



GAUTENG PROVINCE

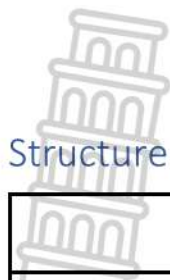
EDUCATION
REPUBLIC OF SOUTH AFRICA

ECONOMICS ESSAY TOPICS – ACCORDING TO THE 2021 EXAMINATION GUIDELINES

Below are the essays, as per the current examination guidelines. This covers Term all the topics that should be covered as per ATP.

Table of Contents

Structure of the Essay	2
TOPIC 1: CIRCULAR FLOW	3
TOPIC 2 :BUSINESS CYCLES	5
TOPIC 3 : PUBLIC SECTOR	13
TOPIC 4 :THE FOREIGN EXCHANGE MARKETS	17
TOPIC 5: PERFECT MARKETS	21
TOPIC 6: IMPERFECT MARKETS: MONOPOLY	25
TOPIC 6: IMPERFECT MARKETS - OLIGOPOLY	29
TOPIC 6: IMPERFECT MARKETS: COMPARE AND CONTRAST MARKET STRUCTURES	35
TOPIC 7: MARKET FAILURES	47
TOPIC 8: PROTECTIONISM AND FREE TRADE	59
TOPIC 9: ECONOMIC GROWTH AND DEVELOPMENT	65
TOPIC 10: REGIONAL DEVELOPMENT	75
TOPIC 11: ECONOMIC AND SOCIAL INDICATORS	77
TOPIC 1: INFLATION	84
TOPIC 13: TOURISM	89
TOPIC 14: ENVIRONMENTAL SUSTAINABILITY	97



Structure of the Essay

STRUCTURE OF ESSAY	MARK ALLOCATION
<p>Introduction</p> <p>The introduction is a lower-order response.</p> <ul style="list-style-type: none"> • A good starting point would be to define the main concept related to the question topic. • Do not include any part of the question in your introduction. • Do not repeat any part of the introduction in the body. • Avoid mentioning in the introduction what you are going to discuss in the body. 	<p>Max. 2</p>
<p>Body</p> <p>Main part: Discuss in detail/In-depth discussion/Examine/Critically discuss/ Analyse/Compare/Evaluate/Distinguish/Differentiate/Explain/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Assess/Debate</p> <p>A maximum of 8 marks may be allocated for headings/examples</p> <p>Additional part: Critically discuss/Evaluate/Critically evaluate/Debate/ Deduce/Compare/Distinguish/Interpret/How? /Suggest</p> <p>A maximum of 2 marks may be allocated for mere listing facts.</p>	<p>Max. 26</p> <p>Max. 10</p>
<p>Conclusion</p> <p>Any higher-order conclusion should include:</p> <ul style="list-style-type: none"> • A brief summary of what has been discussed without repeating facts already mentioned • Any opinion or value judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations 	<p>Max. 2</p>
<p>TOTAL</p>	<p>40</p>

Grade 12 learners should be familiar with the requires structure of the essay (taken from the examination guideline Page 6

TOPIC 1: CIRCULAR FLOW

Discuss the role of markets in the circular flow. (26 marks)

How can the business sector contribute more positively to the economy? (10 marks) [40]

INTRODUCTION

- Markets coordinate economic activities and determine prices for goods and services ✓✓
- The circular flow model is a simplified representation of the interaction between the participants of the economy ✓✓
(Accept any other relevant introduction) (Max 2)

MAIN PART

Goods/Product/Output markets

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

Factors/Resources/Input markets

- Factors of production are bought and sold in the factor market ✓✓
- The factor market includes the labour, property and financial markets ✓✓
- Factor services are real flows and they are accompanied by counter flows of income on the factor market ✓✓

Financial markets

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

Money markets

- In the money market, short-term loans and very short-term funds (less than 3 years) are saved and borrowed by consumers and business enterprises ✓✓

- Products sold in this market are bank debentures, treasury bills and government bonds ✓✓
- The SARB is the key institution in the money market ✓✓

Capital markets

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

Foreign exchange markets

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

ADDITIONAL PART

How can the business sector contribute more positively to the economy?

- investing more in labour intensive projects with the focus on in service-training and skills development of workers ✓✓
- re-investing their profits in gross capital formation programmes ✓✓
- equipment, tools, transportation assets and electricity ✓✓
- expanding their business operations and investing in the latest technology to ensure an upliftment of the quality of factors of production needed for production ✓✓
- diversifying their business operations by bringing in a differentiated product offering within or outside the range they produce ✓✓
- supporting South African businesses in terms of procuring raw materials and increase the market share for South African produced goods and services locally and abroad ✓✓
- ensuring the existence of sound business principles towards a long-term involvement in the economy leading to a positive economic growth rate ✓✓
- using loans to invest in capital goods like machinery, to ensure mass production at a lower cost thus improving their competitiveness ✓✓
(Accept any other correct higher order response) (Max.10)

CONCLUSION



Markets are critically important institutions in our economic system, because they regulate the market, to safeguard price stability and general business confidence ✓✓ (Max. 2)

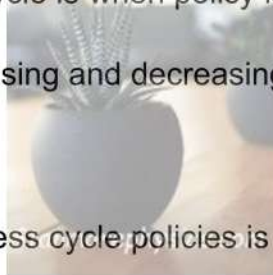
TOPIC 2 : BUSINESS CYCLES

Question 1

- Discuss in detail 'new economic paradigm is embedded (rooted) in demand-and-supply-side policies to influence the economy. (you may be asked without the graph of a Philips curve)
- Why is it impossible to achieve zero unemployment and low inflation rates in an economy?

INTRODUCTION


- Theories by the Monetarists (Friedman) and Keynesians (Keynes) are extreme and only true under specific circumstances / ✓✓
- Under real circumstances, government pursues economic growth irrespective of being inherently stable or unstable market conditions prevalent /
- According to the New Economic paradigm, it is possible for output rise over extended periods of time without being hampered by supply constraints and inflationary pressures/-does not render ideal policies / ✓✓
- Smoothing of the business cycle is when policy is used to prevent dramatic peaks and troughs / ✓✓
- Consecutive periods of increasing and decreasing economic activities ✓✓



BODY MAIN PART

- Governments' aim with business cycle policies is to achieve the best possible growth rates ✓✓
- They need to apply policies to smooth out cyclical movements, so that peaks do not end up in high inflation and troughs do not result in high unemployment ✓✓
- Governments use monetary and fiscal policies to do this ✓✓
- Fiscal policy - more successful in stimulating a depressed economy ✓✓
- Monetary policy is more effective when 'dampening' an overheated economy that has inflation rising ✓✓
- Monetary policies When the level of economic activity changes the SARB can use expansionary and contractionary measures reduce fluctuation of such economic activities. ✓✓
- An expansionary monetary policy is implemented when the economy is in recession in order to stimulate economic activities ✓✓
- Interest rates can be reduced to encourage spending ✓✓
- Household and firms can therefore borrow more and spend more ✓✓
- The increased spending increases the level of economic activity. Investment will increase and more factors of production will be employed ✓✓



- 
- Higher levels of production and income and expenditure will be achieved ✓✓
 - If the supply of goods and services does not increase in line with increase in demand inflation will increase. This means that demand will be greater than supply ✓✓
 - Inflation can be curbed by reducing money supply and availability of credit ✓✓
 - To dampen the demand at the peak the government will be able to reduce money supply by increasing interest rates ✓✓
 - selling government bonds and securities (open market transactions) and reduce the supply of money in circulation ✓✓ increase the cash reserve requirements to manipulate money creation activities of banks ✓✓ persuade banks to decrease lending (moral suasion) ✓✓ and to devalue the exchange rate (exchange rate policy)
 - Fiscal policy When the level of economic activity changes the Minister of Finance can use expansionary and contractionary measures reduce fluctuation of such economic activities ✓✓
 - An expansionary fiscal policy can be implemented when the economy is in recession in order to stimulate economic activities ✓✓
 - An increase in government expenditure will increase aggregate demand
 - This serves as an injection into the economy as production will increase, more factors of production will be employed ✓✓
 - This will lead to higher income and higher expenditure ✓✓
 - Taxes can be reduced, which will lead to an increase in disposable income
 - This serves as an injection into the economy and eventually aggregate demand will increase ✓✓
 - When the economy grows too fast government can reduce its spending and increase taxes ✓✓
 - This will lead to a decrease in aggregate demand which will reduce production as fewer goods and services will be needed ✓✓

Demand-side policies:

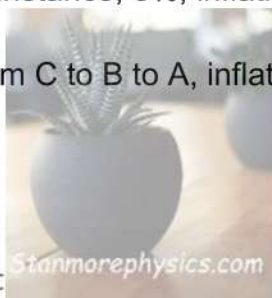
- Traditional monetary and fiscal policies focus on aggregate demand ✓✓
- A demand-side approach only – does not render ideal results, often growth has to be cut due to problems in inflation, balance of payments and shortages of skilled labour ✓✓
- Aggregate supply needs to be managed as well - focus on increased flexibility of supply components ✓✓
- If the costs of increasing production is completely flexible, a greater output can be supplied at any given price level ✓✓
- Supply-side policies governments can arrange things in the economy in a way that is cooperative to changes in demand. ✓✓

Inflation:

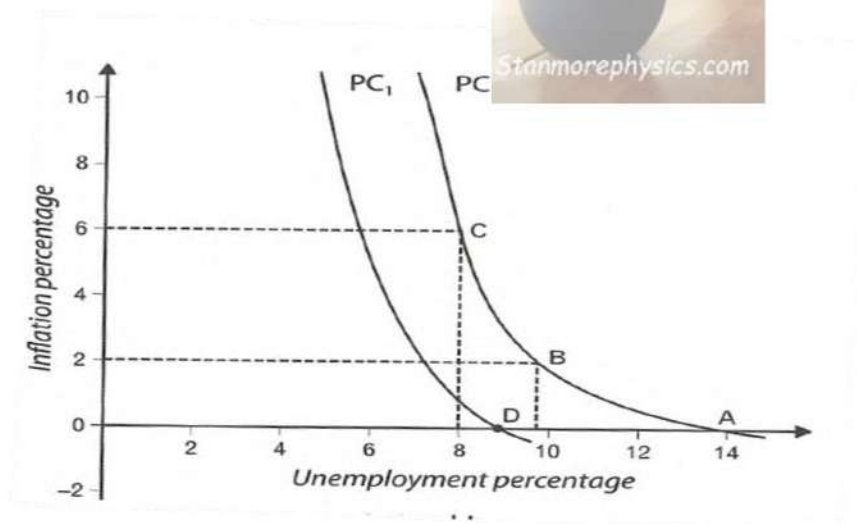
- ❖ Aggregate demand increases more quickly than aggregate supply and this causes price increases. ✓✓
- ❖ If the supply does not react to the increase in demand, prices will increase. ✓✓
- ❖ This will lead to inflation (a sustained and considerable increase in the general price level) ✓✓

Unemployment:

- ❖ Demand-side policies are effective in stimulating economic growth. ✓✓
- ❖ Economic growth can lead to an increase in demand for labour. ✓✓
- ❖ As a result more people will be employed and unemployment will decrease. ✓✓
- ❖ As unemployment decreases inflation is likely to increase. ✓✓
- ❖ This relationship between unemployment and inflation is illustrated in the Phillips curve. ✓✓
- ❖ The PC curve shows the initial situation. A is the point of intersection of the PC curve with the x-axis. It shows the natural rate of unemployment, for instance 14%. ✓✓
- ❖ At point A inflation rate is zero. ✓✓
- ❖ If unemployment falls to C for instance, 8%, inflation caused by wage increases is at 6%. ✓✓
- ❖ If unemployment increases from C to B to A, inflation falls from 6% to 2% to 0%. ✓✓




Phillips curve (PC)



Supply-side policies

Reduction of costs ✓

- Infrastructural services: reasonable charge and efficient transport, communication, water services and energy supply. ✓✓

- 
- Administrative costs: these costs include inspection, reports on applications of various laws, regulations and by-laws, tax returns and returns providing statistical information.
 - It adds to costs and businesses carry a heavy burden ✓✓
 - Cash incentives: it includes subsidies for businesses to locate in neglected areas where unemployment is high and compensation to exporters for certain costs they incur in development of export markets. ✓✓

Improving the efficiency of inputs ✓

- Tax rates: low tax rates can serve as an incentive to workers. It will improve the productivity and output. ✓✓
- Capital consumption: replacing capital goods regularly creates opportunities for businesses to keep up with technological development and better outputs ✓✓
- Human resource development: to improve the quality of manpower by improving health care, education and training. ✓✓
- Free advisory service: these promote opportunities to export. ✓✓

Improving the efficiency of markets ✓

- Deregulation: removal of laws, regulations and by-laws and other forms of government controls makes the market free. ✓✓
- Competition: encourages the establishment of new businesses ✓✓
- Levelling the play field: private businesses cannot compete with public enterprises ✓✓

Answers must be in full sentences and well described with examples to be able to obtain 2 marks per fact.

Why is it impossible to achieve zero unemployment and low inflation rates in an economy?

