Explain the positive role that government can play in improving the quality of labour? (2)

Government can improve the quality of labour by investing in training and skilling of labourers. ✓✓

3.2.5 How can economic growth lead to economic development? (4)

- Faster economic growth generates higher profits which can then be reinvested – promoting increased productivity and capacity ✓✓
- Economic growth can generate higher tax revenues for the government – providing more funds to finance public and merit goods and welfare spending. ✓✓
- Economic growth enables consumers to consume more goods and services and enjoy better standards of living. ✓✓

(Accept any other correct relevant response)

3.3 Study the information below and answer the questions that follow.



**EXPECTATIONS FROM THE REVISED BUDGET:** The Minister may adjust the progressive personal income tax tables, thus seeking to advance the redistributive effect given how the COVID-19 pandemic has worsened income and wealth inequality. National Treasury confirmed that Finance Minister Tito Mboweni, will announce new taxes in his February budget next year and this would include the wealth tax.

[Source: adapted from the internet]

3.3.1 Identify the demand-side policy in promoting growth and development from the extract above. (1)

Fiscal policy ✓

3.3.2 Give any ONE example of wealth tax. (1)

Capital gains tax ✓

Estate duties ✓

Transfer duties ✓

Donation tax ✓

(Accept any other correct relevant response)

3.3.3 Briefly describe the term *progressive tax system*. (2)

It is a system of taxation where higher-income earners are taxed at higher rates than lower-income earners. ✓✓

(Accept any other correct relevant response)

3.3.4 Explain the contribution of taxes to social development. (2)

Taxes are used to finance social development to poor benefit more than those with higher incomes ✓✓

(Accept any other relevant correct response)

3.3.5 How can the government through its budgetary processes redistribute income and wealth? (4)

• By change the distribution of the incomes by increasing expenditure targeted at low income groups. ✓✓

✓✓

• By re-prioritizing expenditure to low income groups so that they benefit more than they presently do. ✓✓

✓✓

• By increasing the level of taxation on the wealthy and use the proceeds for more effective targeting of expenditure ✓✓

(Accept any other correct relevant response)

ACTIVITY 4

4.1 Middle order cognitive level (moderate to difficult questions)

4.1.1 Discuss the mechanism of Black Economic Empowerment in South Africa.

- Broad-based Black Economic Empowerment (BBBEE) is an integration programme launched by the South African government to address the inequalities of apartheid. ✓✓
- The aim of BEE is to increase the participation of black people in the management, ownership and control of South Africa's economy by measuring the economic involvement of black people over a range of specified BEE elements. ✓✓
- Businesses are scored against certain generic and sector specific criteria to determine their BBBEE status. ✓✓
- While the generic and sector codes do not place an enforceable legal obligation on entities to comply, certain direct and indirect incentives are put in place to promote compliance. ✓✓
- Directly, if an entity wants to do business with the government or a parastatal, it would have to comply with the BEE Codes to ensure that licenses, quotas, tenders or other permissions are issued or awarded. ✓✓

(Accept any other correct relevant response)

4.1.2 Briefly discuss *progressive personal income taxes* and *wealth taxes* as instruments to reduce income inequality. (8)

- Properties such as houses, offices and factory buildings in urban areas are taxed annually.
- Transfer duties are paid when properties are bought. ✓✓
- Securities (shares and bonds) are taxed when they are traded ✓✓
- Capital gains tax is levied on gains earned on the sale of capital goods, such as properties and shares. ✓✓
- Estate duties are levied on the estates of deceased persons with a value of more than a stipulated amount ✓✓
- Taxes are used to finance development expenditure which benefits the poor more than those who are not poor. ✓✓

4.1.3 Differentiate between *economic growth* and *economic development*. (8)

Economic growth

- It is the increase in the real GDP over a period of time. ✓✓
- It focuses on the production of goods and services ✓✓
- Increase the production capacity of the economy ✓✓

(2 x 2)

Economic development

- It is the increase in the real per capita GDP ✓✓



- It focuses on the increase in living standards. ✓✓

(Accept any other correct relevant answer)

(2 x 2)

4.1.4 Briefly discuss the demand-side policy used in promoting growth and development. (8)

- The demand-side approach focuses on the expansion of the demand for goods and services produced in the economy. ✓✓
- To ensure economic growth, there should be an adequate and growing demand for goods and services produced in the economy. ✓✓
- Aggregate demand in the economy is made of consumption demanded (C) investment demand (I), ✓ government demand (G) ✓ and net exports (X-M) ✓✓
- An increase in any of the components of total demand will stimulate economic ✓✓
- The demand-side approach emphasises the fact that for a country to have growth, there is a need to increase aggregate demand by making discretionary ✓✓
- Changes to monetary and fiscal policies. ✓✓

4.1.5 Discuss *cost of doing business* to achieve economic development in South Africa. (8)

- In South Africa, government controls most physical infrastructure components, the availability and cost of infrastructure services play an important role in the financial viability and profitability of businesses ✓✓  
Transport costs ✓
- Transport costs within South Africa and between South Africa and its export destinations are expensive due to long distances. ✓✓
- A substantial proportion of cargo and passenger transport is moved by road. ✓✓
- Only a reliable rail service that is cheaper than road transport can turn this around. ✓✓  
Communication costs ✓
- Communication cost in SA is among the most expensive in the world. The high cost makes IT services for businesses and individuals expensive and inhibits global competitiveness. ✓✓  
Energy costs ✓
- Two main forms of energy in South Africa are electricity and liquid fuels. Eskom's rates have escalating steep recently and at time unable to meet the demand for electricity. ✓✓
- Government regulates the price of petrol and paraffin. These prices are linked to international market prices. ✓✓ High liquid energy prices undermine the efficiency of the economy. ✓✓

(Accept any relevant correct answer)

4.2 Paragraph questions of higher cognitive level

4.2.1 How successful has NDP been in achieving its goals? (8)

- The implementation of NDP has been successful due to the following reasons:
- A good progress has been made since 2014 in the construction of renewable energy sources e.g. solar farms and wind farms. ✓✓

- Education is improving e.g. free meals and education in government schools. ✓✓
- Standard of living might improve that will reduce poverty levels e.g. housing, social grants ✓✓

**AND / OR**

The implementation of NDP has not been successful due to the following reasons:

- Since 2014 there has been no improvement in the unemployment rate which is currently at 30,1%. ✓✓
- A lot of corruption cases are surfacing in government (Covid-19 pandemic exposed a lot of corruption cases).
- The gap between rich and poor might increase further. ✓✓
- Economic growth rate of 5% annually is not being achieved. ✓✓

(Accept any other correct relevant response)

4.2.2 How can the development of small businesses benefit the country? (8)

- Small businesses create job opportunities and drive the country's economic growth in smaller geographic areas. ✓✓
- They make the market more competitive; customers can benefit through better quality and variety of products and possibly lower prices. ✓✓
- They nurture local economies, keeping money close to home and supporting neighborhoods and communities. ✓✓
- Small businesses can target smaller market groups which would otherwise not be profitable for large businesses. ✓✓
- Small businesses also help stimulate economic growth by providing employment opportunities to people who may not be employable by larger corporations. ✓✓

(Accept any other correct relevant response)

4.2.3 Evaluate the use of supply-side measures in solving the persistent low economic growth in South Africa.

(8)

Supply-side measures have been successful in solving low economic growth by:

- Offering incentives, such as cash grants and subsidies to enhance export promotion / attract private sector investments and FDIs ✓✓
- Lowering tax rates to motivate people to work harder to increase their income / increase production levels in the economy ✓✓
- Lowering income tax rates may also encourage people to save more / improving availability of loanable funds for investment ✓✓
- Increasing labour productivity through better education, training and healthcare services leads to higher production output ✓✓

(Accept any other correct relevant response)

Supply-side measures still need to be improved in terms of:

- ensuring efficient and reliable supply of infrastructure services, such as transport and energy, to reduce the cost of doing business ✓✓
- reducing administrative cost, such as inspections and unnecessary regulations / by imposing simpler tax and operational regulations ✓✓
- privatising some of the state-owned assets to improve efficiency in service delivery ✓✓
- reducing government intervention by removing unnecessary rules and regulations / ensure free market operation / improve market efficiency ✓✓

(Accept any other correct relevant response)

4.2.4 Evaluate the use of demand-side measures in promoting economic growth and development in South Africa. (8)

- Demand side measures involve methods to influence aggregate demand and output through changes in fiscal and monetary policies. ✓✓
- Personal income tax reduction, improves both economic development and economic growth because most people will be able to afford basic necessities. Economic growth will increase because of the multiplier effect caused by the increase in household's disposable income ✓✓
- However, the gains in Economic growth and developed are short lived because of inflation since there is a lot of money in circulation. ✓✓
- Reduction of interest rates encourages people to borrow and improve their lives but in the long term, people must struggle to service their debts ✓✓
- Reduction of interest rates discourages savings and financial institutions may not have enough money to finance businesses through provision of loans. ✓✓ (8)

## ACTIVITY 5

5.1 Discuss in detail the South African growth and development policies (26)

5.2 How does the expanded public works programme benefit communities? (10)

### INTRODUCTION

Economic growth is the increase in the productive capacity of the country. ✓✓

Economic development is the improvement in the standard of living of the people ✓✓ (2)

#### Reconstruction and Development Programme (RDP) ✓

- The policy was introduced in 1994 as a development strategy for the government. ✓✓
- The main aims were to alleviate poverty and address the inequalities and shortfalls in social services. ✓✓
- It focused on job creation through public works, provision of housing, water and sanitation and electrification. ✓✓
- It also aimed at creating accountable and transparent processes for all levels of government. ✓✓

### **Growth, Employment and Redistribution (GEAR) ✓**

- The main strategy was to strengthen economic development, redistribute income and create socio-economic opportunities for the poor. ✓✓

Key elements of the policy were:

- To have an exchange rate policy that can result in stability to the currency - A consistent monetary policy to prevent an uncontrollable inflation. ✓✓
- A reduction in tariffs to reduce the costs of inputs and facilitate industrial reforms. ✓✓
- Tax incentives to stimulate new investments in labour intensive industries ✓✓

### **Accelerated and Shared Growth Initiative for South Africa (ASGISA) ✓**

- Its objective was to co-ordinate government initiative to create economic development. ✓✓

The key elements were:

- Halve unemployment and poverty by 2014. ✓✓
- Accelerate economic growth to an average of 6% between 2010 and 2014. ✓✓
- The government had planned to increase public sector investment in infrastructure in order ✓✓
- To eliminate the second economy (informal sector) by developing it to the status of the formal economy. ✓✓

### **Joint Initiative on Priority Skills Acquisitions ✓ (JIPSA)**

- It is the skills development arm of ASGISA. ✓✓
- Focus is on skills development, especially through the SETAS. ✓✓

### **Expanded Public Works Programme (EPWP) ✓**

- It is a nationwide government intervention to create employment using labour intensive methods, and to give people skills they can use to find jobs when their work in the EPWP is done. ✓✓

### **The New Growth Path (NGP) ✓**

- Its aim was to enhance growth, create employment and create greater equity. ✓✓
- Its focus was to create 5million jobs by 2020 reducing unemployment from 25% to 15 ✓✓

### **National Development Plan (NDP)**

- Its aim is to eliminate poverty and inequality by the year 2030. ✓✓
- Sets out to expand economic opportunities through investment in infrastructure, more innovation investment and entrepreneurship. ✓✓

### **Small business Development Promotion Programme (SBDPP)**

- It was designed to deliver support and services to small, medium and micro enterprises. ✓✓
- Department of Trade and Industry (DTI), Industrial Development Corporation (IDC) and the National Small Business Act offer these services. ✓✓
- Laws are revised to help change power imbalance. ✓✓

### Black Economic Empowerment Programmes (BEE) ✓

- The BBBEE was designed to create economic opportunities for the previously disadvantaged groups. ✓✓
- This means the government is creating conditions for increase in businesses that are owned and managed by black people. ✓✓

