Province of the EASTERN CAPE EDUCATION

Iphondo leMpuma Kapa: Isebe leMfundo
Provinsie van die Oos Kaap: Department van Onderwys
Porafensie Ya Kapa Botjhabela: Lefapha la Thuto

NATIONAL SENIOR CERTIFICATE

GRADE 12

JUNE 2025

ECONOMICS P1

MARKS: 150

TIME: 2 hours

* J E C O N E 1 *

This question paper consists of 13 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: MACROECONOMICS   **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, for example 1.1.9 B.

1.1.1   An economy in equilibrium is represented by …

A $Y = C + I + X + M$.
B $Y = C + I + G + (X + M)$.
C $Y = C + I + G + E$.
D $Y = C + I + G + (X – M)$.

1.1.2   The national account aggregate that includes contribution by permanent residents of a country is the …

A   gross national policy.
B   gross national good.
C   gross national product.
D   gross national service.

1.1.3   Parks, beaches and toll gates are examples of … goods.

A   community
B   collective
C   accessible
D   general

1.1.4   The … is presented in October to inform parliament of changes in the budget since February.

A   main budget
B   Medium-term Budget Policy Statement
C   Medium-term Expenditure Framework
D   national budget

1.1.5   The point where the economic contraction is at its lowest is a …

A   trough.
B   boom.
C   recession.
D   indicator.

1.1.6   A policy of the central bank to change the quantity of money in circulation is known as …

A   fiscal policy.
B   budget policy.
C   monetary policy.
D   circular policy.

1.1.7 An international organisation that lends money to countries with ongoing balance of payment problems is the …

    A   World Health Organisation.
    B   trade liberalisation.
    C   World Bank.
    D   International Monetary Fund.

1.1.8 Money received without any productive service rendered is the …

    A   real money.
    B   transfer payment.
    C   salary.
    D   service payment.

(8 x 2)   (16)

1.2 Choose a description in COLUMN B that matches an 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, for example 1.2.9 J.

COLUMN A		COLUMN B	
1.2.1	Bureaucracy	A	prescribed by the United Nations to compile gross domestic product figures
1.2.2	Investment	B	process of removing regulations in a specific industry by the government
1.2.3	Downswing	C	transfer of functions and ownership of entities from the private to the public sector
1.2.4	System of national accounts	D	minimum balances permitted by the SARB to banks
1.2.5	Cash reserve requirement	E	obtaining a meaningful share of a business
1.2.6	Nationalisation	F	money spent by firms to buy capital goods
1.2.7	Deregulation	G	buying of financial assets in companies on the stock exchange
1.2.8	Direct investment	H	official rules and regulations that can hinder service delivery
		I	the contraction period of the business cycle

(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) in the ANSWER BOOK.

Abbreviations, acronyms and examples will NOT be accepted.

1.3.1 Compulsory payments made by households and businesses to the state

1.3.2 Goods and services whose provision has benefits for the user and the society

1.3.3 The graph that shows the relationship between unemployment and inflation

1.3.4 A deliberate increase in the price of the currency in terms of another currency

1.3.5 Business cycles that are caused by changes in construction activities, lasting for 15 to 20 years

1.3.6 An economy that trades with the foreign sector

(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 instruments of the fiscal policy.   (2 x1)   (2)

2.1.2   How could natural disasters influence the South African trade balance?   (2)

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

> Banks and other financial institutions play a crucial role in the economy. By providing certain services, they help to create a continuous flow of money within the economy, contributing to the overall economic activity. In the context of the circular flow model, the inclusion of banks and financial institutions is essential for a comprehensive understanding of how funds circulate between the various sectors in an economy.
>
> [Source: Adapted from Corporate Finance Institute]

2.2.1   Identify an example of a financial institution from the extract above.   (1)

2.2.2   Name any ONE injection in an open economy.   (1)

2.2.3   Briefly describe the term *circular flow*.   (2)

2.2.4   Explain the role of the financial sector in the circular flow.   (2)

2.2.5   Why are households regarded as the primary participants in a circular flow?   (2 x 2)   (4)

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

REASONS FOR INTERNATIONAL TRADE

#34 DEMAND REASONS FOR INTERNATIONAL TRADE

Countries can benefit through trade when they focus on their comparative advantage. This is because of widespread globalisation and increases in population size of countries

#35 SUPPLY REASONS FOR INTERNATIONAL TRADE

[Source: Adapted from the Internet]

2.3.1 Identify an effect of international trade from the above information. (1)

2.3.2 Name any ONE supply side reason for international trade. (1)

2.3.3 Briefly describe the term *international trade.* (2)

2.3.4 Explain the theory of comparative advantage in trading of goods and services. (2)

2.3.5 How can income levels lead to international trade? (2 x 2) (4)

2.4 Discuss the product market within a circular flow. (8)

2.5 How can an improvement in terms of trade affect the South African economy? (8)

[40]