- Demand side policies are effective in stimulating economic growth, it increases the demand for labour and this reduces unemployment. ✓✓
- But as unemployment falls, inflation starts to rise. ✓✓
- This is because aggregate demand increases, aggregate supply does not respond immediately and becomes sticky and fixed in the short term. ✓✓
- Real production increases, but so do prices – more inflation. ✓✓
- It has become a normal phenomenon for countries to choose how much unemployment they would like to trade-off for inflation. ✓✓
- This phenomenon is illustrated by the Phillips curve. ✓✓

CONCLUSION



It remains critical that business cycles must be clearly monitored through the indicators available, policy makers must act quickly by using monetary and fiscal instruments in order to prevent instability in the economy

(Accept any other relevant conclusion)

Question 2

- Discuss in detail the features of underpinning forecasting. (26 marks)
- Explain the effect of demand-side policies on South Africa economy (10 marks)

INTRODUCTION

Accurate prediction is not possible in Economics. The best the economists can do is to try and forecast what might happen. There are a number of techniques available to help economists to forecast business cycles, e.g. economic indicators ✓✓OR

Successive periods of contraction and expansion of economic activities ✓✓

(Accept any other relevant introduction)

(2)

BODY: MAIN PART

Business cycle indicators

Leading economic indicators ✓

- These are indicators that change before the economy changes / coincide with the reference turning point ✓✓
- They give consumers, business leaders and policy makers a glimpse (advance warnings) of where the economy might be heading. ✓✓
- Peak before a peak in aggregate economic activity is reached.
- 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/an upswing ✓✓
- E.g. job advertising space/inventory/sales ratio ✓

Coincident economic indicators ✓

- They move at the same time as the economy / if the turning point of a specific time series variable coincides with the reference turning point ✓✓
- It indicates the actual state of the economy ✓✓
- E.g. value of retail sales. ✓



- If the business cycle reaches a peak and then begins to decline, the value of retail sales will reach a peak and then begin to decline at same time ✓✓

Lagging economic indicators ✓

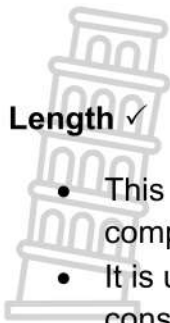
- They do not change direction until after the business cycle has changed its direction ✓✓
- They serve to confirm the behaviour of co-incident indicators ✓✓
- E.g. the value of wholesalers' sales of machinery ✓
- If the business cycle reaches a peak and begins to decline, we are able to predict the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

Composite indicator ✓

- It is a summary of the various indicators of the same type into a single value ✓✓
- Their values are consolidated into a single value , if this is done, we find a value of a composite leading , coincident and lagging indicator ✓✓

Accept ONE example from the table below:

LEADING INDICATORS	CO-INCIDENT INDICATORS	LAGGING INDICATORS
<ul style="list-style-type: none"> • Net new companies registered • Number of new vehicles sold • Net gold and other foreign reserves • Number of residential building plans passed • Share prices • Real export of goods (gold excluded) • Gross operating surplus as % of GDP • Labour productivity in manufacturing • Job advertisements in newspapers • Commodity prices in US \$ for a basket of SA export commodities • Opinion survey of the average hours of work per factory worker in the manufacturing sector • Opinion survey on stocks in relation to demand: manufacturing and trade • Opinion of business confidence of manufacturing, construction and trade • Opinion survey of volume of orders in manufacturing 	<ul style="list-style-type: none"> • Registered unemployed • Physical volume of manufacturing production • Real retail sales • Real merchandise imports • Utilization of capacity in manufacturing • Gross value added at constant prices excluding agriculture, forestry and fishing • Industrial production index • Value of wholesale, retail and new vehicle sales at constant prices • Total formal non-agricultural employment 	<ul style="list-style-type: none"> • Employment in non-agricultural sectors. • Hours worked in construction • Cement sales in tons • Number of commercial vehicles sold • Real investment in machinery and equipment • Unit labour cost in manufacturing • Wholesale sales of metals, machinery and equipment • Prime overdraft rate of banks • Value of non-residential buildings completed at constant price



Length ✓

- This is the time that it takes for a business cycle to move through one complete cycle (measured from peak to peak) ✓✓
- It is useful to know the length because the length tends to remain relatively constant over time. ✓✓
- If a business cycle has the length of 10 years it can be predicted that 10 years will pass between successive peaks or troughs in the economy. ✓✓
- Longer cycles show strength. ✓✓
- Cycles can overshoot. ✓✓

Ways to measure lengths:

- Crisis to crisis ✓✓
- Historical records ✓✓
- Consensus on businesses experience ✓✓

Amplitude ✓

- It is the difference between the total output between a peak and a trough. ✓✓
- It measures the distance of the oscillation of a variable from the trend line / It is the intensity (height) of the upswing and downswing (contraction and expansion) in economic activity ✓✓
- A large amplitude during an upswing indicates strong underlying forces – which result in longer cycles ✓✓
- The larger the amplitude the more extreme the changes that may occur / extent of change ✓✓
- E.g. During the upswing inflation may increase from 5% to 10%. (100% increase) ✓✓



Trend ✓

- A trend is the movement of the economy in a general direction. ✓✓
- It usually has a positive slope because the production capacity of the economy increases over time ✓✓
- Also known as the long-term growth potential of the economy. ✓✓
- The diagram above illustrates an economy which is growing – thus an upward trend (positive slope) ✓✓
- Trends are useful because they indicate the general direction in which the economy is moving – it indicates the rate of increase or decrease in the level of output ✓✓

Extrapolation ✓

- Forecasters use past data e.g. trends and by assuming that this trend will continue, they make predictions about the future ✓✓



- Means to estimate something unknown from facts or information that are known ✓✓
- 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 months that follow ✓✓
- It is also used to make economic predictions in other settings e.g. prediction of future share prices ✓✓

Moving average ✓

- It is a statistical analytical tool that is used to analyse the changes that occur in a series of data over a certain period of time / repeatedly calculating a series of different average values along a time series to produce a smooth curve ✓✓
- The moving average could be calculated for the past three months in order to smooth out any minor fluctuations ✓✓
- It is calculated to iron out (minimize) small fluctuations and reveal long-term trends in the business cycle ✓✓

Answers must be in full sentences and well described with examples to be able to obtain 2 marks per fact.

Learners should be awarded 1 mark per 8 headings and examples. (8 x 1) (8)

(Max 26)

Additional part

- Demand-side policies might also focus on reducing the cost for businesses of employing extra labour ✓✓
- Monetary policy involves the country's central bank controlling the interest rate and money supply. Monetary policy affects Aggregate Demand (AD). An expansionary monetary policy increases Aggregate Demand, while a contractionary monetary policy decreases AD. ✓✓
- Open market operations that remove reserves from the banking system will require that these banks reduce lending activity and allowing competition for fewer available loans to push interest rates upward. ✓✓ Higher interest rates will always make certain investment projects unprofitable thus leading to the abandonment of these projects. ✓✓

Conclusion

TOPIC 3 : PUBLIC SECTOR

QUESTION 1

Discuss in detail the main objectives of the public sector in the economy.

How can the government reduce public sector failure more efficiently?

INTRODUCTION

The state is a body that governs and regulates the functioning of its economy and also plays a paternal role in providing its economy with its basic and important needs. ✓✓ (Max. 2)

BODY:

MAIN PART

1. Full employment ✓

- Full employment is a condition where all people who are looking for a job, can find it. ✓✓
- Government is always trying to attain high levels of employment in the country. ✓✓
- The current rate of unemployment is estimated at 27.6%. ✓✓
- Employment increases due to the contribution of the informal sector. ✓✓
- The rate of unemployment has unfortunately increased in South Africa over the years. ✓✓
- The GEAR strategy was implemented by the government with the purpose to create a climate conducive to employment creation mainly by the private sector, ✓✓

2. Economic growth ✓

- Economic growth is referred to as an increase in the production of goods and services produced by the country in a specified period. ✓✓
- Economic growth is measured in real GDP. ✓✓
- For economic growth to occur, economic growth rate must be higher than population growth rate. ✓✓
- Economic growth if used for the purposes of development, improves the economic welfare of the country's inhabitants. ✓✓

3. Price stability ✓

- The SARB has implemented a policy of keeping inflation within the targeting rate of 3-6%. ✓✓
- Market economies produce better results in terms of growth and development if the inflation rate is stable. ✓✓
- Interest rates are the main instrument used to stabilise prices. ✓✓
- The stable budget deficit also has a stabilising effect on the rate of inflation. ✓✓

4. Economic equity ✓

- Redistribution of income and wealth is essential in the market economies. ✓✓
 - The South African government uses the progressive tax system to redistribute income. ✓✓
 - Taxes on profits, progressive income tax and tax on wealth are taxes used to finance free public services and social security grants. ✓✓
5. Exchange rate stability ✓
- The government manages the economy through effective fiscal and monetary policies to stabilise the country's exchange rate. ✓✓
 - Depreciation and appreciation of the currency could create uncertainties for the currency and should be limited. ✓✓
 - The South African government uses the free-floating exchange rate system. ✓✓
- (Max. 26)

ADDITIONAL PART

How can the government reduce public sector failure more efficiently?

The government could reduce public sector failure by:

- Providing leadership and training to management and employees. ✓✓
 - Recognising employee worker performance through incentives, ✓✓ e.g. reward on excellent service. ✓
 - Eliminating corruption through regular monitoring, ✓✓ e.g. auditing. ✓
 - Administering flexible business processes to accommodate individual differences. ✓✓
 - Employing different strategies to ensure service delivery, ✓✓ e.g. set targets, turn-around time. ✓
- (Accept any relevant and correct answer) (Max. 10)

CONCLUSION

It is very important that the state improves its functioning from time to time to avoid the economy's instability so as to bring about desired development. ✓✓

(Accept any other relevant conclusion) (Max. 2)



QUESTION 2

- Discuss in detail the reason(s) for public sector failure (link them to typical problems experienced through public sector provisioning) (26marks)
- How can the South African municipalities improve efficiency in service delivery? (10marks)

Introduction

- Occurs when a government intervention fails to meet the desired outcome making the existing economic situation worse

MAIN BODY

Management failure.

- Since the assessing of needs is difficult therefore the state might oversupply some goods and undersupply some goods. ✓✓
- In this way the management was not able to satisfy the needs of the consumers and there will be wastages leading to the public sector failure. ✓✓
- People working in parastatals might lack management skills and might end up implementing wrong policies that may cause the public sector to fail. ✓✓
- If the management cannot explain the decisions that they took and explain how they spend the money they have been allocated then they are not accountable and this may be a result of corruption, corruption results in inefficiencies that lead to fail in public sector. ✓✓

Apathy.

- The government servants do not provide an efficient service to the public as a result of corruption. ✓✓
- Corruption and poor service delivery are signs of apathy and may results as a cause of poor accountability. ✓✓
- Parastatal employees lack the interest or concern because they know they will get paid even when they are underperforming. ✓✓

Bureaucracy.

- Complex rules and procedures might lead to inefficiencies in the public sector and the public sector might fail to provide the goods and services in time for the consumers. ✓✓
- For example if there is an electricity fault at some house the state company Eskom will send their workers to fix the fault and the workers will only fix that fault because they were told to fix that only even if there is a fault in the neighbouring house, they won't fix it but they will need that fault to be reported so they can come fix it. ✓✓

- This simply means that the parastatals cannot satisfy the needs of consumers in time because of the rules and procedures that have to be followed that may take time to finish following them. ✓✓

Lack of motivation.

- Nationalizing companies may demotivate workers to work hard as their hard work would not be recognized leading to the workers being efficient. ✓✓

Politicians.

- Lack of accountability by politicians may be a result of corruption and this may lead to them not fulfilling the promises they made to individuals when they were running their campaigns. ✓✓
- As the politicians are not accountable for their actions then resources may not be allocated fairly because of corruption. ✓✓

Structural weaknesses.

- Incompetency of workers may lead to the workers not being able to provide efficient services to the public. ✓✓
- Nationalization of companies that provide a different good that the state provides may make it difficult for the state to be able to provide that good. ✓✓

Special interest groups.

- Special interest groups can be viewed as using their political power to raise demand for public services, as well as using their bargaining power to fight for higher wages ✓✓
- Special interest groups' political power leads to more government spending which strain the government expenditure for the fiscal year ✓✓
- huge strike caused by special interest groups such as South African taxi association decreases production of the economy since people will not be having alternative transportation to work ✓✓

ADDITIONAL PART

Municipalities can improve efficiency in service delivery by

- Appointing qualified staff with enough experience as top managers ✓✓
 - Training employees continually to equip them with relevant skills to handle the demand of their job
 - Eliminate corruption by criminally charging and prosecuting those who are found to be involved in it
 - Holding employees accountable for their poor job performance, as a way to ensure that every official take their jobs seriously ✓✓
 - Rewarding employees who perform above expectations rewarded accordingly to encourage them even more ✓✓
 - Improving revenue collection by ensuring the clients pay for the services they consume ✓✓
- (Accept any other correct relevant response)

(Max 10)

CONCLUSION

If the above problems are not dealt with timeously by government, government will continue to fail its people in terms of service delivery, seeing many protests occurring regularly.

TOPIC 4 : THE FOREIGN EXCHANGE MARKETS

QUESTION 1

- Discuss in detail the supply reasons for international trade (26 marks)
- How effective is international trade in the world of the economy? (10 marks)

[40]

INTRODUCTION

- International trade is the exchange of goods and services across many countries ✓✓

(Accept any other relevant definition)

BODY: MAIN PART

Natural resources ✓

- These resources are not evenly distributed across all countries of the world. ✓✓
- They vary from one country to another and can only be exploited in places where the resources exist. ✓✓
- South Africa is well equipped with different natural resources, but less resourced with skilled labour and capital. ✓✓
- An example is Japan and Ireland, which have an abundance of skilled labour, but they lack natural resources. ✓✓

Labour resources ✓

- Labour differs between different countries in terms of skills, knowledge, training, quality, quantity and also cost. ✓✓
- Some countries have highly skilled, well-paid workers, and high productivity levels, such as Switzerland. ✓✓

The availability of capital ✓

- In some countries they need to modernize their industries and economies with advanced machinery, equipment (plants), but cannot manufacture this equipment, because they lack the capital to do so. ✓✓
- This factor has therefore increased the need for international trade. ✓✓

Lack of entrepreneurship ✓

- Those countries that have good entrepreneurial skills offer more goods and services for trade. ✓✓
- Efficiency determines the supply of goods and services produced at lower prices and also reduces the opportunity cost of acquiring them. ✓✓

Climatic conditions ✓

- These countries make it possible for others to produce certain goods at a lower price than other countries. ✓✓
- An example is Brazil, which is the largest producer of coffee. ✓
- Countries have different climatic conditions and are therefore able to produce different products. ✓✓

Technological resources ✓

- The developmental levels and innovation processes of countries will always differ and as a result other countries may have them in abundance, while others may not. ✓✓
- Countries such as Germany and the USA are able to use capital which embodies high levels of technology, while other countries do not have access to the latest technology, such as basic internet services and healthcare. ✓✓
- Those countries that have high technological labour forces are able to produce certain goods and services at a low unit cost, such as the developed countries. ✓✓

Specialisation ✓

- The production of certain goods and services allows some countries to produce them at a lower cost than other producers. ✓✓
- Japan produces electronic goods and sells these at a much lower price.
- International trade enables countries to specialize in the production of goods and services in which they have a comparative advantage above others. ✓✓
- Most of these surplus production gets exported to other countries and the revenue earned from these exports can be used to finance their imports. ✓✓

(Accept any other correct and relevant response)

ADDITIONAL PART

International trade is effective because it:

- Brings specialisation which increases the standard of living, especially when the area of specialisation is in great demand due to a shortage of supply ✓✓
- Leads to mass production which becomes possible if the domestic demand is added to foreign demand, ✓✓ e.g. manufacturing of cell phones ✓
- Results in efficiency which increases when there is competition ✓✓
- Lowers prices meaning that the same income can buy more goods and services ✓✓
- Makes globalisation possible, especially trade in IT products and vehicles (cars and trucks) ✓✓

Negative

- International trade reduces the price of consumption goods, creating welfare gains for consumers in importing countries ✓✓
- Households with skilled labour may experience smaller welfare gains in developing countries ✓✓
- International trade reduces real wages in certain sectors leading to a loss of wage income for a segment of the population ✓✓



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

CONCLUSION

- Trade opens new markets for foreign producers, encouraging them to produce more, which raises the supply. The lower prices of these products, meanwhile, fuel increased demand among consumers. ✓✓

(Accept any other relevant higher order conclusion) (Max 2) [40]

QUESTION 2

- **Discuss in detail the demand reasons for international trade.** (26 marks)
- **Examine the impact of mass production on international trade.** (10 marks)

INTRODUCTION

- International trade is the exchange of goods and services between countries. Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries, or which would be more expensive domestically. ✓✓

(Accept any other correct relevant introduction)

BODY: MAIN PART

The size of the population impacts demand. ✓

- If there is an increase in population growth, it causes an increase in demand, as more people's needs must be satisfied. ✓✓
- Local suppliers may not be able to satisfy this demand. ✓✓

The population's income levels effect demand. ✓

- Changes in income cause a change in the demand for goods and services. ✓✓
- 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. ✓✓
- **An increase in the wealth of the population leads to greater demand for goods.** ✓✓ People have access to loans and can spend more on luxury goods, many of which are produced in other countries. ✓✓

