



education

Department of
Education
FREE STATE PROVINCE

PREPARATORY EXAMINATION



ECONOMICS P1

SEPTEMBER 2022

MARKS: 150



TIME: 2 HOURS

This question paper consists of 14 pages.

INSTRUCTIONS AND INFORMATION

1. Answer FOUR questions as follows in the ANSWER BOOK:

SECTION A: COMPULSORY

SECTION B: Answer TWO of the three questions.

SECTION C: Answer ONE of the two questions.

2. Answer only the required number of questions. Answers in excess of the required number will NOT be marked.
3. Number the answers correctly according to the numbering system used in this question paper.
4. Write the question number above each answer.
5. Read the questions carefully.
6. Start EACH question on a NEW page.
7. Leave 2–3 lines between subsections of questions.
8. Answer the questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
9. Use only black or blue ink.
10. You may use a non-programmable pocket calculator.
11. Write neatly and legibly.

SECTION A (COMPULSORY)

QUESTION 1

30 MARKS – 20 MINUTES

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 to 1.1.8) in the ANSWER BOOK, for example, 1.1.9 C.

1.1.1 The method of calculating GDP whereby compensation of employees is taken into consideration is called the ...

- A expenditure method GDP(E).
- B production method (GDP(P).
- C income method GDP(I).
- D value-added method.

1.1.2 The multiplier effect means that any change in injection will ...

- A lead to a small change in national income.
- B not affect the national income at all.
- C lead to a larger change in national income.
- D keep the national income at the same level.

1.1.3 A market for short loans, very-short loans and investments, is known as the ... market.

- A money
- B capital
- C product
- D financial

1.1.4 Aggregate supply in the economy can be stimulated by ...

- A increasing the costs.
- B improving inefficiency of inputs.
- C maintaining the same costs.
- D improving the efficiency of markets.

1.1.5 The exchange rate system whereby market forces have absolute control is called the ... exchange rate system.

- A fixed
- B free floating
- C managed floating
- D absolute

1.1.6 The term used to reallocate agricultural land to previous disadvantaged individuals and groups is called ...

- A land restitution.
- B land redistribution.
- C natural benefits.
- D subsidies on property.

1.1.7 An example of a nutrition indicator is ...

- A garbage removal.
- B obesity.
- C under 5 mortality.
- D access to clean water.

1.1.8 When the quality of education and healthcare is improved in a region, the best international practice for regional development addressed is ...

- A sustainability.
- B provision of resources.
- C partnerships.
- D investing in social capital.

(8 x 2) (16)

- 1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A–I) next to the question number (1.2.1 to 1.2.8) in the ANSWER BOOK.

COLUMN A	COLUMN B
1.2.1 Amplitude	A levied according to the amount earned
1.2.2 Demand-side policies	B drives countries to specialize in the production of goods where they enjoy the lowest opportunity cost
1.2.3 Comparative advantage	C difference in the value of total output between a peak and a trough
1.2.4 Portfolio investments	D financial incentives in the form of a cash grant of up to 50% of the costs of training new staff
1.2.5 Progressive tax system	E measures undertaken by the government to stimulate growth in the economy
1.2.6 Corridor	F purchase of assets such as shares or bonds, where the investor is interested only in the expected financial return on the investment
1.2.7 Skills Support Programme	G financial incentive for foreign investors who invest in new manufacturing businesses in South Africa
1.2.8 Productivity	H a track of land that forms a passageway allowing access from one area to another and is developed as part of regional development
	I measured in terms of the rate of output per unit of input

(8 x 1) (8)

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

1.3.1 Economic indicators that move at the same time as aggregate economic activities

1.3.2 An indication of the general direction of the economy

1.3.3 The loss of an alternative in order to pursue a certain action

1.3.4 An institution established to facilitate international trade and ensure a strong system of trade and payments that is open to all countries

1.3.5 A nationwide government intervention to create employment using labour-intensive methods, and to give people the skills they can use to find jobs

1.3.6 Percentage of the working-age population who rely on those that are working

(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

Answer any TWO of the three questions in this section in the ANSWER BOOK.

QUESTION 2: MACROECONOMICS

40 MARKS – 30 MINUTES

2.1 Answer the following questions.

2.1.1 Name any TWO prices used in the conversion of national aggregates. (2 x 1) (2)

2.1.2 What determines complete cycles of fluctuations in the economy? (1 x 2) (2)

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

MOVEMENT IN THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS

The surplus on the current account of the balance of payments narrowed markedly from R311 billion in the second quarter to R226 billion in the third quarter of 2021. The value of South Africa's exports of goods decreased slightly, while the value of merchandise imports increased. South Africa's terms of trade (including gold) deteriorated somewhat in the third quarter of 2021 as the rand price of imports of goods and services increased more than the price of exports.

