



KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

ECONOMICS P1

COMMON TEST

JUNE 2023

Stanmorephysics.com

MARKS: 150

DURATION: 2 Hours

This question paper consists of 12 pages.

INSTRUCTIONS AND INFORMATION

1. Answer THREE questions as follows:
 - SECTION A: COMPULSORY
 - SECTION B: Answer any TWO questions from this section.
 - SECTION C: Answer any ONE of the two questions.
2. Number the answers correctly according to the numbering system used in this question paper.
3. Write the number of each question above each answer.
4. Read the questions carefully and start EACH question on a new page.
5. Leave at least ONE line between subsections of each question.
6. Start each question on a new page.
7. Answer questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
8. Answer ONLY the required number of questions. Answers in excess of the required number will NOT be marked.
9. Use ONLY blue or black ink.
10. Non-programmable pocket calculators may be used.
11. Write legibly and present your work neatly.

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 numbers (1.1.1 to 1.1.8) in the ANSWER BOOK, e.g. 1.1.9 D.

1.1.1 Production by permanent residents of a country is called ...product.

- A gross national
- B gross domestic
- C net national
- D net domestic

1.1.2 An indication of the severity of cyclical fluctuations in business cycles is called...

- A amplitudes
- B moving averages
- C extrapolations
- D leading indicators

1.1.3 Public goods for which consumers have to pay are known as ... goods.

- A community
- B private
- C collective
- D demerit

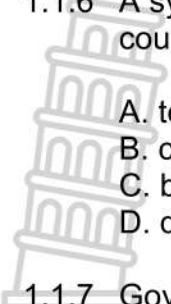
1.1.4 The interaction of economies with trade as an important element is known as ...

- A Privatisation
- B Globalisation
- C Entrepreneurship
- D Export promotion

1.1.5 When one country can produce goods or services cheaper than another country this is called ...

- A Trade balance.
- B Terms of trade.
- C Free trade.
- D Absolute advantage.


1.1.6 A systematic record of all transactions between one country and other countries within a specific period is known as

- 
- A. terms of trade
 - B. current account
 - C. balance of payments
 - D. direct investment

1.1.7 Government expenditure forms part of the ... policy.

- A. monetary
- B. Reserve Bank's
- C. education
- D. fiscal

1.1.8 The statement of government's planned expenditure and anticipated income for the fiscal year is known as ... budget.

- 
- A. zero
 - B. national
 - C. personal
 - D. annual

(2 x 8) (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 numbers (1.2.1. to 1.2.8) in the ANSWER BOOK.

COLUMN A	COLUMN B
1.2.1 Disequilibrium	A The value of tangible exports minus tangible imports.
1.2.2 Moving averages	B The financial instrument to help member countries of the IMF with balance of payment problems.
1.2.3 Medium term expenditure framework	C When leakages are more than injections.
1.2.4 Free trade	D An official in a government department concerned with rules at the expense of people's needs
1.2.5 Foreign currency	E The portion of an increase in income that is not consumed.
1.2.6 Special drawing Rights	F Evens out short-term fluctuation in economic data.
1.2.7 Trade balance	G Shows income and expenditure estimates for three years.
1.2.8 Bureaucrats	H The money of another country.
	I Absence of barriers and restrictions.

(8 x 1)(8)

- 1.3 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) Abbreviations, acronyms and examples will not be accepted.

1.3.1 Primary participants and owners of the factors of production

1.3.2 The lowest turning point in a business cycle

1.3.3 Goods and services, like education, that benefit society as a whole

1.3.4 When authorities deliberately increase the value of a currency

1.3.5 Buying of financial assets such as shares in companies on the stock exchange of another country

1.3.6 The transfer of ownership of a business from private sector to the state

(1 x 6)(6)

TOTAL SECTION A: 30 MARKS

SECTION B

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

QUESTION TWO: MACRO-ECONOMICS**40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

