education

DEPARTMENT: EDUCATION
MPUMALANGA PROVINCE

FURTHER EDUCATION AND TRAINING

ECONOMICS
GRADE 12 CLASS TEST
BUSINESS CYCLES TEST (2) 2024

MARKS: 100

TIME: 1.5 HOURS

This question paper consists of 9 pages

INSTRUCTIONS AND INFORMATION

1. Answer **THREE** questions as follows in the **ANSWER BOOK.**

 - **SECTION A**: COMPULSORY.

 - **SECTION B**:Answer any **ONE** of the TWO questions.

 - **SECTION C**:Answer any **ONE** of the TWO questions.

2. Write the question number above each answer.

3. Answer only the required number of questions. Answers in excess of the required number will NOT be marked.

4. 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.

5. Number the answers correctly according to the numbering system used in this question paper.

6. Read the questions carefully.

7. Start EACH question on a NEW page.

8. Leave 2 – 3 lines between subsections of questions.

9 Use only black or blue ink.

10. You may use a non-programmable pocket calculator.

11. Write legibly and present your work neatly.

SECTION A (C0MPULSORY)

QUESTION 1   **20 MARKS – 20 MINUTES**

1.1   FOUR possible options are provided as possible answers to the following
       questions. Choose the correct 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 (1.1.1 - C).

   1.1.1   … refers to the type of business cycle that last for 3-5 years and occurs
            when business adapt to inventory levels.

            A   Kuznets cycles
            B   Kondratieff cycles
            C   Juglar cycle
            D   Kitchen cycle

   1.1.2   Involves the buying and selling of government financial securities to
            control money supply…

            A   Open market transaction
            B   Cash reserve requirement
            C   Moral persuasion
            D   Prime rate

   1.1.3   Is the total spending of goods and services in the economy…

            A   C+F+I+ (X-M)
            B   X-Y+ I-M
            C   C+I+G+(X-M)
            D   National money

   1.1.4   Lower interest rates charged by commercial banks can cause high inflation
            rate because it will

            A   decrease consumption spending
            B   increase consumption spending
            C   decrease government spending
            D   decrease spending by firms

   1.1.5   The amplitude of a business cycle is measured from …

            A   peak to peak
            B   trough to trough
            C   peak to trough
            D   trend line to trough

(5 X 2)   **(10)**

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

	COLUMN A		COLUMN B
1.2.1	Peak	A	Shows the direction in which the economy is going.
1.2.2	Real GDP	B	It is charged by the Reserve Bank when lending money to commercial banks
1.2.3	Trend line	C	Figures are adjusted for price changes.
1.2.4	Repo rate	D	The government policy that is aiming at creating economic growth and increased employment without it resulting in a rise inflation
1.2.5	New Economic Paradigm	E	GDP at nominal value/prices.
		F	The highest turning point of a business cycle

(5 X 1)   **(5)**

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

1.3.1   An increase in production capacity of goods and services over a period.
1.3.2   Actions taken to prevent dramatic peaks and deep troughs from occurring in a business cycle.
1.3.3   The process of making predictions about changing conditions and future events that may affect the economy.
1.3.4   The sustained increase in the general price level of goods and services over a period of time.
1.3.5   Policy used to influence the economy through government expenditure and taxes.

(5 X 1)   **(5)**

TOTAL SECTION A: 20

SECTION B

Answer any **One** of the two questions from this section in the ANSWER BOOK.

QUESTION 2:   **40 MARKS – 30 MINUTES**

2.1   Answer the following questions.

    2.1.1   Name any TWO instruments of monetary policy.   (2 x 1)   (2)
    2.1.2   Why is a positive trend line beneficial for the economy?   (1 x 2)   (2)

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

<div style="border:1px solid black; padding:10px;">

BUSINESS CYCLES

The identification of source shocks is important in informing an optimal policy response. Producers and consumers will not respond to the to the same extent of initiating forces that are based on different business cycles. Business cycles can range from 3 years to more than five tears.