Preferences and tastes ✓

- Preferences and tastes can play a part in the determining of prices, ✓✓ e.g. customers in Australia have a preference for a specific product which they do not produce and need to import, and it will have a higher value than in other countries. ✓✓

Consumption patterns ✓

- The difference in consumption patterns is determined by the level of economic development in the country, ✓✓
- e.g. a poorly developed country will have a high demand for basic goods and services but a lower demand for luxury goods. ✓✓

The level of economic development and income/technical level

- The consumption patterns of developed countries will differ from those of developing countries. ✓✓
- The need for basic necessities, such as food in developing countries may result in more needed goods being imported. (demand for technical items) ✓✓

International migration: ✓

- Different cultures, religions and lifestyles of immigrants will result in certain goods and services being important. ✓✓
- South Africa is a multi-cultural country, demanding various traditional food, clothes, etc. ✓✓

The cost of production: ✓

- A country could produce goods at the lowest possible cost. ✓✓
- Local consumers will demand goods from other countries at a lower price. ✓✓

(Max 26)

ADDITIONAL PART

- An increase in production as a result of mass production would lead to an increase in the supply of goods and services on foreign market. ✓✓
- There will be an increase in exports that lead to an inflow of foreign exchange. ✓✓
- The value of rand appreciate. ✓✓
- Mass production create more job opportunities. ✓✓
- Increase in demand for foreign goods that may facilitate international trade. ✓✓
- that leads to an access to greater variety of goods and services. ✓✓
- Manufacturing products require large-scale production in order to be affordable and profitable. ✓✓

(Max 10)

(Accept any other correct relevant response)

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CONCLUSION

- Countries that are more open to international trade tend to grow faster, innovate, enhance productivity, and give their citizens with higher income and more opportunities. Integrating into the global economy through international trade and global value chains contributes to local and global economic growth and poverty reduction. ✓✓

(Max 2)

(Accept any other correct relevant higher order conclusion)

TOPIC 5: PERFECT MARKETS

Question 1

- Examine, with the aid of THREE separate graphs, the following short-run equilibrium positions in a perfect market:

- Economic profit (10 marks)

- Economic loss (8 marks)

- Normal profit (8 marks)

(26 marks)

- Why would a perfect competitor be forced to shut-down the business at a certain point? (10 marks) [40]

INTRODUCTION

There are several profit or loss possibilities for a perfect competition in the short run.

(Accept other correct and relevant introduction)

(2)

BODY: MAIN PART

Short run equilibrium positions of a perfect competitor:

Economic profit ✓

- Economic profit refers to profit that is made in addition to normal profit. ✓✓
- It takes place when average revenue (AR) is greater than average cost (AC) the firm makes an economic profit. ✓✓
- Profit is maximized at point E3, where $MR = MC$ at quantity of Q_3 and market price of P_3 . ✓✓
- Economic profit attracts other businesses to enter the market. ✓✓
- Economic profit is represented by the shaded area. ✓✓

Labelling of the axes = 1 mark

Labelling on the axes = 1 mark

Correct position of AC = 1 mark

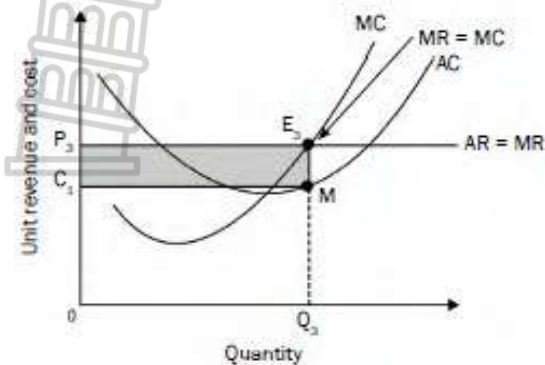
Correct position of MC = 1 mark

Correct position of MR/AR = 1 mark

Max.4

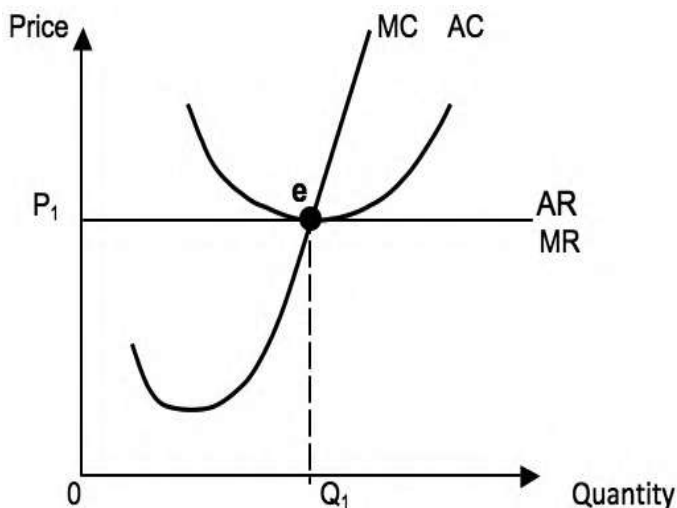
(Accept other correct relevant response)

Max.4



(10)

Normal profit ✓



- Labelling of the axis = 1 mark
- Labelling on the axis = 1 mark
- Profit maximisation point = 1 mark
- Correct position of AC = 1 mark
- Correct position of MC = 1 mark
- Correct position of MR/AR = 1 mark

Max. 4 marks

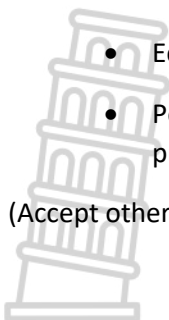
- Normal profit occurs when $AC = AR$ ✓✓
- It is the amount that the business must make in order to keep its doors open. ✓✓
- It is the minimum earnings required to prevent an entrepreneur from leaving the industry. ✓✓
- Once all costs such as the running costs and fixed costs are covered the business can keep its doors open. ✓✓
- Profit is maximized at point e, where $MR = MC$ at quantity of Q_1 and market price of P_1 . ✓✓

(Accept other correct relevant response)

Max. 4 (8)

Economic loss

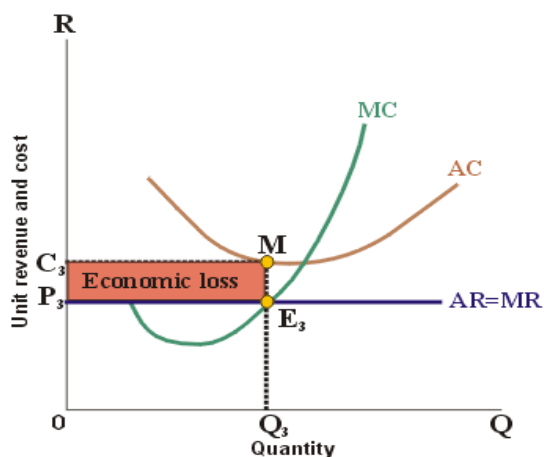
- Economic loss takes place when total costs are greater than total revenue ($TC > TR$)/When average revenue is lower than average cost the firm makes an economic loss ($AR < AC$) ✓✓



- Economic loss is a signal to exit/leave the market. ✓✓
- Point E3 represent loss minimization point where $MR = MC$ at quantity of Q_3 and market price of P_3 . ✓✓

(Accept other correct relevant response)

Max.4



(8)

- Labelling of the axis = 1 mark
 - Labelling on the axis = 1 mark
 - Profit maximisation point = 1 mark
 - Shaded area (economic loss) = 1 mark
 - Correct position of AC = 1 mark
 - Correct position of MC = 1 mark
 - Correct position of MR/AR = 1 mark
- Max. 4 marks**

BODY: ADDITIONAL PART



TYPICAL EXAM QUESTION: THESE HIGHER ORDER QUESTIONS REQUIRE THE LEARNERS TO USE HER/ HIS CRITICAL THINKING SKILLS.

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THE ADDITIONAL PART CHANGES ON EACH AND EVERY EXAMINATION OR TEST

Why would a perfect competitor be forced to shut-down the business at a certain point?

- A perfect competitor will shut down if it cannot meet its average or total variable costs. ✓✓
- When $AR < AVC$ or $P < AVC$ the business will be forced to shut down. ✓✓
- The shut-down point is the point where MC intersects with AVC at its lowest point ✓✓
- A firm will sell goods if the price is above the shutdown price level. ✓✓

- Below the shut-down point, a firm will not be able to supply and sell its products. ✓✓
- Producing a lower output would only add to the financial losses, so a complete shutdown is required. ✓✓
- If a firm decreased production, it would still acquire variable costs not covered by revenue as well as fixed costs (costs inevitably incurred). ✓✓
- By stopping production, the firm only loses the fixed costs. ✓✓

(Accept other correct relevant response)

(10)

CONCLUSION

Whether a business makes a profit or loss depends on the location of the average cost curve (AC) in relation to the market price when the business is in equilibrium. ✓✓

(Accept the correct relevant conclusion of a higher cognitive level).

(2) [40]



TOPIC 6: IMPERFECT MARKETS: MONOPOLY

Question 1

- With the aid of graphs, discuss how economic profit and loss are determined in a monopoly market (26 marks)
- Why does the performance of natural monopolies contradict (deny) the long-run equilibrium position of a monopoly? (10 marks) [40]

INTRODUCTION

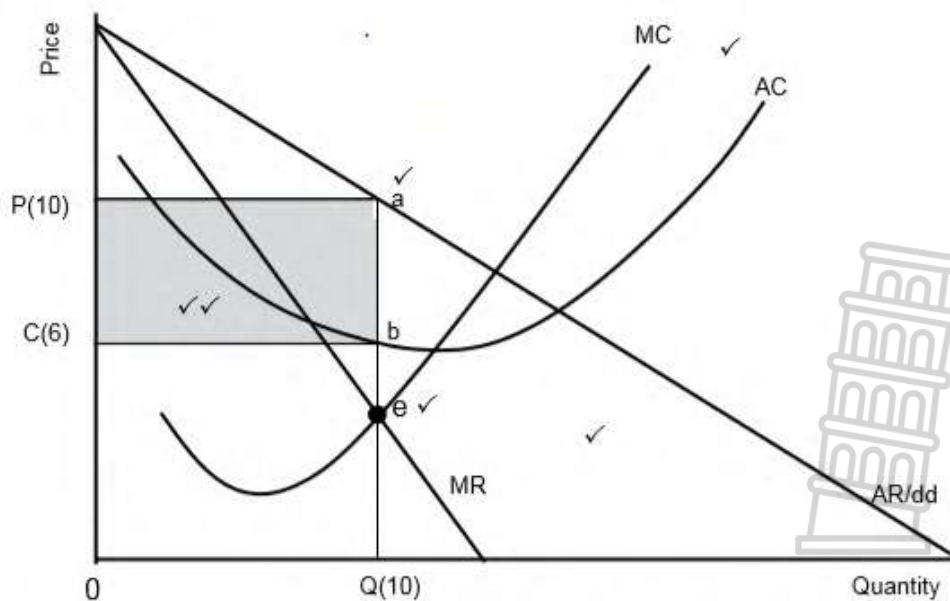
A monopoly is a market structure where only one seller operates. Entry is blocked and the product has no close substitutes

(Accept any other relevant introduction)

Max (2)

BODY: MAIN PART

Economic profits



Mark allocation
 Correct positioning and labelling of cost curves = 1 mark
 Correct positioning and labelling of revenue curves = 1 mark
 Correct indication of profit maximising point = 1 mark
 Correct indication of market price = 1 mark
 Correct indication of economic profit = 2 marks
Max 6 marks

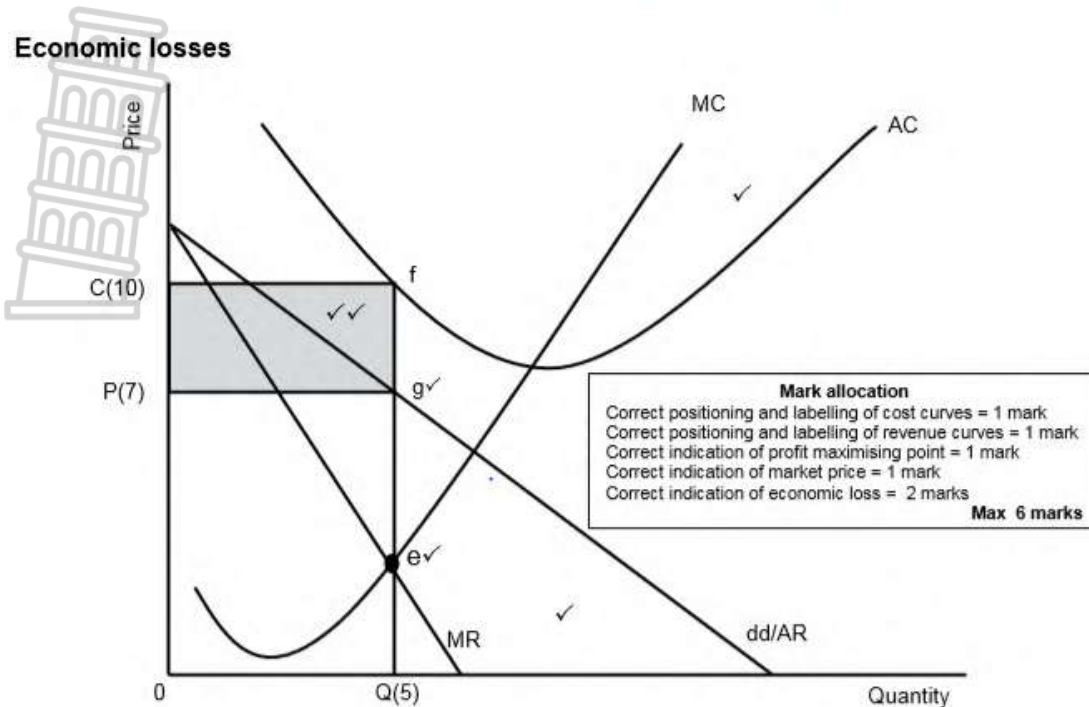
- Monopoly is subject to same technological and cost constraints as other market structures vV
- The cost structure of the monopoly is the same than that of competitive businesses where the monopolist will try to maximize both short and long-term profit vV
- Location of SAC in relation to market price determines profit or loss vV
 - The MR curve lies below the AR curve, halfway between the AR and the origin vV
 - The MC curve intersects the AC curve at its minimum point vV
 - Determine point where $SMC = MR$ – point where production cost of last unit is equal to revenue it earns (point e) – profit-maximising production quantity of Q on horizontal axis vV
 - The monopolist will produce at the output (Q[10]) where $MR=MC$, because it can maximise profit at this level vV
 - Point a represents the average revenue at selling price (P[10]) while point b represents the average cost at the cost price (C[6]) vV
 - When the average revenue is more than the average cost, it results in an economic profit for the business / When the TR is more than TC it will result in an economic profit for the business vV
 - The monopoly makes economic profit when AC curve is below market price (ARvV
 - The monopoly blocks new entries so that competing businesses cannot reduce short run economic profit
 - Total income = Price x Quantity = $OP(10) \times OQ(10) = OPaQ (100)$ vV