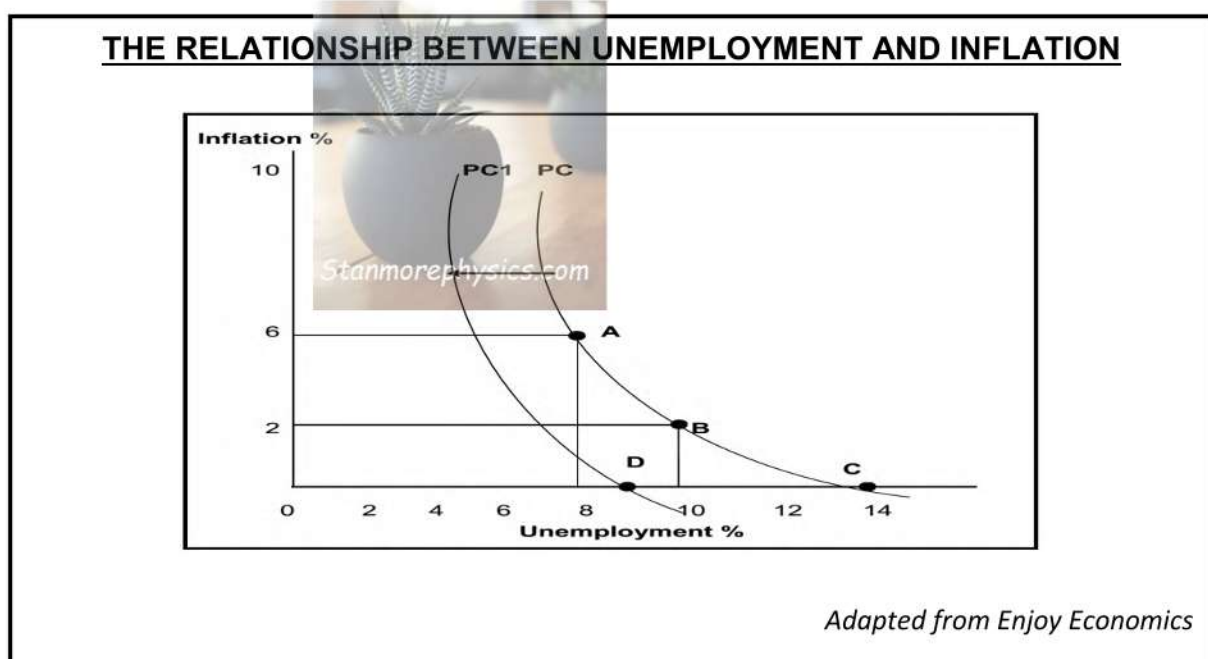
2.1.1 Name any TWO kinds of business cycles.

(1x2)(2)

2.1.2 How do subsidies affect production?

(2x1)(2)

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



2.2.1 Identify the economic model shown above.

(1)

2.2.2 Give the natural rate of unemployment.

(1)

2.2.3 Briefly describe the term *trend line*.

(2)

2.2.4 What is the effect of an increase in unemployment on the economy?

(2)

2.2.5 How does an increase in the cost of production negatively affect the economy?

(4)

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

CURRENT COMPOSITION OF THE SOUTH AFRICAN BALANCE OF PAYMENTS (BOP) – 2022	
Current Account	R millions)
Merchandise exports	276 349
+ Net gold exports	13 777
+ Services receipts	49 728
+ Income receipts	21 176
Less merchandise imports	270 258
Less payment for services	54 905
Less income payments	48 420
Current transfers (net receipts)	-6 555
Balance on Current Account	-19 108

Source: SARB, Quarterly bulletin

- 2.3.1 Identify the sub account that deals with short term credit and loans. (1)
- 2.3.2 Name an example of items recorded in the current transfers. (1)
- 2.3.3 Briefly describe the term *merchandise imports*. (2)
- 2.3.4 Explain the effect of a deficit in the balance of payments the economy? (2)
- 2.3.5 Calculate the balance of trade on the above table. Show ALL calculations. (4)
- 2.4 Differentiate between endogenous (Keynesian view) and exogenous explanations (Monetarist approach) of business cycles. (8)
- 2.5 How do South Africans benefit from globalisation? (8)

[40]

QUESTION 3: MACRO-ECONOMICS**40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name any TWO examples of indirect tax.

(2 x 1) (2)

3.1.2 What is the negative effect of poor infrastructure on foreign direct investment?

(1 x 2) (2)

3.2 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.

Source: www.wits.ac.za

3.2.1 Identify any ONE policy in which the new economic paradigm is embedded.

(1)

3.2.2 Name the government department that is responsible for controlling government spending?

(1)

3.2.3 Briefly describe the term *business cycle*.

(2)

3.2.4 Explain the shortage of skilled workers as a factor that limits supply.

(2)

3.2.5 How can open market transactions be used to smooth out business cycle.

(4)

3.3 Study the cartoon below and answer questions that follow.



3.3.1 Identify South Africa's trading partner that is involved in the war discussed. (1)

3.3.2 Name One example of an effect of international trade from above picture. (1)

3.3.3 Briefly describe the term *mass production*. (2)

3.3.4 Explain availability of natural resources as a factor that influences world trade. (2)

3.3.5. How can South Africa improve its competitiveness in the world market? (4)

3.4 Briefly discuss *depression phase* and *recovery phase* as phases of business cycle. (4 x 2) (8)

3.5 How does a strong currency positively influence trade between countries? (8)

[40]