ECONOMICS P1 **(EC/JUNE 2025)**

QUESTION 3: MACROECONOMICS **40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name any TWO problems of public sector provisioning. (2 x 1) (2)

3.1.2 How does gross capital formation impact the economy positively? (2)

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

BALANCE OF PAYMENT 2024 (R BILLION)

CURRENT ACCOUNT	2024
Merchandise exports	1 820
Net gold exports	139
Service receipts	298
Income receipts	281
Less: Merchandise imports	1 782
Less: Payments for services	369
Less: Income payments	451
A?	-248

[Source: Adapted from SARB QB December 2024]

3.2.1 Identify the item in the current account that is unique to South Africa. (1)

3.2.2 Name the missing item **A** from the current account in the table above. (1)

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

3.2.4 Explain change in demand as a measure to correct balance of payment disequilibria. (2)

3.2.5 Calculate the value of the trade balance. Show the formula and ALL calculations. (4)

3.3   Study the graph below and answer the questions that follow.
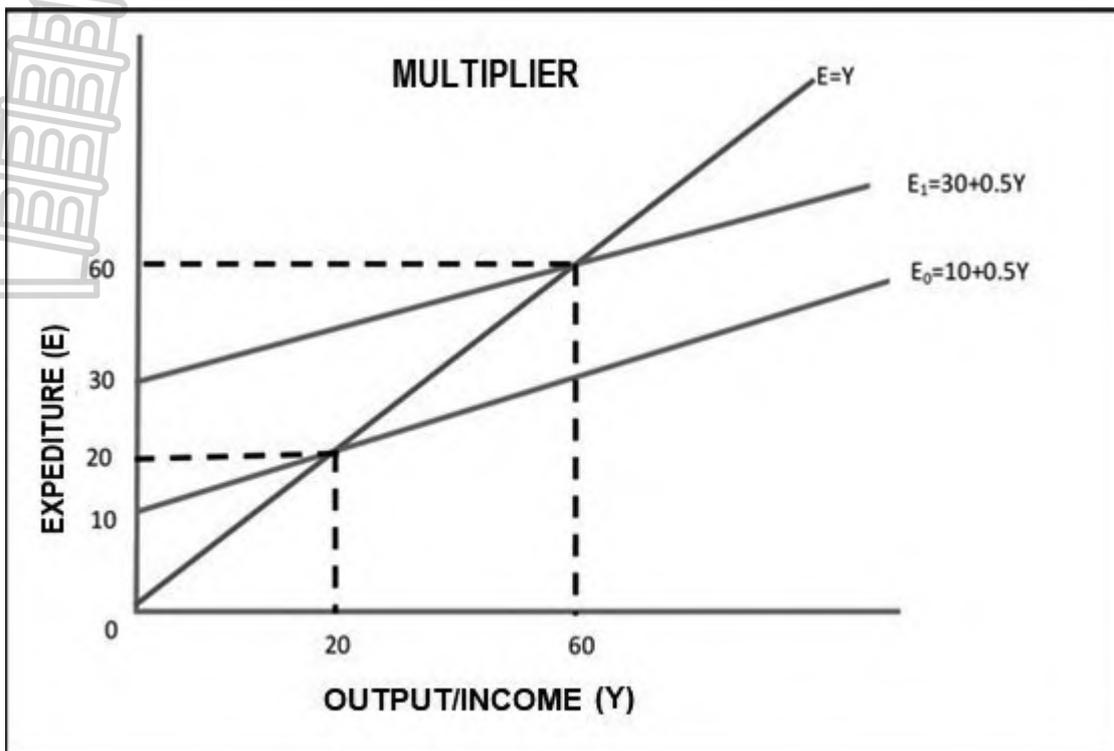
3.3.1   Identify the original autonomous consumption on the graph.   (1)

3.3.2   Name the marginal propensity to consume (mpc) from the above graph.   (1)

3.3.3   Briefly describe the term *multiplier.*   (2)

3.3.4   Explain the relationship between the marginal propensity to consume
         and the multiplier.   (2)

3.3.5   Using the formula $\Delta Y/\Delta J$, calculate the value of the multiplier for the
         above graph. Show ALL calculations.   (4)

3.4   Differentiate between *exogenous* and *endogenous* explanations of business
       cycles.   (8)

3.5   What challenges face the South African government in achieving full
       employment?   (8)
                                                                                      [40]

QUESTION 4: MACROECONOMICS   40 MARKS – 30 MINUTES

4.1   Answer the following questions.

4.1.1   Name any TWO components of the financial account of the balance of payment.   (2 x 1)   (2)

4.1.2   Explain the importance of savings in the economy.   (2)

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

NATIONAL INCOME AT CURRENT PRICES: 2023 (Billions)	
Gross value added at basic prices	6 310 829
Taxes on products	730 506
Subsidies on products	17 341
Gross domestic product at market prices	**A**