Total cost = Cost x Quantity = $Oc(6) \times OQ(10) = OCbQ (60)$

Economics profit = Income – Cost = $100 - 60 = CPab (40)$ vV

(Max 10)





- The minimum point of SAC is higher than market price ✓✓
- A monopoly makes an economic loss when its revenue is less than its costs ✓✓
- The monopoly will produce at the output level where $MR=MC$, because it can minimise losses at this level ✓✓
- Point g represents the average revenue at selling price (P[7]) while point f represents the average cost at the cost price (C[10]) ✓✓
- The average cost is more than the average revenue, resulting in an economic loss for the business / When the TC is more than TR it will result in an economic loss for the business ✓✓
- The shaded area PCef shows the economic loss ✓✓
- The monopoly suffers an economic loss in the short run when the AC curve is above the market price (g) ✓✓
- Total income = Price x Quantity

$$= OP(7) \times OQ(5)$$

$$= OPgQ (35)$$

Total cost = Cost x Quantity

$$= OC(10) \times OQ(5) = OCfQ (50) \checkmark\checkmark$$

Economic loss = (PCfg)15 ✓✓

(Max 10) (Max

26)



ADDITIONAL PART

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THE ADDITIONAL PART CHANGES ON EACH AND EVERY EXAMINATION OR TEST

Why does the performance of natural monopolies contradict the long-run equilibrium position of a monopoly? (10 marks)

Natural monopolies' performances are not always in line with the long-run equilibrium position of a monopoly because:

- compared to a typical monopoly where economic profit always prevails over the long run, natural monopolies do not enjoy the benefits experienced by other monopolies
 - natural monopolies require high development cost which prevent others from entering the market ✓✓
 - natural monopolies supply goods and services to the nation as a whole and therefore it is difficult to set very high prices ✓✓
 - Eskom is subjected to the National Energy Regulator in South Africa (NERSA) that determines the selling price of electricity in South Africa ✓✓
 - a natural monopoly has experienced high maintenance cost compared to artificial monopolies, that compromises profits ✓✓
 - natural monopolies cannot manipulate its quantities to increase prices ✓✓
 - revenue seems to be less than cost due to corruption, non-payment by a large number of electricity users ✓✓
 - under normal circumstances, a monopoly will shut down if average cost exceeds average revenue in the long run, but natural monopolies like SAA are often bailed out by the government due to its strategic position in the country ✓✓
 - the internal (private cost) structure of natural monopolies have increased, but the private benefits (revenue of sales) stagnated due to poor maintenance of infrastructure ✓✓

(Accept any other correct relevant response)

(Max 10)

CONCLUSION

The monopoly can continue to earn economic profit for as long as the demand for its product continues and its production costs stay the same ✓✓

(Accept any other higher order conclusion)

Max (2)

TOPIC 6: IMPERFECT MARKETS - OLIGOPOLY

- Discuss in detail, with an aid of graph, the kinked demand curve of an oligopoly (26 marks)
- Why may firms in an oligopoly market be reluctant to deviate from the market price? (10 marks)

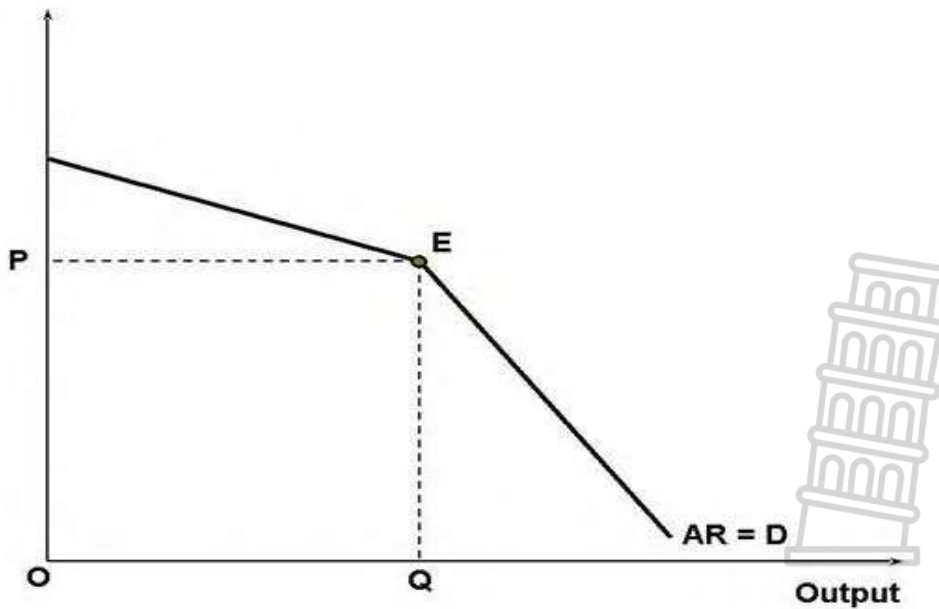
Introduction

Oligopoly is a market structure characterized by a small number of large firms that sell a homogeneous or differentiated product. ✓✓

(Accept any other relevant introduction.)

(Max 2 marks)

Main part



max for graph 6



Labelling of Y and X axis =2

Kink/E=1

Correct shape = 1

Segments indicated = elastic =1. inelastic =1

- The demand curve for an oligopolist is not in straight line but has a different elasticity for higher and lower prices. ✓✓
- The prices are rigid, and the firms will face different effects for the increasing or decreasing prices. ✓✓
- The kink occurs because rival firms will behave differently to price cuts and price increases. ✓✓
- If the oligopolist increases its price above the equilibrium price, it is assumed that the other oligopolists in the market will not follow with price increases of their own. ✓✓
- If a firm increases its price, it will cause a decrease in market share as the customers will move to buy the products of their rivals. ✓✓
- This means that an increase in the level of prices will cause a decrease in demand. ✓✓
- On the other hand, if a firm decreases its price, it will experience an increase in the level of revenue due to increase in demand market share. ✓✓
- When other firms notice a decrease in their market share, they will reduce their prices too to attract more customers. ✓✓
- This increase and decrease in prices lead to price wars. ✓✓
- Finally, there will be only a small percentage increase in the level of revenue experienced by a firm. ✓✓ Examples of oligopoly firms are the firms that deal with car manufacturing. ✓
- The oligopolist faces a kinked-demand curve because of competition from other oligopolists in the market. ✓✓
- There is a kink in the demand curve because there are two demand curves: one that is inelastic and one that is elastic. ✓✓
- The kink occurs when both demand curves intersect each other. ✓✓
- If the oligopolist increases its price above the equilibrium price P, it is assumed that the other oligopolists in the market will not follow with price increases of their own. ✓✓

Additional part



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THE ADDITIONAL PART CHANGES ON EACH AND EVERY EXAMINATION OR TEST

- When an oligopoly firm lowers its price so as to increase its quantity demanded and, thus, the market share, other firms in the market follow the price cuts in the fear of losing their market share to the rival firm. ✓✓
- As such, the initial price-cutting firm does not experience a large change in quantity demanded, implying that the demand curve for lower prices is relatively inelastic. ✓✓
- On the other hand, when the firm increases its price, the rival firms do not follow the same since their price now becomes relatively less, causing a decline in the market share of the initial firm. ✓✓
- As such, the firm following a price increase experiences a significant decline in quantity demanded, suggesting that the demand curve is elastic for the higher prices. ✓✓
- This, in turn, concludes that the firm would always charge a price corresponding to the kink on its demand curve. ✓✓
- This is because a lower price does not increase the quantity demanded, while a higher price results in lost market share. Therefore, prices in the oligopoly market remain stable. ✓✓

Conclusion




Question 2

- Examine in detail the characteristics of the oligopoly as a market structure. (26 marks)
- Evaluate the role of non-price competition in the petrol industry. (10 marks)

INTRODUCTION

Oligopoly is a market structure characterized by a small number of large firms that sell a homogeneous or differentiated product. ✓✓

(Accept any other relevant introduction.)

(Max 2 marks)

BODY**MAIN PART**

Number of sellers ✓

- The market is dominated by a few large firms. ✓✓
- A market that is dominated by only two firms is known as a duopoly. ✓✓

Nature of product ✓

- Firms sell a homogenous or differentiated product. ✓✓
- Real product differentiation means products differ in the components that make

them. ✓✓

- Imaginary differentiated-products differ in terms of quality of service and the environment in which they are sold. ✓✓

- When products are differentiated, the market is called a differentiated oligopoly.
- When the product is homogeneous it is called pure oligopoly. ✓✓

Entry and exit ✓

- Entry into the market is restricted, limited or difficult.
- Barriers to entry make it difficult to enter the market, ✓✓ e.g. economies of scale, advertising and sunk costs. ✓✓

Control over price ✓

- Oligopolies have considerable control over prices and enjoy huge economic profits. ✓✓

- Firms are price makers. ✓✓

Market information ✓

- Both buyers and sellers have incomplete market information. ✓✓
- Firms are uncertain about each other's behaviour and reactions. ✓✓

Collusion ✓

- Collusion is illegal, but often occurs in the oligopoly market structure. ✓✓
- Occurrences amongst firms to fix prices and limit output can happen. ✓✓

Collusion can take two forms:

Cartel (explicit collusion) ✓ – when collusion occurs openly and formally. ✓✓

- A cartel is an organisation of oligopolistic businesses that comes into existence in an industry with the aim of forming a collective monopoly. ✓✓

Price leadership (implicit collusion) ✓ – as it is difficult for businesses to openly agree on prices and quantities, price signals are often used. ✓✓

- For example, one firm might announce its intentions to increase prices in the hope that its rivals will see it as a sign (signal) to follow suit. ✓✓
- The biggest and dominant firm normally acts as a price leader and other firms may follow suit. ✓✓

Interdependence ✓

- There is mutual DEPENDENCE meaning each firm's decision must take into consideration the reactions of other firms. ✓✓
- Kinked demand curve ✓
- Oligopolies face a kinked demand curve that slopes downwards from left to right. ✓✓
- The upper segment of the demand curve is elastic, and the lower segment is inelastic. ✓✓
- An individual firm gains little from reducing prices and stands to lose from price increases. ✓✓

(Accept any other correct relevant explanations.)

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

(Max 26)

ADDITIONAL PART



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THE ADDITIONAL PART CHANGES ON EACH AND EVERY EXAMINATION OR TEST

- Product differentiation – products differ slightly in terms of additives and brand names / filling stations use different colour schemes and additional services such as eating places, etc. ✓✓
- Product recognition – brand names to emphasize any differences to draw clients.
- Advertising – use advertising on a large scale. Sponsoring big events, e.g. sports, wild life, etc. ✓✓
- Brand loyalty – free engine wash when filling at certain petrol stations ✓✓
- Product proliferation – selling a large variety of products to satisfy the multiple needs of consumers. e.g. take-aways, convenience stores ✓✓
- Extended services – filling stations / provide a variety of other services to the consumers, such as banks / extended working hours, after-sales services, etc. 24 hour services, repairs. ✓✓

(Accept any other relevant correct response.)

(Max 10)

CONCLUSION

Oligopolies do not have as much market power as a monopoly, but they are very influential in the market. It is not easy to predict the behaviour of oligopolists. Each firm behaves in consideration of others. ✓✓

(Accept any other correct relevant conclusion.)

(Max 2)

TOPIC 6: IMPERFECT MARKETS: COMPARE AND CONTRAST MARKET STRUCTURES

QUESTION 1

- Compare and contrast the structure of an oligopoly and a monopolistic competitive market.
- How can government assist markets to be more competitive?

Introduction

An oligopoly exists when a small number of large companies are able to influence the supply of a product or service to a market. Monopolistic competition is a combination of perfect and imperfect competition. It has to some extent the characteristics of both. ✓✓ (Accept any other correct relevant introduction) (Max 2)

BODY: MAIN PART

Compare and contrast the structure of an oligopoly and a monopolistic competitive market.

Number of businesses ✓

- Monopolistic Competitive markets have many sellers with small market share. ✓✓
- Only a few suppliers manufacture the same product in an oligopoly. ✓✓

Nature of product ✓

- Monopolistic competing firms' products are differentiated to gain a larger market share than its competitors. ✓✓
- In a oligopoly products are homogeneous or differentiated. ✓✓

Control over prices ✓

- Producers in oligopoly have considerable control over the price of their products although not as much as in a monopoly. ✓✓
- Businesses in a monopolistic competitive market have limited control over prices. ✓✓

Entrance / Entry ✓

- Producers in a monopolistic competitive market have no barriers to entry; new firms can enter the market. ✓✓
- Entry is not easy in an oligopolistic market. This is due to brand loyalty and it also requires a large capital outlay. ✓✓

Economic profit/loss ✓

- In the short run both market types can make economic profit, economic loss and normal profit. ✓✓

- If oligopolies operate as a cartel, firms have an absolute cost advantage over the rest of the competitors in the industry. Abnormal high profits may be a result of joint decisions in an oligopoly. ✓✓
- Only normal profits are possible in the long run for firms in a monopolistic competitive market. ✓✓

Information ✓

- In an oligopoly firms have incomplete information. ✓✓
- In a monopolistic competitive market incomplete information is available. ✓✓

Collusion ✓

- In an oligopoly producers make formal agreements between firms to collude. ✓✓
- This is called a cartel. A cartel is a group of producers whose goal is to form a collective monopoly in order to fix prices and limit supply and competition. ✓✓
- For a perfect competition, only secret communication between sellers is impossible. ✓✓
- In an oligopoly market, a dominant firm will increase the price of a product in the hope that its rivals will see this as a signal to do the same. ✓✓
- This is referred to as price leadership and is an example of a tacit collusion. ✓✓
- In monopolistic competition collusion is impossible due to many sellers. ✓✓

Decision making ✓

- An oligopoly is characterised by mutual dependence. The decision of one company will influence other businesses. ✓✓
- The decisions of producers in a monopolistic competitive market is influenced by other competitors. ✓✓

Demand curve ✓

- The demand curve of a monopolistic competitive firm is downward sloping but relatively elastic. ✓✓
- The demand curve of an oligopolist is downward sloping but kinked (relatively inelastic and elastic). ✓✓

Examples ✓

- An example of a monopolistic competitive firm is fast-food outlets. ✓✓
- An example of an oligopoly is OPEC. ✓✓

Technical efficiency ✓

- A monopolistic competitive market is close to being technically efficient possible. ✓✓
- Technical efficiency is possible for an oligopoly. ✓✓

Allocative efficiency✓

- An oligopoly is not allocatively efficient.✓✓
- A monopolistic competitive market is close to being allocation efficient.✓✓

(Allocate a maximum of 8 marks for mere listing of facts/examples)

(Max 26)

ADDITIONAL PART

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THE ADDITIONAL PART CHANGES ON EACH AND EVERY EXAMINATION OR TEST

- The government should use laws on competition to prevent exorbitant prices charged by firms.✓✓
- The government should ensure that entry to the market is free.✓✓
- The government should prevent harmful collusion and encourage foreign competition which helps keep prices of goods low.✓✓
- Government should introduce supply-side policies, with the focus on microeconomic components, e.g., competition and potential output.✓✓
- Government intervention should aim to facilitate the smooth operation of markets to stimulate growth and development.✓✓
- Taxes on business should be collected more efficiently, human resources should be supported to improve, and free advisory services should be made available so that business efficiency improves.✓✓
- Government should focus on lowering the cost of doing business by reducing transport, communication, and energy costs.✓✓

(Accept any other correct relevant higher order answer)

(5 x2) **(10)**

CONCLUSION

Most businesses operate in a monopolistic competitive market. Monopolistic competitive markets are more efficient than an oligopoly market.