[Adapted from ww.google.com 2024]

</div>

    2.2.1   Identify one factor that caused economic fluctuations.   (1)
    2.2.2   Name the type of business cycle caused by changes in investment of   (1)
            equipment and machinery.
    2.2.3   Briefly explain the term *contractionary fiscal policy*   (2)
    2.2.4   How does the Keynesian approach differ from the monetarist   (2)
            approach?
    2.2.5   Explain the impact of contraction period on the economy?   (4)
                                                    (10)

2.3   Study the graph below and answer the questions that follow.
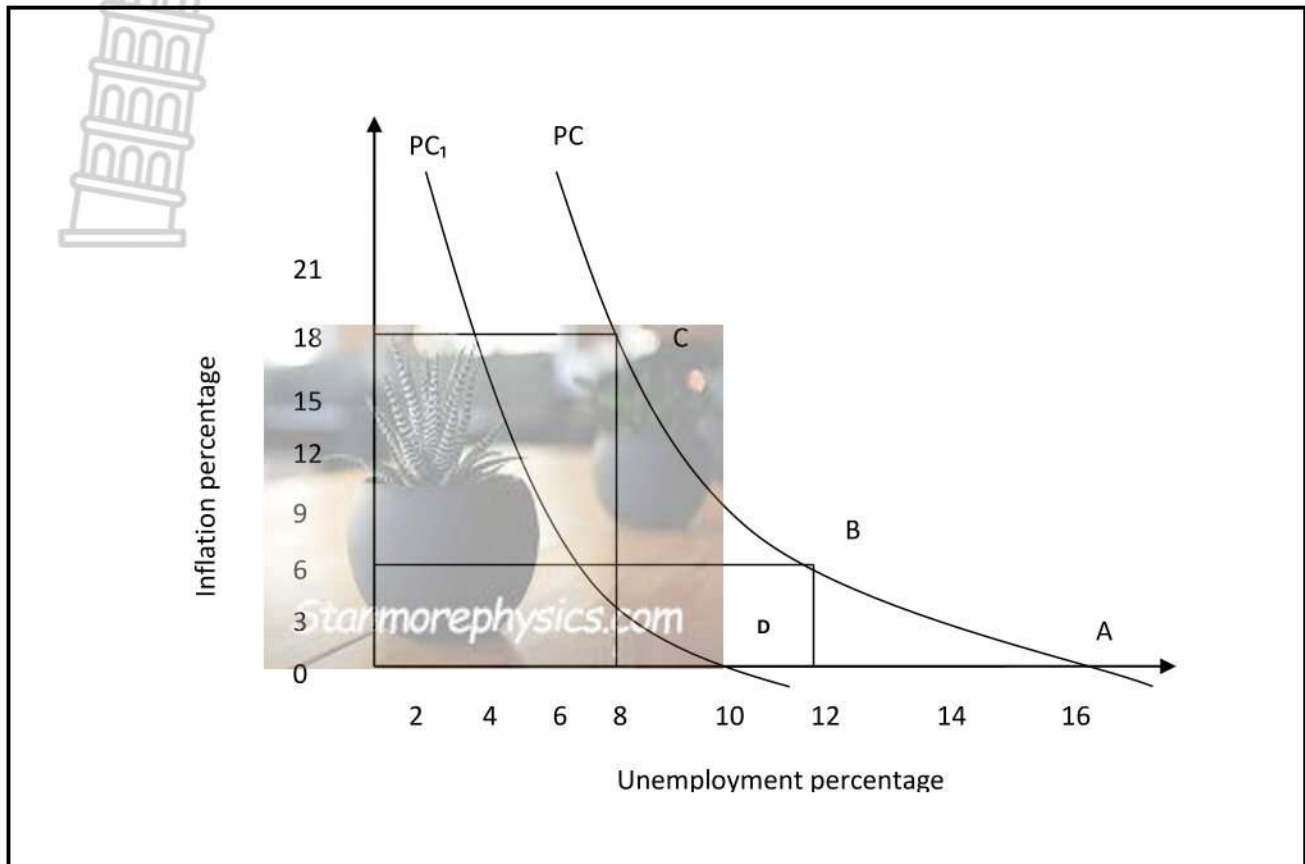
2.3.1   Give the name of the graph depicted above.   (1)
2.3.2   Identify the value of inflation at point C.   (1)
2.3.3   Briefly explain the term *natural rate of unemployment*.   (2)
2.3.4   By how much did unemployment decrease at point D (PC_1)   (2)
2.3.5   Suggest supply side policy measures that can be implemented to   (2)
        relocate the above curve to PC_1.