[Source: Adapted from SARB QB December 2023]

4.2.1   Identify an item used to convert basic prices to market prices.   (1)

4.2.2   Name any ONE method used to calculate gross domestic product.   (1)

4.2.3   Briefly describe the term *current prices.*   (2)

4.2.4   Explain the importance of calculating national account aggregates.   (2)

4.2.5   Calculate the gross domestic product at market prices **A**. Show ALL calculations.   (4)

Please turn over

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

MARKET FOR US DOLLARS
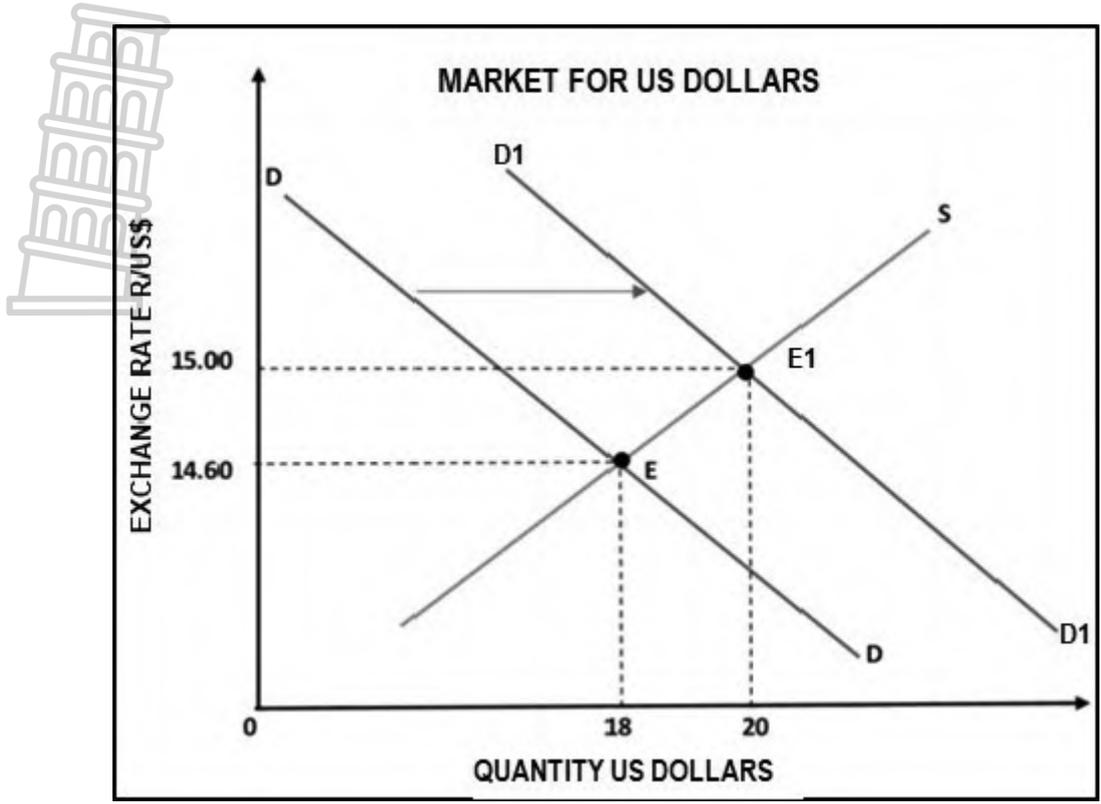
4.3.1 Identify the curve that represents an increase in the demand for foreign currency. (1)

4.3.2 Name the exchange system used in South Africa. (1)

4.3.3 Briefly describe the term *exchange rate.* (2)

4.3.4 Explain the reason for the shift to the right of the original demand curve. (2)

4.3.5 What benefits can countries of the world obtain from international trade? (2 x 2) (4)

4.4 Discuss real and money flows. (8)

4.5 Analyse the impact of a devaluation of the rand on the economy. (4 x 2) (8)
[40]

TOTAL SECTION B: 80

SECTION C

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

Your answer will be assessed as follows:

STRUCTURE OF THE ESSAY	MARK ALLOCATION
Introduction • A good starting point would be to define a concept or key word that appears in the question. • Do NOT include in your introduction any part of the question. • 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.	Max. 2
Body **Main part:** Discuss in detail/In-depth discussion/Examine/Critically discuss/ Analyse/Compare/Evaluate/Distinguish/Explain/Assess/Debate. **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 debate	Max. 26 Max. 10
Conclusion Any relevant higher order conclusion that should include: • A brief summary of what has been discussed/analysed without repeating facts already mentioned in the body • An opinion or valued judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if so required • Recommendations	Max. 2
TOTAL	**40**

QUESTION 5: MACROECONOMICS

- Discuss in detail the features underpinning forecasting. (26)
- How can monetary and fiscal policies be used in smoothing out business cycles? (10)

QUESTION 6: MACROECONOMICS

- Discuss in detail the reason(s) for public sector failure (link them to typical problems experienced through public sector provisioning). (26)
- How will public sector failure negatively influence economic stability in South Africa? (10)

[40]

TOTAL SECTION C: 40
GRAND TOTAL: 150

Province of the
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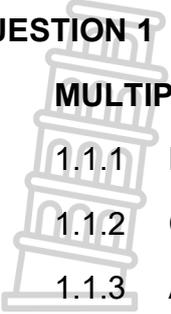EDUCATION

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NATIONAL
SENIOR CERTIFICATE

GRADE 12

JUNE 2025

ECONOMICS P1
MARKING GUIDELINE

MARKS: 150

_____

This marking guideline consists of 16 pages.