Government should only intervene in imperfect market types like monopolistic market types with policies that make markets more competitive. ✓✓

(Accept any other correct relevant higher order conclusion) (Max 2)

Question 2

- **Compare, without graphs, the market structure of a monopolistic competition with that of a perfect market focussing on the following:**
 - **nature of the product** (8)
 - **market information** (8)
 - **price determination and demand curve** (8) (26 marks)
- **Evaluate the importance of the south African competition policy in the operation of marks.** (10 marks)

INTRODUCTION

- a market is an institution/mechanism that brings together the buyers and sellers of a good or service to negotiate about prices and quantities to be traded. ✓✓
- market structure refers to the way markets are organised.

(accept any other correct relevant response) max. (2)

MAIN PART

Nature of the product

perfect market:

- products sold are homogenous or identical ✓✓
- there is no difference in the products, they are exactly the same in terms of quality and appearance ✓✓
- it makes no difference to a buyer where or from whom to buy the product in a perfect market ✓✓

Monopolistic competition:

- products sold are differentiated ✓✓
- products may be similar but not identical as there may be differences in packaging and ingredients ✓✓

- the differentiation in products creates a scope for brand loyalty ✓✓

(accept any other correct relevant response) max. (8)

Market information

Perfect market:

- buyers and sellers have full knowledge of the market conditions ✓✓
- all buyers know what the specific characteristics of the good are, how much to pay, the quality and market opportunities ✓✓
- sellers know the preferences of consumers ✓✓

Monopolistic competition:

- market information is incomplete for both buyers and sellers ✓✓
- many brands, enormous variety of products, multiple outlets, diverse location and marginal differences in prices cause a lack of complete information for sellers and buyers ✓✓

(accept any other correct relevant response) max. (8)

Price determination and demand curve

Perfect market:

- a perfect competitor cannot determine its prices; it takes the price determined by the market ✓✓
- the price in the market is determined by the intersection of demand and supply, ✓✓ i.e. equilibrium price
- it is therefore a price taker – it takes the price as it is from the market and only changes when the market changes ✓✓
- since it can sell any quantity at the prevailing market price, then the demand curve is perfectly elastic or horizontal ✓✓
- the demand curve is also the price of the products ✓✓

Monopolistic competition:

- there is considerable control over the prices of goods and services ✓✓
- it can produce less and charge a higher price ✓✓
- demand curve is downward sloping (negative) moving from left to right ✓✓
- demand curve is relatively elastic and represents the average revenue ✓✓

(accept any other correct relevant response) max. 10

ADDITIONAL PART

TYPICAL EXAM QUESTION: THESE HIGHER ORDER QUESTIONS REQUIRE THE LEARNERS TO USE HER/ HIS CRITICAL THINKING SKILLS.

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THE ADDITIONAL PART CHANGES ON EACH AND EVERY EXAMINATION OR TEST

competition policy is important in:

- providing consumers with competitive prices and product choice ✓✓
- regulating markets and monopolies in the country thereby preventing monopoly growth ✓✓
- balancing the act of economic transformation that will benefit all South Africans through ownership, participation of SMMEs and employment ✓✓
- declaring practices such as resale price maintenance and horizontal collusion to be unlawful ✓✓
- forcing firms to compete vigorously in terms of prices and quality ✓✓
- fostering restructuring in sectors that have lost competitiveness ✓✓

(accept any other correct relevant response) (5 x 2)(10)

Conclusion

- perfect competition and monopolistic competition are relatively comparable as they have similar characteristics. ✓✓

(accept any other correct relevant higher order conclusion)

QUESTION 3

- **Compare the market structure of monopolistic competition with that of a perfect competitor. (26 marks)**

- Explain why the business will stop producing output at the shut-down point. (10 marks)

INTRODUCTION

- A market structure is a frame work of how a market is organized ✓✓
- Monopolistic is a market structure with many buyers and sellers where entry is relatively easy but the product is differentiated ✓✓
- Perfect competition is a market structure with many buyers and seller ✓✓

(Accept any other correct relevant introduction)

(Max. 2)

BODY

MAIN PART

	Perfect Competitor	Monopolistic Competition
Number of businesses	The number of seller is so large that individual participants are insignificant in relation to the market as a whole ✓✓, e.g. securities exchange or fresh produce market. ✓	A large number of sellers are active in the monopolistic competitive market ✓✓, e.g. producers of cleaning materials, toothpaste, soap, cold drinks, etc. ✓
Output	The demand curve for the perfect competitor is horizontal. ✓✓	The demand curve is downward sloping. ✓✓
Profit	The firm can realise economic profits in the short-term but only normal profit in the long term under conditions of perfect market. ✓✓	The firm can realise economic profit in the short-term as well as in the long term in the monopolistic competitive market. ✓✓
Marketing	There is no need for marketing strategy due to perfect market knowledge. ✓✓	Marketing strategy is applied in the monopolistic competitive market. ✓✓ Deliberate advertising campaign is launched to create brand loyalty. ✓✓
Nature of the product	Homogeneous e.g. maize ✓✓	Products are heterogeneous. E.g. they differ slightly in terms of

	Perfect Competitor	Monopolistic Competition
		appearance, shape, size and taste. ✓✓
Market knowledge	Both buyers and sellers have complete knowledge about prevailing market conditions. ✓✓ It is assumed that buyers and sellers instinctively know, e.g. quantities, price at which the product is sold. ✓✓	Market information is complete. The many brands, variety of products or marginal differences cause a lack of information for sellers and buyers. ✓✓
Entry	Entry is completely free, with no barriers ✓✓	Easy is free. There are no barriers such as licenses, or permits. ✓✓
(Accept any other relevant fact)		
(Maximum of 8 marks for mere listing of examples)		(Max. 26)

ADDITIONAL PART

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THE ADDITIONAL PART CHANGES ON EACH AND EVERY EXAMINATION OR TEST

- A firm will shut down if it cannot meet its average or total variable costs ✓✓
- The firm will not produce here because $AR < AVC$ ✓✓
- The firm will not keep on producing from the shut-down point down because the firm cannot meet its operational cost ✓✓
- Below the shut-down point, the firm will not sell any goods. ✓✓
- A firm will sell goods if the price is above the shutdown price level (supply curve) ✓✓

(Max. 10)

CONCLUSION

While perfect does not exist, it serves as a standard that imperfect markets such as monopolistic competition should strive to achieve. ✓✓

(Accept any other relevant conclusion)

(Max. 2)

[40]

Question 4

- **Compare perfect competition and monopolistic competition in detail in terms of the following.**
- **Number of businesses**
- **Nature of product**
- **Price setting and output**
- **Demand curves** (26 marks)
- **In contrast to the perfect competition, why do monopolistic competitors need to advertise their products?** (10 marks)

INTRODUCTION

Perfect competition is an imaginary situation, whereas monopolistic competition is a reality. ✓✓
(Max 2)

(Accept any other relevant introduction)

BODY: MAIN PART

1. Number of businesses:

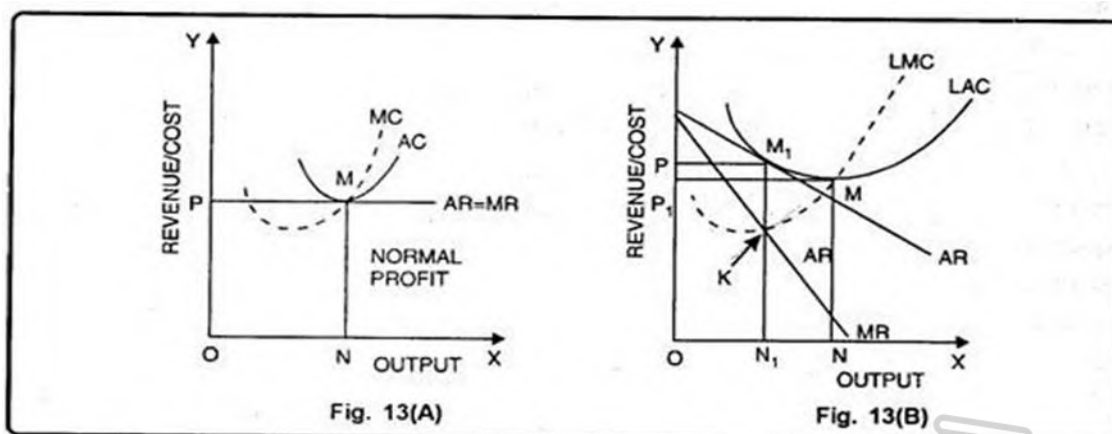
- Under perfect competition an industry consists of a large number of firms. ✓✓
- Each firm in the industry has a very little share in the total output. ✓✓
- On the other hand, under monopolistic competition the number of firms is limited. ✓✓

2. Nature of Product:

- Under perfect competition, firms produce homogeneous products. ✓✓
- The cross elasticity of demand among the goods is infinite. ✓✓
- Under monopolistic competition, all the firms produce differentiated products ✓✓
- and the cross elasticity of demand among them is very small. ✓✓

3. Price setting and output

- Under perfect competition, homogeneous goods are produced and are sold at uniform prices. ✓✓
- On the other side under monopolistic competition, all the firms produce differentiated products and different price settings are possible. ✓✓
- Under perfect competition price is equal to marginal cost as well as marginal revenue. ✓✓
- Under monopolistic competition marginal cost and marginal revenue are equal yet not equalizing the price. ✓✓
- Under monopolistic competition firms get super normal profits only in the short period. But, in the long run the existence of super-normal profits disappears. ✓✓
- It is so because in the long period price becomes equal to average cost of production. ✓✓
- Under monopolistic competition price is higher than price under perfect competition in long period because a perfect competition firm extends output up to the point where average cost is lowest ✓✓ □ i.e., there is optimum output in perfect competition. ✓
- However, in monopolistic competition firm stops the production before it has attained the optimum output. ✓✓

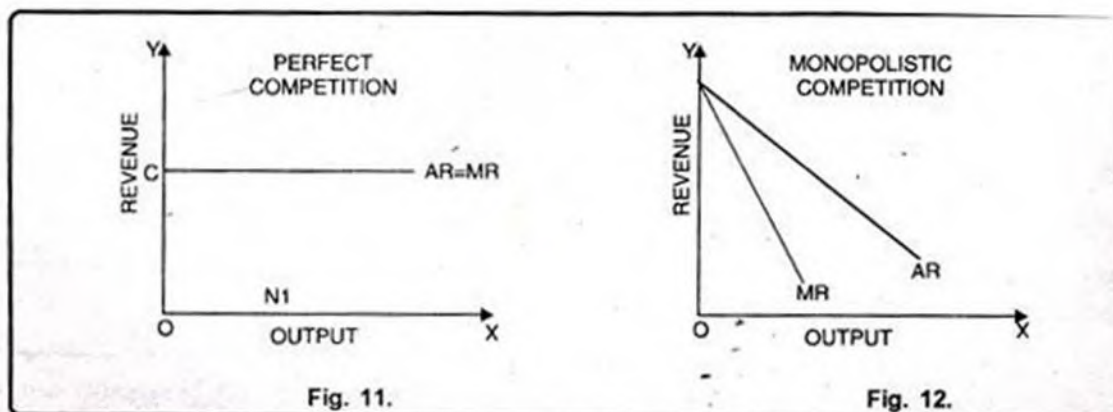


(Graphs max 4 marks: correct tangency points of AC and AR curves for each market structure)

- In Fig. A, perfect competition firm is in equilibrium at point 'M' where MC is equal to MR. ✓✓
- At this point AR is also equal to LAC at its lowest point. ✓✓
- The equilibrium output is ON and equilibrium price is OP. In fig. B a monopolistic competition firm is in equilibrium position at point 'K' where MC=MR. ✓✓
- The equilibrium output is ON1 and price is OP. In the equilibrium position the firm is earning normal profit. ✓✓
- If we compare the equilibrium price under both market situations, it is clear that price in monopolistic competition market is higher than that of the price in perfect competition market. ✓✓

- Under perfect competition, average revenue and marginal revenue are equal, so both these curves coincide with each other. ✓✓
- Under monopolistic competition average revenue is more than marginal revenue because the firm has to lower the price to increase sales. ✓✓
- Thus marginal revenue is less than average revenue i.e., $AR > MR$. ✓✓
- In the perfect competition market output is more than the monopolistic competition market output. ✓✓
- In the long run, under perfect competition $MC = MR = AC = AR$ in equilibrium position as has been shown in Fig. (A). ✓✓
- Under monopolistic competition, in the equilibrium position $MC = MR$ but AR is more than MC or MR . ✓✓
- That is the reason why in monopolistic competition output is lower than the output in perfect competition as illustrated in Fig. (A). In the Fig (B). Monopolistic competition output is ON' and perfect competition output is ON . ✓✓

Demand Curves:



- The demand curve of a firm under monopolistic competition slopes downward. ✓✓
- It is due to the reason that each firm has to reduce the price, if it wishes to increase the sale. ✓✓
- Under perfect competition the firm can sell any amount of his output without lowering the price. ✓✓
- Thus the curve remains parallel to horizontal axis. ✓✓

(Max 26)

BODY: ADDITIONAL PART



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THE ADDITIONAL PART CHANGES ON EACH AND EVERY EXAMINATION OR TEST

In contrast to perfect competition, why do monopolistic competitors need to advertise their products?