[Adapted from *Quarterly Bulletin*, SARB, December 2021]

2.2.1 Which economic concept, according to the extract, rely more on export and import prices? (1)

2.2.2 Give a current account item for recording donations. (1)

2.2.3 Briefly describe the term *balance of payment*. (2)

2.2.4 Why did South African merchandise exports experience a decline in 2020 in relation to the COVID-19 pandemic? (2)

2.2.5 Calculate the percentage change of the surplus in the current account of the balance of payments in the second and third quarters of 2021. Show ALL calculations. (4)

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

BUSINESS CYCLES

The analysis of the source of shocks has been a recurrent theme in business cycle literature. Not only is it relevant for understanding the forces driving economic fluctuations but, in addition, the identification of sources of shocks is needed to inform the optimal policy response.

Producers and consumers will not respond to the same extent to the initiating forces, and therefore the duration of business cycles differs. Business cycles can range from 3 years (Kitchin) to more than 50 years (Kondratief).

[Adapted from www.google.com]

- 2.3.1 Identify ONE factor from the extract which might cause economic fluctuations. (1)
- 2.3.2 Name the type of business cycle caused by changes in investment in equipment and machinery. (1)
- 2.3.3 Briefly describe the term *business cycle*. (2)
- 2.3.4 Explain the reason why government intervention is not needed under exogenous explanations. (2)
- 2.3.5 How can fiscal policy be used to 'stimulate' a depressed economy? (2 x 2) (4)
- 2.4 Differentiate between *factor market* and *goods market*. (2 x 4) (8)
- 2.5 Evaluate South Africa's efforts in reducing costs in order to promote supply side policies. (8)
- [40]**

QUESTION 3: ECONOMIC PURSUITS

40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name any TWO examples of services as social indicators. (2)

3.1.2 What effect will a decline in secondary school enrolment have on the future of the South African economy? (1 x 2) (2)

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



[Source: www.google.com]

3.2.1 Which economic concept is illustrated in the cartoon above? (1)

3.2.2 Give ONE measure of unequal standard of living. (1)

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

3.2.4 Explain the purpose of the introduction of the GEAR policy. (2)

3.2.5 Why would the Monetary Authorities in South Africa rely mostly on interest rates as the instrument of the monetary policy? (2 x 2) (4)

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

Maluti-a-Phofung Special Economic Zone in the Free State

The SEZ was designated as a brownfield (a piece of land developed for industrial purposes, polluted and then abandoned) with most of the park being without essential services like water, sewage, roads and electricity which will be the main focus points of this SEZ. The Department of Trade and Industry will provide the main funding of R585 million. 540 jobs will be created, focussing to employ previously disadvantaged persons, including the youth.

[Adapted from www.google.com, March 2021]

- 3.3.1 Who will benefit most from this SEZ initiative? (1)
- 3.3.2 Give any ONE aim in creating a Special Economic Zone (1)
- 3.3.3 Briefly describe the term *Industrial Development Zones*. (2)
- 3.3.4 Why is regional development important to the economy of the Free State? (2)
- 3.3.5 How can good governance be utilised as the best international practice for regional development? (2 x 2) (4)

3.4 Distinguish between *economic growth* and *economic development*. (2 x 4) (8)

3.5 How important are employment statistics in the South African economy as indicators? (4 x 2) (8)

[40]

QUESTION 4: MACROECONOMICS & ECONOMIC PURSUIT

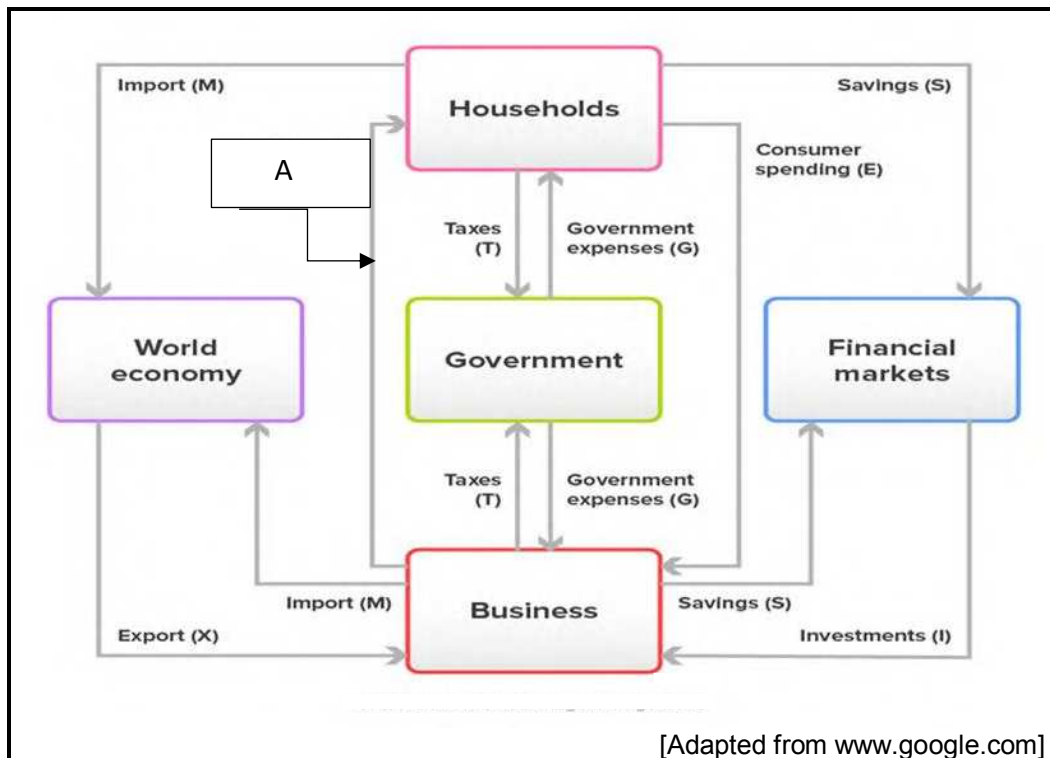
40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Name TWO acts that were introduced and enforced by the government to promote a more effective economy. (2 x 1) (2)