_____

SECTION A

QUESTION 1

1.1 **MULTIPLE-CHOICE QUESTIONS**

1.1.1 D - $Y = C + I + G + (X - M)$ ✓✓

1.1.2 C - Gross national product ✓✓

1.1.3 A - Community ✓✓

1.1.4 B - Medium-term budget policy statement ✓✓

1.1.5 A - trough ✓✓

1.1.6 C - Monetary policy ✓✓

1.1.7 D - International Monetary Fund ✓✓

1.1.8 B - Transfer payments ✓✓   (8 x 2)   (16)

1.2 **MATCHING ITEMS**

1.2.1 H - official rules and regulations that can hinder service delivery✓

1.2.2 F - money spent by firms to buy capital goods✓

1.2.3 I - the contraction period of the business cycle✓

1.2.4 A - prescribed by the United Nations to compile gross domestic product figures ✓

1.2.5 D - Minimum balances permitted by the SARB to banks ✓

1.2.6 C - Transfer of functions and ownership of entities from the private to the public sector ✓

1.2.7 B - Process of removing regulations in a specific industry by the government ✓

1.2.8 E - Obtaining a meaningful share of a business ✓   (8 x 1)   (8)

1.3 **GIVE ONE WORD**

1.3.1 Taxation/Tax ✓

1.3.2 Public goods/Merit goods ✓

1.3.3 Phillips curve ✓

1.3.4 Revaluation ✓

1.3.5 Kuznets cycle ✓

1.3.6 Open economy ✓   (6 x 1)   (6)

                            TOTAL SECTION A: **30**

SECTION B

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

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

2.1 2.1.1 **Name any TWO instruments of the fiscal policy**
- Taxation ✓
- Government spending ✓ (2 x 1) (2)

2.1.2 **How could natural disasters influence the South African trade balance?**
- Reduced local agricultural production that will result in a decrease in exports ✓✓
- Local consumers will be forced to import more food products due to shortages on local markets ✓✓
- The trade balance will weaken as exports decrease while imports increase ✓✓ (2)

2.2 **DATA RESPONSE**

2.2.1 **Identify an example of a financial institution from the extract above**
- Banks ✓ (1)

2.2.2 **Name any ONE injection in an open economy**
- Investment / I ✓
- Government spending / G ✓
- Export earnings / X ✓ (1 x 1) (1)

2.2.3 **Briefly describe the term *circular flow***
- A circular flow is a continuous flow of spending, production and income between different sectors in the economy ✓✓ (2)

2.2.4 **Explain the role of the financial sector in the circular flow**
The financial sector facilitates the flow of funds between the participants in the economy, ✓✓ which leads to making available funds for stimulating economic activities as businesses get an opportunity to expand their businesses. ✓✓
(Accept any other correct relevant response) (2)

2.2.5 **Why are households regarded as the primary participants in a circular flow?**
- Households consume the goods produced by firms ✓✓
- Households provide factors of production that are used by firms in the production process ✓✓
- Households make available their savings to banks which is borrowed by firms to invest in the production of goods and services ✓✓ (2 x 2) (4)

2.3 DATA RESPONSE

2.3.1 **Identify the effect of international trade from the above information.**
- globalisation ✓ (1)

2.3.2 **Name any ONE supply side reason for international trade.**
- Natural resources ✓
- Climatic conditions ✓
- Labour resources ✓
- Technological resources ✓
- Specialisation ✓
- Capital ✓ (1)

2.3.3 **Briefly describe the term** *international trade*
International trade is the exchange of goods and services between countries, and it is a key part of the global economy ✓✓ (2)

2.3.4 **Explain the theory of comparative advantage in trading of goods and services.**
- A country has a comparative advantage when it can produce a good or service at a lower opportunity cost than another country. ✓✓
(Accept any other correct relevant response) (2)

2.3.5 **How can income levels lead to international trade?**
- Changes in income cause a change in the demand for goods and services ✓✓
- Higher income creates more needs, wants, and subsequently greater demand for a greater variety of goods even if it is necessary to get the goods from abroad ✓✓
- An increase in the per capita income of people results in more disposable income that can be spent on local goods and services, some of which may then have to be imported ✓✓ (2 x 2) (4)