                                                                            (10)

2.4   Briefly discuss the supply side approach in promoting economic growth   (8)

2.5   Evaluate the effectiveness of SARB in ensuring price stability.   (8)
                                                                            (40)

Please turn over

QUESTION 3: **40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name any TWO causes of Business Cycle. (2 x 1) (2)

3.1.2 How can the government boost the economic during a downswing period? (1 x 2) (2)

(4)

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

SOUTH AFRICA'S 2024 RECESION PHASE

South Africa's GDP fell by 16,4% between the first quarter and second quarter of 2023 resulting in an annualised growth of -51%. The demand side of the economy slumped by 52,23% as a result of low household spending caused by high levels of unemployment in 2023.

[Adapted from @ StatsSA, February 2022]

3.2.1 Identify the component of aggregate demand in the information above. (1)

3.2.2 Which strategy can the government implement during the recession phase? (1)

3.2.3 Briefly describe the term *Unemployment* (2)

3.2.4 How was South African economy affected by the recession phase during Covid-19? (2)

3.2.5 Explain the negative impact of prosperity phase in the economy (4)

(10)

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

Time
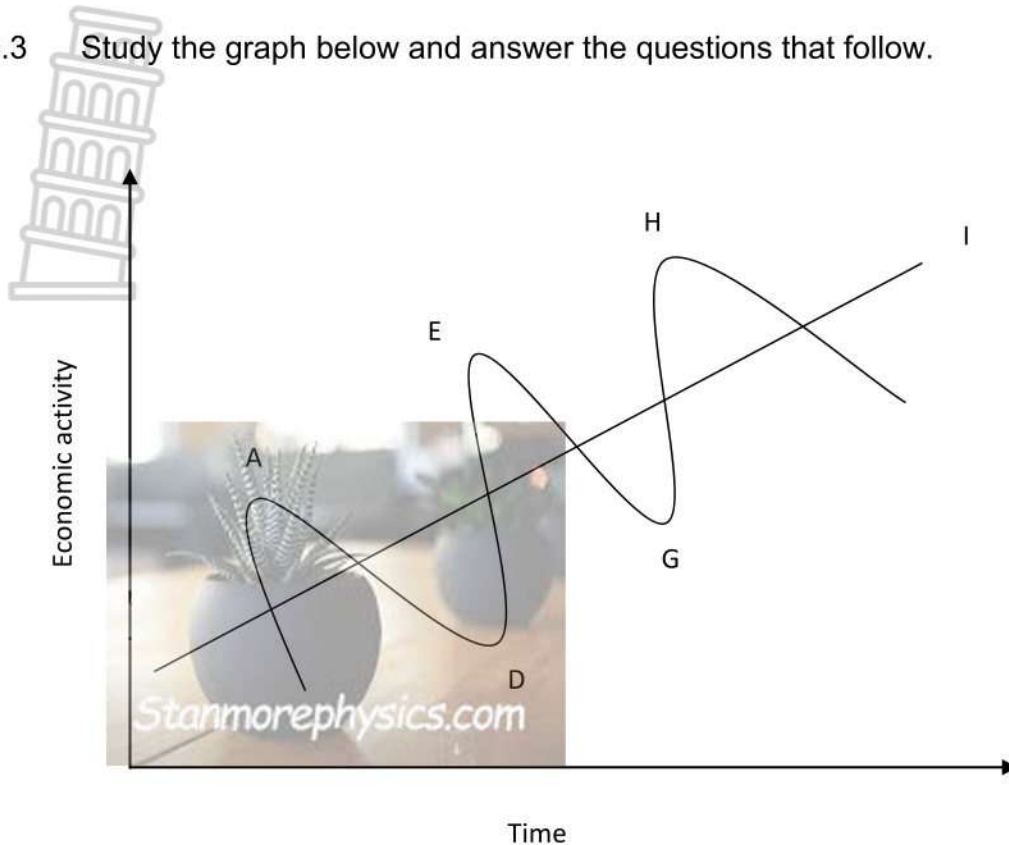
3.3.1   Identify one turning point that represent the trough   (1)
3.3.2   What is represented by point A and I?   (1)
3.3.3   Briefly describe the term *Business cycles*   (2)
3.3.4   How can an increase in government spending affecting affect   (2)
        inflation rate?
3.3.5   Explain fiscal policy measures that can be implemented by the   (4)
        government to increase aggregate demand during a recession.