- Information under monopolistic competition is incomplete. Advertisements are deliberate attempts to provide information to prospective buyers. ✓✓
- Monopolistic competitors' products are differentiated; it requires advertisements to increase the demand for their products. ✓✓
- They need to justify their prices of their differentiated products and make the competitive price less elastic. ✓✓
- Differences in products may be imaginary. Monopolistic use different brand names or packaging to create differentiated products that contain exactly the same basic ingredient. ✓✓
- In many instances, monopolistic competitors compete in terms of non-price competition strategies, e.g. services, after sales services, etc. ✓✓
- The aim of advertisement is to build up a loyal consumer group that will choose their brand over that of any other producer. ✓✓

(Max 10)

(Accept any other correct relevant fact)

CONCLUSION

Under perfect competition, an inefficient firm cannot exist but under monopolistic competition both efficient and inefficient firms can exist because buyers have their irrational preferences for goods in the market. ✓✓

(Max 2)

TOPIC 7: MARKET FAILURES

Question 1

- **Discuss causes of market failure in detail. (26 marks)**
- **Evaluate the impact of minimum wages on the economy. (10 marks)**

INTRODUCTION

Market failure occurs when market forces of demand and supply do not ensure the correct quantity of goods and services are produced to meet demand at the right price. ✓✓

(Accept any relevant and correct answer)

BODY / MAIN PART


Externalities ✓

- These are known as spill-over effects to third party which is not directly involved in the production process. ✓✓
- These are those costs and benefits that convert private cost and benefits into social costs and benefits. ✓✓
- As externalities in production and consumption often exist and output is usually based on private costs and benefits, this is a significant cause of market failure. ✓✓

Public goods / Missing markets ✓

- Significant market failure is to produce some goods and services, despite it being needed or wanted. ✓✓
- Markets can only form under certain conditions and when these conditions are absent, markets struggle to exist. ✓✓
- Public goods are not provided for by market mechanism because producers cannot withhold the goods for non-payment and since there is often no way of measuring how much a person consumes, there is no basis for establishing a market price. ✓✓
- Community and collective goods together are known as public goods. ✓✓
- Community goods: these are goods such as defence, police services, prison services, street lightning, flood control, storm water drainage and lighthouses. ✓✓
- Collective goods: these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals. ✓✓

Merit goods and demerit goods ✓

- 
- Merit goods: Some goods are highly desirable for the general welfare of the people of the country and are often not highly rated by the market. ✓✓
 - If people have to pay market prices for them, relatively little would be consumed. ✓✓
 - In this sense, the market fails to detriment of the economy and society. ✓✓
 - e.g. health care services, education, skills training, safety, inoculation, car seats
 - belts etc. ✓
 - Demerit goods: Items such as cigarettes, alcohol, and non-prescriptive drugs are example of demerit goods. ✓
 - In a free market economy, these goods are over-consumed. ✓✓

Public goods / Missing markets ✓

- Significant market failure is to produce some goods and services, despite it being needed or wanted. ✓✓
- Markets can only form under certain conditions and when these conditions are absent, example of demerit goods. ✓
- In a free market economy, these goods are over-consumed. ✓✓
- Some consumers may be unaware of the true costs of consuming them that is their negative externalities. ✓✓
- Government can ban their consumption or reduce it by means of taxation (e.g. excise duties) and by providing information about their harmful side effects. ✓✓

Imperfect competition ✓

- In market economies, competition is often impaired by power. ✓✓
- Power often lies to a greater extent with producers than with consumers. ✓✓
- Most businesses operate under conditions of imperfect competition that allows producers to restrict output, raise prices and produce where price exceeds marginal cost. ✓✓
- They can also prevent new businesses from entering the industry, thereby preventing full adjustment to charges in consumer demand occurring. ✓✓

Lack of information ✓

- Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make rational decisions. ✓✓
- Consumers: Although advances in technology increase the amount of information to which people have access, they obviously do not have perfect information. ✓✓
- Workers: They may be unaware of job opportunities outside their current employment. ✓✓

- Entrepreneurs: They may lack information about the costs, availability and productivity of some factors of production, and may be operating on the basis of incorrect information. ✓✓

Immobility of the factors of production: ✓

- Most markets do not adjust rapidly to changes in supply and demand. ✓✓
- While this may be due to lack of information, it is also true that resources are very often not mobile. ✓✓
- Labour: They may take time to move into new occupations and geographically to meet the changes in consumer demand. ✓✓
- Physical capital: Factory buildings and infrastructure such as telephone lines, bridges, rail links and airports are not moveable at will. ✓✓
- They last for many years but cannot be moved to fit change in demand. ✓✓
- Technological applications change production methods: Technology used in the production may change. e.g., the use of robots rather than labour in mines. ✓✓
- However, it takes time for most industries to adapt - with greater technological changes, there is an increasing need for workers to be flexible, to be willing to update their skills throughout their working lives and to change employment, occupations and work patterns. ✓✓

Imperfect distribution of income and wealth: ✓

- Perhaps the most important shortcoming of market systems is that it is neutral in the issue of income distribution. ✓✓
- If the initial distribution is unequal, the final distribution will be too. ✓✓
- For this reason, it is often argued that the market fails. ✓✓

(Accept any relevant and correct answer)

NOTE: Headings and examples will be marked to a maximum 8 (Maximum 26)

ADDITIONAL PART

- Evaluate the impact of minimum wages on the economy. (10)

POSITIVE IMPACT

- improving the economic development of the workers since they can afford basic needs with their wages. ✓✓
- encourage skills development where workers improve their employability as per employment requirements. ✓✓
- Increase levels of productivity in business which lessen the cost of production. ✓✓



NEGATIVE IMPACT

- Discourage businesses to increase levels of investments which decreases economic growth. ✓✓
- Decrease profits in businesses resulting in high levels of unemployment. ✓✓
- Eased population dependence on government expenditure through social grants enabling catering for other essential services. ✓✓ (Max 10)

(Accept any relevant and correct answer)

NOTE: A maximum of 2 marks will be allocated for mere listing

CONCLUSION

Market failures can have devastating effects on the economy which requires government to intervene to reduce their consequences. ✓✓

(Accept any relevant and correct answer) [40]



Question 2

Discuss in detail the following state intervention as a consequence of market failures, without the aid of relevant graphs –

- Direct control
- Imperfect markets
- Subsidies on goods and services
- Redistribution of wealth
- Government involvement in production

Why is an increase in the minimum wage during an economic recession not an effective state intervention?

INTRODUCTION

Market failure occurs when the forces of demand and supply do not ensure the correct quantity of goods and services are produced to meet demand at the right time. ✓✓

Accept any relevant introduction

Main part: Body

Direct controls:

- Government can choose to pass laws or use the existing legislative framework in an attempt to control and constrain the behaviour of businesses and industries, and individuals who generate negative externalities. ✓✓
- The emissions of potentially dangerous chemicals, air and scenic pollution, environmental preservation etc. are controlled by various laws and regulations. ✓✓
- Advertising in the tobacco industry is prohibited and alcohol may not be sold on Sundays. ✓✓
- The government can also use regulations to prohibit the production and consumption of demerit goods such as addictive drugs and child pornography. ✓✓
- The government usually also deals with the problems of imperfect information by means of regulations designed to ensure greater access to information: ✓✓
- The government can require firms to disclose information about their operations so that shareholders have better information. ✓✓
- Government also require firms to disclose information about their products – e.g. goods and pharmaceutical companies must provide details about their products on their packaging. ✓✓
- Sometimes government provides the information themselves – e.g. cigarettes carry a government health warning. ✓✓

- In other instances government require firms' products to meet certain standards – e.g. cars must satisfy certain safety standards set by the government. ✓✓
- The SABS regulates standards in South Africa – all firms must produce goods that meet with certain health, safety and quality standards. ✓✓
- Regulations for advertising exist to prevent false claims and deceptive advertising. ✓✓

Imperfect markets:

- Businesses operating in non-competitive markets maximise their profits by supplying less than the optimal quantity of the good or service at too high a price. ✓✓
- Governments have various instruments they can use to correct or limit the allocative distortions resulting from non-competitive markets. ✓✓

The main instruments the South African government uses are:

- Competition from abroad – in some instances only foreign competition has the capacity to restrain the harmful practices of local monopolies. ✓✓
- Removal or reduction of tariffs - in some instances has rendered local markets more competitive, as in the case of agriculture. ✓✓
- Promoting competition through introduction of Competition Policy – government established Competition Commission, Competition Tribunal and Competition Appeals Court to ensure the level of competition is enhanced. ✓✓
- Imposing price controls (maximum prices), thus reducing the firms' economic profits and ensuring that more people are able to consume the product. ✓✓

Taxes and subsidies

Levying of taxes:

- The appropriate way for government to intervene in the markets is by levying a tax as a method to recover the external cost. ✓✓
- It does this because society feels that demerit goods are over-produced and overconsumed. ✓✓
- The effect of the tax is to raise the cost of production of the firm, which will cause the supply curve to shift to the left (decrease). ✓✓
- A tax would raise the price and production would decrease. Less demerit goods are now produced and consumed. ✓✓
- Sin taxes or excise duties are levied on demerit goods such as cigarettes and alcohol. ✓✓

Subsidies on goods:

- A subsidy is normally in the form of a financial grant to support the production of goods. ✓✓
- It can be direct (such as cash grants and interest-free loans) or indirect (depreciation write-offs, rent rebates and meeting expenses on behalf of producers). ✓✓

- They can be used for a variety of purposes, including production, income, employment and exports. ✓✓
- Provision of merit goods by the private sector is one such purpose – in the case of education the government normally pay a subsidy to promote such education. ✓✓

Redistribution of income and wealth:

- The market system is neutral with regard to redistribution of income and wealth. ✓✓
- Therefore the government is forced to use combinations of taxes, transfer payments and subsidies to create a redistribution effect. ✓✓

Two methods can be used:

Traditional methods:

- Usually a progressive system of taxation is used – the more people earn, the more tax they pay. ✓✓
- The government uses this tax money to:
 - Subsidise goods and services to the poor; ✓
 - Transferring income directly to the poor households (pensions, child support grants, disability grants); ✓
 - Providing certain goods and services free of charge; o Job-creation programmes; ✓
 - The government also uses tax money to finance the provision of merit goods. ✓✓

Government's production involvement

- Governments are involved in producing goods and services themselves.

Public goods:

- Government's approach to incomplete markets is to intervene and supply the desired goods directly. ✓✓
- They raise taxes and provide the goods themselves. o Income taxes, indirect taxes and wealth taxes are used to pay for these goods and services. ✓✓
- Community goods are provided free of charge (defence, police and correctional services and street lightning. ✓✓
- Some collective goods are provided for a user fee, such as refuse removal, waste disposal and sewerage drainage. ✓✓
- The provision of some other collective goods is subsidised, for example clean water and electricity. ✓✓
- The government can also provide merit goods directly, for example healthcare and education ✓✓

ADDITIONAL PART



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THE ADDITIONAL PART CHANGES ON EACH AND EVERY EXAMINATION OR TEST

Why is an increase in the minimum wage during an economic recession not an effective state intervention?

- A minimum wage will cause the quantity of labour demanded to decrease and cause the oversupply(unemployment) of labour to increase. ✓✓
- At a higher minimum wage more people are willing to offer their labour, the increase in quantity of labour supplied results in the oversupply of labour(unemployment) to increase. ✓✓
- Only the labour that remained employed will benefit from the higher minimum wage. ✓✓
- All the workers who the lost employment due to the increased minimum wage will endure hardship of no income. ✓✓
- During a recession there is an increase in unemployment, an increase in the minimum wage will cause unemployment to increase even more. ✓✓
- The negative effects the unemployment caused by the minimum wage will be much more than the benefit to of higher wages for some of the employed workers. ✓✓

Conclusion

It is important for the government to intervene, when markets fail, for the benefit of the society.

Question 3

With the aid of graphs, discuss in detail state intervention as a consequence of market failures, under the following headings:

- minimum wages (8marks)
- maximum prices (9 marks)
- Taxation (9 marks) (26 marks)

How successful is the South African government in solving income inequality?

(10 marks)

INTRODUCTION

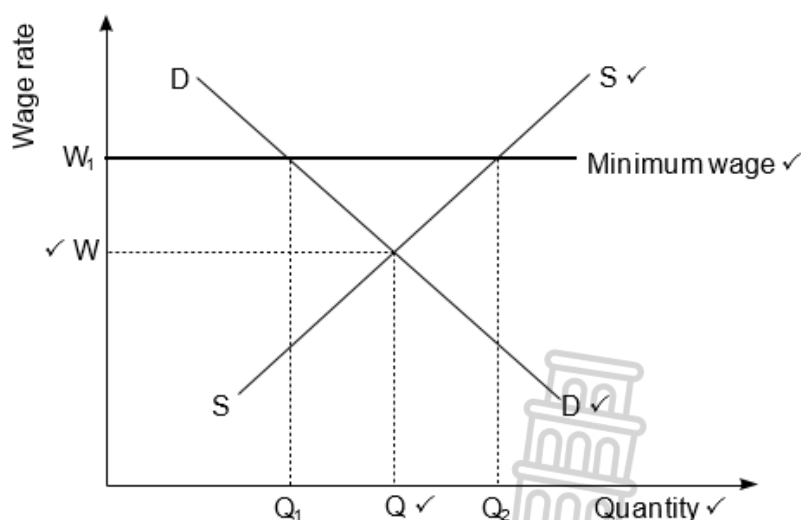
Market failure occurs when the forces of demand and supply do not ensure the correct quantity of goods and services are produced to meet demand at the right time. ✓✓

Accept any relevant introduction

BODY

Minimum wages

Mark allocation	
Maximum =	6 marks
Axes =	1 mark
Demand curve =	1 mark
Supply curve =	1 mark
Equilibrium W & Q =	2 marks
Minimum wage =	1 mark



- When the government enforces a minimum wage, it means workers have to be paid a certain wage amount and not anything less than this. ✓✓
- The graph above shows that if the wage rate is set at W , the corresponding demand and supply of labour will be Q . ✓✓
- If a minimum wage of W_1 is set, the demand for labour will decrease from Q to Q_1 . ✓✓
- Some people may become unemployed due to the introduction of a minimum wage. ✓✓
- However, the quantity of labour supplied will increase from Q to Q_2 . ✓✓

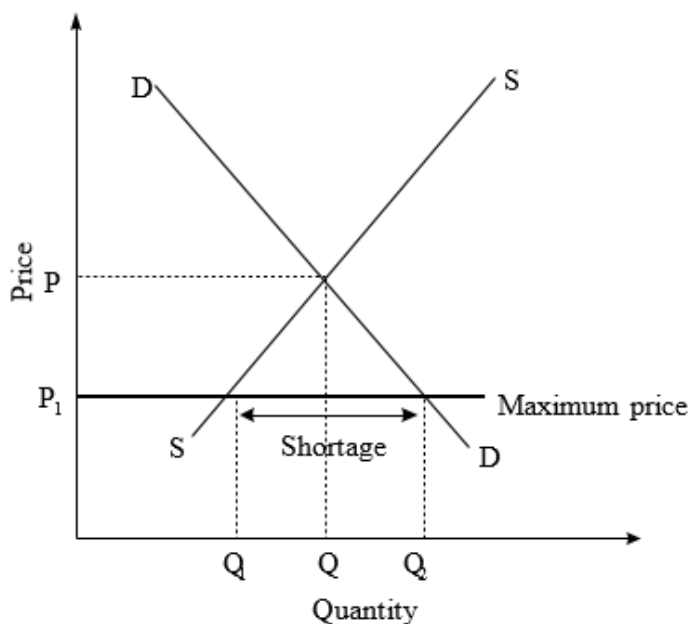
- More people will offer their labour because of the higher wage. ✓✓

Setting maximum prices/price ceilings

- The government sets a maximum price ceiling below the market price to make goods more affordable. ✓✓
- Maximum prices allow the poor greater access to certain goods and services. ✓✓
- A maximum price is set on goods such as basic foods, housing and transport. ✓✓
- In South Africa the price of petrol, diesel fuel and paraffin are controlled at their maximum prices. ✓✓

Mark allocation

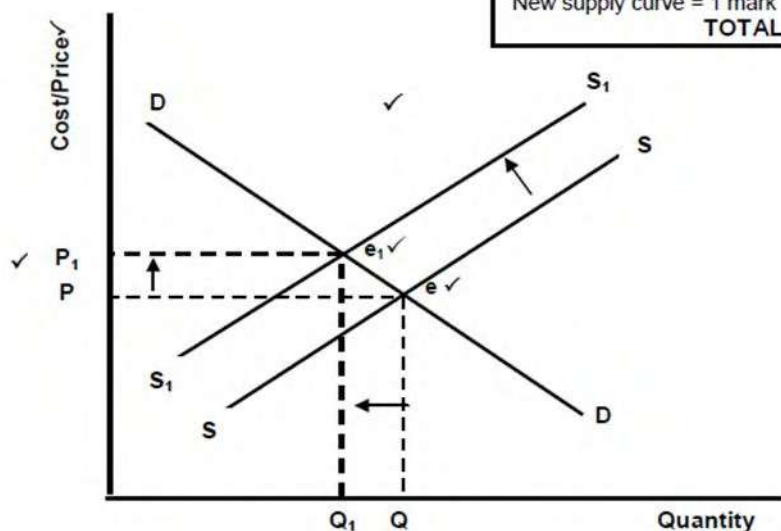
Max =	6 marks
Axes =	1 mark
Demand curve =	1 mark
Supply curve =	1 mark
Market price =	1 mark
Maximum price =	1 mark
Shortage =	1 mark