### National Skills Development Strategy (NSDS) ✓

- It is the main strategic guide for skills development and provides direction to sector skills planning and implementation in the SETAs. ✓✓
- It is intended to radically transform education and training in South Africa by improving both the quality and quantity of training. This can support increased competitiveness of industry and improved quality of life for all South Africans. ✓✓
- The National Skills Development Strategy (NSDS) is the tool used by the Department of Labour to drive the process of developing the skills of the South African labour force. ✓✓
- Six conceptual pillars: Inclusion, Relevance, Sustainability, Creativity, Quality and Quantity inform its key aims and objectives ✓✓

### Additional part

#### How does the expanded public works programme benefit communities?

- The Expanded Public Works Programme is one of government's key programmes aimed at providing poverty and income relief through temporary work for the unemployed. ✓✓
- Training and short- to medium- term labour-intensive work opportunities to poor, unskilled and unemployed South Africans. ✓✓
- This also helped to transfer skills and create work opportunities for unemployed people. ✓✓
- In addition to fighting poverty and creating jobs, government has been able to maintain infrastructure through the EPWP. ✓✓
- EPWP participants are entitled to Unemployment Insurance Fund benefits, subject to the Unemployment Insurance Fund Act ✓✓
- UIF can be claimed by participants in the event the EPWP contract had or will come to an ended and such participants are eligible for UIF benefits. ✓✓

(Accept any other correct relevant response)

### **CONCLUSION**

(Accept any other relevant conclusion)

### **ACTIVITY 6**

6.1 Discuss in detail the demand-side approach in promoting growth and development in South Africa.

(26)

## 0.2 Evaluate the effect of globalisation on South Africa's development.

**INTRODUCTION**

South Africa's growth and development policies are designed to fulfil many social and economic objectives to ensure that most South Africans can achieve a reasonable standard of living. A demand-side approach includes discretionary changes in monetary and fiscal policies with the aim of changing the level of aggregate demand. ✓✓

Max (2)

(Accept any other relevant introduction)

**BODY****MAIN PART**

The South African approach uses both monetary and fiscal measures to influence aggregate demand in the economy. ✓✓

**MONETARY POLICY**

The South African Reserve Bank (SARB) as the central bank in South Africa formulates the monetary policy.

**They use the following instruments:**

**Interest rate changes✓**

- It is used to influence credit creation by making credit more expensive or cheaper. ✓✓

The exchange rate is stabilised by encouraging inflow or outflows. ✓✓

**Open market transactions ✓**

- To restrict credit the SARB sells securities. ✓✓
- When banks buy these securities money flows from banks to the SARB. ✓✓
- The banks have less money to lend and cannot extend as much credit as before. ✓✓
- To encourage credit creation the SARB buys securities. ✓✓
- Money flows into the banking system. ✓✓

**Moral suasion✓**

- The SARB consults with banks to act in a responsible manner based on the prevailing economic conditions.

**Cash Reserve Requirements✓**

- Banks are required to hold a certain minimum cash reserve in the central bank. ✓✓
- Banks have a limited amount to give out as credit. ✓✓

**FISCAL POLICY**

South Africa's fiscal policy is put into practice through the budgetary process. ✓✓

The main purpose of fiscal policy is to stimulate macroeconomic growth and employment, and ensure redistribution of wealth. ✓✓

The following instruments are used:

**Progressive personal income tax** ✓✓

- Higher income earners are taxed at higher tax rates. ✓✓
- These taxes are used to finance social development. ✓✓
- The poor benefit more than those with higher incomes. ✓✓

**Wealth taxes** ✓✓

- Properties are levied (taxed) according to their market values. ✓✓
- Transfer duties are paid when properties are bought. ✓✓
- Securities (shares and bonds) are taxed when traded. ✓✓
- Capital gains tax is levied on gains on the sale of capital goods (e.g. properties, shares). ✓✓
- Estate duties are paid on the estates of the deceased. ✓✓
- These taxes are used to finance development expenditures which benefit the poor more often. ✓✓

**Cash benefits** ✓✓

- Old age pensions, disability grants, child support and unemployment insurance are cash grants. ✓✓ -These are also known as social security payments. ✓✓

**Benefits in kind (natura benefits)** ✓✓

- These include the provision of healthcare, education, school meals, protection etc. ✓✓
- When user fees are charged, poor or low income earners pay less or nothing. ✓✓ Limited quantities of free electricity and water are provided. ✓✓

**Public works programmes** ✓✓

- E.g. the Strategic Integrated Projects (SIP) provides employment subsidies and other cash and financial benefits such as training, financing and export incentives. ✓✓

**Land restitution and land redistribution** ✓✓

- Land restitution is the return of land to those that have lost it due to discriminatory laws in the past. ✓✓
- Land redistribution focuses on land for residential (town) and production (farm) for previously disadvantaged groups. ✓✓
- The money for these programmes is provided in the main budget. ✓✓  
Subsidies on properties ✓✓
- It helps people to acquire ownership of fixed residential properties. ✓✓
- E.g. government's housing subsidy scheme provides funding to all people earning less than R3 500 per month. ✓ (Max 26)

(A maximum of 8 marks are allocated for headings, subheadings and examples)

**ADDITIONAL PART**

How does globalisation affect South-Africa's development? (10)

Since 1994 South Africa has become more integrated in the global economy.

### Positive Effects

- South African businesses have access to greater and a variety of markets for exports. ✓✓
- Production is not limited to domestic demand, giving an opportunity for increased output which can lead to increased job opportunities. ✓✓
- Increasing output means that economic growth can be accelerated. ✓✓
- Exports fuel the influx of foreign exchange to South Africa ✓✓
- New technology and products flow into the economy which could increase the living standards internally. ✓✓

(Accept any other correct relevant response)

### Negative Effects

- South African countries have to compete with larger and well established business that enjoys greater economies of scale. ✓✓
- Local businesses cannot compete with cheaper imported products, which could lead to the closing of these businesses ✓✓
- This will result in job losses and increased poverty levels. ✓✓
- South Africa's independence is being compromised and will become dependent on other countries. ✓✓
- Big foreign business can manipulate the government and seize indirect control, thus compromising the democracy of the country. ✓✓

(Accept any other correct relevant response) (Max (10)

### CONCLUSION

- Globalisation is needed to ensure growth but must be combined with strategic internal goals and mechanisms to ensure that all participants are to be advantaged. ✓✓

(Accept any other relevant conclusion)

## LAST MILE REVISION ACTIVITIES: SOLUTIONS

### MACRO-ECONOMICS

#### TOPIC 1: THE CIRCULAR FLOW

#### SECTION A

#### QUESTION 1

##### 1.1. MULTIPLE CHOICE



- 1.1.1. A ✓✓ (Investments)
- 1.1.2. D ✓✓ (Income)
- 1.1.3. A ✓✓ (Money)
- 1.1.4. B ✓✓ (Gross national product)

1.2. **MATCHING ITEMS**

- 1.2.1. D ✓
- 1.2.2. C ✓
- 1.2.3. H ✓
- 1.2.4. F ✓
- 1.2.5. A ✓
- 1.2.6. G ✓
- 1.2.7. B ✓
- 1.2.8. E ✓



1.3. **CONCEPTS**

- 1.3.1. Money market ✓
- 1.3.2. Households ✓
- 1.3.3. Transfer payments ✓
- 1.3.4. Gross domestic products ✓
- 1.3.5. Multiplier ✓
- 1.3.6. Autonomous expenditure ✓

**SECTION B**

**QUESTION 2**

2.1. Answer the following questions.

2.1.1. Name any **TWO** participants in a closed economy. (1X2)(2)

- Households ✓
- Business/ Firms ✓
- Government ✓

2.1.2. How will national income be influenced by leakages in the economy? (2)

- The national income will decrease because less money will be circulating in the economy. ✓✓  
(Accept any other relevant and correct response)

**2.2. DATA-RESPONSE:**

2.2.1. Identify the type of circular flow shown on the above diagram. (1)

Closed economy/ Two sector model ✓

2.2.2. Name the primary participants on the above diagram. (1)

Households ✓

2.2.3. Briefly describe the term *consumption spending*. (2)

Consumption spending refers to the total value of all spending by households on goods and services. ✓✓

(Accept any other relevant correct answer)

**2.2.4. Explain disequilibrium in a circular flow. (2)**

The economy is in disequilibrium when injections are not equal to leakages and vica-versa ✓✓

(Accept any other relevant correct answer)

**2.2.5. How does load-shedding (power-outages) negatively affect the multiplier process?**

- Power outages slow down the returns on investments by shrinking profit gains thus decelerating the multiplier process. ✓✓
- Switching off electricity hinders the production process of goods thus decreasing sales and shrinking profits for businesses. ✓✓
- Load-shedding reduces the income earnings of households thereby decreasing aggregate spending in the economy. ✓✓

(Accept any other relevant correct answer)

**2.3. DATA RESPONSE**

**2.3.1. Name the method used to calculate the GDP in the table above.**

Income method ✓ (1)

**2.3.2. Identify the transaction that captures salaries and wages for workers. (1)**

Compensation of employees ✓

**2.3.3. Briefly describe the term *gross domestic product*. (2)**

The final value of all goods and services produced within the boundaries of a country in a year. ✓✓

(Accept any other relevant and correct response)

**2.3.4. What is the main purpose of subsidies on production? (2)**

These subsidies are paid out by the government as a measure to assist producers in reducing production costs. ✓✓

**2.3.5. Calculate the consumption of fixed capital as a percentage of the GDP at factor cost. (4)**  
(Show ALL calculations)

$$(560\ 397 \checkmark / 3\ 518\ 318 \checkmark) \times 100 = 15,93\% \checkmark \checkmark$$

**MIDDLE AND HIGHER ORDER QUESTIONS**

**2.4 Discuss the financial and foreign markets as participants in the circular flow. (8)**

Financial markets

- The savings of household, firms and the government sector gets accumulated in the financial market. ✓✓
- It invests money by lending money to households, firms and the government. ✓✓
- The inflows of money in the financial market are equal the outflows of money. ✓✓
- It makes the circular flow of income complete and continuous. ✓✓

#### Foreign sector

- Foreign sector receives revenue from firms, households and government for export of goods and services. ✓✓
- It makes payments for imports from firms and the government. ✓✓
- It makes payments for the factors services to the households ✓✓

### 2.5 How will an increase in leakages affect the economy? (8)

- An increase in leakages will reduce national income. ✓✓
- An increase in taxes will reduce the disposable income which results in the decline in the demand of goods and services. ✓✓
- Businesses will produce less than their productive capacity which will reduce their profits. ✓✓
- Government's revenue will decline which affects provision of social services. ✓✓
- The increase payment for imported goods and services will cause balance of payment disequilibria. ✓✓

## ESSAY QUESTION

### QUESTION 3

3.1 Discuss in detail the market within the four sector model. (26)

#### INTRODUCTION

- Markets coordinate economic activities and determine prices for goods and services ✓✓
- The circular flow model is a simplified representation of the interaction between the participants of the economy ✓✓

(Accept any other relevant introduction) (Max 2)

#### MAIN PART

##### Goods/Product/Output markets

- These are markets for consumer goods and services ✓✓

In economics a distinction is made between goods and services:

- Goods are defined as any tangible items such as food, clothing and cars that satisfy some human wants or need ✓✓
- Buying and selling of goods that are produced in markets, include: - Capital goods market for trading of buildings and machinery ✓✓
- Consumer goods market for trading of durable consumer goods, semi-durable consumer goods and non-durable consumer goods ✓✓
- Services are defined as non-tangible actions and includes wholesale and retail, transport and financial markets ✓✓
- Flows of private and public goods and services are real flows and they are accompanied by counter flows of expenditures and taxes on the product market ✓✓

##### Factors/Resources/Input markets

- Factors of production are bought and sold in the factor market ✓✓



• The factor market includes the labour, property and financial markets ✓✓

- Factor services are real flows and they are accompanied by counter flows of income on the factor market ✓✓

### Financial markets

- They are not directly involved in production of goods and services, but act as a link between households, the business sector and other participants with surplus funds ✓✓
- Banks, insurance companies and pension funds form part of the financial market

### Money markets

- In the money market, short-term loans and very short-term funds (less than 3 years) are saved and borrowed by consumers and business enterprises ✓✓
- Products sold in this market are bank debentures, treasury bills and government bonds ✓✓
- The SARB is the key institution in the money market ✓✓