QUESTION 4

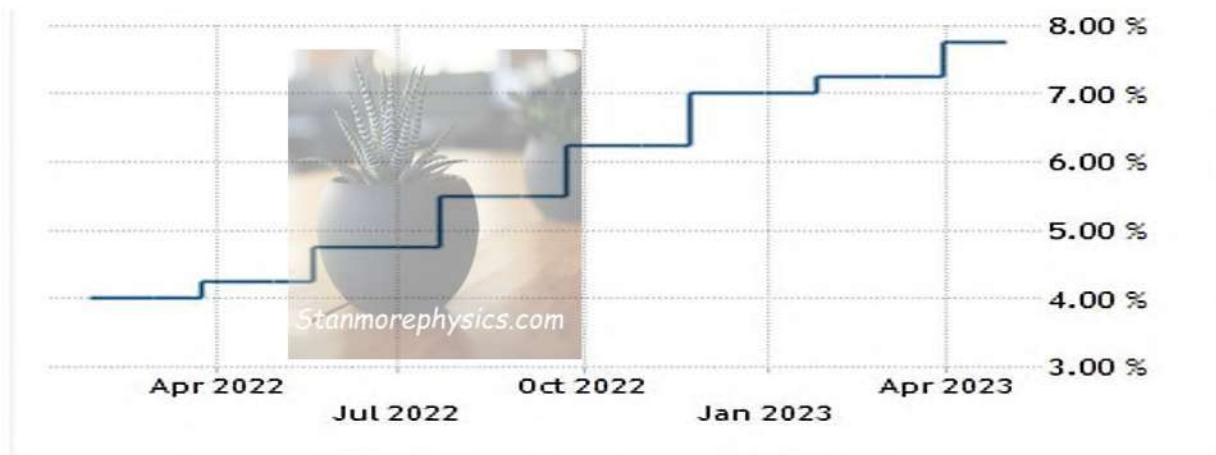
4.1 Answer the following questions.

4.1.1 Name any TWO items on the financial account of the Balance of Payments. (2 x 1) (2)

4.1.2 Why is it important to consider economic indicators when making economic decisions? (1 x 2) (2)

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

SOUTH AFRICA INTEREST RATE



The South African Reserve Bank raised its benchmark repo rate by 50 basis points to 7.75% at its March 2023 meeting while markets had expected a smaller 25 basis point increase.

Adapted from Trading economics.com

4.2.1 Identify the trend shown by the repo rate from April 2022 to April 2023? (1)

4.2.2 Name the body that is responsible for setting interest rates. (1)

4.2.3 Describe the term *economic forecasting*. (2)

4.2.4 What is the effect of an increase in interest rates on consumers? (2)

4.2.5 How can a decrease in aggregate spending affect the economy? (4)

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

SOUTH AFRICA'S TERMS OF TRADE			
Year	Export price index	Import price index	TERMS OF TRADE
2019	102	98	104
2020	94	100	94
2021	62	99	93
2022	105	103	102
2023	110	100	A

Source: Statistics South Africa

- 4.3.1 Identify the trend shown by the terms of trade over the period reviewed above. (1)
- 4.3.2 Name the government institution that is responsible for the collection of data presented above. (1)
- 4.3.3 Briefly describe the term *managed-floating exchange rates*. (2)
- 4.3.4 What is the impact of an increase in the level of income on trade between countries? (2)
- 4.3.5 Calculate the terms of trade for the year 2023 (**A**). Show **ALL** calculations. (4)
- 4.4 Briefly discuss *exchange control* and *trade measures* to correct the balance of payment disequilibria? (8)
- 4.5 How can the South African government use fiscal policy to stimulate the economy? (8)

TOTAL SECTION B: 80 MARKS

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JUNE 2023

MARKING GUIDELINES

MARKS : 150

This marking guidelines consist of 18 pages.

SECTION A (COMPULSORY)**QUESTION 1****30 MARKS – 20 MINUTES****1.1 MULTIPLE CHOICE**

- 1.1.1 A - gross national ✓✓
- 1.1.2 A – amplitudes ✓✓
- 1.1.3 C – collective ✓✓
- 1.1.4 B – Globalisation ✓✓
- 1.1.5 D - Absolute advantage ✓✓
- 1.1.6 C - balance of payments ✓✓
- 1.1.7 D – fiscal ✓✓
- 1.1.8 B - national ✓✓