4.1.2 What is government's main purpose of duty-free import incentives? (1 x 2) (2)

4.2 Study the diagram below and answer the questions that follow.



4.2.1 Identify the type of flow indicated by the letter **A**. (1)

4.2.2 Give ONE example of consumption spending by households. (1)

4.2.3 Briefly describe the term *marginal propensity to save*. (2)

4.2.4 Explain the influence on income if injections are less than leakages. (2)

4.2.5 What role can government play to create jobs in the economy that is negatively affected by the Covid-19 pandemic? (2 x 2) (4)

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

RAND AGAINST DOLLAR								
Year	2021				2022			
Quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Exchange rate	14,96	14,13	14,64	14,70	14,55	14,75	15,00	14,80

[Adapted from www.google]

- 4.3.1 Give the appropriate economic concept illustrated above. (1)
- 4.3.2 During which exact period, according to the table, did the rand enjoy the most favourable fluctuation against the US dollar? (1)
- 4.3.3 Briefly describe the term *devaluation*. (2)
- 4.3.4 Why are most economies in the world using free-floating exchange rates? (2)
- 4.3.5 What could be the possible reasons for the rand to hit an extreme low against the US Dollar in term 1 of 2021? (2 x 2) (4)
- 4.4 Discuss *urbanisation* and *housing* as social indicators. (2 x 4) (8)
- 4.5 How effective is the contribution of Spatial Development Initiatives in the economy? (4 x 2) (8)

[40]

TOTAL SECTION B: 80

SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK.

Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
<p>Introduction The introduction is a lower-order response.</p> <ul style="list-style-type: none"> • A good starting point would be to define the main concept related to the question topic. • Do not include any part of the question in your introduction. • Do not repeat any part of the introduction in the body. • Avoid saying in the introduction what you are going to discuss in the body. 	<p>2 marks</p>
<p>Body Main part: Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/Differentiate/ Explain Additional part: Give own opinion/Critically discuss/ Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debat/How/ Suggest</p>	<p>26 marks 10 marks</p>
<p>Conclusion Any higher-order conclusion should include:</p> <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned • Any opinion or value judgement on the facts discussed • Additional support information to strengthen the discussion/ analysis • A contradictory viewpoint with motivation, if required • Recommendations 	<p>2 marks</p>
<p>TOTAL</p>	<p>40</p>

QUESTION 5: MACROECONOMICS

40 MARKS – 40 MINUTES

- Discuss in detail the reasons for public sector failure. (26 marks)
- How successful has the South African government been in dealing with public sector provisioning problems? (10 marks)

[40]

QUESTION 6: ECONOMIC PURSUITS

40 MARKS – 40 MINUTES

- Discuss in detail export promotion as a trade strategy. (26 marks)
- Evaluate import substitution as trade policy in South Africa. (10 marks)

[40]

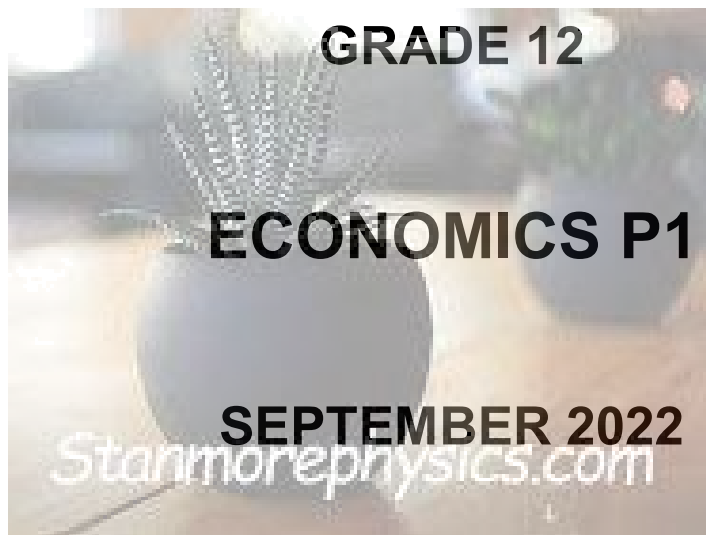
**TOTAL SECTION C: 40
GRAND TOTAL: 150**



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MARKING GUIDELINE

MARKS: 150

This marking guideline consists of 19 pages.

SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE CHOICE

- 1.1.1 C (income method GDP(I).) ✓✓
- 1.1.2 C (lead to a larger change in the national income) ✓✓
- 1.1.3 A (money) ✓✓
- 1.1.4 D (improving the efficiency of markets) ✓✓
- 1.1.5 B (free floating) ✓✓
- 1.1.6 A (land restitution) ✓✓
- 1.1.7 B (obesity) ✓✓
- 1.1.8 D (investing in social capital) ✓✓

(8 x 2) (16)

1.2 MATCHING COLUMNS

- 1.2.1 C (difference in the value of total output between a peak and a trough) ✓
- 1.2.2 E (measures undertaken by the government to stimulate growth in the economy) ✓
- 1.2.3 B (drives countries to specialize in the production of goods where they enjoy the lowest opportunity cost) ✓
- 1.2.4 F (purchase of assets, such as shares or bonds, where the investor is interested only in the expected financial return on the investment) ✓
- 1.2.5 A (levied according to the amount earned) ✓
- 1.2.6 H (a track of land that forms passageway allowing access from one area to another and is developed as part of regional development) ✓
- 1.2.7 D (financial incentives in the form of a cash grant of up to 50% of the costs training new staff) ✓
- 1.2.8 I (measured in terms of the rate of output per unit of input) ✓

(8 x 1) (8)

1.3 **CONCEPT/TERM:**

1.3.1 Coincident indicators ✓

1.3.2 Trend ✓

1.3.3 Opportunity cost ✓

1.3.4 International Monetary Fund ✓

1.3.5 Expanded Public Works Programme ✓

1.3.6 Dependency rate ✓



(6 x 1) (6)

TOTAL SECTION A: 30

SECTION B

Answer any TWO of the three questions in this section in the ANSWER BOOK.

QUESTION 2: MACROECONOMICS

40 MARKS – 30 MINUTES

2.1 Answer the following questions.

2.1.1 Name any TWO prices used in the conversion of national aggregates.

- Basic prices ✓
 - Market prices ✓
 - Factor costs ✓
- (2 x 1) (2)

2.1.2 What determines complete cycles of fluctuations in the economy?

Complete cycles of fluctuations are determined by distances from peak to peak or trough to trough. ✓✓ (1 x 2) (2)

2.2 Data response

2.2.1 Which economic concept, according to the extract, rely more on export and import prices?



Terms of trade ✓ (1)

2.2.2 Give the current account item for recording donations.

Current transfers ✓ (1)

2.2.3 Briefly describe the term *balance of payment*.

Systematic record of the country's transactions with the rest of the world over a given period of time. ✓✓
(Accept any other correct relevant response) (2)

2.2.4 Why did South African merchandise exports experience a decline in 2020 in relation to the COVID-19 pandemic?

- Operations in the mining and processing of gold had to observe the COVID-19 pandemic protocols, and this slowed down productivity dramatically. ✓✓
 - Sensitivity and attitudes of many leading countries towards South Africa and its way of dealing with the pandemic, also impacted negatively on merchandise exports. ✓✓
 - Closing down of cross-borders as temporary precautionary measures for the pandemic, also had a negative effect on gold exports by South Africa. ✓✓
- (Accept any other correct relevant response.) (2)

2.2.5 Calculate the percentage change of the surplus in the current account of balance of payments in the second and third quarter of 2021. Show ALL your calculations.

$$\begin{aligned} &\text{Percentage change of the surplus} \\ &= \frac{2^{\text{nd}} \text{ quarter surplus} - 3^{\text{rd}} \text{ quarter surplus}}{2^{\text{nd}} \text{ quarter surplus}} \times 100\% \\ &= \frac{R311 \text{ billion} - R226 \text{ billion}}{R311 \text{ billion}} \times 100\% \checkmark \\ &= \frac{R85 \text{ billion}}{R311 \text{ billion}} \times 100\% \checkmark \\ &= 0,273 \times 100\% \\ &= 27,3\% \checkmark\checkmark \end{aligned} \quad (4)$$

2.3 Data response

2.3.1 Identify ONE factor from the extract which might cause economic fluctuations.

Shocks \checkmark (1)