### Capital markets

- In the capital market long-term funds (3 years or longer) are borrowed and saved by consumers and business enterprises ✓✓
- The Johannesburg Security Exchange is a key institution in the capital market ✓✓
- Products sold in this market are mortgage bonds and shares ✓✓

### Foreign exchange markets

- On the foreign exchange market businesses buy/sell foreign currencies to pay for imported goods and services ✓✓
- These transactions occur in banks and consists of an electronic money transfer from one account to another ✓✓
- The most important foreign exchange markets are in London/New York/Tokyo ✓✓
- The SA rand is traded freely in these markets when a person buys travellers' cheques to travel abroad ✓✓
- Imports and exports are real flows and they are accompanied by counter flows of expenditure and revenue on the foreign exchange market ✓✓ (Accept any other correct relevant response) (Max 26)

## TOPIC 2: BUSINESS CYCLE

### SECTION A

#### QUESTION 1

1.1.1 D (Demand-and-supply side) ✓✓

1.1.2 C (Length) ✓✓

1.1.3 C (Expenditure) ✓✓

1.1.4 A (Peak) ✓✓

1.1.5 B (Recovery) ✓✓

1.2.1 F ✓ Downloaded from Stanmorephysics.com

1.2.2 A ✓

1.2.3 J ✓

1.2.4 C ✓

1.2.5 H ✓

1.2.6 G ✓

1.2.7 I ✓

1.2.8 D ✓

1.2.9 E ✓

1.2.10 B ✓

1.3.1 Recession ✓

1.3.2 Composite indicator ✓

1.3.3 Moving average ✓

1.3.4 Peak ✓

1.3.5 Exogenous factors ✓

1.3.6 Boom ✓

1.3.7 Length ✓

1.3.8 Actual business cycle ✓

1.3.9 Lagging indicator ✓

1.3.10 Inflation ✓

## SECTION B

### QUESTION 2

2.1.1 Give any TWO instruments of monetary policy. (2x1) (2)

Interest rates ✓

Open market transaction ✓

Cash reserve requirement ✓

Moral suasion ✓

(Accept any other correct and relevant response)

2.1.2 How can subsidies be used to stimulate the economic activity? (2)

Government can provide subsidies to firms that produce staple food and those that produce with an aim to export to foreign markets which all help increase production and create employment. ✓✓

## 2.2 DATA RESPONSE

2.2.1. Identify the trough in the business cycle above. (1)

T1, ✓ T2, ✓ or T3 ✓ (Accept one)

2.2.2. During which year was the first business cycle fully completed? (1)

2007 ✓

2.2.3. Describe the term real business cycles. (2)

Business cycles refers to a successive periods of growth and decline in economic activities over certain period. ✓✓

2.2.4. Briefly explain deregulation as a measure that improves market efficiency. (2)

Deregulation is a process of removal of regulations or restrictions that hinder smooth business functioning. ✓✓

2.2.5. How can the Minister of finance prevent the business cycle from dipping to T3?(2x2) (4)

- The minister can increase government spending in the national budget by investing in infrastructure projects. ✓✓
- He/she can also decrease taxes in order for consumers to have more disposal income. ✓✓
- This will all stimulate aggregate demand and move the economy out of recession. ✓✓

## 2.3 DATA RESPONSE

2.3.1 Name the period of business cycle that can be associated with the information above.

Contraction period ✓/ downswing ✓/ downturn ✓/ slump ✓

2.3.2 Which policy instrument is available for the government is available for policy makers to smooth out cyclical movements?

Fiscal policy ✓/ monetary policy ✓

2.3.3 Describe the term *extrapolation*.

Extrapolation means to estimate something unknown from facts or information that is well known. ✓✓

(Accept any other relevant and correct response)

2.3.4 What are the effects of a downgrade on the economy?

A downgrade reduces the chances of the country to borrow money from other countries or international credit facilities. ✓✓

(Accept any other relevant and correct response)

2.3.5 How can an increase in investment stimulate economic growth?

Increase in investments can stimulate the economy by:

- Creating job opportunities. ✓✓
- Improving productivity/ GDP. ✓✓
- Ensuring efficient use of resources. ✓✓

(Accept any other relevant and correct response)

## 2.4 DATA RESPONSE

2.4.1 Identify the demand curve before government intervention. (1)

2.4.2 What economic phenomenon is experienced at point (P1) in the graph above? (1)

Inflation ✓

2.4.3 Briefly describe the term real gross domestic product. (2)

Real gross domestic product refers to the total value of goods and service produced within the borders of the country after price change has been adjusted for. ✓✓

Or

It is the GDP at constant prices. ✓✓

2.4.4 Explain how the Kitchin cycle can lead to fluctuations in the level of economic activities. (2)

Through increase or decrease in business adaptation to their inventory levels which will lead to fluctuations in economic activity. ✓✓

2.4.5 How does the economy benefit from using both the demand and supply side policies simultaneously? (2x2) (4)

- Higher economic growth is achieved when both demand and supply increase. ✓✓
- Price stability is achieved as demand and supply increased simultaneously. ✓✓

### MIDDLE ORDER QUESTIONS

2.5. Differentiate between endogenous and exogenous approaches to business cycles. (4X2) (8)

Endogenous approach	Exogenous approach
Endogenous factors are variables that are dependent on economic activities and emanate from the market system or economy itself. ✓✓	Exogenous factors are variables that are independent of economic activities that can influence business cycles and originate outside the economy. ✓✓
This is often called the Keynesian view. ✓✓	This view belongs to the monetarists school of thought. ✓✓
The Keynesian approach holds the view that markets are inherently unstable and therefore government intervention may be required. ✓✓	Monetarists believe markets are inherently stable and disequilibrium is caused by incorrect use of policies, e.g monetary policy. ✓✓
The price mechanism fails to co-ordinate demand and supply in markets and this gives rise to upswings and downswings. ✓✓	Weather conditions and market shocks cause upswings and downswings. ✓✓
Prices are not flexible enough, e.g. wages, as a result there must be government intervention. ✓✓	Governments should not intervene in the market as demand and supply eventually restores the

	equilibrium in the economy. ✓✓
A business cycle is an inherent feature of a market economy. ✓✓	Sunspot theory based on the belief that increased solar radiation causes changes in weather conditions. ✓✓
Indirect links or mismatches between demand and supply are normal features of the economy. ✓✓	Technological changes. ✓

**2.6. Distinguish between the expansionary period and the contraction period of business cycles. (8)**

Expansionary phase	Contractionary phase
This phase is characterised by growth in real GDP and income. ✓✓	This phase is characterised by a period of gradual decline in economic activity. ✓✓
It consists of two phases – recovery and prosperity. ✓✓	It consists of two phase – recession and depression ✓✓
During the prosperity phase there is an increase in real GDP, income and employment. ✓✓	There is a downward spiral of real GDP, employment, income, and in the standard of living. ✓✓
Businesses make high profits and this attracts other businesses to enter the market ✓✓	The decrease in sales leads employers to reduce employment and income decreases. ✓✓

**HIGHER ORDER QUESTION**

**2.7. How can the government use the monetary policy to stimulate economic growth? (8)**

The government, through the South African Reserve Bank (SARB), can use the following monetary policy instruments in order to stimulate economic growth.

**Interest rate changes**

- The SARB can stimulate demand by decreasing the repo rate which makes it cheaper for banks to borrow from the SARB when they experience the shortage of funds. ✓✓
- Banks then pass on the decreased cost of borrowing (repo rate) to their clients by decreasing the prime rate for loans. ✓✓
- This stimulates economic growth because consumers are encouraged to spend more as there's increased money supply. ✓✓

**Open market transactions**



- The SARB can also stimulate economic growth by increasing money supply through buying government securities in the open market. ✓✓

### Cash Reserve Requirements

- With this instrument, the SARB can decrease the minimum cash reserve that private banks are required by law to hold. ✓✓
- This increases the amount of money that banks can give out as credit and helps simulate aggregate demand. ✓✓

### ESSAY QUESTIONS:

#### QUESTION 5

5.1 Discuss in detail “the new economic paradigm’ to smoothing business cycles. (26)

#### INTRODUCTION

The new economic paradigm discourage policy makers in using monetary and fiscal policies to fine-tune the economy, however they are encouraged to resort to policies related to demand and supply. ✓✓

(Accept any other correct relevant introduction)

(2)

#### BODY: MAIN PART

##### The demand-side policies

- Demand side policies refer to decisions taken by the government to influence the aggregate demand for goods and services in the country. ✓✓
- The government may try to increase consumer spending by stimulating aggregate demand. ✓✓
- This can grow the economy but can lead to bottlenecks such as inflation, unemployment and balance of payments deficit. ✓✓

##### c.) Inflation ✓

- When aggregate demand increase faster that aggregate supply, general price levels will also increase. ✓✓
- If supply does not react to the changes in demand, prices will increase.
- This will lead to inflation. ✓✓
- Supply-side measures can be used to create a situation where supply is more flexible. ✓✓

##### d.) Unemployment ✓

- Demand-side policies can stimulate economic growth. ✓✓
- Economic growth increases the demand for labour and this reduces unemployment. As a result people will be employed and unemployment will decrease. ✓✓
- But as unemployment falls, inflation starts to rise. ✓✓

- This relationship is shown using the Phillips curve ✓✓

(Max. 13 Marks)

### Supply-side policies

These are measures undertaken by authorities to influence the level of aggregate supply of goods and services in the country to meet changes in demand. ✓✓

#### d.) Reduction of costs ✓✓

- The reduction of costs of production means that a great output can be supplied at any given price level ✓✓.
- The government can use measures that can reduce costs of production for businesses directly or indirectly. ✓✓
  - Infrastructure services ✓✓: The government can target transport, communication, water and energy as areas of focus. ✓✓
  - Administration costs ✓✓: This includes removing the burden placed by inspections, reports on the application of various laws, regulations and by-laws, tax returns providing statistical information. ✓✓
  - Cash incentives ✓✓: These include subsidies and compensation of exporters who operate in neglected sectors. ✓✓

#### e.) Improving the efficiency of inputs ✓✓

- Tax rates ✓✓: High rates of personal income tax and corporate income tax are disincentives as they reduce increase costs and reduce profits ✓✓.
- Capital consumption ✓✓: Replacing capital goods regularly creates opportunities for businesses to keep up with technological development. ✓✓
- Human resources development ✓✓: Improving working conditions can improve the quality of human resources and enhance the efficiency of businesses. ✓✓
- Free advisory services ✓✓: The government involvement in promoting opportunities to export and establishing new business ventures in other countries. ✓✓

#### f.) Improving the efficiency of markets ✓✓

- Deregulation ✓✓: This includes the removal of laws, regulations and by-laws, and other form of government controls that interfere in markets and make the markets free. ✓✓
- Competition ✓✓: This entails arranging the markets in such a way that allows for new businesses, increase competition and invites Foreign Direct Investment. ✓✓
- Levelling the playing fields ✓✓: Government policy should protect the private sector as well. Public enterprises are protected by legislation and they survive on government resources. This disadvantages the private sector. ✓✓

(Max. 13 marks)

**QUESTION 6**

6.1 Discuss in detail the features underpinning forecasting of business cycles. (26)

**INTRODUCTION**

Economists need to foretell what is likely to happen in the economy by studying and monitoring a variety of economic variables. ✓✓

(Accept any other relevant and correct introduction)

**Body: Main part****1. Leading economic indicators ✓**

- These are indicators that change before the economy changes/ coincide with the reference turning point. ✓✓
- They give consumers, businesses and policy makers a glimpse of where the economy is headed. ✓✓
- They reach the peak before the economy reaches the peak. ✓✓
- Most important type of indicator in helping economists to predict what the economy will be like in the future. ✓✓
- When these indicators show prosperity, the level of economic activities will also rise in a few months' time ✓✓ e.g. number of new vehicles sold, real exports of goods, etc. ✓

**2. Coincident economic indicators ✓**

- They move at the same time as the economy. If the turning point of a specific time series variable coincide with the reference turning point. ✓✓
- It indicates the current state of the economy ✓✓ e.g. retail sales. ✓
- If the business cycle reaches a peak and then begins to decline, the value of retail sales will reach a peak and then begin to decline at the same time. ✓✓