1.2 MATCHING ITEMS

- 1.2.1 C - When leakages are more than injections. ✓
- 1.2.2 F - Evens out short-term fluctuation in economic data. ✓
- 1.2.3 G - Shows income and expenditure estimates for three years. ✓
- 1.2.4 I - Absence of barriers and restrictions. ✓
- 1.2.5 H - The money of another country. ✓
- 1.2.6 B - The financial instrument to help member countries of the IMF with balance of payment problems. ✓
- 1.2.7 A - The value of tangible exports minus tangible imports. ✓
- 1.2.8 D - An official in a government department concerned with rules at the expense of people's needs. ✓

(1 x 8)(8)**1.3 CONCEPT**

- 1.3.1 Households ✓
- 1.3.2 Trough ✓
- 1.3.3 Merit goods ✓
- 1.3.4 Revaluation ✓
- 1.3.5 Portfolio investment ✓
- 1.3.6 Nationalisation ✓

(6 x 1)(6)**TOTAL SECTION A: 30 MARKS**

SECTION B

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

QUESTION TWO: MACRO-ECONOMICS**40 MARKS – 30 MINUTES**

2.1 Answer the following questions

2.1.1 Name any TWO kinds of business cycles.

(1x2)(2)

- Kitchin cycles ✓
- Jugler cycles ✓
- Kuznets cycles ✓
- Kondratief cycles ✓

2.1.2 How do subsidies affect production?

(2x1)(2)

- Subsidies affect production positively since they lower production cost hence increasing the production capacity. ✓✓
- When the government give financial support to businesses, they tend to improve their productivity thereby improving economic growth and create more employment. ✓✓
(Accept any other relevant and correct response)

2.2 DATA-RESPONSE

2.2.1 Identify the economic model shown above.

(1)

Philip's curve ✓

2.2.2 Give the natural rate of unemployment.

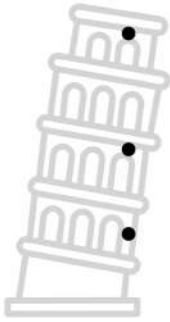
(1)

14% ✓

2.2.3 Briefly describe the term *trend line*.

(2)

Trend line is an economic indicator showing the general direction in which the economy is moving. ✓✓
(Accept any other relevant and correct response)

2.2.4 What is the effect of an increase in unemployment on the economy? (2)

An increase in unemployment is coupled with an increased dependency on government which has a potential of slowing down economic growth. ✓✓

When people are unemployed, they cannot afford to buy goods and services thereby reducing the real GDP. ✓✓

Unemployment is associated with poverty and a low standard of living. ✓✓

(Accept any other relevant and correct response)

2.2.5 How does an increase in the cost of production negatively affect the economy? (4)

- When the cost of production increase, producers will consolidate this by **charging higher prices** thus causing inflation. ✓✓
- Households are unable to buy the same amount of goods and services and they reduce their total spending in the economy. ✓✓
- Firms **react to higher production cost** by producing fewer goods and services thereby **lowering** the real GDP of the country. ✓✓

(Accept any other relevant and correct response)

Stanmorephysics.com

2.3 DATA-RESPONSE**2.3.1 Identify the sub account that deals with short term credit and loans. (1)**

Current account ✓

2.3.2 Name an example of items recorded in the current transfers (1)

- Social security ✓
- Social benefits ✓
- Taxes ✓
- Gifts ✓
- Donations ✓

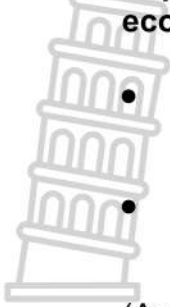
(Accept any other relevant and correct response)

2.3.3 Briefly describe the term *merchandise imports*. (2)

Merchandise imports refer to physical goods that are bought from the rest of the world. ✓✓

(Accept any other relevant and correct response)

2.3.4 Explain the effect of a deficit in the balance of payments the economy? (2)



- A deficit on the balance of payment will result to the country not having funds to buy products that they do not have this will limit consumer choices. ✓✓
- A country with a deficit on the balance of payment is not able to provide social services to the society thereby slowing down economic development. ✓✓

(Accept any other relevant and correct response)

2.3.5 Calculate the balance of trade on the above table. Show all calculations. (4)

$$R276\,349\text{ m} \checkmark + R13\,777\text{ m} \checkmark - R270\,258\text{ m} \checkmark = R19\,868\text{ m} \checkmark$$

2.4 Differentiate between endogenous (Keynesian view) and exogenous explanations (Monetarist approach) of business cycles. (8)

Endogenous factors:

- The level of economic activity constantly overshoots and undershoots the economy's potential growth. ✓✓
- Markets are inherently unstable. ✓✓
- Price mechanisms fail to coordinate supply and demand. ✓✓
- The most important causes of economic fluctuations are indirect links and mismatches. ✓✓
- Government should intervene in the economic processes in order to smooth business cycles. ✓✓
- The bold cyclical movement around the actual route followed by the economy. ✓✓
- A business cycle is an inherent feature of a market economy. ✓✓