                                                                               (10)

3.4   Discuss natural disasters and development in technology as causes of   (8)
       business cycles.

3.5   How can the current load-shading affect the economy's business cycle?   (8)

                                                                               [40]

Please turn over

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 THE ESSAY	MARK ALLOCATION
INTRODUCTION	Maximum 2
BODY: Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss /Analyse/Compare Evaluate/Distinguish /Differentiate/Explain//Assess/Debate Additional part: Give your opinion/Critically discuss/Evaluate/Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/ Calculate/ Deduce/Compare/ Explain/Distinguish/Interpret/Briefly debate/ How?/ Suggest/ diagram/ Outline/ Expand on /Support	Maximum 26 Maximum 10
CONCLUSION: Any higher-order conclusion should include: • A brief summary of what has been discussed without repeating facts already mentioned in the body. • Any opinion or value judgment on the facts discussed. • Additional support information to strengthen the discussion/analysis. • A contradictory viewpoint with motivation, if required. • Recommendations.	Maximum 2
TOTAL	**[40]**

QUESTION 4   40 MARKS – 40 MINUTES

• Discuss in detail the features underpinning the forecasting of Business Cycles	(26)
• What impact will South Africa`s policy on land expropriation without compensation have on the economy?	(10)
	[40]

QUESTION 5   40 MARKS – 40 MINUTES

• Discuss the demand and supply side policies of the new economic paradigm	(26)
• Why does the rate of inflation increase during the prosperity phase of the business cycle?	(10)
	[40]

TOTAL SECTION C: (40)

GRAND TOTAL FOR PAPER: 100

Please turn over

education

DEPARTMENT: EDUCATION
MPUMALANGA PROVINCE

FURTHER EDUCATION AND TRAINING

ECONOMICS
FEBRUARY 2024
GRADE 12
BUSINESS CYCLE TEST 2
MARKING GUIDELINE

MARKS: 100

TIME: 1.5 HOURS

This marking guideline consists of 11 pages

SECTION A
QUESTION 1

1.1   MULTIPLE CHOICE

1.1.1   B.   (Kitchen) √√

1.1.2   A.   (Open market transactions) √√

1.1.3   C.   (C+I+G + (X-M) √√

1.1.4   B. (Increase consumption spending) √√

1.1.5   D.   (trend line to trough) √√

(5 X 2)   **(10)**

1.2   MATCH COLUMN A AND B

1.2.1   F   (The highest turning point of Business cycle) √

1.2.2   C   (Figures adjusted for price increases) √

1.2.3   A   (Shows the direction in which the economy is going) √

1.2.4   B   (it is charged by the Reserve Bank when lending money to commercial banks) √

1.2.5   D   (The government policy that is aiming at creating economic growth and increased employment without it resulting in a rise inflation) √

(5 X 1)   **(5)**

1.3   ONE TERM

1.3.1   Economic growth√

1.3.2   Smoothing of business cycles. √

1.3.3   Extrapolation √

1.3.4   Inflation√

1.3.5   Fiscal policy √

(5 X 1)   **(10)**
[20]

Please turn over

SECTION B

QUESTION 2:

2.1   Answer the following questions.

   2.1.1   Name any TWO instruments of monetary policy
   - Interest rates√
   - Cash reserve requirements √
   - Moral persuasion
   - Open market transactions √

(2 x 1)   (2)

   2.1.2   Why is positive trend line beneficial for the economy?
   It means an increase in economic activities that can lead to more job creation√√