2.4 Discuss the product market within a circular flow
- These are markets for consumer goods and services ✓✓
- In economics a distinction is made between goods and services:
  - Goods are defined as any tangible items such as food, clothing and cars that satisfy some human wants or need. ✓✓
- Buying and selling of goods that are produced in markets, include:
  - Capital goods market for trading of buildings and machinery ✓✓
  - Consumer goods market for trading of durable consumer goods, semi-durable consumer goods and non-durable consumer goods. ✓✓
  - Services are defined as non-tangible actions and include wholesale and retail, transport and financial markets. ✓✓ (4 x 2) (8)

2.5 **How can an improvement in terms of trade affect the South African economy?**

- An improvement in the terms of trade implies that the prices of South African exports have risen relative to the prices of its imports. ✓✓
- This increase in export prices improves the value of the country's currency, resulting in a stronger rand. ✓✓
- Therefore, South Africa receives more of US dollars for the same quantity of exported goods, which boosts the nation's export revenue. ✓✓
- As the rand appreciates, the cost of imports decreases for South Africa. ✓✓
- This means that the country can now purchase foreign goods and services at a lower price, making imports more affordable for both consumers and businesses. ✓✓
- The reduction in import prices benefits the South African economy by improving purchasing power and leading to a more favourable balance of trade. ✓✓ (4 x 2) (8)

[40]

QUESTION 3: MACROECONOMICS **40 MARKS – 30 MINUTES**

3.1 3.1.1 **Name any TWO problems of public sector provisioning**
- Accountability ✓
- Efficiency ✓
- Pricing policy ✓
- Assessing needs ✓
- Privatisation/nationalisation ✓ (2 x 1) (2)

3.1.2 **How does gross capital formation impact the economy positively?**
- The increased capital base of the country will increase production capacity. ✓✓
- Gross capital formation will contribute to the growth potential of the economy through value-adding process. ✓✓
- Balance of payment problems will decrease by an increase in export production. ✓✓
- Households may benefit from creation of employment opportunities thus reducing poverty/government will achieve its goal of full employment and collect more tax revenue. ✓✓ (2)

3.2 **DATA RESPONSE**

3.2.1 **Identify the item in the current account that is unique to South Africa**
- Net gold exports ✓ (1)

3.2.2 **Name the missing item from the current account in the table above (A)**
- Current transfers ✓ (1)

3.2.3 **Briefly describe the term *balance of payment***
A systematic record of all trade and financial transactions of a country with the rest of the world. ✓✓
(Accept any other correct relevant response) (2)

3.2.4 **Explain change in demand as a measure to correct balance of payment disequilibria.**
- An increase in the repo rate affects interest rates and leads to a decrease in import spending ✓✓
- Government incentives are applied to substitute imports and to promote exports ✓✓
- Certain exchange controls have been retained by the central bank to ration foreign exchange and lead to a decrease in the demand ✓✓
(Accept any other correct relevant response) (2)

3.2.5 **Calculate the value of the trade balance. Show the formula and all calculations**
Trade balance = (Merchandise exports + Net gold exports) – Merchandise imports ✓

(R1 820bn + R139bn) ✓ – R1 782bn ✓
R1 959bn – R1 782bn ✓
R177bn ✓
N.B: Allocate a maximum of 4 marks (4)

3.3 **DATA RESPONSE**

    3.3.1 **Identify the original autonomous consumption on the graph**
          10 ✓ (1)

    3.3.2 **Name the marginal propensity to consume (mpc) from the above graph**
          0.5 ✓ (1)

    3.3.3 **Briefly describe the term *multiplier***
          A small initial increase in spending produces a proportionately larger increase in aggregate national income. ✓✓
          (Accept any other correct relevant response.) (2)

    3.3.4 **Explain the relationship between the marginal propensity to consume and the multiplier**
          The larger the marginal propensity to consume, the larger the value of the multiplier and the smaller the mpc, the smaller the value of the multiplier. ✓✓ (2)

    3.3.5 **Using the formula ΔY/ΔJ, calculate the value of the multiplier for the above diagram. Show all calculations.**
          K = ΔY/ΔJ
          (60–20) ✓ / (30–10) ✓
          K = 40/20 ✓
          K = 2 ✓ (4)

3.4 **Differentiate between *exogenous* and *endogenous* explanation of business cycles**
- Exogenous factors originate from outside the free market, ✓ while endogenous factors develop from within the economy. ✓
- Supporters of exogenous factors argue that markets are inherently stable, ✓ while those who support endogenous factors argue that they are inherently unstable. ✓
- Monetarists/exogenous explanations recommend against government interference in markets, ✓ whereas Keynesians advocate for intervention by the government by using its policies to manage business cycles. ✓
- External forces include natural disasters, technological advancements, government actions, and events like the COVID-19 pandemic, ✓ while internal forces refer to issues within the market and failures in the price system to align supply and demand. ✓
(Accept any other correct relevant response.) (8)