(Max 4)

Exogenous factors:

- If imbalances develop, the market forces will always bring the market back to equilibrium. ✓✓
- Markets are inherently stable. ✓✓
- Most important causes of economic fluctuations are inappropriate government policies and that the government should not interfere in the markets. ✓✓
- External forces for business cycles are:
 - Weather conditions. ✓
 - Shocks. ✓
 - Structural changes. ✓
 - Technological changes. ✓

(Accept any other relevant correct response)

(Max 4 (8))

(Accept responses in a tabular form)

2.5. How do South Africans benefit from globalisation?**(8)**

- South Africans can acquire goods and services from other countries, this will expand the choices to consumers. ✓✓
- They can buy in cheaper prices because of a healthy competition in the global market. ✓✓
- South Africans can be able to spread their knowledge and expertise in different parts of the world. ✓✓
- Trade agreements which promote the free movement of manufactured goods can allow South Africans to expand their informal businesses. ✓✓
- With globalisation, foreign direct investment can be promoted thus creating job opportunities and improving the standard of living. ✓✓
- South Africans can benefit from the infrastructure that is put in place to promote globalisation like roads, airports, etc. ✓✓

(Accept any other relevant correct response)

(4x2)(8)**QUESTION 3: MACRO-ECONOMICS****40 MARKS – 30 MINUTES****3.1 Answer the following questions.****3.1.1 Name any TWO examples of indirect tax.****(2 x 1) (2)**

- Value added tax ✓
- Fuel levy ✓
- Sugar tax ✓
- Excise/sin taxes ✓

(Accept any other relevant and correct response)

3.1.2 What is the negative effect of poor infrastructure on foreign direct investment?

- Poor infrastructure may discourage foreign investors from looking at country as a destination to invest. ✓✓
- Infrastructural development is an integral part of production, without proper infrastructure in place investors will be reluctant to invest. ✓✓

(Accept any other relevant correct response)

(2)

3.2 DATA-RESPONSE:

3.2.1 Identify any ONE policy in which the new economic paradigm is embedded. (1)

Supply-side policy✓ / demand-side policy✓

3.2.2 Name the government department that is responsible for controlling government spending? (1)

Treasury✓ / Department of finance ✓

3.2.3 Briefly describe the term *business cycle*. (2)

Business cycle is a time series showing repeated increasing and decreasing economic activity. ✓✓
(Accept any other relevant and correct response)

3.2.4 Explain the shortage of skilled workers as a factor that limits supply. (2)

- Skills shortage can lower the quality of products hence the consumer demand for that particular goods, this can consequently reduce supply. ✓✓
- When there is a shortage of skilled labour force, there is no human resource to produce certain product therefore hindering its supply. ✓✓
(Accept any other relevant and correct response)

3.2.5 How can open market transactions be used to smooth out business cycle? (4)

- The central bank can reduce the supply of money thereby reducing the disposable income of consumers. ✓✓
- The central bank can buy government security bonds in the open market hence reducing money in circulation. ✓✓
- They can debit the bank's account with the value of the sale and the bank's balance to reduce its ability to offer credit. ✓✓
(Accept any other relevant and correct response)

3.3 DATA-RESPONSE:

3.3.1 Identify South Africa's trading partner that is involved in the war discussed. (1)

Russia ✓ / Ukraine ✓

3.3.2 Name ONE example of an effect of international trade from the above picture. (1)

Globalisation ✓

3.3.3 Briefly describe the term *mass production*. (2)

Mass production refer to the production of large quantities of a standardised article by an automated mechanical process. ✓✓
(Accept any other relevant and correct response)

3.3.4 Explain availability of natural resources as a factor that influences world trade. (2)

- Countries that are richly endowed with natural resources can sell the surplus to countries with shortages. ✓✓
 - The availability of natural resources gives the country a comparative advantage in the production of certain products. ✓✓
- (Accept any other relevant and correct response)

3.3.5 How can South Africa improve its competitiveness in the world market? (4)

- Deregulation where laws and regulations are removed to make markets free thereby fostering entrepreneurship. ✓✓
 - The South African government can promote competition by encouraging the establishment of new businesses, invite foreign direct investment and remove imbalances. ✓✓
 - The government can level the economic playing fields by offering financial support to private businesses with a potential of producing goods for exportation. ✓✓
- (Accept any other relevant and correct response)