2.3.2 Name the type of business cycle caused by changes in investment in equipment and machinery.

Jugler \checkmark (1)

2.3.3 Briefly describe the term *business cycle*.

Successive periods of increasing and decreasing economic activities. $\checkmark\checkmark$
(Accept any other correct relevant response.) (2)

2.3.4 Explain the reason why government intervention is not needed under exogenous explanations.

Markets are inherently stable under exogenous explanations, and any government can destabilise markets. $\checkmark\checkmark$
(Accept any other correct relevant response.) (2)

2.3.5 How can fiscal policy be used to 'stimulate' a depressed economy?

- The finance ministry can lower taxation so that aggregate demand can be increased due to more disposable income. $\checkmark\checkmark$
- They can also increase government spending, especially for the historically marginalised groups. $\checkmark\checkmark$
- Increased government spending has a way of increasing aggregate demand and total spending by circular flow participants. $\checkmark\checkmark$
(Accept any other correct relevant response.) (4)

2.4 Differentiate between **factor market** and **goods market**.

Factor market

- This is the market where factors of production are traded. ✓✓
- Factor market is also known as input or resource market. ✓✓
- E.g. labour trading ✓

Goods market

- This is the market where goods and services are traded. ✓✓
- Goods market is also known as output or product market. ✓✓
- E.g. trading consumer and capital goods. ✓
(Accept any other correct relevant response.)
(A maximum of 4 marks may be allocated for mere listing of facts/examples.) (2 x 4) (8)

2.5 Evaluate South Africa's efforts in reducing costs in order to promote supply side policies.

Successes

- In terms of infrastructural costs, South Africa has adopted a cheaper option recently in the construction of roads by municipalities using paving instead of expensive tarred roads. ✓✓
- Cash incentives by the DTI have been assisting South African exporters in developing markets abroad, and thus lowering or reducing the cost of production for them. ✓✓
(Accept any other correct relevant response.)

Failures

- The country, through NERSA, has failed to lower the costs of electricity to the benefit of all South Africans. ✓✓
- These high costs of electricity have also affected the production of goods and services due to higher costs incurred by the businesses.
- Tender systems awarded by municipalities for supply of water to areas with water shortages using water trucks, have benefited a few at unreasonable costs that could have been used to stimulate the economy. ✓✓
- Administrative costs have been unnecessarily high due to incompetence and maladministration by the personnel, and as a result affecting supply of the much needed goods and services. ✓✓
(Accept any other correct relevant response)
(A maximum of 2 marks may be allocated for the mere listing of facts/examples) (4 x 2) (8)

[40]

QUESTION 3: ECONOMIC PURSUITS

40 MARKS – 30 MINUTES

3.1 Answer the following questions.

3.1.1 Name any **TWO** examples of services as social indicators.

- Refuse removal ✓
- Sanitation ✓
- Water ✓

(Accept any other correct relevant response.) (Any 2 x 1) (2)

3.1.2 What effect will a decline in secondary school enrolment have on the future of the South African economy?

- Tertiary enrolment will also experience a decline. ✓✓
- The country will as a result run short of skills needed by the economy. ✓✓

(Accept any other correct relevant response.) (Any 1 x 2) (2)

3.2 Data response

3.2.1 Which economic concept is illustrated in the cartoon above?

North-South Divide ✓ (1)

3.2.2 Give **ONE** measure of unequal standard of living.

- Per capita income ✓
- Life expectancy ✓
- Education ✓

(1)

3.2.3 Briefly describe the term *globalisation*.

It is the world-wide interaction and interfacing of economies with trade as an important element. ✓✓

(Accept any other correct relevant response.) (2)

3.2.4 Explain the purpose for the introduction of the **GEAR** policy

It was introduced for the purpose of creating more growth in the economy, employment opportunities as well as more even redistribution of income. ✓✓

(Accept any other correct relevant response.) (2)

3.2.5 Why would the Monetary Authorities in South Africa rely mostly on interest rates as the instrument of the monetary policy?

- Historically interest rates and repo rates have been used by the SARB for price stabilisation purposes. ✓✓
- Stabilising prices has a direct impact on the inflation level. ✓✓
- Restrictive monetary policy through the use of interest rates is effective in cooling down the overheated economy. ✓✓

(Accept any other correct relevant response.) (2 x 2) (4)

3.3 Data response

3.3.1 Who will benefit most from this SEZ initiative?

Maluti-a-Phofung community ✓ (1)

3.3.2 Give any ONE aim in creating a Special Economic Zone.

Creation of jobs ✓
(Accept any other correct relevant response.) (1)

3.3.3 Briefly describe the term *Industrial Development Zones*

They are purpose-built industrial estates, physically enclosed and linked to port or airport. ✓✓ (2)

3.3.4 Why is regional development important to the economy of the Free State?

- It reduces the unequal development of economic activities within a country. ✓✓
 - Stimulation of development in poor areas of Free State. ✓✓
 - New imbalances are prevented from emerging. ✓✓
- (Accept any other correct relevant response.) (2)