8 **ECONOMICS P1** (EC/JUNE 2025)

3.5 **What challenges face the South African government in achieving full employment?**

- The education system in South Africa has not effectively equipped students with the skills and knowledge required to meet the changing demands of the labour market. ✓✓
- The South African economy has experienced slow growth in recent years, which has directly impacted job creation. ✓✓
- With limited investment and slow expansion in key sectors, there are fewer new positions available for job seekers, contributing to rising levels of unemployment. ✓✓
- South Africa faces high levels of inequality and poverty, which hinder many individuals from accessing quality education and vocational training. ✓✓
- A substantial portion of the workforce is employed in the informal sector, operating outside of government regulation and protection. This increases the country's unemployment challenges as this sector often faces job insecurity, lower wages, and limited benefits. ✓✓
- South Africa is experiencing brain drain as many talented individuals are leaving the country in search of better opportunities abroad reducing the availability of skilled workers needed to drive innovation and growth. ✓✓

(Accept any other correct relevant response.) (8)

[40]

QUESTION 4: MACROECONOMICS   40 MARKS – 30 MINUTES

4.1 4.1.1 **Name any TWO components of the financial account of the balance of payments.**
- Net direct investment ✓
- Net portfolio investment ✓
- Net other investment ✓
- Net financial derivatives ✓
- Reserve assets (SDR allowances) ✓   (2 x 1)   (2)

4.1.2 **Explain the importance of savings in the economy.**
- Savings ensure the availability of loanable funds in financial institutions for investments (capital formation). ✓✓
- Consumers will have access to loans which will increase spending on durable goods. ✓✓
- Savings help to control excess demand in the economy thereby reducing demand-pull inflation. ✓✓
- Households will enjoy financial freedom as they will be able to pay for their future needs using their savings. ✓✓

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

4.2 **DATA RESPONSE**

4.2.1 **Identify an item used to convert basic prices to market prices**
- Taxes on products ✓
- Subsidies on products ✓   (1)

4.2.2 **Name any ONE method used to calculate gross domestic product**
- Production method/ GDP(P) ✓
- Income method/ GDP (I) ✓
- Expenditure method/ GDP (E) ✓   (1)

4.2.3 **Briefly describe the term *current prices***
Current prices, also known as nominal prices, do not account for changes in the general price level and do not include inflation. ✓✓
(Accept any other correct relevant response)   (2)

4.2.4 **Explain the importance of calculating national account aggregates for an economy**
- National account aggregates are used to measure the performance of an economy, such as its growth rate. ✓✓
- National account aggregates are used to evaluate the success or failure of economic policies. ✓✓
- National account aggregates are used to compare economies internationally. ✓✓

(Accept any other correct relevant response)   (2)

Please turn over

10 **ECONOMICS P1** (EC/JUNE 2025)

4.2.5 **Calculate the gross domestic product at market prices (A). Show all calculations.**
GDP at market prices = GDP at basic prices + taxes on products – subsidies on products
GDP @ market prices =
R6 310 829bn ✓
+ R730 506bn ✓
– R17 341bn ✓
= R7 023 994bn ✓ (4)

4.3 **DATA RESPONSE**

4.3.1 **Identify the curve that represents an increase in the demand for foreign currency**
- D1/D1D1✓ (1)

4.3.2 **Name the exchange system used in South Africa.**
- Free floating ✓ (1)

4.3.3 **Briefly describe the term** *exchange rate.*
- The price of one country's currency in terms of the other country's currency ✓✓
(Accept any other correct relevant response) (2)

4.3.4 **Explain the reason for the shift to the right of the original demand curve.**
- An increase in the number of South Africans touring the United States. ✓✓
- An increase in the number of South African imports from the USA .✓✓
(Accept any other correct relevant response) (2)

4.3.5 **What benefits can countries of the world obtain from international trade?**
- International trade helps countries expand their markets. ✓✓
- It allows the consumers to access goods and services that may not be available at home. ✓✓
- International trade fosters economic growth, encourages competition, and enhances overall consumer choice. ✓✓
(Accept any other correct relevant response) (2 x 2) (4)

4.4 **Discuss real and money flows**

Real flow
- A flow of the actual goods or services ✓✓
- Include the factors of production such as land or labour that flow from individuals to firms ✓✓
- It also includes the flow of goods and services from firms to individuals ✓✓
                                                                                Max 4 marks

Money flow
- These are payments for the services for example salaries and wages ✓✓
- Occurs when firms pay wages and salaries in return for productive services provided by individuals ✓✓
- Also include flows when individuals spend money to acquire goods or services produced by firms ✓✓   Max 4 marks   (8)