(accept any other relevant answer)

(1 x 2)   (2)

2.2   **DATA RESPONSE**

   2.2.1   Identify one factor that caused economic fluctuations
   shocks√   (1)

   2.2.2   Name the type of business cycle caused any changes in investment
   Juglar√   (1)

   2.2.3   Briefly explain the term contractionary fiscal policy
   Refers to the policy used by the government to control inflation during upswing period by decreasing government spending and increasing taxation.√√   (2)

   2.2.4   Differentiate between Keynesian and monetarist approach
   Keynesian economist believes that the market is inherently unstable and monetarist believes that the market is inherently stable √√
(accept any other relevant answer)   (4)

   2.2.5   Explain the impact of contraction period on the economy
   A contraction period will lead to lower economic activities and less demand of labour thus causing unemployment. √√   (2)
   Lower economic activities will reduce business sales and profit√√
(accept any other relevant response)

(10)

2.3   **DATA RESPONSE**

   2.3.1   Give the name of the graph depicted above.
   Philips curve√   (1)

   2.3.2   Identify the value of inflation at point C.
   18√   (1)

2.3.3 **Explain the natural rate of unemployment?**

It is an acceptable level of unemployment that is always present in the economy as industries expand and contract. √√
(accept any other relevant answer) (2)

2.3.4 **By how much did unemployment decrease at point D (PC_1)**

$16 - 12 = 4\%$ √√ (2)

2.3.5 **Suggest supply side policy measures that can be implemented to relocate the above curve to PC_1.**

- Improved level of education. √√
- Fewer legal restrictions on business √√ (2)
  (accept any other relevant answer)

(10)

2.4 **Discuss the supply side policy in promoting economic growth**

- Tax rates: reduction in income tax rates can result in an increase in aggregate supply, as household will be encouraged to work harder in order to increase their disposable incomes. √√
- Capital consumption: replacing capital goods on a regular basis that will create opportunities for businesses to keep up with technological development. √√
- Human resources development: The quality of labour can be improved by improving health care, education and training. This can result in efficient workers and therefore increase in supply. √√
- Free advisory services: are offered by government to promote opportunities to export and establish business activities in foreign countries e.g. weather forecasts, and research & development. √√
- Deregulation: Government can remove laws and regulations that hamper the operation of market (to make markets free) √√
  (accept any other relevant answer) (4 x 2)

(8)

2.5 **Evaluate the effectiveness of SARB in ensuring price stability**

- SARB is effective in ensuring price stability since they set inflation targeting of 3-6% to make prices to be stable√√
  SARB u implement the following Monetary instruments:
- Interest rates: the repurchase rate (repo rate) is used when the commercial banks borrow money from the SARB. √√
- Cash reserve requirements: the banks are required to maintain a certain amount of reserves in their accounts with the SARB. √√
- Open market transaction: SARB can influence the money in circulation by selling or buying of government bonds √√
- Moral suasion: SARB persuades the banks to act in the manner that is desirable for the current economic climate√√
- Exchange rate policy: the monetary authorities can use free floating exchange rate system to influence the economy. SARB uses the free

floating system where the value of the currency is determined by demand and supply (no SARB intervention) √√
(accept any other relevant response)   (4x2)

(8)

QUESTION 3:   40 MARKS – 30 MINUTES

3.1   Answer the following questions.

3.1.1   **Name any TWO causes of business cycle.**
- Exogenous√
- Endogenous√   (2 x 1)   (2)

3.1.2   **How can the state boost the economy during recession phase?**
The government must increase spending in social grant to assist poor consumers to afford their basic needs. √√   (1 x 2)   (2)
(Accept any other relevant response)

(4)

3.2   **DATA RESPONSE .**

3.2.1   **Identify the component of aggregate**
Household spending√   (2)

3.2.2   **Which strategy can the government use during recession phase?**
Expansionary fisical policy√   (2)

3.2.3   **Briefly describe the term unemployment**
Unemployment is a situation here people with qualifications and who   (2)
ate part of labour force are looking for a job and unable to find it√√