**3. Lagging indicators ✓**

- They do not change direction until after the business cycle has changed its direction. ✓✓
- They serve to confirm the behaviour of coincident indicators ✓✓ e.g. new machinery sold. ✓
- If the business cycle reaches the peak and begins to decline, we are able to predict the value of new machinery sold. ✓✓



#### 4. Composite indicators ✓✓

- It is a grouping of various indicators of the same type into a single value. ✓✓
- The single figure forms the norm for a country's economic performance. ✓✓

#### 5. Length ✓

- This is the time that it takes for a business cycle to move through one complete cycle. It is measured from peak to peak/ trough to trough. ✓✓
  - It is useful to know the length because the length tends to remain relatively constant over time. ✓✓
  - If business cycles have longer length, we consider the economy to be strong. ✓✓

#### 6. Amplitude ✓

- It is the difference between the total output between a peak and a trough. ✓✓
- It measures the distance of the oscillation of a variable from the trend line.
- It is the intensity of the upswing and downswing in economic activity. ✓✓
- The larger the amplitude the more extreme the changes that may occur. ✓✓

#### 7. Trend ✓

- A trend is the movement of the economy in a general direction. ✓✓
- It usually has a positive slope because the production capacity of the economy increases over time. ✓✓
- Trends are useful because they indicate the general direction in which the economy is headed. It indicates the rate of increase or decrease in the level of output. ✓✓

#### 8. Extrapolation ✓

- This is the technique of using past data to make predictions about the future. ✓✓
- It is also used to make economic predictions in other settings ✓✓ e.g. prediction of future share price. ✓

#### 9. Moving average ✓

- It is a statistical analytical tool that is used to analyse the changes that occur in a series of data over a certain period of time. ✓✓
- Moving averages can be calculated for the past three months in order to smooth out any minor fluctuations. ✓✓ (26)

•

(Accept any other relevant and correct response)

(Both sub-headings and examples are marked to a maximum of 8 marks)

### TOPIC 3: THE PUBLIC SECTOR

#### SECTION A

#### QUESTION 1

- 1.1.1 A ✓✓ (tax revenue and tax rate)
- 1.1.2 A ✓✓ (three)
- 1.1.3 C ✓✓ (value added tax)
- 1.1.4 D ✓✓ (community)
- 1.1.5 C ✓✓ (parastatal)

1.2.1 C ✓

1.2.2 D ✓

1.2.3 A ✓

1.2.4 E ✓

1.2.5 B ✓

1.3.1 Privatisation ✓

1.3.2 Demerit goods ✓

1.3.3 Taxes ✓

1.3.4 Fiscal policy ✓

1.3.5 Full employment ✓

## SECTION B

### QUESTION 2

2.1 Answer the following questions.

2.1.1 Name TWO features of the fiscal policy. (2)

Goal bound ✓

Demand biased ✓

Cyclical ✓

2.1.2 Why is it important for government to avoid borrowing more often? (2)

Borrowings may become too costly as government has to pay interest on loans. ✓✓

2.1.3 How do we see when there's public sector failure? (2)

- Public sector failure manifests itself through missed targets, e.g regarding inflation, growth and employment. ✓✓
- There also tends to be wastage of resources, such as taxpayers' money. ✓✓

### 2.2. DATA RESPONSE

2.2.1 Identify ONE parastatals show on the above cartoon.

SABC ✓ / Eskom ✓ / Transnet ✓ / PetroSA ✓ / SAA ✓

(1)

2.2.2 Which level of government is responsible for the provision of electricity?

**2.2.3 Describe the term *privatisation*.**

Privatisation refers to the process whereby state-owned enterprises and state-owned assets are sold to private individuals. ✓✓ (2)

(Accept any other relevant and correct response)

**2.2.4 Briefly discuss economic growth as the objective of the public sector.**

- The state attempts to ensure a continual improvement in the productive capacity of the country as a measure to improve the standard of living. In the private sector, the forces of supply and demand dictate prices. ✓✓
- The markets acts as signals to the producers, communicating the needs of consumers and the quantity demanded. ✓✓
- State-owned enterprises do not operate according to the forces of demand and supply. ✓✓
- It therefore becomes difficult for state-owned enterprises to assess the needs of consumers and they are prone to under-or over-supplying goods. ✓✓ (2)

(Accept any other relevant and correct response)

**2.2.5 How does the problem of *assessing needs* become a challenge of public sector provisioning?**

The problem of assessing needs becomes a challenge because:

- State-owned enterprises do not operate according to the forces of demand and supply. ✓✓
- It becomes difficult for state-owned enterprises to assess the needs of consumers and they are prone to under-or over-supplying goods. ✓✓ (2x2)(4)

(Accept any other relevant and correct response)

**QUESTION 3****3.1. DATA RESPONSE**

**3.1.1. Identify the detailed expected revenue and projected expenditure that is shown on the cartoon above.** (1)

Budget ✓

**3.1.2. Name ONE objective of the government that can be met using tax revenue.** (1)

- Economic growth ✓
- Full employment ✓
- Exchange rate stability ✓
- Price stability ✓
- Economic equity ✓

**3.1.3. Briefly describe the term *collective goods*.** (2)

Collective goods are those goods that are not possible to exclude people from using once they have been provided. ✓✓

(Accept any other relevant and correct response)

**3.1.4. What may be the reason for the state to borrow money from other countries?** (2)

The state may borrow in a case where not enough funds are available to finance the operations of the government. ✓✓

(Accept any other relevant and correct response)

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3.1.5. How can lack of accountability by government officials affect the public sector in meeting its objectives? (4)

Lack of accountability by public servants can affect the public sector by:

- Mismanaging government resources to satisfy the needs of the few elites at the expense of public funds thus not being able to provide services. ✓✓
- Misdirecting funds to operations that will generate profit for individuals and not the society at large. ✓✓
- Abusing the power vested in them so as to make it easy for them to advocate for their personal interests and not the needs of the society in general. ✓✓

(Accept any other relevant and correct response)

#### QUESTION 4

##### 4.1. DATA RESPONSE

4.1.1. Identify the factor that contributes to public sector failure shown on the cartoon above.

Corruption ✓✓

4.1.2. Name ONE government objective that is not met on the above cartoon.

Full employment ✓✓

4.1.3. Briefly describe the term *non - rejectable public goods*.

Public goods can be non-rejectable in the sense that the society cannot reject the consumption of such goods/ services. ✓✓

(Accept any other relevant and correct response)

4.1.4. Briefly explain parastatals as a problem of public sector provisioning.

- The funds used to bail-out can be directed to service delivery. ✓✓
- South African state owned enterprises have not made any profit and therefore has become a burden to the government. ✓✓

(Accept any other relevant and correct response)

4.1.5. Explain why an increase in V.A.T will have a negative effect on economic equity in the country?

An increase in V.A.T will:

- Cause an increase in the prices of goods and services thus causing inflation which will have detrimental effects on the poor. ✓✓
- Reduce the disposable income of households thereby propelling poverty for those that are already disadvantaged. ✓✓
- Impact negatively on production therefore causing people to lose their jobs. ✓✓
- Slow down economic growth rate hence not allowing the government to provide for the poor. ✓✓

(Accept any other relevant and correct response)



**QUESTION 5:**

**5.1 DATA RESPONSE**

**5.1.1 Identify the current fiscal year referred to from the above extract. (1)**

2020/2021 ✓

**5.1.2 What is the major contributing factor to increased government spending currently? (1)**

Covid-19 ✓

**5.1.3 Briefly describe the term *budget deficit*. (2)**

Budget deficit is the amount by which government spending exceeds revenue over a particular period of time. ✓✓

**5.1.4 Explain the support programme that government has come up with to help businesses survive Covid-19? (2)**

- The government has partnered with banks to offer a guarantee loan scheme to businesses affected by Covid-19. ✓✓
- Government also introduced tax relief measures to support businesses survive Covid-19. ✓✓

(Accept any other correct and relevant response)

**5.1.5 How can government maintain fiscal discipline in its expenditure? (4)**

- By sticking to its expenditure framework as set out in its budgets and not spend unnecessarily on needs that are not a priority. ✓✓
- The government can improve efficiency in order to ensure that there is no wastage of funds. ✓✓
- Accountability may also be improved in order to curb corruption which makes government spending fruitless. ✓✓

**MIDDLE AND HIGHER ORDER QUESTIONS**

**QUESTION 6:**

**6.1 Using the Laffer curve below, analyse the impact of tax rates on government revenue.**

- The Laffer curve shows the relationship between (income) tax rates and tax revenue.
- At point 0, average tax rate is 0 and tax revenue is 0. ✓✓
- As the tax rate increases, the tax revenue will also increase up to a certain point. The curve will slope upward then peak at B. ✓✓

Maximum tax revenue is at R 10bn (the peak) and the best tax rate is 50%. ✓✓

- If the tax rate increases from 50% to 75% then the tax revenue will decrease from R10bn to R5bn. ✓✓
- People work less as a result of the higher tax rate. ✓✓
- If taxation decreases to 25%, the government may receive less revenue, but people may have more money to save and spend. ✓✓

**6.1.1 How is the equitable share formula used to distribute revenue to provinces? (8)**

- The equitable share formula is used to distribute revenue by taking into account the following priorities/considerations:
- Education (51%) – based on size of the school age population and the number of learners enrolled for the last 3 years. ✓✓
- Health (19%) – based on the portion of population who do not have access to basic medical services. ✓✓
- Basic Share (15%) based on each province's share of total population of the country. ✓✓
- Institutional component (5%) – divided equally amongst provinces. ✓✓
- Poverty component (3%) – based on the number of people who are poor in the province. ✓✓
- Economic output component (1%) – determined by the province's contribution to GDP of the country. ✓✓

**6.1.2 Briefly discuss the effects of public sector failure. (8)**

- Allocation of resources: When the government fails an optimal allocation of resources is not achieved and consequently resources are wasted.
- Economic instability: Government failure can lead to macroeconomic instability. Government is unable to use fiscal policy effectively.
- Distribution of income: If government fails to use the tax system effectively then there will be an unfair distribution of income in the economy.
- Social instability: When the public sector fails to deliver the required social services to the poor, the economy can be destabilised.