3.3.5 How can good governance be utilised as the best international practice for regional development?

- Regional development strategies should be managed effectively and free of corruption. ✓✓
- Principles of accountability and transparency should be applied to ensure financial control. ✓✓
- Projects should be correctly programmed, monitored and evaluated. ✓✓

(Accept any other correct relevant response.) (2 x 2) (4)

3.4 Distinguish between *economic growth* and *economic development*.

Economic growth

- An increase in the production capacity of the economy. ✓✓
- It is measured in terms of increases in real GDP. ✓✓
- Focus is on goods and services. ✓
(Accept any other correct relevant response.)

Economic development

- An improvement in the standard of living of people. ✓✓
- It is measured in terms of real GDP per capita. ✓✓
- Focus is on people. ✓
(Accept any other correct relevant response.)
(A maximum of 4 marks may be allocated for mere listing of facts/
examples.) (2 x 4) (8)

3.5 How important are employment statistics in the South African economy as indicators?

- In any healthy economy, it is important to fully employ all the available factors of production. ✓✓
- High level of employment will enable more people to spend more income, resulting in more production by firms. ✓✓
- Employment has a direct relation to total output, total income and total expenditure of an economy. ✓✓
- Employment statistics provide the basis for the calculation of labour cost, earnings per worker and labour productivity. ✓✓
- Economic indicators on employment include the data on the number and percentages of employed and unemployed. ✓✓
(Accept any other correct relevant response.)
(A maximum of 2 marks may be allocated for mere listing of facts/examples.) (4 x 2) (8)

[40]

QUESTION 4: MACROECONOMICS & ECONOMIC PURSUIT

40 MARKS – 30 MINUTES

4.1 Answer the following questions.

4.1.1 Name TWO acts that were introduced and are enforced by the government to promote a more effective economy.

- Employment Equity Act (EEA) ✓
 - Broad-Based Black Economic Empowerment (BBBEE) ✓
- (2 x 1) (2)

4.1.2 What is the government's main purpose for duty-free import incentives?

The incentive is an attempt to encourage domestic and foreign businesses to settle in IDZ's and produce goods and services for export markets. ✓✓ (1 x 2) (2)

4.2 Data response

4.2.1 Identify the type of flow indicated by the letter A.

Money flow ✓ (1)

4.2.2 Give ONE example of consumption spending by the households.

- Durable consumer goods spending ✓
 - Semi-durable consumer goods spending ✓
 - Non-durable consumer goods spending ✓
 - Spending on services. ✓
- (Any 1 x 1) (1)



4.2.3 Briefly describe the term *marginal propensity to save*.

It refers to the part of income not available for spending. ✓✓ (Accept any other correct relevant response.) (2)

4.2.4 Explain the influence on income if injections are less than leakages.

More outflows resulting in more leakages will lead to less income generated by the economy. ✓✓ (2)

4.2.5 **What role can government play to create jobs in the economy that is negatively affected by the Covid-19 pandemic?**

- Organise job summits to be attended by local and foreign investors to search for possible investment areas, especially in areas of high unemployment. ✓✓
- Grant incentives or subsidies through the DTI to those who will invest in areas of high unemployment. ✓✓
- Government can form partnerships with the private sector whereby they can provide skills needed the most by the economy through skills development agencies. ✓✓
- Allocate COVID-19 related contracts to the co-operatives established within the area with the purpose of benefiting local residents. ✓✓

(Accept any other correct relevant response.) (2 x 2) (4)

4.3 **Data response**

4.3.1 **Give the appropriate economic concept illustrated above.**

Exchange rates/Foreign exchange/Foreign exchange market ✓ (1)

4.3.2 **During which exact period, according to the table, did the rand enjoy the most favourable fluctuation against the US dollar?**

Q2 of 2021 ✓ (1)

4.3.3 **Briefly describe the term *devaluation*.**

Refers to a deliberate decrease in the value of a currency under the fixed exchange rate system. ✓✓ (2)

4.3.4 **Why are most economies in the world using free floating exchange rates?**

- The value of the currency is justifiably determined by the forces of demand and supply only. ✓✓
- No Central Bank Authority has the power to influence the value of the currency. ✓✓

(Accept any other correct relevant response.) (2)

4.3.5 **What could be the possible reasons for the rand to hit an extreme low against the US Dollar in term 1 of 2021?**

- South Africa was still fresh from a period of economic inactivity that saw the country elevated to level 5 of lockdown. ✓✓
- Productivity by firms was so low to an extent that very little was exported to other countries, and the current account of the balance of payment was negatively affected. ✓✓
- The terms of trade that rely on export prices and import prices deteriorated as well, and thereby causing unfavourable fluctuations in the exchange rate. ✓✓
- Many businesses had to shut down and national trade was seriously affected. ✓✓

(Accept any other correct relevant response.) (2 x 2) (4)

4.4 **Discuss *urbanisation* and *housing* as social indicators.**

Urbanisation

- It is the process by which the urban population increases relative to the rural population. ✓✓
 - Urbanisation happens because of the natural growth of population, migration to the cities and establishment of towns. ✓✓
 - South Africa is experiencing a trend of rapid urbanisation. ✓✓
- (Accept any other correct relevant response.)