3.4 Briefly discuss *depression phase* and *recovery phase* as phases of business cycle. (4x2)(8)Depression phase

- The period of depression is a further contraction of economic activity that continues after a recession. ✓✓
 - Depression phase is the last phase of the contraction of economic activity. ✓✓
 - During a period of depression, there is a high degree of pessimism before the economy reaches a trough. ✓✓
 - Little or no investment takes place during a depression phase thereby lowering the production levels, income and spending. ✓✓
 - When the economic activity is at its lowest, the economy reaches a trough (lowest turning point). ✓✓
- (Accept any other relevant and correct response)

Recovery phase

- The period of recovery begins after the economy reaches a trough. ✓✓
- It is the first part of the expansion phase (upswing) where economic activity will start to increase. ✓✓
- Business confidence increases, business start to invest more and more job opportunities are created. ✓✓
- Households will receive more income and will thus spend more thereby increasing productivity. ✓✓
- The real GDP increases and the country is in an expansion phase. ✓✓
(Accept any other relevant and correct response)

3.5 How does a strong currency positively influence trade between countries? (8)

- A strong currency means that manufacturing of products will be cheaper therefore increasing economic growth of the country. ✓✓
- Appreciation of currency improves the purchasing power parity of money which means that South Africans need less money (Rands) when buying from other countries. ✓✓
- When the value of currency increases, it has a potential of increasing prices of exports which is beneficial to the economy. ✓✓
- A stronger currency reduces prices of locally manufactured goods hence stimulating trade. ✓✓
- When the value of currency increases, the productivity of the country thereby increasing the employment rate. ✓✓
- When the currency is strong, it is easy to achieve a positive trade balance for the country thus allowing the government to provide for the citizens. ✓✓
(Accept any other relevant and correct response)

QUESTION 4

4.1 Answer the following questions.

4.1.1 Name any TWO items on the financial account of the Balance of Payments. (2x1) (2)

- Net direct investment ✓
- Net financial derivatives ✓
- Net portfolio investment ✓
- Net other investments ✓

4.1.2 Why is it important to consider economic indicators when making economic decisions? (1x2)(2)

- Economic indicators are used to measure economic fluctuations and can give the idea to policy makers of which policies needs to be implemented at that certain period ✓✓
- Policy makers can use economic indicators as a tool to gauge the impact of the policies that they have implemented. ✓✓
(Accept any other relevant correct response)

4.2 DATA-RESPONSE:

4.2.1 Identify the trend shown by the repo rate from April 2022 to April 2023? (1)

Increasing✓ / positive ✓

4.2.2 Name the body that is responsible for setting interest rates. (1)

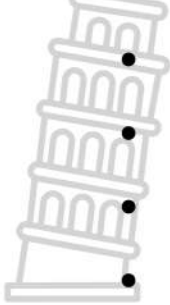
Monetary Policy Committee ✓

4.2.3 Briefly describe the term *economic forecasting*. (2)

Economic forecasting is the process of making predictions about changing conditions and future events that may affect the economy. ✓✓
(Accept any other relevant correct response)

4.2.4 What is the effect of an increase in interest rates on consumers? (2)

- An increase rate of interest means increased repayments on loan amounts. ✓✓
- Increased interest rates reduce the disposable income of consumer hence decreasing aggregate demand. ✓✓
(Accept any other relevant and correct response)

4.2.5 How can a decrease in aggregate spending affect the economy? (2x2 (4))

- When aggregate spending decreases, investor confidence is lowered thereby hampering growth for businesses. ✓✓
 - Reducing foreign direct investment which may be much needed for the development of economic activities. ✓✓
 - causing high unemployment rate which emanates from wrong policy decisions. ✓✓
 - retarding economic growth rates of the country because of businesses not generating a stable income
- (Accept any relevant correct response)

4.3 DATA-RESPONSE:**4.3.1 Identify the trend shown by the terms of trade over the period reviewed above? (1)**

Positive✓ / increasing✓ / upward ✓

4.3.2 Name the government institution that is responsible for the collection of data presented above. (1)

Statistics South Africa ✓

4.3.3 Briefly describe the term *managed-floating exchange rates*. (2)

Managed-floating exchange rates refer to an exchange rate that is allowed to fluctuate under certain limits that are set by the central bank. ✓✓
(Accept any other relevant and correct response)

4.3.4 What is the impact of an increase in the level of income on trade between countries? (2)

- When the level of income increases consumers starts to demand luxuries or expensive imported goods and services. ✓✓
 - An increase in per capita income of people result to a subsequent increase in disposable income hence spending on local goods and services, some of which may have to be imported. ✓✓
- (Accept any other relevant and correct response)