**6.1.3 Discuss non-excludability and non-rivalrous consumption as characteristics of public goods. (4x2) (8)**

**Non-excludable**

- Once public goods and services have been provided, they can be used by everyone. ✓✓
- When it is not possible to exclude individuals from consuming a good, the problem of free riding arise. ✓✓
- These goods are also sometimes known as collective goods. ✓✓

**Non-rivalrous in consumption.**

- When public goods have been consumed by one person it does not mean they cannot be used by someone else. ✓✓
- Public goods cannot be divided into saleable units and are therefore non-rivalrous in consumption. ✓✓
- Goods which are non-rivalrous in use are also known as communal goods. ✓✓

**6.1.4 How can privatisation improve the efficiency of state enterprises? (8)**

- Promoting the profit motive. ✓✓
- Improving the overall efficiency is improved. ✓✓
- Hiring qualifies personnel with expertise to these companies. ✓✓
- Introducing cost-effective methods that improve competitiveness. ✓✓

**TOPIC 4: FOREIGN EXCHANGE MARKETS**

**SECTION A**

**QUESTION 1**

**1.1 MULTIPLE CHOICE**

- 1.1.1. C ✓✓ (Free floating)
- 1.1.2. C ✓✓ (Specialise)
- 1.1.3. A ✓✓ (Comparative advantage)
- 1.1.4. D ✓✓ (Revaluation)
- 1.1.5. A ✓✓ (Depreciation)

**1.1 MATCHING**

- 1.2.1 D ✓
- 1.2.2 C ✓
- 1.2.3 E ✓
- 1.2.4 A ✓
- 1.2.5 B ✓

**1.3. ECONOMIC CONCEPTS**

- 1.3.1 Balance of payment ✓
- 1.3.2 Exchange rate ✓
- 1.3.3 Special drawings rights ✓
- 1.3.4 Devaluation ✓
- 1.3.5 Foreign exchange market ✓

## **SECTION B**

### **QUESTION 2**

#### **2.1. Answer the following questions**

2.1.1 List TWO demand reasons for international trade (2x1) (2)

- Size of population ✓, income levels, ✓ change in the wealth of the population ✓, preferences and taste, ✓ differences in consumption patterns ✓, absolute and comparative advantage. ✓

2.1.2 How can the increase in the number of SA tourist visiting China affect the value of the rand? (2)

The huge outflow of funds (Rands) will lead to the depreciation of the currency value ✓✓

#### **2.2 DATA RESPONSE**

2.2.1. Which statement of account is the current account extracted from? (1)

The balance of payment ✓

2.2.2. What is the balance for the tangible products traded by South Africa with the rest of the world? (1)

4 966 ✓

2.2.3. Briefly describe the term *current transfers*. (2)

A current transfer is the record of transfers of money by private individuals and firms. ✓✓  
(Accept any other relevant and correct response)

2.2.4. Explain the significance of the balance on current account in the balance of payments. (2)

- The balance of current account is reflection of whether the country is self-sufficient in terms of the ratio between imports and exports. ✓✓
- It indicates whether the country is having a surplus or deficit in trade. ✓✓

(1x2) (2)

(Accept any other relevant and correct response)

2.2.5 How can a deficit on the current account affect the country?

The deficit on the current account can affect the country by:

- Retarding the ability of the country to invest on infrastructural development. ✓✓
- Increasing the tax burden as more money will need to be borrowed to pay-off public debt. ✓✓
- Increasing the dependency rate on the government as people are left without jobs. ✓✓
- Reducing investor confidence thus causing disinvestment. ✓✓ (2x2) (4)

(Accept any other relevant and correct response)

### **QUESTION 3**

#### **3.1 Answer the following questions**

3.1.1 List any TWO items that appear in the financial account.

- Direct investments ✓
- Port-folio investments ✓
- Other investments ✓

3.1.2 How will an increase in the repo rate affect the level of investments?

- An increase in the repo rate will encourage business to invest more as it will increase returns. ✓✓

3.2 DATA RESPONSE

3.2.1 Identify the term that describes comparison between imports and exports prices. (1)

Terms of trade ✓

3.2.2 Which year was used as a base year on the table above?

2010 ✓ (1)

3.2.3 Briefly describe the term *embargo*. (2)

Embargo refers to an official ban on trade of goods and services with a particular country. ✓✓

(Accept any other relevant and correct response)

3.2.4 What would be the effect of an increase in the volume of imports on the economy? (2)

- An increase in the volume of import will imply the outflow of capital thus impacting negatively on the country's economy. ✓✓
- The value of the currency will decrease due to high demand for foreign currency. ✓✓

(Accept any other relevant and correct response)

3.2.5 Use the table above to calculate the terms of trade (A). Show all calculations.

$$\text{Terms of trade} = \frac{\text{Index of exports prices}}{\text{Index of imports prices}} \times 100$$

$$\frac{167.2 \checkmark}{154.5} \times 100 \checkmark = 108.2 \checkmark \checkmark$$

#### QUESTION 4

4.1 Answer the following questions

4.1.1 Give TWO supply reasons for foreign exchange. (2x1) (2)

- Exporting of goods and services. ✓✓
- Providing services to a foreign country. ✓✓
- Receiving dividends on shares invested in foreign countries. ✓✓
- Raising new loans in foreign countries. ✓✓

4.1.2 How will an increase in exports prices affect the South African economy? (2)

- It will result in the improvement of the terms of trade. ✓✓

(Accept any relevant and correct answer)

4.2 DATA RESPONSE



4.2.1 Identify the initial amount of R/\$ exchange (1)

R10 ✓

4.2.2 What effect would a shift of the demand curve have on the price of the US dollars? (1)

It will increase the price of dollars to R12 ✓

4.2.3 Briefly describe the term *free floating exchange rate system*. (2)

Free floating exchange rate system is an exchange rate system whereby the exchange rate of a currency is determined by market forces. ✓✓

4.2.4 Give TWO possible causes of an increase in the demand for US dollars. (2)

- Importing goods. ✓✓
- Payment for services from foreign country. ✓✓
- Buying shares in another country. ✓✓
- Tourists' spending money overseas. ✓✓
- Repayment of debts borrowed from foreign countries. ✓✓

4.2.5 What would be the effect of the appreciation of a rand on South African imports? (4)

- Appreciation of the rand will make South African imports more affordable. ✓✓
- The demand for imports will increase leading to a negative impact in the BOP. ✓✓

#### MIDDLE AND HIGHER ORDER QUESTIONS

4.3 Briefly discuss the measures to reduce a deficit on the balance of payments. (4X2) (8)

- Countries with surpluses often lend money to countries with deficits. ✓✓
- Countries with deficits often borrow from developed countries which leave them with huge foreign debt. ✓✓
- International monetary my assist member countries with special drawings rights. ✓✓
- Currency depreciation makes exports cheaper for foreign buyers, imports expensive for domestic buyers which reduce the deficit on BOP. ✓✓
- Interest rates can be charged to control domestic demand. ✓✓
- Import control such as quotas can be used to limit the number of goods to be imported. ✓✓

4.4 Briefly discuss labour resources and specialisation as reasons for international trade. (4X2) (8)

##### Labour resources

- Labour differ in quality, quantity and costs between the countries. ✓✓
- Some may have highly skilled, well paid workers with high productivity levels. e.g. Switzerland. ✓✓
- Countries which lacks in the quality of labour may import foreign knowledge at a fee. ✓✓

##### Specialisation

- Allows some countries the production of certain goods and services at a lower cost than other countries. ✓✓
- Japan produces electronic goods and services at a lower cost and therefore is a largest exporter of electronic appliances. ✓✓

**ECONOMIC PURSUITS**

**TOPIC 8: PROTECTIONISM AND FREE TRADE**

**SECTION A**

**QUESTION 1**

**1.1. MULTIPLE CHOICE**

- 1.1.1. C ✓✓ (ad valorem)
- 1.1.2. B ✓✓ (globalisation)
- 1.1.3. C ✓✓ (economic union.)
- 1.1.4. D ✓✓ (trade protocol.)

**1.2 MATCHING**

- 1.2.1 C ✓
- 1.2.2 B ✓
- 1.2.3 E ✓
- 1.2.4 A ✓
- 1.2.5 D ✓

**1.3. ECONOMIC CONCEPTS**

- 1.3.1. Protectionism ✓
- 1.3.2. Dumping ✓
- 1.3.3. Free trade ✓
- 1.3.4. Sanctions ✓
- 1.3.5. Economies of scale ✓

**QUESTION 2**

2.1. Study the table below and answer questions that follow.

**2.1.1. Name two arguments in favour of free trade.**

**(2x1)(2)**

- specialisation ✓
- economies of scale ✓
- choice ✓
- innovation ✓ (Accept any relevant and correct answer)

**2.1.2. How are wages of local workers negatively affected by dumping?**

**(2)**

Dumped goods are sold at uncompetitive prices usually lower than the prices of local goods; this reduced the demand for local goods and led to job losses. ✓✓

## 2.2. DATA RESPONSE

2.2.1. Name the argument against protectionism that is shown on the above cartoon.

Loss of jobs ✓

2.2.2. Which alternative policy approach to protectionism is shown on the cartoon?

Free trade ✓

2.2.3. Briefly describe the concept *import substitution*. (2)

Import substitution is a trade policy in which goods that were previously imported are replaced with locally produced goods. ✓✓

(Accept any other relevant and correct response)

2.2.4. Why would a country that is richly endowed in natural resources be in a better trading position? (2)

- Natural resources are not distributed equally under the earth therefore countries that lack certain resources will be forced to buy from countries with excess. ✓✓
- Surplus in natural resources may be exported to countries with shortages and foreign income can be earned. ✓✓
- The surplus in natural resources may be exported to countries with shortages and earn foreign income. ✓✓

(Accept any other relevant correct response)

2.2.5. How does technological advancement benefit the economy? (4)

- Improve the production capacity of the country by making goods to be globally competitive. ✓✓
- Reduce the cost of production thus giving the country a comparative advantage in the production of certain goods. ✓✓
- Encourages innovation which results to the introduction of new products in the market. ✓✓
- Stimulates the establishment of small businesses which creates job opportunities. ✓✓

(Accept any other relevant correct response)

## QUESTION 3

3.1 Answer the following questions

3.1.1 Give TWO methods of imports substitution. (2x1)(2)

- Import quotas ✓
- Subsidies ✓
- Tariffs ✓
- Exchange control ✓



- Diverting trade ✓

3.1.2 Why does the government promote exports? (2)

- The country achieves exports led economic growth. ✓✓
- It enlarges the production capacity of the country. ✓✓
- Export promotion creates job opportunities. ✓✓

(Accept any other relevant and correct response)

3.2 DATA RESPONSE

3.2.1 Name the institution that promotes trade liberalisation. (1)

World Trade Organisation ✓

3.2.2 Give ONE form of economic integration. (1)

- Common Union ✓
- Free Trade Area ✓✓
- Economic Union ✓
- Monetary Union ✓

3.2.3 Briefly describe the term *economic integration* (2)

Economic integration is the cooperation between countries that lead to economic gains for all. ✓✓

(Accept any other relevant correct response)

3.2.4 Why would import substitution have a negative effect on consumers in the long-run?(2)

- Consumer's choice decrease as they will be limited to domestic products only. ✓✓
- Consumers may pay higher prices on domestic products due to less competition. ✓✓

(Accept any other relevant correct response)

3.2.5 How could an African country benefit from a new free trade agreement?. (4)

- Enjoying lower prices for goods and services. ✓✓
- Enjoying free movement of goods and services and job opportunities across borders. ✓✓
- Specialising in the production of goods and services where the country has a comparative advantage. ✓✓
- Producing quality and improved goods due to innovation. ✓✓

3.4 Why should South Africa follow a policy of free trade? (8)

- It allows economies of scale to be maximised and unit cost to be reduced. ✓✓
- Economies of scale lead to comparative advantage. ✓✓
- It allows consumers the choice of goods and services. ✓✓
- Consumer's welfare can be improved because of choice goods available to them. ✓✓
- Free trade leads to mutual gain from international trade to all countries. ✓✓
- Free trade allows countries to specialise in producing goods for which they have a competitive advantage. ✓✓

3.5 Evaluate the effectiveness of the export promotion policy in South Africa. (8)

Export promotion is effective because:

- It enables local producers to produce larger quantities than what a domestic market requires. ✓✓
- Local producers benefit through economies of scale associated with bulk purchases with more efficient production processes. ✓✓
- Increasing the domestic product stimulates demand for labour, thus creating job opportunities. ✓✓
- The increased domestic businesses and increase in the number of producers result in increased competition. ✓✓
- Increased competition will result in lower prices and a larger variety of goods. ✓✓
- This will help reduce inflation within the country as general price level falls. ✓✓
- Earning foreign exchange leads to an injection into the circular flow that adds to the national income. ✓✓
- Money earned through exports will improve the balance of payment. ✓✓

Export promotion is not effective because:

- Prices of goods re distorted due to government subsidies to promote exports. ✓✓
- Artificially low domestic prices discourage foreign producers to export to South Africa. ✓✓
- Foreign countries may retaliate by imposing tariffs on exports from SA which eventually leads to a loss in welfare. ✓✓
- Because of incentives and subsidies, businesses may lower their prices to force out competition, thereby reducing domestic output. ✓✓

## TOPIC 9: ECONOMIC GROWTH AND DEVELOPMENT

### SECTION A

#### QUESTION 1

- 1.1.1 C ✓✓ (Economic growth)
- 1.1.2 A ✓✓ (Employment rate)
- 1.1.3 A ✓✓ (Life expectancy)
- 1.1.4 B ✓✓ (Producer price index)
- 1.1.5 B ✓✓ (Industrial development zone)
- 1.1.6 A ✓✓ (Per capita gross domestic product)
- 1.1.7 B ✓✓ (Critical infrastructure programme)
- 1.1.8 C ✓✓ (Integrated manufacturing strategy)

	COLUMN A		COLUMN B
1.2.1.	Incentives	H✓	A. Information about the size and structure of a population.
1.2.2.	Consumer Price Index	F✓	B. Number of years a person will live after birth.
1.2.3.	Demographics	A✓	C. A policy to promote sustainable industrial development in areas where poverty and unemployment are at their highest.
1.2.4.	Gini co-efficient	G✓	D. Measures the change in the price of goods produced locally when it leaves the

1.2.5.	Life expectancy	B✓	E.	factory floor. The wellbeing of people determined by health, education and income.
1.2.6.	Producer price index	D✓	F.	Measure headline inflation.
1.2.7.	Spatial development Initiatives	C✓	G.	Measures income inequality and wealth.
1.2.8.	Human Development Index	E✓	H.	Strategies used to encourage production.