3.2.4   **Explain the negative impact of prosperity phase in the economy.**
Prosperity phase can lead to high spending by household that will cause prices to go up thus causing inflation rate to be high. √√
High prices lead to less revenues for businesses and more workers may be retrenched which will cause high unemployment rate√√.   (4)
(Accept any other relevant response)

(10)

3.3   **DATA RESPONSE**

3.3.1   **Identify one turning point that represent the trough**
D or G√   (2)

3.3.2   **What is represented by point A and I?**
A – Peak √
I – Trend line √   (2)

3.3.3   **Name any two points where employment is the lowest:**
D√ and G√   (2)

Please turn over

3.3.4 Explain fiscal policy measures that can be implemented by the government to increase aggregate demand during a recession.
- Decrease taxation to increase disposable income and stimulate the demand for goods and services. √√
- Increase government spending in order to stimulate the economy. √√ (4)
(accept any other relevant answer)

3.4 **Discuss natural disasters and political reasons as causes of business cycles.**

Natural resources
- The occurrence of natural disasters may lead to a contraction in the economy. √√
- Natural disasters like earthquakes destroy firms and infrastructure. √√
- Lead to a3 shortage of goods and services in the economy / decline in aggregate demand. √√ (2 x 2) (4)

Technological changes
- Improvement in machines will make it easier for businesses to produce more goods at lower cost
- More advancement in technology without people gaining new skills will lead to Business retrenching some of their workers thus causing high unemployment.
.(accept any other relevant answer) (2 x 2) (4) **(8)**

3.5 **What effect does load shedding have on business cycle?**

- Total output of production decreases during load shedding causing the business cycle to be at contractionary phase or downswing periods. √√
- Business incur costs in buying generators and solar panels in order to continue and operate. √√
- Revenue or profits of business also decreases which negatively affect businesses since they will have to deal with recession and depression phase. √√
- Some businesses may shut down which will result in a high rate of inflation and unemployment due to less choices of goods that will be available. √√
(accept any other relevant answer) (4 x 2)

(8)

[40]

TOTAL FOR SECTION B: 40

Please turn over

QUESTION 4

- Discuss in detail the markets in a four sector economy. (26)
- What impact will South Africa`s policy on land expropriation without compensation have on the agricultural sector? (10)

INTRODUCTION

Business cycle refers to the increase and decrease (fluctuations) in economic activities √√

BODY
FEATURES UNDERPINNING BUSINESS CYCLE FORECASTING

Leading indicators √

- They are indicators that change before the economy gets changed. √√
- They tell of how the economy will be in the coming months. √√
- When they rise, it means the economic activity will rise in the next few months. √√
- When they decline it also means the level of economic activity will decline in the coming months. √√
- Examples include number of residential plans passed, Number of job advertisements, number of new companies registered √

Coincident indicators √

- They are indicators that change at the same time as the economy changes. √√
- A downturn is shown by a decrease in these indicators while an upswing is shown an increase in these indicators. √√
- Examples of coincident indicators are: usage of capacity in manufacturing, registered unemployment, Retail sales, real merchandise imports. √

Lagging indicators √

- They are indicators that change after the economy has already changed. √√
- They reach the turning point after the business cycle has already turned. √√
- They are used to confirm the changes predicted by the leading indicators. √√
- Examples of lagging indicators are: number of commercial vehicle sold, real investment in machinery, unit labour cost in manufacturing √

Composite indicator √

- It is the summary of group of indicators of the same type into a single value. √√
- This means all the values of the leading indicators are summarised, the same is done with coincident and lagging indicators. √√

Extrapolation √

- Means to estimate something unknown from facts or information that is known. √√
- For example, if it becomes clear that the business cycle has passed through a trough and has entered a boom phase, forecasters might predict that the economy will grow in the few months √

Length of the cycle √
- It is the time that the economy takes to move from one peak to another peak or one trough to another trough. √√
  - Some business cycles last for a brief time while other can take up to 50 years. √√
- Shorter cycles represent a weaker cycle and longer lengths represent a stronger cycle. √√

Amplitude √
-   Measures the distance from trend line to the next turning point such as from trend line to peak or trough. √√
-   Large amplitude represents strong underlying forces of the economy at large. √√