- Initially the market equilibrium price is P and equilibrium quantity is Q . ✓✓
- The government intervenes and passes a law that a product cannot be sold for more than P_1 . ✓✓
- The effect of this maximum price is that quantity supplied decreases to Q_1 and quantity demanded increases to Q_2 . ✓✓
- There is a shortage equal to the difference between Q_1 and Q_2 . ✓✓
- A shortage creates a problem of how to allocate the product to consumers. ✓✓
- Black markets often develop where people can obtain the product. A black market is an illegal market in which either illegal goods are bought and sold or illegal prices are charged. ✓✓
- Maximum prices may cause a shortage of goods but they do improve the welfare of some consumers since goods can be purchased at lower prices. ✓✓



Mark allocation
 Labelling of axes = 1 mark
 Labeling on axes = 1 mark
 Original equilibrium point = 1 mark
 New equilibrium point = 1 mark
 Correct drawing and labelling of original demand and supply curves = 1 mark
 New supply curve = 1 mark
TOTAL = 6 MARKS



- The appropriate way to intervene in the market by government is by levying taxes as a method to recover external cost ✓✓
- The original market equilibrium at e, with P as the equilibrium price and Q as the equilibrium quantity ✓✓
- The tax increase will shift the supply curve to the left ✓✓
- New equilibrium at E1 ✓✓
- A tax would raise the price from P to P1 ✓✓
- The production will decrease from Q to Q1 ✓✓



ADDITIONAL PART

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THE ADDITIONAL PART CHANGES ON EACH AND EVERY EXAMINATION OR TEST

How successful is the South African government in solving income inequality?

The South African government has been successful in the following:

- Transferring income directly to the poor ✓✓ e.g. child support grants, unemployment benefits etc. ✓
- Implementing a progressive system of taxation, which reduces the gap between high and low income earners ✓✓
- Providing free primary health care in provincials hospitals and clinics ✓✓
- Offering free basic education to those who cannot afford to pay- ✓✓ no fee schools. ✓✓
- Excluding VAT in basic items that the poor often consumes ✓✓ e.g. maize ✓✓

Accept any relevant correct argument. (10)

CONCLUSION

It is important for the government to intervene, when markets fail, for the benefit of the society. ✓✓


Accept any relevant conclusion.

(2)

[40]

TOPIC 8: PROTECTIONISM AND FREE TRADE

QUESTION 1

- 
- Discuss export promotion as part of South Africa's international trade policy under the following headings:
 - Reasons (8)
 - Methods (10)
 - Disadvantages (8) (26 marks)
 - How can a country be disadvantaged through import substitution? (10 marks)

INTRODUCTION

Export promotion involves the government paying incentives (subsidies) to promote the production of goods and services locally that can be exported. [2]

(Accept any other correct relevant response)

(Max 2)

BODY: MAIN PART

REASONS:

- Export promotion measures lower the cost of production, which makes it easier to compete on the international market ✓✓
- Achieve significant export-led economic growth/value-added products ✓✓
- Export enlarges production capacity of country because more and larger manufacturing industries are established/prices decrease through mass production ✓✓
- The first step to export-led economic growth is to implement policies that encourage the establishment of industries to produce goods and services for export markets. ✓✓
- Export markets are much larger than domestic markets, and we must drastically improve on quality goods to compete globally. ✓✓
- Exports are used to pay for the needed imported goods, which improves the Balance of Payments. ✓✓
- Export promotion also leads to improved trade relations, such as through BRICS and the new Afcta agreement. ✓✓

(Max 8)

METHODS:

Exports are promoted through:

- Incentives [2] export incentives include information on export markets, research with regard to new markets, concessions on transport charges, export credit and export credit guarantees and publicity commending successful exporters ✓✓

- Incentives will encourage manufacturers to export an increased volume of their production. ✓✓
 - Trade missions help to market SA products abroad and supply SA companies with information about potential markets ✓✓
 - Direct Subsidies are described as direct because it involves government expenditure. (examples are cash payments to exporters, refunds on import tariffs and employment subsidies) ✓✓
 - The aim is to increase the competitiveness of exporting company, reduce the cost of production and explore and establish overseas markets. ✓✓
 - Indirect subsidies are regarded as indirect, because it results in the government receiving less revenue e.g. general tax rebates, tax concessions on profits earned from exports or on capital invested to produce export goods, refunding of certain taxes e.g. custom duties on imported goods used in the manufacturing process. ✓
 - Subsidies allows companies to lower their prices and enable them to compete in international markets. ✓✓
 - Challenge for governments to design incentives and subsidies in such a way that prices of export goods can't be viewed as dumping prices ✓✓
 - Trade neutrality can be achieved if incentives in favour of export production are introduced up to point that neutralises the impact of protectionist measures in place e.g. subsidies equal to magnitude of import duties can be paid. ✓✓
 - Export processing zones (EPZs) is free-trade enclave within a protected area – is fenced and controlled industrial park that falls outside domestic customs area, and usually located near harbour or airport ✓✓✓
- (Max 10)

DISADVANTAGES:

- Real cost of production subsidies and incentives reduce total cost of production which must be met from sales real cost is thus concealed by subsidies and products cannot compete in open markets. ✓✓
 - Lack of competition - businesses charge prices that are so low that they force competitors out of the market Increased tariffs and quotas can be against spirit of provisions of WTO. ✓✓
 - Overseas competitors retaliate with tariffs and quotas, while goods are sold domestically below their real cost of production (export subsidies and dumping) ✓✓
 - Protection of labour-intensive industries developed countries maintain high levels of effective protection for their industries that produce labour-intensive goods in which developing countries already have or can achieve comparative advantage
 - Withdrawal of incentives often leads to closure of effected companies. ✓✓
 - Incentives often lead to inefficiencies in the production process, since companies don't have to do their best to compete ✓✓
- (Max 8)

(Max 26)

ADDITIONAL

Import substitution could disadvantage a country, because:

- It does not necessarily lead to an overall reduction in imports ☒✓✓
- South Africa had to import capital and intermediate goods to manufacture consumer goods ✓✓
- Inefficient local production, because local producers are shielded from international competition ✓✓
- Domestic consumers are forced to buy goods at higher prices on the international market ✓✓
- Costly and uneconomical projects are established e.g. Mossgas ☒✓
- Capital and entrepreneur talent is lost to those areas/countries where protectionism stimulates profits, such as by means of subsidies. ✓✓☒
- The local producers no longer specialise in the products where they could have a comparative advantage, as imported products are cheaper. ✓✓
- The non-protected industries are at a disadvantage as they also apply to government for trade protection, at a huge cost. ✓✓
- Protected industries become less competitive as there is no need/incentive to increase the skills/productivity of local workers. ✓✓☒ (Max 10)

CONCLUSION

South Africa's international trade policy facilitates globalization, thereby impacting positively on the balance of payment. ✓✓

(Accept any other relevant higher order conclusion) ☒☒

(Max 2)

QUESTION 2

- Discuss in detail the arguments in favour of protectionism:
- How can the government use subsidies to ensure that local industries are protected against unfair competition from abroad?

INTRODUCTION

- Protectionism refers to a deliberate policy on the part of the government to erect trade barriers, such as tariffs and quotas, in order to protect domestic industries against international competition. ✓✓
- Raising revenue for the government ✓
- Import tariffs raise revenue for the government ☒✓✓
- In smaller countries the tax base is often small due to low incomes of individuals and businesses ☒✓✓

- Low incomes do not provide much in the form of income taxes and therefore custom duties on imports is a significant source of income or revenue ✓✓

Protecting the whole industrial base ✓□

- Maintaining domestic employment ✓✓
- Countries with high unemployment are continuously pressured to stimulate employment creation and therefore resort to protectionism in order to stimulate industrialisation ✓✓
- It is thought that using protectionism the country's citizens will purchase more domestic products and raise domestic employment ✓✓
- These measures on domestic employment creation at the expense of other countries, led to such measures as 'beggar-my-neighbour' policies ✓✓
- Applying import policies is likely to reduce other countries ability to buy country's exports and may provoke retaliation ✓✓
- Protecting workers
- It is argued that imports from other countries with relatively low wages represent unfair competition and threaten the standard of living of the more highly paid workers of the local industries ✓✓
- Local industries would therefore, be unable to compete because of higher wages pushing up the price levels of goods ✓✓
- Protection is thus necessary to prevent local wage levels from falling or even to prevent local businesses from closing down due to becoming unprofitable ✓✓
- Competition from low-wage countries may also reflect the fact that those countries have a comparative advantage in low-skilled labour-intensive industries ✓✓

Diversifying the industrial base ✓□

- Over time countries need to develop diversified industries to prevent over-specialisation ✓✓
- A country relying too heavily on the export of one or a few products is very vulnerable ✓✓
- If a developing country's employment and income is dependent on only one or two industries, there is the risk that world fluctuations in prices and demand and supply-side problems could result in significant fluctuations in domestic economic activity ✓✓
- Import restrictions may be imposed on a range of products in order to ensure that a number of domestic industries develop ✓✓

Develop strategic industries ✓□

- Some industries such as the iron-ore and steel, agriculture, (basic foodstuffs, such as maize), energy (fuels) and electronics (communication) among others, are regarded as strategic industries ✓✓. Developing countries may feel that they need to develop these industries in order to become self-sufficient ✓✓

Protecting specific industries

6. Dumping ✓✓

- Foreign industries may engage in dumping because government subsidies permit them to sell at very low prices ✓✓ or because they are seeking to raise profits through price discrimination ✓✓
- The reason for selling products at lower prices may be to dispose of accumulate stocks of the goods ✓✓ and as a result consumers in the importing country stand to benefit ✓✓ however, their long term objective may be to drive out domestic producers and gain control of the market ✓✓ and consumers are likely to lose out in the reduction in choice ✓✓ and higher prices that the exporters will be able to charge ✓✓

7. Infant industries ✓✓ □

- Usually newly established and find it difficult to survive due to their average costs being higher than that of their well-established foreign competitors ✓✓
- however, if they are given protection in their early years they may be able to grow and thereby take advantage ✓✓ lower their average costs and become competitive ✓✓ and at this point protection can be removed ✓✓

8. Declining industries/sunset industries ✓✓ □

- Structural changes in the demand and supply of a good may severely hit an industry ✓✓ such industries should be permitted to go out of business gradually ✓✓ declining industries are likely to be industries that no longer have a comparative advantage ✓✓ and however, if they go out of business quickly there may be a sudden and large increase in unemployment ✓✓
- Protection may enable an industry to decline gradually thereby allowing time for resources including labour to move to other industries ✓✓ ✓✓
- Protecting domestic standards ✓✓ domestic regulations of food safety ✓✓ human rights ✓✓ and environmental standards have been increasingly acting as trade restrictions ✓✓ ✓✓ (Max. 26)

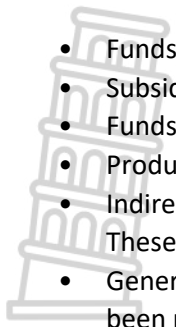
(Accept any other relevant fact)

Additional part

How can the government use subsidies to ensure that local industries are protected against unfair competition from abroad?

South Africa promotes exports through subsidies.

- Direct subsidies: Strict screening measures should be put in place when companies apply for financial assistance ✓✓
- ✓ Government expenditure can provide direct financial support to domestic producers for their exports ✓ e.g. Cash grants offered to South African exhibitors to exhibit their products at exhibitions overseas, to explore new markets ✓✓
Foreign trade missions to explore new markets :Imposition of tariffs on imports ✓✓ □

- 
- Funds for the formation of formal export councils ✓
 - Subsidies for training or employing personnel 2 ✓ □
 - Funds for the export market research 2 2
 - Product registration and foreign patent registrations 2 2
 - Indirect subsidies: Government can refund companies certain taxes to promote exports ✓ ✓
- These types of indirect subsidies are:
- General tax rebates (Part of the cost of production can be subtracted from the tax that has been paid) ✓ ✓ 2
 - Tax concessions on profits earned from exports or on capital invested to produce export goods ✓ ✓
 - Refunds on import tariffs in the manufacturing process of exported goods, companies often use – custom duties are paid on these goods and the government refunds them 2 ✓ ✓ (Max 10)

CONCLUSION


- Most countries agree that protectionism is harmful to the economy if not well managed. My opinion is that protectionism in certain areas of importance is needed especially where young industries come into existence 2 2 2

(Accept any other relevant higher order conclusion)



TOPIC 9: ECONOMIC GROWTH AND DEVELOPMENT

Question 1

- 
- Discuss in detail the demand-side approach in promoting growth and development in South Africa
 - Explain key objectives of black economic empowerment programmes

INTRODUCTION

- An increase in domestic demand for a product or service will cause an increase in the level of its production, this increase in the quantity of goods and services will lead to economic growth. ✓✓

MAIN BODY

Consumption spending by households (C)

- Increase in production – Increase in production leads to an increase in disposable income of households, which leads to increase in consumption which leads to more production etc. (Multiplier effect) ✓✓
- Government fiscal policy – Lowering of direct and indirect taxes leaves more money for households to spend, leading to more production. ✓✓
- Government monetary policy – Lowering interest rates makes credit cheaper and consumers will borrow more, consume more and production will increase. ✓✓
- Government programmes to satisfy basic needs – Government assist poor households to satisfy their basic needs for access to healthcare, clean water, energy and education. This is done to create jobs which provide incomes to households which lead to consumption which leads to production. ✓✓

Investment spending by firms (I)

- Capital formation increases the production capacity of businesses and the economy. ✓✓

Government spending (G)

- Government spending on public services and economic affairs ensures a level of demand. ✓✓
- This is the easiest and quickest way to increase aggregate demand and get economic growth. ✓✓

Imports and exports

- Imports provide consumers with a wider choice of goods and services; they also provide capital and intermediate goods and services to firms. ✓✓
- An increase in imports leads to a reduction in local production; this could lead to unemployment and reduction in production. ✓✓
- Exports on the other hand leads to job creation and increase in production ✓✓

Monetary policies

- A monetary policy that reduces interest rates and increases money in circulation in a country will stimulate demand, also known as expansionary monetary policy. [?][?]
- Central banks manage the availability of money by means of open market transaction and cash reserve requirements. [?][?]
- They manage the cost of money, by means of interest rate changes. [?][?]
- Interest rate changes: to make credit more expensive or cheaper. [?][?]
- Open market transaction: to restrict bank credit the SARB sells securities. When banks buy these securities money flows from the banks to the SARB. The banks have less money to lend and credit reduces. [?][?][?]
- Moral Suasion: The SARB consults with banks and persuades them to act in a manner that is desirable, in terms of the economic conditions that prevail at that time [?][?]