- 1.3.1 Affirmative action ✓
- 1.3.2 Urbanisation ✓
- 1.3.3 Joint Initiative on priority skills acquisition ✓
- 1.3.4 Economic development ✓
- 1.3.5 Decentralisation ✓

## QUESTION 2

2.1.1 Name any TWO redress policies in South Africa. (2x1)(2)

- Broad-Based Black Economic Empowerment ✓
- Employment equity Act ✓
- Affirmative Action ✓
- Land reform ✓

2.1.2 How can an increase in population size affect economic growth? (2)

It may cause a decline in economic growth as more people would have to share the same resources. ✓✓

## 2.2 DATA RESPONSE

2.2.1 Name the department that came up with the New Growth Plan? (1)

Department of finance (National treasury) ✓

2.2.2 What is the economic trend shown by the cartoon above? (1)

Decline ✓

2.2.3 Briefly describe the term *economic growth*. (2)

Economic growth refers to an increase in the productive capacity of an economy over time. It is a change in the real GDP ✓✓

2.2.4 Explain natural resources as a factor that influences economic growth. (2)

A country that has abundant or valuable natural resources stands a good chance of achieving economic growth because it earns income from exports and finished products from natural resources. ✓✓

**2.2.5 How does economic growth relate with economic development? (4)**

- Economic growth may lead to more people being employed. ✓✓
- When people are employed and earn an income, their welfare improves. ✓✓

**2.3 DATA RESPONSE**

**2.3.1 Identify the group of countries that is well industrialised from the graph above (1)**

Developed countries ✓

**2.3.2 How much is the percentage share of exports of manufactured goods in poor countries? (1)**

28% ✓

**2.3.3 Briefly describe the term *globalisation*. (2)**

Globalisation is worldwide interaction of economies with trade as an important element. ✓✓

**2.3.4 What negative impact can industrialisation have on the environment?(2)**

- It may cause pollution and render the environment unproductive. ✓✓
- Natural resources may get depleted if firms are only driven by profit and care less about the environment. ✓✓

**2.3.5 Why do developing countries rely more on natural resources for their economic activities? (2)**

- Developing countries do not have the capacity to process their raw materials for exports purposes. ✓✓
- They also have a shortage of skilled workforce to work in the manufacturing sector. ✓✓

**2.4 DATA RESPONSE**

**2.4.1 Identify the period in which the economy experienced the worst decline. (1)**

2020 2<sup>nd</sup> quarter (April 2020 to June 2020) ✓

**2.4.2 What was the growth rate for the period of January 2021 to March 2021? (1)**

4.6% ✓

Downloaded from Stanmorephysics.com

2.4.3 Briefly describe the term **gross domestic product**. (2)

Economic growth refers to the total market value of all final goods and services produced within the borders of a country in a specific period of time (year). ✓✓

2.4.4 What is it that has been a major contributing factor to the recent economic growth? (2)

The country has benefited a lot from global commodity boom since it exports a lot of minerals. ✓✓

2.4.5 How can government lower costs of production in order to stimulate economic growth? (4)

- Government can provide subsidies for transport and ensure that there's provision of proper road infrastructure. ✓✓
- There must be enough, cheap, and reliable supply of electricity. ✓✓
- Government can also improve communication infrastructure in order to reduce cost of communication such as data. ✓✓

## 2.5 DATA RESPONSE

2.5.1 Name ONE example of a rich country. (1)

USA, ✓China✓, Japan✓, etc

2.5.2 How much is the difference in the drop in income between the poor and rich countries? (1)

24%✓

2.5.3 Briefly describe the term *North-south divide*. (2)

It refers to the developed countries in the Northern hemisphere and the developing countries in the Southern hemisphere. ✓✓

2.5.4 Why is north-south divide not considered as a good concept to describe the differences between rich and poor countries? (2)

- Because even though there are similarities between country groupings, there are significant differences that exist between the same groupings. ✓✓
- Within the category of developing countries the level of development is not the same. ✓✓

(Accept any other correct and relevant response)

2.5.5 How can poor countries benefit from forming trade relations with rich countries? (4)

- Poor countries can benefit from the technological know-how of rich countries. ✓✓
- They can import products from rich countries that they are unable to produce. ✓✓

## MIDDLE ORDER

- It generates income for government through tax revenues that can be used to fund infrastructure and social services. ✓✓
- Job opportunities are created when there's economic growth. ✓✓
- People's standard of living may improve because of income they earn from jobs when there's economic growth. ✓✓
- Increase in demand may cause more investment in new capital machinery which helps sustain growth. ✓✓
- It improves business confidence and attracts foreign investors. ✓✓

## 2.7 Briefly discuss monetary policy instruments that are used to achieve economic growth. (8)

### Interest rate changes

- It is used to influence credit creation by making credit more expensive or cheaper ✓✓.
- The exchange rate is stabilised by encouraging inflow or outflows. ✓✓

### Open market transactions

- To restrict credit the SARB sells securities. ✓✓
- When banks buy these securities money flows from banks to the SARB. ✓✓
- The banks have less money to lend and cannot extend as much credit as before. ✓✓
- To encourage credit creation the SARB buys securities. ✓✓
- Money flows into the banking system. ✓✓

### Moral suasion

- The SARB consults with banks to act in a responsible manner based on the prevailing economic conditions. ✓✓

### Cash Reserve Requirements

- Banks are required to hold a certain minimum cash reserve in the central bank.
- Banks have a limited amount to give out as credit. ✓✓

## HIGHER ORDER

## 2.8 How is economic development measured? (8)

- The United Nations Development Programme uses human development index (HDI) to measure the economic development of countries by compiling the following statistics:
  - Life expectancy: it looks at average years people are expected to live from birth in their countries. ✓✓
  - Health: this involves studying indicators such as infant mortality which is number of children who die before turning the age of one. ✓✓
  - Education: this indicator is done by looking at literacy rate and average years of schooling in a country. ✓✓

- GDP per capita is another indicator that is used to measure economic development by dividing the GDP of a country by its population size. ✓✓  
(Accept any other correct and relevant response)

**2.9 Evaluate the success of GEAR as an economic growth policy. (8)**

- GEAR had mixed outcomes. ✓✓
- It brought greater financial discipline and macroeconomic stability. ✓✓
- There was real reduction in fiscal deficit (less than 3% in terms of international benchmarks). ✓✓
- It brought inflation down mostly to within the inflation targets of 3 to 6%. ✓✓
- Foreign exchange reserves increased in most regards. ✓✓
- It failed to create sustainable job opportunities. ✓✓
- It also didn't help to redistribute wealth more evenly between the rich and poor. ✓✓

**ESSAY QUESTIONS:**

**QUESTION 3**

- 3.1 Discuss in detail the demand-side approach in promoting growth and development in South Africa. (26)

**INTRODUCTION**

South Africa's growth and development policies are designed to fulfil many social and economic objectives to ensure that most South Africans can achieve a reasonable standard of living. A demand-side approach includes discretionary changes in monetary and fiscal policies with the aim of changing the level of aggregate demand. ✓✓

Max (2)

(Accept any other relevant introduction)

**BODY**

**MAIN PART**

The South African approach uses both monetary and fiscal measures to influence aggregate demand in the economy. ✓✓

**MONETARY POLICY**

The South African Reserve Bank (SARB) as the central bank in South Africa formulates the monetary policy.

**They use the following instruments:**

**Interest rate changes ✓**

- It is used to influence credit creation by making credit more expensive or cheaper. ✓✓

### **Open market transactions ✓**

- To restrict credit the SARB sells securities. ✓✓
- When banks buy these securities money flows from banks to the SARB. ✓✓
- The banks have less money to lend and cannot extend as much credit as before. ✓✓
- To encourage credit creation the SARB buys securities. ✓✓
- Money flows into the banking system. ✓✓



### **Moral suasion ✓**

- The SARB consults with banks to act in a responsible manner based on the prevailing economic conditions.

### **Cash Reserve Requirements ✓**

- Banks are required to hold a certain minimum cash reserve in the central bank. ✓✓
- Banks have a limited amount to give out as credit. ✓✓

## **FISCAL POLICY**

South Africa's fiscal policy is put into practice through the budgetary process. ✓✓

The main purpose of fiscal policy is to stimulate macroeconomic growth and employment, and ensure redistribution of wealth. ✓✓

The following instruments are used:

### **Progressive personal income tax ✓**

- Higher income earners are taxed at higher tax rates. ✓✓
- These taxes are used to finance social development. ✓✓
- The poor benefit more than those with higher incomes. ✓✓

### **Wealth taxes ✓**

- Properties are levied (taxed) according to their market values. ✓✓
- Transfer duties are paid when properties are bought. ✓✓
- Securities (shares and bonds) are taxed when traded. ✓✓
- Capital gains tax is levied on gains on the sale of capital goods (e.g. properties, shares). ✓✓
- Estate duties are paid on the estates of the deceased. ✓✓
- These taxes are used to finance development expenditures which benefit the poor more often. ✓✓

### **Cash benefits ✓**

- Old age pensions, disability grants, child support and unemployment insurance are cash grants. ✓✓ -These are also known as social security payments. ✓✓

### **Benefits in kind (natura benefits) ✓**

- These include the provision of healthcare, education, school meals, protection etc. ✓✓
- When user fees are charged, poor or low income earners pay less or nothing.
- ✓✓ Limited quantities of free electricity and water are provided. ✓✓



**Public works programmes** ✓

- E.g. the Strategic Integrated Projects (SIP) provides employment subsidies and other cash and financial benefits such as training, financing and export incentives. ✓✓

**Land restitution and land redistribution** ✓

- Land restitution is the return of land to those that have lost it due to discriminatory laws in the past. ✓✓
- Land redistribution focuses on land for residential (town) and production (farm) for previously disadvantaged groups. ✓✓
- The money for these programmes is provided in the main budget. ✓✓  
Subsidies on properties ✓
- It helps people to acquire ownership of fixed residential properties. ✓✓
- E.g. government's housing subsidy scheme provides funding to all people earning less than R3 500 per month. ✓ (Max 26)

(A maximum of 8 marks are allocated for headings, subheadings and examples)

**QUESTION 4**

- 4.1 Discuss in detail the following South African growth and development policies and strategic initiatives. (26)

**INTRODUCTION**

Economic growth is the increase in the productive capacity of the country. ✓✓

Economic development is the improvement in the standard of living of the people ✓✓ (2)

**Reconstruction and Development Programme (RDP)** ✓

- The policy was introduced in 1994 as a development strategy for the government. ✓✓
- The main aims were to alleviate poverty and address the inequalities and shortfalls in social services. ✓✓
- It focused on job creation through public works, provision of housing, water and sanitation and electrification. ✓✓
- It also aimed at creating accountable and transparent processes for all levels of government. ✓✓

**Growth, Employment and Redistribution (GEAR)** ✓

- The main strategy was to strengthen economic development, redistribute income and create socio-economic opportunities for the poor. ✓✓

Key elements of the policy were:

- To have an exchange rate policy that can result in stability to the currency - A consistent monetary policy to prevent an uncontrollable inflation. ✓✓
- A reduction in tariffs to reduce the costs of inputs and facilitate industrial reforms. ✓✓
- Tax incentives to stimulate new investments in labour intensive industries ✓✓

### **Accelerated and Shared Growth Initiative for South Africa (ASGISA) ✓**

- Its objective was to co-ordinate government initiative to create economic development. ✓✓