Housing

- Housing and the services that go with it are important elements demonstrating human and economic development. ✓✓
 - A significant proportion (39,9%) of South Africans are poor and cannot afford to buy residential property. ✓✓
 - In order to secure the social and economic advantages of suitable housing, the government facilitates home ownership by means of a subsidy and loans from the private sector. ✓✓
- (Accept any other correct relevant response.)

(A maximum of 4 marks may be allocated for mere listing of facts/ examples.) (2 x 4) (8)



4.5 **How effective is the contribution of Spatial Development Initiatives in the economy?**

SDI Effectiveness:

- SDI projects have been able to bring more focus on the traditional sectors of the South African economy, i.e., agriculture, mining and Manufacturing. ✓✓
 - Globalization and the 'New Economy' have pushed that the focus be also extended to other sectors. ✓✓
 - This is the reason why more growth in the economy is beginning to be realised in sectors like Tourism, Financial & Business Services and 'hi-tech' manufacturing because of SDI programmes. ✓✓
 - SDI programmes have shown more focus in the past and they are still doing that on SMME support, job creation and welfare enhancement. ✓✓
 - SDI's are able to demonstrate economic potential of underutilised natural resources and spaces. ✓✓
 - Gradual widening of the SDIs to include more areas of the country has resulted in an alignment of SDIs with those areas which have experienced employment growth. ✓✓
- (Accept any other correct relevant response.)

SDI Ineffectiveness:

Several factors that constrain an SDI's effectiveness include among other things:

- Poor location, small market size and low market demand. ✓✓
 - Lack of good quality physical infrastructure, effective regulatory infrastructure regimes as well as social infrastructure contributes to the underperformance of many SDIs. ✓✓
 - Several deficits in the SDI-specific and national soft infrastructure impede the performance and sustainability of SDIs. ✓✓
 - A variety of governance failures as well as political economy factors impact on the sustainability of spatial development approaches. ✓✓
- (Accept any other correct relevant response.)

(A maximum of 2 marks may be allocated for mere listing of facts/examples.)

(4 x 2)

(8)

[40]

SECTION C

Answer any ONE of the two questions in this section in the ANSWER BOOK.

QUESTION 5: MACROECONOMICS

40 MARKS – 40 MINUTES

Discuss in detail the reasons for public sector failure.

INTRODUCTION

Public sector failure refers to when the government fails to manage the economy and the resources under its control. ✓✓

(Accept any other correct relevant introduction.)

(Max. 2)

BODY

Main Part

Reasons

- 1. Apathy:** ✓
 - Apathy is a feeling of not caring and insensitivity of those in leadership towards the demands of the people. ✓✓
 - Successful public production relies on long-term accountability. ✓✓
 - Accountability has a way to expose inefficiency, corruption and poor service delivery. ✓✓
- 2. Management failure:** ✓
 - Government departments and state-owned enterprises sometimes are poorly managed because of a lack of leadership, inadequate skills and lack of experience. ✓✓
 - They are poorly managed because they are not even expected to maximise profits. ✓✓
 - They are financed by budget allocations based on costs and needs. ✓✓
 - Management failure can result in budget allocations not being spent. ✓✓
- 3. Bureaucracy:** ✓
 - Bureaucrats are those who try to maximise their income, status or power. ✓✓
 - Bureaucrats are usually empathic and insensitive to the needs of the public. ✓✓
 - There is always poor service delivery for the communities due to this insensitive attitude of bureaucrats. ✓✓

4. **Lack of motivation:** ✓
- Lack of motivation among government employees leads to low levels of productivity, poor service and inefficient use of resources. ✓✓
 - Essential service workers rarely receive incentives for successful service delivery. ✓✓
 - Less motivated workers usually produce low in quality, limited and high in costs services. ✓✓
5. **Politicians:** ✓
- They are those who aim to be re-elected and pursue vote-maximising strategies to retain their offices. ✓✓
 - Politicians usually do not take into account the long-term availability of resources.
 - This act can lead to the misallocation of resources. ✓✓
6. **Special interest groups:** ✓
- They are those who try to further their own interest by means of rent-seeking. ✓✓
 - They make use of laws, lobbying, bribes and other favours to influence government to act in their favour with regard to profitable contracts. ✓✓
 - Public sector failure occurs when individual interests override public interests. ✓✓
- (Accept any other correct relevant response.)
(Allocate a maximum of 8 marks for mere listing of facts/examples.)
(Max. 26)

How successful has the South African government been in dealing with public sector provisioning problems?