4.5 **Analyse the impact of a devaluation of the rand on the economy**
- A weaker rand makes South African exports cheaper and more competitive, leading to increased export volumes and revenue. ✓✓
- As exports rise and imports become expensive, the trade balance improves and reliance on foreign capital decreases. ✓✓
- A lower rand also draws more foreign tourists, boosting tourism revenue, and makes South African assets like property and stocks more attractive to foreign investors. ✓✓
- However, it increases import costs, raising production costs and potentially causing higher inflation as businesses pass on these costs to consumers. ✓✓
- Additionally, a weaker rand reduces the purchasing power of South African consumers. ✓✓
- It raises the debt burden for businesses and the government due to higher costs of foreign debt. ✓✓   (4 x 2)   (8)
                                                                                    [40]

                                                            TOTAL SECTION B: 80

SECTION C

Answer any ONE of the two questions from this section in the ANSWER BOOK.
Your answer will be assessed as follows.

QUESTION 5: MACROECONOMICS   **40 MARKS – 40 MINUTES**

- **Discuss in detail the features underpinning forecasting** (26)
- **How can monetary and fiscal policies be used in smoothing out business cycles?** (10)

INTRODUCTION
Business cycles can be described as successive periods of contraction and expansion of economic activities ✓✓
(Accept any other correct relevant introduction) (2)

BODY: MAIN PART
LEADING INDICATORS ✓
- Leading indicators are indicators that change before the economy changes ✓✓
- Leading indicators give consumers, business leaders and policy makers a glimpse (advance warnings) of where the economy might be heading ✓✓
- These indicators peak before a business cycle has reached a peak ✓✓
- It is the most important type of indicator in helping economists to predict what the economy will be like in the future ✓✓
- When these indicators rise, the level of economic activities will also rise in a few months' time ✓✓
- When they decline it also means the level of economic activity will decline in the near future ✓✓
- Examples: include the number of residential plans passed, number of job advertisements, number of new companies ✓

COINCIDENT INDICATORS ✓
- Coincident indicators are indicators that change at the same time as the economy changes ✓✓
- Coincident indicators show the actual state of the economy ✓✓
- A downturn is shown by a decrease in these indicators while an upswing is shown as an increase in these indicators ✓✓
- Coincident indicators confirm the changes predicted by the leading indicators ✓✓
- The value of retail sales will reach a peak and then begin to decline at the same time as the business cycle ✓✓
- Examples: are usage of capacity in manufacturing, registered unemployment, real GDP ✓

LAGGING INDICATORS ✓
- Lagging indicators change after the economy has already changed. ✓✓
- Lagging indicators reach the turning point after the business cycle has already turned. ✓✓
- Lagging indicators serve to confirm the behaviour of co-incident indicators. ✓✓
- Examples: number of commercial vehicles sold, real investment in machinery, unit labour costs in manufacturing. ✓

COMPOSITE INDICATORS ✓
- Composite indicators summarise a group of indicators of the same type into a single value. ✓✓
- The single figure forms a norm for a country's economic performance. ✓✓
- Composite indicators can be consolidated into single values of a composite leading, coincident and lagging indicators. ✓✓

AMPLITUDE ✓
- It is the difference between the value of total output between the peak and trough measured from the trend line to the peak and trough ✓✓
- Amplitude reflects the intensity of the upswing and downswing in economic activity ✓✓
- The amplitude shows two things: -The power of the underlying forces such as interest rates, exports or consumer spending ✓✓
- A large amplitude during the upswing signifies strong underlying forces. ✓✓
  - The duration of a cycle with larger amplitude is usually longer than one with a small amplitude ✓
  - The extent of change such a decrease in unemployment of 50% or increase in inflation of 100% during the upswing ✓✓
  - The larger the amplitude, the more extreme the changes that may occur ✓✓

TRENDLINE ✓
- The trend line indicates the general direction in which the economy is moving ✓✓
- When the economy is growing, there is an upward trend, but when the economy is contracting there is a downward trend ✓✓
- The trend will change when the time series data change their behavioural patterns of the past ✓✓
- The trend line normally has a positive slope because the production capacity of the economy increases over time ✓✓

LENGTH/DURATION OF A BUSINESS CYCLE ✓
- Length is measured from peak to peak or from trough to trough ✓✓
- Longer cycles show strength and shorter cycles show weakness with regard to economic activities ✓✓
- Cycles may overshoot which means that whenever activity in terms of some composite indicators increase to beyond its normal level ✓✓
- The contraction in the growth of output may overshoot the level where it should naturally stop ✓✓

EXTRAPOLATION ✓
- Extrapolation refers to the estimation of something unknown from the facts that are known ✓✓
- Past data is used when predictions are made about the future based on assumptions related to trends ✓✓
- Extending a trend into the future may provide information on what is likely to happen ✓✓
- Economists may predict that the economy will grow in few months to come if a business cycle has passed through a trough and entered into an upswing ✓✓
- Extrapolation techniques are sometimes used to predict future share prices ✓✓