The key elements were:

- Halve unemployment and poverty by 2014. ✓✓
- Accelerate economic growth to an average of 6% between 2010 and 2014. ✓✓
- The government had planned to increase public sector investment in infrastructure in order ✓✓
- To eliminate the second economy (informal sector) by developing it to the status of the formal economy. ✓✓

### **Joint Initiative on Priority Skills Acquisitions ✓ (JIPSA)**

- It is the skills development arm of ASGISA. ✓✓
- Focus is on skills development, especially through the SETAs. ✓✓

### **Expanded Public Works Programme (EPWP) ✓**

- It is a nationwide government intervention to create employment using labour intensive methods, and to give people skills they can use to find jobs when their work in the EPWP is done. ✓✓

### **The New Growth Path (NGP) ✓**

- Its aim was to enhance growth, create employment and create greater equity. ✓✓
- Its focus was to create 5million jobs by 2020 reducing unemployment from 25% to 15 ✓✓

### **National Development Plan (NDP)**

- Its aim is to eliminate poverty and inequality by the year 2030. ✓✓
- Sets out to expand economic opportunities through investment in infrastructure, more innovation investment and entrepreneurship. ✓✓

### **Small business Development Promotion Programme (SBDPP)**

- It was designed to deliver support and services to small, medium and micro enterprises. ✓✓
- Department of Trade and Industry (DTI), Industrial Development Corporation (IDC) and the National Small Business Act offer these services. ✓✓
- Laws are revised to help change power imbalance. ✓✓

### **Black Economic Empowerment Programmes (BEE) ✓**

- The BBBEE was designed to create economic opportunities for the previously disadvantaged groups. ✓✓
- This means the government is creating conditions for increase in businesses that are owned and managed by black people. ✓✓

### **National Skills Development Strategy (NSDS) ✓**

- It is the main strategic guide for skills development and provides direction to sector skills planning and implementation in the SETAs. ✓✓

- It is intended to radically transform education and training in South Africa by improving both the quality and quantity of training. This can support increased competitiveness of industry and improved quality of life for all South Africans. ✓✓
- The National Skills Development Strategy (NSDS) is the tool used by the Department of Labour to drive the process of developing the skills of the South African labour force. ✓✓
- Six conceptual pillars: Inclusion, Relevance, Sustainability, Creativity, Quality and Quantity inform its key aims and objectives ✓✓

## TOPIC10: REGIONAL DEVELOPMENT

### SECTION A

- 1.1.1 B ✓✓ Corridor
- 1.1.2 B ✓✓ Industrial development zones.
- 1.2.3 B ✓✓ Critical Infrastructure
- 1.2.4 C ✓✓ Southern African Development Community

4x2 (8)

- 1.2.1 D ✓
- 1.2.2 F ✓
- 1.2.3 A ✓
- 1.2.4 C ✓
- 1.2.5 B ✓

5x1 (5)

- 1.3.1 Decentralisation ✓
- 1.3.2 Spatial Development Initiative (SDI) ✓
- 1.3.3 Public Private Partnership ✓

3x1 (3)

### SECTION B

#### QUESTION 2

**2.1.1 Name TWO Industrial development policies used in South Africa.**

- National Industrial Policy Framework ✓
- Industrial Policy Action Plan ✓

**2.1.2 How would an increase in productivity benefit foreign investment in South Africa? 1x2 (2)**

- It may lead to improved efficiency which attracts foreign investment. ✓✓
- (Accept any other correct relevant response)

(1 x 2) (2)

## 2.2 DATA RESPONSE

2.2.1 What does the acronym *B-BBEE* stand for? (1)

Broad-Based Black Economic Empowerment ✓

2.2.2 Which government department is responsible implementing the B-BBEE policy? (1)

Department of Trade and Industry ✓

2.2.3 Briefly describe the term *industrial development*. (2)

The extensive development of organised economic activity for the purpose of creating manufacturing, mining, agricultural and services industries. ✓✓ (2)

(Accept any other correct relevant response)

2.2.4 What positive role does the Industrial Policy Action Plan (IPAP) play regarding black economic empowerment? (2)

- It focuses on many sectors (clothing, textiles, motor, tourist) which gives an opportunity to the disadvantaged to partake actively in the economy ✓✓
- It seeks to support new BEE business ventures through giving advice and give them access to finance ✓✓
- It provides skills development programmes to BEE entrepreneurs especially in the labour intensive industries ✓✓

(Accept any other correct relevant response)

2.2.5 What can be done to promote entry of black entrepreneurs into businesses? (2 x 2) (4)

Entry of black entrepreneurs into business can be promoted by:

- initiating proper and effective legislation (preferential procurement) ✓✓
- supporting houses or chambers that drives equal representation in the economy ✓✓
- ensuring proper education and training and mentoring (Incubation programmes) ✓✓
- offering financial support where needed ✓✓
- monitoring BEE compliance and action through legislation ✓✓

(Accept any other correct relevant response)

2.4 Briefly discuss *free market orientation* and *competitiveness* as guidelines for regional development in South Africa. (8)

Free market orientation:

- Economies need to support industrial development policies, key actions plans with sufficient human and financial resources to ensure that they are of a scale large enough to achieve structural changes in the economy ✓✓
- This involves customising industrial financing to address specific constraints and opportunities with the World Trade Organisation (WTO) rules ✓✓
- Financing should be made conditional on receipt of firms achieving measurable benchmarks ✓✓
- Government intervention in markets should be kept to a minimum so the forces of supply and demand and profit motives can allow for efficient allocation of resources ✓✓

2.5 How are special economic zones important to the economy?

The establishment of Special Economic Zones is important because:

- they are in geographically designated areas of a country, set aside for specifically targeted economic activities, which are then supported through special arrangements, and which may include laws and support systems to promote industrial development ✓✓
- SEZs are used by many economies to promote economic growth and industrialisation ✓✓
- SEZs are used as instruments for attracting foreign direct investment, alleviating large-scale unemployment, developing and diversifying exports and experimenting with new policies ✓✓
- The DTI through this policy strives to create employment and economic growth by establishing a strong industrial base in South Africa ✓✓
- Most outcomes of SEZs are expanding the manufacturing sector and creation of more industries ✓✓.
- The draft legislation sets the basis for the SEZs for a broader range of industrial parks and economic infrastructure. ✓✓
- SEZ act as a magnet for rapid development and investments in key growth areas ✓✓
- SEZ leads to the development of new industrial regions through establishing new industrial hubs in under-developed regions ✓✓
- SEZ are used for aspects such as export promotion, enterprise development, urban renewal, rural development and regional production ✓✓
- SEZ support the governments strategic objectives of industrialisation and employment creation ✓✓
- SEZ programmes are also crucial for domestic investment due to incentives ✓✓

(Accept any other correct relevant response)

**SECTION C**

**QUESTION 5**

5.1 Discuss in detail the South Africa's initiatives (endeavours) in regional development.

Spatial development initiatives (SDIs) (10)

Industrial Development Zones (IDZs) (8)

Special Economic Zones (SEZs) (8)

5.2 How Successful is government in promoting industrial development in South Africa (10)

**INTRODUCTION**

Regional development refers to policies which are aimed at increasing the economic livelihood of specific areas or regions ✓✓

(Any other correct relevant introduction) (Max 2)

**BODY: MAIN PART**

**SPATIAL DEVELOPMENT INITIATIVES ✓**

- SDI is a policy to promote sustainable industrial development in areas where poverty and unemployment are at their highest ✓✓
- It can be defined as a link between important economic hubs and regions in a country ✓✓
- The intention was to grow the SDI's mostly through private sector investment ✓✓
- The state was to enhance inward investment through the granting of incentives ✓✓
- The Public Private Partnerships, promotes the economic potential of underdeveloped areas ✓✓
- In a PPP a private business may provide the capital to build the factory and to buy raw materials and employ labour, while the government provides the capital for the infrastructure e.g. roads and water ✓✓
- There are 2 types of PPPs which are compensated differently: unitary payments and user-fees ✓✓
- The SDI involves an interdepartmental investment strategy that the DTI and the Department of Transport (DOT) lead ✓✓
- Government's industrial policy strives towards balance between openness and in promoting local competitiveness by opening up the domestic economy to international competition ✓✓
- DTI is driving force behind industrial and spatial development ✓✓
- Relies on networking with other central provincial government departments, IDC, parastatals (like Telkom, Eskom and Transnet) and research institutions to plan and monitor development ✓✓
- Key policy remains sustainable industrial development in areas where poverty and unemployment are at their highest ✓✓
- SDI's focus on high-level support on areas where socio-economic conditions require concentrated government assistance and inherent economic potential exists ✓✓
- SDI goal to fast-track investment and maximize synergies between various types of investments ✓✓

### Objectives of Spatial Development Initiatives

- Develop physical infrastructure such as roads and harbours ✓✓
- Stimulate economic activities in the underdeveloped areas ✓✓
- Create employment and stimulate economic growth in the underdeveloped areas ✓✓
- Develop inherent economic potential in the under developed areas ✓✓
- Attract private sector and foreign direct investment (FDI) ✓✓
- Establish Public Private Partnerships (PPP) ✓✓

### INDUSTRIAL DEVELOPMENT ZONES (IDZs) ✓

- They are purpose-built industrial estates, physically enclosed and linked to a port or airport ✓✓
- They are in duty-free import areas ✓✓
- This strategy was aimed at making exports internationally competitive ✓✓
- They focus on creating jobs and promoting exports ✓✓
- Goods produced in these zones should be exported to foreign countries ✓✓
- As services are provided from outside, the economy in the areas should be stimulated ✓✓
- An IDZ offers a world-class infrastructure, enjoys a zero rate of VAT on supplies from South African sources and reduced taxation on some products ✓✓

IDZs were located to benefit:

- investing companies through support ✓✓
- access to transport for exporting purposes ✓✓
- products produced for export by waiving import duties ✓✓
- skills training for employees by providing subsidies ✓✓

Each IDZ is designed to:

- provide location for establishment of strategic investments ✓✓

- promote and develop links between domestic and zone-based industries ✓✓
- enable exploitation of resource-intensive industries ✓✓

### SPECIAL ECONOMIC ZONES ✓

- It creates a basis for a broader range of industrial parks and provide economic infrastructure to promote employment ☐☐
- Geographically demarcated area where specific economic activities have been identified to be developed
- These areas may enjoy incentives such as tax relief and support systems to promote industrial development ☐☐
- There are plans to reduce tax to 15% as an incentive to attract new industries ☐☐

The aim of creating SEZ is to attract:

- Only new business ✓✓
- Business which are developing a new product line ✓✓
- Business which are expanding their volume ✓✓
- The DTI has indicated that the existing IDZs where special tax incentives do not apply, would be graduated into SEZs ✓✓

(Max 26)

## ADDITIONAL PART

### The government has promoted industrial development by:

- Implementing GEAR which focused on promoting growth in the economy, although it hasn't been successful because real GDP growth is not at the expected levels ✓✓
- The New Growth Path (NGP) which focused on improving certain skills which would attract global business and ensure long term economic growth, has not seen a decrease in the number of people which are unemployed ✓✓
- The National Industrial Policy Framework (NIPF) as an appropriate policy within best practice, although hindered by the unemployment problem ✓✓
- Spending huge amounts on improvement of infrastructure through the SDI's for example maintaining, improving, expanding infrastructure: access to suitable, modern, reliable, effective, efficient infrastructure and services, the creation of jobs was not enough to reduce unemployment ✓✓
- Implementing IDZ's, although some IDZ's growth have been slow due to incentives not being attractive enough to establish businesses ✓✓
- Introducing the SEZ's to address the negative elements of the IDZ's by providing additional incentives promoting Small Business Development that has been reasonably successful, due to the improved access to finance and capital which has promoted entrepreneurship as well as efficient and competitive markets ✓✓
- Promoting regional development although it is still uneven because it is still concentrated in the four major metropolises ✓✓

(Accept any other correct relevant response)

(Max 10)

## CONCLUSION

- It is the ultimate responsibility of the government to ensure that proper and effective policies and policy direction is given on the entire development of the country ✓✓.
- Every area in the country should be considered for development and growth. The industrial sector is earmarked as safety net for millions of jobless people in rural areas ✓✓