Additional Part

Failures:

- Those in power have failed to account or show responsibility for their actions, by misusing taxes raised and thus abusing the powers it was granted. ✓✓
- Officials exploit their positions for personal gain by taking bribes, committing fraud, nepotism, behaving dishonestly, committing discrimination and showing inefficiency. ✓✓
- Parastatals have been nothing else but liability for the government because they failed to live within their grant from the budget allocation that leads to higher tax rates. ✓✓
- State-owned enterprises are not able to assess the needs of consumers by over-or under-supplying public goods. ✓✓

Successes

- The South African government addressed challenges such as housing and social security systems, which indicates the needs assessment ability of the government. ✓✓
- The South African government safeguarded jobs by not privatising SOE's like Eskom, SAA and Armscor. ✓✓
- The government tries to keep civil servants accountable to the public. The Auditor-General reports on financial management and points out fraudulent and unauthorized spending ✓✓

(Accept any other correct relevant response.)

(Max. 10)

CONCLUSION

Taking charge of the economy and state resources, requires daily accountability to those being led. ✓✓

(Max. 2)

[40]

QUESTION 6: ECONOMIC PURSUITS

40 MARKS – 40 MINUTES

Discuss in detail export promotion as a trade strategy.

INTRODUCTION

- Export promotion involves providing incentives to encourage local businesses to produce goods for export. ✓✓
- When government pay incentives to encourage the production of goods that can be exported. ✓✓
(Accept any other correct relevant introduction.) **(Max. 2)**

BODY

Main Part

Reasons for export promotion

- The country achieves significant export-led economic growth. ✓✓
- Export promotion enlarges the production capacity of the country. ✓✓
- Export markets are much bigger than local markets. ✓✓
- Larger production units create more job opportunities. ✓✓
- It leads to lower retail prices. ✓✓

Methods of export promotion

Incentives: ✓

- The government supplies information on export markets in order to stimulate exports ✓✓
- Other examples are research on new markets, concessions on transport charges, export credit ✓

Subsidies: ✓

- Incentives which encourage exporters to increase the amount of their production ✓✓
- It includes direct and indirect subsidies:
 - Direct subsidies: Cash payments to exporters ✓✓
 - Indirect subsidies: Refunds on import tariffs and general tax rebates ✓✓

Trade neutrality: ✓

- Subsidies, equal in size to import duties, are paid ✓✓
- Neutrality can be achieved through trade liberalisation ✓✓

Disadvantages of export promotion

1. **The real cost of production is hidden:** ✓
 - It reduces the total costs by subsidies and incentives ✓✓
 - The real cost of production is concealed by the subsidies ✓✓
 - The product may thus never be able to compete in the open market ✓✓
2. **Lack of competition:** ✓
 - Incentives and subsidies reduce prices and force competitors who may be able to create sustainable and profitable businesses out of the market ✓✓
 - Total potential trade is therefore reduced with subsidies rather than without subsidies ✓✓
3. **Increased tariffs and quotas:** ✓
 - Overseas countries may retaliate with tariffs and even quotas when similar goods are sold domestically below their real cost of production ✓✓
 - Powerful overseas businesses can afford to offer similar products at much lower prices ✓✓
 - Compared to their production, the subsidised business's domestic market may be so small that it will destroy the business that received the subsidy ✓✓
4. **Protection of labour-intensive industries:** ✓
 - Developed countries often maintain high levels of effective protection for their industries that produce labour-intensive goods in which developing countries already have or can achieve comparative advantage ✓✓
 - Export promotion results in the protection of labour-intensive industries by developed countries ✓✓

(Max. 26)

Evaluate import substitution as trade policy in South Africa.

Additional Part

Positive responses:

- A decrease in imports has a positive effect on the balance of payments as more exports than imports will take place. ✓✓
- Import substitution improves industrialisation which increases employment opportunities. ✓✓
- Tariffs introduced in South Africa led to increased demand for locally manufactured goods and services. ✓✓

Negative responses:

- Import substitution is restrictive as the choice of goods and services available to consumers may be limited. ✓✓
- It is not easy to implement the policy of import substitution due to unrecorded informal/illegal transactions. ✓✓
- Inefficient local production may occur because local producers are shielded from international competition. ✓✓
- Import substitution does not necessarily lead to an overall reduction in imports, South Africa had to import capital and intermediate goods to manufacture consumer goods. ✓✓

(Allocate a maximum of 2 marks for the mere listing of facts/examples.)



(Max. 10)

CONCLUSION

The South African government have done everything to protect its local industries from foreign and harmful competition and to protect the existing jobs as well. ✓✓

(Accept any other correct high order conclusion.)

(Max. 2) [40]

**TOTAL SECTION C: 40
GRAND TOTAL: 150**