Trend line √
- It shows the general direction in which the economy is moving

Heading 4 x1 mark (4)   Facts (Max. 22**)**   **(26 MARKS)**

CONCLUSION
Understanding of business cycle will help policy makers to apply correct polices that will help boost the development of the economy while reducing inflation rate and unemployment and this will allow participants in the economy to specialise in economic activities of their choice√√

                                             (40 MARKS)

ADDITIONAL PART
- Many South African farmers will be negatively affected by land expropriation without compensation.√√
- Some farmers are still owing banks money they borrowed when they buy land for agricultural purposes. √√
- As a result, they will still be expected to do monthly repayments of loans. √√
- These can lead to some farmers being bankrupt and leave the agricultural sector.
- The total production in the agricultural sector will decrease. √√
- Prices of agricultural products will increase and consumers will be forced to pay high prices. √√

MAX. **(10)**

CONCLUSION

Markets allow participants in the economy to specialise in economic activities of their choice knowing that goods and services can always be available. √√   **(2)**

[40]

QUESTION 5

- Discuss the demand and supply side policies of the new economic paradigm (26)
- Why does the rate of inflation increase during the prosperity phase of the business cycle?   (10)

INTRODUCTION:

- Demand side policy aim to increase or decrease aggregate demand depending on the stage of the business cycle, √√ Supply side policy aim to improve an economy's ability to produce products. √√

(Any one of the above description is TWO marks)

BODY:

Demand side policy

Monetary policy:

- Is the approach taken by a country's central bank to influence spending in an economy by influencing interest rate and the money supply. √√
- To protect against inflation, the SARB can increase the repo rate. √√

- To increase economic growth and decrease unemployment the SARB can decrease the repo rate. √√
- Influencing the money supply through moral suasion. √√
- Influencing the money supply through changing the minimum reserve requirement. √√
- Influencing the money supply through open market transactions. √√

Fiscal policy:

- Is the approach that the government takes to taxation and government spending in order to regulate the economy√√
  To increase economic growth, fiscal policy can be used to:
- Lower taxes to encourage consumer spending by households and investment spending by businesses. √√
- Increase government expenditure. √√
  To decrease unemployment fiscal policy can be used to:
- Lower taxes encourage more investment spending by businesses and fuels job creation. √√
- Increase government expenditure. √√
- This will increase consumer spending and the profits of businesses, and lead to further job creation. √√
  To decrease inflation, fiscal policy can be used to:
- Raise taxes, √ higher taxes will decrease investment spending by businesses. √√
- Decrease government expenditure, √Lower government spending will result in a decrease in jobs as household's disposable income falls, so consumer spending will decrease. √√

Any (8 x 2) (16)

Supply side policy

Strategies to improve factor's productivity (better workers) includes:

- Better education and training of workers and entrepreneurs. √√
- Increased mobility of workers. √√
- Performance-related pay and local rates for workers in the public sector.√√
- Reduction to the powers of trade unions. √√

Strategies to improve performance of businesses include:

- Helping new businesses get started. √√
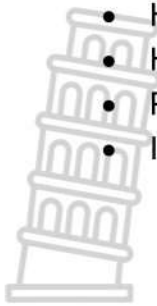
- Helping businesses implement new technology. √√
- Helping businesses reach new markets. √√
- Privatizing government industries. √√
- Improvement in the efficiency of inputs. √√

Any (4 x 2) (8)

(26 MARKS)

ADDITIONAL PART

- The period of prosperity is a further expansion of economic activity that follows the period of recovery. √√
- At this phase, the levels of production, employment, income, investment and expenditure continue to increase. √√
- Many activities during this phase can lead to inflation. √√
- As a result of higher demand, stock will decrease and prices will increase (demand pull inflation) √√
- The demand for credit will also increase and this will lead to higher interest rates.√√
  (Accept any other relevant fact.)   (5 x 2) (10)

CONCLUSION

Both monetary and fiscal policies are used to regulate economic activity over time.√√(2)
(Accept any other relevant response)   **(40)**

TOTAL FOR SECTION B (40)

GRAND TOTAL: 100