4.3.5 Calculate the terms of trade for the year 2023 (A). Show all calculations. (4)

$$\frac{110}{100} \times \frac{100}{1} = 110$$

4.4 Briefly discuss *exchange control* and *trade measures* to correct the balance of payment disequilibria? (8)

Exchange control

- This is the most popular method of influencing the balance of payments where the central bank takes complete control of a country's foreign exchange reserve and earnings. ✓✓
- Exporters are required to surrender foreign exchange to the central bank in exchange for domestic currency. ✓✓
- Exchange controls ensure that government controls all imports hence being able to ration them. ✓✓

(Accept any other relevant and correct response)

(Max 4)

Trade measures

- The country may use export promotion which is a strategy of encouraging exports by reducing or abolishing export duties and providing subsidies that stimulate local production. ✓✓
- The government may also offer monetary, fiscal and physical incentives that encourage export production and marketing. ✓✓
- Import substitution can be used when countries give incentives to encourage domestic production of goods instead of importing them. ✓✓
- Import controls can be used to control imports by imposing import duties and restricting imports through quotas and licensing. ✓✓

(Accept any other relevant and correct response)

(Max 4)

4.5 How can the South African government use fiscal policy to stimulate the economy?

- The government can use the progressive system by collecting tax from the rich and redistribute it as transfer payments to the poor. ✓✓
- The government can stimulate the economy by raising government spending (G) thereby increasing economic development for the country. ✓✓
- When the government increase aggregate spending on public goods, aggregate demand will increase hence employment. ✓✓
- When taxes decrease, consumers and producers have disposable income available to spend on goods and services hence increasing the real GDP of the country. ✓✓
- A decrease in taxes results to an increase in aggregate spending hence an increase in employment and the standard of living. ✓✓
- Raising government spending and simultaneously decreasing taxes promotes investment spending on the economy. ✓✓

(Accept any other relevant correct answer)

(8)

TOTAL SECTION B: 80 MARKS

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 markets within the four sector model circular flow.

(26)**Introduction:**

A market is defined as any contact or communication between actual or potential buyers and actual and potential sellers of goods and services. ✓✓

(Accept any other relevant correct introduction)

(2)**Body****Main part:****1. The Product/ goods market ✓**

- Goods and services are traded in the product market. All participants purchase these goods and services in the product market. ✓✓
- Goods are defined as tangible items (such as food, clothing and cars) that satisfy some human wants or need. ✓✓
- Services are non-tangible actions (such as cleaning services, medical care, etc.) that satisfy human wants or need. ✓✓
- Non-durable goods are those items which are used up when they are consumed and cannot be re-used, for example, cool drink, petrol and electricity. ✓✓
- Semi-durable goods lasts a short period of time and can be used more than once. ✓✓
- Durable goods can be used over again and do not wear out very easily e.g. vehicles. ✓✓
- Households purchase consumer goods for consumption and businesses purchase capital goods for use in the production process. ✓✓

2. The Factor/ Resources market ✓

- The four factors of production are traded for income in form of wages/ salaries, interest, economic rent and profit in this market. ✓✓
- Businesses purchase the factors of production from the households in the factor market. ✓✓
- The price and quantity traded is also determined by interaction between supply and demand. ✓✓
- The factor market can be further sub-divided into markets in which different factors of production like labour, property and financial market. ✓✓

3. The financial market ✓

- The financial market serves those who wish to save and those who wish to borrow. ✓✓
- The money, capital and foreign exchange markets are part of the financial market. ✓✓

- This sector represents financial institutions who are not directly involved in the production of goods and services but are a link between participants in the economy with surplus money and participants who require funds. ✓✓
 - Households make their financial capital available to the financial sector in the form of savings. ✓✓
 - The financial sector in turn makes financial capital available to firms through investments. ✓✓
- a.) Money market ✓
- This is used by participants as a means for borrowing and lending in short term, from a few days to just less than 3 years. ✓✓
 - The South African Reserve Bank is a key institution in the money market. ✓✓
- b.) Capital market ✓
- This is a financial market where individuals and institutions trade financial securities in the long-term, which is 3 years and above. ✓✓
 - The JSE is the key institution in the capital market. ✓✓
4. The foreign exchange market ✓
- In an open economy, foreign currency is needed to facilitate transaction between countries. ✓✓
 - It is on this market that one currency can be exchanged for another. ✓✓
 - The amount that is received in this exchange is known as exchange rate. ✓✓
 - The exchange rates are normally determined by the interaction between supply and demand. ✓✓
 - They are sometimes influenced by the Reserve bank. ✓✓
 - Foreign currency can be acquired through commercial banks. ✓✓
- (Accept any other relevant and correct response)

(26)

How can households as an important participant in the circular flow contribute to building the economy?