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MOVING AVERAGES ✓
- They are calculated along the time series so that a smoother business cycle can be established. ✓✓
- Moving averages are used to analyse the changes in a series of data over a certain period of time. ✓✓
- Economists use moving averages to eliminate the effect of sharp fluctuation in the business cycle. ✓✓

(Accept any other correct relevant response)
(A maximum of 8 marks may be allocated for mere listing of headings/examples)

ADDITIONAL PART
Fiscal and monetary policies can be used in conjunction to stabilise the economy:
- During recessions, the government can increase spending on infrastructure, education, and unemployment benefits. ✓✓
- This will help to stabilise jobs and boost consumption and spending. ✓✓
- In contrast, during periods of increasing economic activity, the government can reduce spending and raise taxes to slow down the economy. ✓✓
- This will help to lower inflation and prevent asset bubbles. ✓✓
- Additionally, during recessions, the central bank can expand the money supply and lower interest rates to stimulate economic activity. ✓✓
- Equally, during economic booms, the central bank can contract the money supply and raise interest rates to slow down growth. ✓✓

(Accept any other correct relevant high order response)
(A maximum of 4 marks may be allocated for mere listing/facts) (10)

CONCLUSION
By monitoring these economic indicators, businesses and policymakers can better forecast business cycles and make informed decisions. ✓✓

(Accept any other correct relevant high-order conclusion) (2)

QUESTION 6: MACROECONOMICS 40 MARKS – 40 MINUTES

- **Discuss in detail the reason(s) for public sector failure (link them to typical problems experienced through public sector provisioning)**

- **How will public sector failure negatively influence economic stability in South Africa?**

INTRODUCTION
Countries of the world are interdependent in a quest to deal with their own unique challenges. ✓✓
(Accept any other correct relevant introduction) (2)

BODY: MAIN PART
Management failure: ✓
(a) Lack of training and experience: ✓
  - This occurs when civil servants are employed to perform certain jobs, but they do not have the required skills and abilities. ✓✓
  - State resources and funds will be wasted since people will be paid for the work they are not qualified for. ✓✓
(b) Poor leadership: ✓
  - Poor leadership occurs when those in the position of power, fail to act as entrusted. ✓✓
  - Inefficiency is the direct result of poor leadership. ✓✓

Apathy: ✓
- Lack of accountability and apathy are closely linked in the workplace. ✓✓
- Long-term accountability is important for successful public production. ✓✓
- Corruption and poor service delivery are some of the symptoms of apathy. ✓✓
- In developing countries, accountability often does not apply. ✓✓

Lack of motivation: ✓
- Workers hardly receive incentives for successful service delivery. ✓✓
- Lack of motivation may lead to limited service, low in quality and high in cost. ✓✓

Bureaucracy: ✓
- This refers to when there are too many rules, regulations and procedures that are followed as strictly as they are without any changes. ✓✓
- As a result, policies take long to be implemented or are not implemented at all. ✓✓
- Bureaucrats are often empathic and insensitive to the needs of their clients. ✓✓

Politicians: ✓
- To retain their power, politicians have to be re-elected or retain their political office. ✓✓
- This means that they will have to promote and endorse policies and projects as long as they can get votes in return. ✓✓
- Service delivery is therefore seriously affected by people who are always looking for power. ✓✓

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Special interest groups: ✓
- Those who try to further their own interest by means of rent-seeking or lobbying. ✓✓
- They include trade unions and businesses. ✓✓
- They attempt to influence the government to act in their interest with profitable contracts, favourable regulations, etc. ✓✓

Structural weaknesses: ✓
- The role that parastatals are given to be the sole providers of certain goods or services, may impact negatively on the efficiency of the entire country. ✓✓
- A typical example is Eskom if power outages occur. ✓✓
- The above situation can easily scare potential investors from investing in the economy. ✓✓

(**A maximum of 8 marks may be allocated for mere listing of headings**)

ADDITIONAL PART

Public sector failure will negatively influence the economy in several ways:
- It causes price instability, which lowers consumer spending. ✓✓
- It creates policy uncertainty, which can scare off investors. ✓✓
- It increases unemployment because the economy does not create enough new jobs. ✓✓
- It makes exporting difficult due to unstable exchange rates. ✓✓
- It decreases the amount of goods sold abroad (exports), which can worsen the balance of payments deficit and lead to a recession by slowing down real GDP growth. ✓✓
- It raises government costs due to wasted resources, especially in government-owned companies (Parastatals). ✓✓
- It lowers production of goods and services because state-owned enterprises struggle to provide essential services like energy and transport. ✓✓
- It increases the cost of doing business because of inefficiencies. ✓✓

(Accept any other correct relevant higher order response)
(**A maximum of 4 marks may be allocated for mere listing/facts**)   (10)

CONCLUSION
The success of a country in managing its economy relies heavily on its ability to hold its officials accountable for their actions. ✓✓
(Accept any other correct relevant high-order conclusion)   (2)

[40]

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