## TOPIC 11: ECONOMIC AND SOCIAL INDICATORS

### QUESTION 1

1.1.1. A ✓✓ Employment rate

1.1.2. A ✓✓ Life expectancy

1.1.3. B ✓✓ Producer price

1.1.4. D ✓✓ Counter cyclical indicator



1.2.1. C ✓

1.2.2. A ✓

1.2.3. B ✓

1.2.4. D ✓

1.3.1. Moving averages ✓

1.3.2. Terms of trade ✓

1.3.3. Globalisation ✓

## QUESTION 2

### 2.1. Answer the following questions

2.1.1 Name any TWO indicators for productivity. (1x2) (2)

Labour productivity ✓  
Remuneration per learner ✓

2.1.2 Explain how improved infrastructure leads to economic growth. (2)

- Improved infrastructure will lead to an increase in output and the economy of the country will grow faster. ✓✓

### 2.4 DATA RESPONSE

2.2.1 Identify the social service depicted by the extract. (1)

Water supply ✓

2.2.2 Name any ONE health indicator. (1)

- Malnutrition. ✓
- Obesity ✓
- Infant mortality ✓
- Under-five mortality ✓

2.2.3 Briefly explain the term *productivity*. (2)

- The relationship between the output of economic activities and the inputs of the factors of production. ✓✓

2.2.4 Why it is important for government to assess the economy. (2)

- Decide on measures to influence the behaviour of the economy. ✓✓
- Make decisions and form policies of economic development. ✓✓

- To indicate whether targets have been achieved. ✓✓
- Compare conditions between areas and in different periods. ✓✓

**2.2.5 How can the government address the problem of youth unemployment? (4)**

- Youth unemployment can be addressed by giving skills to our young people through education. E.g. NSFAS funding and FET colleges in SA is giving a lot of people better chance. ✓✓
- Learnership and to prioritise certain workplace experience while passing core skills to those who cannot go to colleges and universities. ✓✓
- Entrepreneurship programmes to start their own companies so that they create employment while contributing to the GDP of a country. ✓✓
- Government Initiatives that gives short term employment while passing the indigenous skills from generation to generation. ✓✓

**HIGHER ORDER QUESTIONS**

**2.3 Evaluate the South African social policy in boosting economic development. (8)**

**The social policy is successful to boost economic development by:**

- granting social grants that forms the most important source of income to a large number of South Africans. ✓✓
  - creating jobs through the Expanded Public Works Programme for poor people and equips them with skills training. ✓✓
  - providing community based projects which are driven by the government to create income opportunities. ✓✓
  - providing poor households with limited free water and electricity monthly. ✓✓
  - providing school feeding schemes at public schools to help poor children with a daily ration ✓✓
  - municipalities providing good service delivery and access to clean water, sanitation and waste disposal. ✓✓
  - poor people receives free health care services such as consultation, hospitalization, medicine, etc. ✓✓
  - children from poor households qualify to receive free education. ✓✓
- (Accept any other relevant correct responses)

**The social policy is not successful to boost economic development because:**

- it is not successful to eradicate nepotism and corruption ✓✓
- houses are allocated to family members of senior officials. ✓✓
- healthcare facilities are not well managed. ✓✓

(Accept any other relevant correct responses)

### QUESTION 3

#### 3.1 Discuss in detail the following economic indicators:

- Inflation indicators
- Foreign exchange indicators
- Employment indicators
- Productivity indicators
- Interest rate indicators
- Money supply indicators

(26)

#### INTRODUCTION

- Governments use different statistical data to predict economic trends and formulate suitable developmental strategies toward influencing the direction that the economy should take. ✓✓

(Accept any other suitable introduction) (Max. 2)

#### BODY: MAIN PART

##### Inflation rate indicators

- Inflation may be defined as a significant and continual rise in the general price level of goods and services over a given time, with the result that the purchasing power of money will decrease. ✓✓

##### Consumer price index (CPI) ✓

- This is an indicator that measures the change in the cost of a fixed basket of goods and services that an average household will purchase. ✓✓

##### Producer Price Index (PPI) ✓

- This is the indicator of changes in the price of manufactured goods as they leave the factories and imported goods as they enter the country. ✓✓

##### The formula to determine inflation:

$(\text{CPI year 2} - \text{CPI year 1}) / (\text{CPI year 1}) \times 100/1$  ✓✓

- South Africa experienced double digit inflation for many years until the government and the South African Reserve Bank introduced the inflation target of 3% - 6%. ✓✓

##### Employment indicators

- It is not so easy to measure employment as there are a lot of people employed in the informal sector, they are not registered or recorded. ✓✓

##### The economically active population (EAP) ✓

- The economically active population figures are used (this was done in grade 11) All the people willing and able to work between 15 and 64 in a country ✓✓ and includes:
  - Workers in the formal sector ✓
  - Workers in the informal sector ✓
  - Employers ✓
  - Self-employed persons ✓
  - Unemployed persons ✓

### Employment

- Refers to the number of employed persons expressed as a percentage of the EAP gives the employment rate. ✓✓

Employment indicators are important because:

- They calculate trends in employment in different sectors or industries – shows structural changes. ✓✓ Show the success of the economy in utilising its full potential ✓✓

### Unemployment

- Unemployed are all the EAP, they were actively looking for work 7 days prior to the investigation and can start work 7 days after the investigation. ✓✓

### Foreign trade indicators

#### Terms of trade ✓

- The Terms of Trade looks at the relationship between the price received for exports and the amount of imports we are able to buy with that money. ✓✓

**Terms of Trade = Average Price of Export/by average price of imports X 100/1 ✓✓**

- Changes in the terms of trade serve as an indicator of changes that may likely spill over into the balance of payment account and a deficit may follow this will lead to a depreciation in the currency. ✓✓

#### Exchange rates ✓

- Exchange rate is the rate at which one currency can be exchanged for another currency. ✓✓
- Exports and imports are strongly influenced by the exchange rate of the domestic currency ✓✓

### Productivity indicators

- Productivity measures the relationship between input and outputs ✓✓
- The more outputs you can produce for the same or less inputs the more productive you are. ✓✓
- Productivity is linked to cost – the more productive you are the lower costs are. ✓✓
- Example, if one labourer can produce more than another labourer the cost of labour will be reduced ✓✓
  
- Productivity will increase the Real GDP per Capita. This will increase economic growth. ✓✓

### Labour productivity ✓

- A simple formula to measure labour productivity is to divide real GDP by the number of workers employed. ✓✓

#### -Remuneration per worker✓

- If labour productivity increases by less than real wages, inflationary pressures will occur and the business cycle may turn unfavourable. ✓✓
- The relationship between productivity and wages is important for the following reasons:
- Employers relate it to profits✓✓ Workers relate it to improvements in the standard of living✓✓

#### Interest rates

- Interest as the main instrument in the monetary policy play a key role in the economy and would therefore be vitally important in measuring economic growth. ✓✓

#### Repo rate ✓

- Repo rate is the rate at which the SARB lends money to commercial banks. ✓✓

#### Prime Rate ✓

- The rate at which commercial banks lends money to households and business. ✓✓
- If interest rates move upward, the debt of households and business require bigger repayment instalments✓✓.
- This may indicate that the business cycle could be heading for a downward cycle, businesses might have to cut down production, unemployment may increase and economic growth will decline. ✓✓

#### Money supply

- The money supply indicate the money in circulation in the economy and how fast it moves from one person to another as this indicate high or low inflation. ✓✓

Money supply is divided in three categories:

- M1: This includes coins and notes. ✓✓
- M2: Includes M1 and other short-term and medium-term deposits of the domestic private sector with monetary institutions ✓✓
- M3: Includes M2 plus all long-term deposits of the domestic private sector with monetary institutions. ✓✓
- Too much money in circulation could lead to more spending and higher inflation✓✓. Too little money in circulation leads to under-spending, which leads to reduction in production, leads to unemployment and decline in economic growth✓✓.



## QUESTION 4

### 4.1 Discuss in detail the following social indicators:

- Demographic indicators
- Nutrition and health indicators
- Education
- Services
- Housing
- Urbanisation

(26)

### INTRODUCTION

- Social indicators are numerical measures that describe the well-being of individuals or communities used by economists. ✓✓

(Accept any correct relevant introduction)

### MAIN PART

#### Demographics

- These deal with statistical data relating to the population such as size, race, age, sex, income, language and education. ✓✓
- Government and businesses must know the size of the country's population to be able to provide for its infrastructure and businesses to know the availability of labour and size of markets. ✓✓

#### Population growth

- South Africa's population was estimated at 58,78 million in 2019. ✓✓
- Growth is slowing down. ✓✓

#### Life expectancy

- This expresses the number of years a new born infant will live if the prevailing patterns of mortality remained the same throughout his or her life. ✓✓
- Life expectancy at birth was estimated at 61,5 years for males and 67,7 years for females in 2019. ✓✓
- Assurance companies are interested in life expectancy as unexpected reductions reduce the number of years policy holders can pay premiums. ✓✓

#### Nutrition and health

- The standard of living of the population is related to the quality of nutrition and health.

#### Nutrition

- Nutrition is an important indicator for the well-being of infants and young children.
- Child nutrition – Malnutrition is expressed in two ways – weight for age (underweight) and height for age (dwarfism). ✓✓
- The proportion of underweight children is the most important indicator of malnutrition.

- Overweight children: there is an association between obesity of children and other diseases. ✓✓

### Health

- Infant mortality: The number of children that will die before one year of age is one way of measuring the health of a population. ✓✓
- Under-five mortality: the number of children that will die before the age of 5 years.
- Health expenditure: the amount of health expenditure as a percentage of GDP. ✓✓
- Access to safe drinking water: the percentage of a population that has reasonable access to safe drinking water. ✓✓
- Access to sanitation facilities: the percentage of a population with at least adequate sanitation facilities that can prevent human, animal and insect contact. ✓✓

### Housing

- A significant proportion of South Africans are poor and cannot afford to buy residential property. ✓✓
- The government facilitates home ownership by means of a subsidy system and loans from the private sector. ✓✓
- More than 3 million subsidised houses have been handed over to households since 1994. ✓✓

### Urbanisation

- Urbanisation is the increase in the population numbers of cities and towns ✓✓
- The level of urbanisation is one of the indicators of a country's social development.
- Urbanisation is an important social indicator because it points out to governments and developers that land has to be provided for a variety of purposes and services. ✓✓

It is measured by:

- Natural growth of the urban population ✓
- Migration ✓
- Establishment of new towns ✓
- South Africa is experiencing a trend of rapid urbanisation ✓

### Education

- People's standard of living is directly related to their level of education. ✓✓
- Five or six years of schooling is a critical threshold for the achievement of sustainable literacy and numeracy skills. ✓✓
- A society of literate and skilled citizens has more chances of development at economic and social levels. ✓✓
- Education can reduce poverty and social injustice by providing the under privileged with resources and opportunities for upward social mobility and social inclusion ✓✓
- Public expenditure percentage – shows the percentage of public expenditure that is directed towards education. ✓✓
- It measures public sector input but excludes private expenditure. ✓✓

- Secondary enrolment percentage – shows the percentage of designated age group attending secondary education. ✓✓
- It is considered a prerequisite for entry into employment for the semi-skilled ✓✓

### Services

- A number of services are vital to enhance people's lifestyle and level of economic and social development.

### Electricity

- A large percentage of South African households have access to electricity. ✓✓

### Refusal disposal

- Some households in South Africa have access to refuse removal by local authorities once a week. ✓✓

### Water supply

- The average number of households who have access to an improved water source has increased in South Africa since 1994. ✓✓
- An improved source refers to an adequate amount of water from sources such as household connections, taps inside the yard, public taps etc ✓✓
- Reasonable access is defined as the availability of 20 liters per person per day from a source within at least one kilometer of the dwelling. ✓✓

### Sanitation

- More households in South Africa have access to functioning sanitation. ✓✓
- This includes flush toilets, chemical toilets and pit toilets with ventilation pipes. ✓✓
- All other types of sanitation are defined as substandard ✓✓