(10)

- The owners of the factors of production can try to improve the quality of resources that they provide so as to make a positive contribution to the economy. ✓✓
 - Households can sell their factors of production at a reasonable price so as to assist in keeping inflation rate at its minimum. ✓✓
 - The owners of the production factors can refrain from labour strikes which demand salaries that are higher than the inflation rate. ✓✓
 - Households can increase savings thereby making capital available for financial institutions to lend to new investors. ✓✓
 - Households can buy local products so as to contribute to the development of local industries. ✓✓
 - Households can add value to their products so that they are exportable and the country can be able to penetrate the international market. ✓
 - Households can contribute their taxes promptly so that the government can improve the living conditions. ✓
- (Accept any other relevant and correct response)

CONCLUSION

Markets are critically important institutions in our economic system because they regulate supply and demand and safeguard price stability and general business confidence

(Max 2)

(Accept any other relevant and correct conclusion)

QUESTION 6: MACRO-ECONOMICS**40 MARKS – 40 MINUTES****Discuss in details the reasons for public sector failure****(26)****INTRODUCTION**

Public sector failure is a result of wrong government intervention in the economy as well as inefficiency in the use of available resources. ✓✓

(Accept any other suitable introduction)

BODY:**MAIN PART:****1. Poor management/ management failure ✓✓**

- The public sector organizations may have leaders with poor management skills. ✓✓
- Some of these managers may be lacking proper experience and training while others may be having hidden agendas. ✓✓
- This may affect how they apply various policies or may get the timing of such policies not right. ✓✓

2. Lack of motivation ✓

- Government employees often do not receive incentives for successful service delivery. ✓✓
- There are no systems to evaluate service quality provided by the employees. ✓✓
- Even those who do outstanding work are not recognized therefore they end up being demotivated. ✓✓

3. Apathy ✓

- Some employees are apathetic (uninterested/ indifferent) about their work and they lack accountability about their actions. ✓✓
- This means they often lack responsibility for their decisions. These result in poor service delivery. ✓✓

[40]

4. Bureaucracy

- Refers to excessively complex administrative procedures that are often followed in government sector. ✓✓
- Bureaucrats (government officials) are criticised for being too rigid and inefficient. ✓✓
- A simple request end up entangled in endless processes, paperwork that slows down an otherwise simple task. ✓✓
- Application for a particular project having to go from one administrative level to another, taking very long period before an answer can be given. ✓✓

5. Politicians

- Politicians are often interested in being re-elected to their positions rather than serving the public. ✓✓
- Therefore they often pursue vote-maximising strategies to secure or retain their political offices. ✓✓
- The pressure of looming election often can make many politicians make decisions just to make the voting public happy. ✓✓
- Some projects can be undertaken even if they were not budgeted for or no proper cost benefit analysis was conducted. ✓✓

6. Special interest groups (rent seeking groups)

- Rent seeking refers to when people spend money on lobbying in order to increase their wealth without actually creating any more wealth. ✓✓
- Special interest groups such as farmers or organised labour often attempt to influence government to their own advantage. ✓✓
- They make use of the law, lobbying, bribes and other favours to influence the government officials to act in their interest. ✓✓

7. Structural weakness ✓

- Some government objectives work against each other and it becomes difficult to achieve both. ✓✓
- Government has an objective of full employment while it also has an objective of price stability which works against each other. ✓✓
- The government must accept a certain level of inflation in order to achieve a level of employment. ✓✓

(Accept any other relevant and correct response)

How does corruption by government officials' impact negatively on the efficiency of the government?

Corruption impacts negatively on the efficiency of the government by:

- Hindering the government objective to provide services to the public due to lack of funds. ✓✓
- Hampering the smooth running of the government because of demotivated public servants. ✓✓
- Having to postpone or cancel important government projects because of embezzlement by officials. ✓✓
- Becoming a direct cause of poverty in the country as government fail to provide for the social needs of the citizens. ✓✓
- Directing funds to operations that will not serve the course of the citizens. ✓✓
- Misallocation of resources to different department to satisfy greed. ✓✓
- Running-down important government functions and parastatals because of being non-profitable. ✓✓
- Discouraging international investors from investing in the country. ✓✓
- Misdirecting funds intended for development to personal enrichment. ✓✓
thus causing inefficiency in service delivery. ✓✓
- Awarding tenders to undeserving bidders who provide public goods of low standards can cause high unemployment rate. ✓✓

(Accept any other relevant correct answer)

[40]

(10)

CONCLUSION

The problems in public sector provision of goods and services result in public sector failure and eventually failure in achieving macroeconomics objectives. ✓✓ (max. 2)

TOTAL SECTION C:	40
GRAND TOTAL:	150