FISCAL POLICY

- A fiscal policy that reduces taxes and keeps them at low levels will stimulate demand. [?][?][?]
- Cuts in personal income tax will increase disposable income by the same amount. [?][?][?]
- Fiscal policy focuses on budget deficit and surpluses to either raise or reduce aggregate demand. [?][?][?]
- Progressive personal income tax: Higher-income earners are taxed at higher rates than lower-income earners. The taxes are used to finance social development. [?][?][?]
- Wealth tax: Properties such as houses, offices and factory buildings in urban areas are taxed annually.
- Transfer duties: paid when properties are bought – shares and bonds are taxed when traded. [?][?][?]
- Capital gains tax: levied on gains earned on the sale of capital goods, such as properties and shares. [?][?][?]
- Estate duties: levied on the estate of deceased persons with a value R3,5million (2016) [?][?][?]
- Cash benefits: Old-age pensions, disability grants, child support grants and unemployment insurance – also known as social security payments [?][?]
- Natural benefits: provision of health care, education and school meals, protection, municipal services and infrastructure. Where user-fees are charged, poor people and low-income earners benefit more than other because they pay nothing or less than higher-income earners. (limited quantities of free electricity or water [?][?])
- Other redistributions: Public works program, Spatial Development Initiative (SDI) and SMMEs to have advantages that favour poor and low-income earners by providing employment subsidies and other cash and financial benefits. [?][?][?]
- Land restitution and land redistribution: The purpose of land restitution is to return land (or pay cash compensation) to those who lost their land because of discrimination laws and practices. Land redistribution focuses on land for residential and productive use. [?][?]

- Property subsidies: helps beneficiaries acquire ownership of fixed residential property. ✓✓

Trade policies

- Demand will be increased through policies to promote exports and decrease the value of imports. 2 ✓✓
- A weaker exchange rate, which makes exports cheaper, will increase the quantity of exports. ✓✓
- Cooperation with other countries, forming trade blocks will promote exports. ✓✓
- Exchange control policy to prevent capital assets from being transferred to other countries. 2 ✓✓

Additional part

Explain key objectives of black economic empowerment programmes

- Empower more black people to own enterprises. ✓✓ 2
- Promote access to finance for black economic empowerment. ✓✓
- Assist in the development of the operational and financial capacity of B-BBEE enterprises, especially small, medium, and micro enterprises (SMMEs) and black-owned enterprises. ✓✓
- Increase the extent of black female ownership of enterprises. 2 ✓✓
- Ensure that black-owned enterprises benefit from the government's preferential procurement policies. ✓✓ 2
- Help rural and local communities access economic opportunities; 2 ✓✓
(Accept any other correct relevant response)

Question 2

- Discuss the aims and objectives following growth and development policies.
 - Reconstruction and Development Programme
 - Growth Employment and Redistribution (26 marks)
- Evaluate the success of these two policies. (10 marks)

The RDP was considered as the primary socio-economic programme in 1994. 2 2

- The broader aim of this socio-economic policy was to establish more equal society through reconstruction and development as well as strengthening democracy for all South Africans. ✓✓ 2 2

The RDP aimed to set

- South Africa firmly on the road to eliminating hunger. ✓✓
- providing land and housing to all people. ✓✓
- providing access to safe water and sanitation for all.
- ensuring the availability of affordable and sustainable energy sources. ✓✓
- eliminating illiteracy. ✓
- raising the quality of education and training for children and adults. ✓ □
- protecting the environment. ✓✓
- improving health services and making them accessible to all ✓✓

GROWTH, EMPLOYMENT AND REDISTRIBUTION PROGRAMME (GEAR)

GEAR was a macroeconomic strategy implemented in 1996.

Aims:

- Strengthening economic development ✓✓
- Broadening of employment ✓ □
- Redistribution of income and socioeconomic opportunities in favour of the poor. ✓ □

The key goals of GEAR were:

- economic growth of 6% in the year 2000, ✓
- inflation less than 10%, ✓
- employment growth above the increase in economically active population, ✓✓
- deficit on the current account and the balance of payments between 2 and 3 percent, ✓✓ □
- a ratio of gross domestic savings to GDP of 21.5 percent in the year 2000,
- improvement in income distribution, ✓✓
- relaxation of exchange controls. ✓ □
- reduction of the budget deficit to below 4 percent of GDP. ✓ □

Additional part

RDP was successful in some areas:

- Housing: Between 1994 and the start of 2001 over 1.1 million cheap houses eligible for government subsidies had been built. ✓✓
- Clean water: By the beginning of 1998, standpipes had been installed within 200 metres of the dwellings of about 1.3 million rural people. By 2000, a total of 236 projects had supplied clean piped water to nearly 4.9 million people. ✓✓
- Electrification: Between 1994 and May 2000 around 1.75 million homes had been connected to the national grid, while the proportion of rural homes with electricity grew from 12% to 42%. ✓✓
- Land reform: Authorities claimed that 250,000 people had 'received land' within four years. ✓✓
- Healthcare: Between April 1994 and the end of 1998, around 500 new clinics gave an additional 5 million people access to primary health care facilities. Free health care

programmes were implemented for pregnant women and small children, and free meals were provided for between 3,5 to 5 million school children. [2]✓✓

- Public works: A community-based Public Works Programme provided employment over five years to 240,000 people on road-building schemes and the installation of sewage, sanitation facilities and water supplies. [2]✓✓
- Social security: the government established a very extensive welfare system. The system catered for the aged, disabled, children in need, foster parents and many others too poor to meet their basic social requirements. [2]✓✓
- The expanded public works programmes were mostly labour intensive. This helped alleviate unemployment and poverty slightly. ✓✓
- The RDP was not successful in some areas:
- Real GDP growth erratic since 1994, unemployment in formal sector increased. [2]✓✓
- Key objectives of poverty reduction and improved service delivery hardly successful. [2][2]
- Housing: Inferior quality houses. In 2000, only 30% of RDP houses were within building regulations. ✓✓
- Land reform: Only 1% of redress was achieved. [2]✓□
- Health care: access to healthcare only improved slightly under the RDP. Usage of healthcare facilities increased by just 1.6% between 1995 and 1999. The AIDS pandemic and other health epidemics such as malaria affected the progress. Between 1995 and 1998 life expectancy of South Africans fell from 64.1 years to 53.2 years. [2]✓✓

Conclusion

- It appears that RDP ignored the gathering of new taxes, rather focusing, far too narrowly on fiscal prudence and the reallocation of existing revenues. [2][2]✓✓

Question 3

- Discuss the following policies
 - Priority areas of New Growth Path
 - Phases of National Skills Development Strategy
- Explain aims of these two policies (10 marks)

(26 marks)

Introduction

- The New Growth Path proposed major improvements in government, with a call for slashing unnecessary red tape, improving competition in the economy and stepping up skills development. ✓✓
- NSDS provides a framework for skills development in the workplace and was implemented in phases. ✓✓

Main part:

Priority areas

- Green economy: expansions in construction and the production of technologies for solar, wind and biofuels. Clean manufacturing and environmental services are projected to create 300 000 jobs by 2020. ✓✓
- Agriculture: jobs would be created by addressing the high input costs and upscaling processing and export marketing. Support for small holders would include access to key inputs. ✓✓
- Mining: increased mineral extraction and improving infrastructure and skills development. It focuses support for beneficiation on the final manufacture of consumer and capital goods, which can create large-scale employment. ✓✓
- Manufacturing: re-industrialisation in the South African economy based on improving performance through innovation, skills development and reduced input costs in the economy. ✓✓
- Tourism and other high-level services: hold employment potential and the framework for South Africa to position itself as the higher education hub of the African continent. ✓✓

NSDS I (2001 to 2005) – focus on productive citizenship

- The emphasis was placed on equality and the need to cultivate lifelong learning in a workplace environment. ✓✓
- Learning aimed to be demand-driven based on the needs of employees in both the public and private sectors. ✓✓
- NSDS II (2005 to 2010) - focus on equity, quality training and skills development in the workplace ✓✓
- The emphasis was placed again on equity, quality training and skills development in the workplace. ✓✓
- The need for the promotion of employability was identified. ✓□
- Identified the need for assisting designated groups to gain knowledge and experience in a workplace environment in order to gain critical skills. ✓✓

NSDS III (2010-2020) - focus on institutional learning

- The focus was on institutional learning linked to occupationally directed programmes. ✓✓
- It promotes the growth of FET Colleges in order to address national skills needs. ✓✓
- Better use of workplace skills programmes was encouraged as is the use of worker-initiated training initiatives. ✓✓
- Public sector improved service delivery was seen as imperative. ✓✓
National Skills Development Plan (NSDP) (2010 – current)
- The National Skills Development Strategy III concluded on 31 March 2020 to make way for the National Skills Development Plan (NSDP) 2030 that was launched on 1 April 2020. ✓✓
- The NSDP was aligned with the NDP Vision 2030. □✓✓

Additional part

Explain aims of these two policies

Aims of New Growth path

- Creating five million jobs by 2020. ☑✓☐
- creating youth brigades in which a million young adults are to be provided with training and work experience. ☑✓✓
- create a more inclusive, labour-absorbing, and efficient economy. ✓✓
- reduce unemployment rate to 15 per cent. ✓✓☑
- The New Growth Path has fixed six priority areas to job creation: infrastructure development, agriculture, mining, manufacturing, the "green" economy, and tourism. ✓✓☐
- Aims of National Skills development Plan
- Expand the college system with a focus on improving quality. The recommended participation rate in the TVET college sector of 25 percent would accommodate about 1.25 million enrolments; ✓✓
- Provide 1 million learning opportunities through Community Education and Training Colleges; ✓✓
- Improve the through-put rate to 80 percent by 2030; ✓✓
- Produce 30,000 artisans per year by 2030; ☑☑✓✓
- Increase enrolment at universities by at least 70 percent by 2030 so that enrolments increase to about 1,62 million from 950 000 in 2010; ✓✓
- Increase the number of students eligible to study towards Maths- and Science-based degrees to 450,000 by 2030; ✓✓
- Increase the percentage of PhD qualified staff in the higher education sector from the current 34 percent to over 75 percent by 2030; ✓✓
- Produce more than 100 doctoral graduates per million per year by 2030. This implies an increase from 1,420 in 2010 to well over 5,000 a year; ✓✓
- Expand science, technology and innovation outputs by increasing research and development spending by government and through encouraging industry to do so. ☑✓✓

Conclusion

- if government is serious about a market-driven approach to growth and poverty reduction, it should employ the immense skills that it used in defeating apartheid to think through and then sell that approach to all its constituencies and audiences both locally and internationally. ☑✓✓


QUESTION 4

- Discuss in detail the following policies of growth and development in South Africa.
 - -Accelerated growth initiative for South Africa (ASGISA)
 - Joint Initiative on Priority Skills Acquisitions (JIPSA) (26 marks)
- Analyse elements of the NDP. (10 marks)

INTRODUCTION

- South Africa's growth and development policies are designed to fulfil many social and economic objectives to ensure that most South Africans can achieve a reasonable standard of living ✓✓

Body**ACCELERATED GROWTH INITIATIVE FOR SOUTH AFRICA (ASGISA) – (2005)**

- GEAR was replaced in 2005 by the Accelerated and Shared Growth Initiative for South Africa (ASGISA) ✓✓
- Its objective is to co-ordinate government initiative to create economic development: ✓

The aims were:

- Halve poverty and unemployment by 2014, in line with the Millennium Development Goals (MDGs). ✓✓
- It aimed to improve the country's economic performance and job creation capacity. ✓✓
- To ensure it achieved its objectives, the government sought to promote an average annual growth rate of at least 4.5% from 2005 to 2009, rising to at least 6% from 2010 to 2014. ✓✓
- Raise public expenditure on fixed capital investment to R370 billion over 3 years. ✓✓
- Step up interventions to reduce inequality and assist the marginalised poor. ✓✓
- It would seek to bridge the gap between the first and second economies, with the aim of eliminating the second economy altogether. ✓✓

EVALUATION

ASIGISA was successful in some areas

- Growth in infrastructure investment, especially in the public sector. ✓✓
- The second economic strategy helped slightly to reduce unemployment through the expanded public works programme ✓✓

Asigisa was not successful in some areas

- Employment growth has lagged behind economic growth – reason real wage increases are higher than productivity. ✓✓
- Poor economic growth and high unemployment for the youth. ✓✓

Reasons for lack of success:

- Currency volatility (rand exchange rate varied considerably), ✓✓
- backlogs in infrastructure and investment, ✓✓
- shortage of suitably skilled labour, ✓
- barriers to entry, limits to competition and limited new investment opportunities, ✓✓
- many state regulations on small businesses and deficiencies in state organisation, capacity and leadership. ✓✓

JOINT INITIATIVE ON PRIORITY SKILLS ACQUISITIONS (JIPSA)

- It is the skills development arm of ASGISA. Focus is on skills development, especially through the SETAS ✓✓
- JIPSA was established in 2006 to support ASGISA. It was the skills development arm of ASGISA. ✓✓

Objectives

- Identifying and determining specific priority skills needed in the country, ✓✓
- Identifying the restrictions to skills achievement, ✓✓
- Identifying relevant role players, securing their buy-in and support, ✓✓
- Co-ordinating and supporting their collective efforts to address priority skills requirements ✓✓
- Focus was on skills development, especially through the SETAS. ✓✓

JIPSA strategy was to

- broadening the training scope, ✓
- retaining people in skilled employment ✓
- training people more effectively and to higher quality standards. ✓✓

Specific aims

- Train 1 000 additional engineers per annum over four years, starting in 2007. ✓✓
- Town and regional planners strengthen the town- planning function. ✓✓
- Strengthening the planning and management capacity of the public health sector. ✓✓
- Strengthening the planning and management capacity of the public education ✓✓
- Improve the quality and expand the pool of Mathematics and Science graduates. ✓✓
- Increase the level of skills in the tourism sector through improved coordination and support. ✓✓

- Identify ICT skills requirements and constraints and determine ways to address the skills shortage. ✓✓
- Determine biofuels skills requirements for second economy farmers. ✓✓
- Placement programme - ensure the development of a co-ordinated strategy for the placement. ✓✓

EVALUATION

- JIPSA has been successful, not in eliminating the skills shortage, but in promoting several strong interventions to ensure that the shortage is less severe than it would have been. ✓✓
- JIPSA functioned as a multi-stakeholder working group through which government, business, organised labour, academic and research institutions, and civil society joined forces to fast-track the provision of priority skills required to support accelerated and shared growth. ✓✓

JIPSA was successful in some areas:

- Significant results were achieved in increasing the number of engineers, technologists, technicians and artisans: ✓✓
- The provision of engineers grew by 14.11%, the number of technologists increased by 15.79%, while the number of technicians grew by 3.6%. ✓✓
- Between 2006 and 2009 over 41 000 artisans went into training or qualified in the priority areas. ✓✓
- Foundations were laid for strengthening the availability of skills in town and regional planning and in education management. ✓✓
- The Unemployed Graduate Programme was launched in December 2005. ✓✓

JIPSA was less successful in some areas:

- In engineering there was limited success in relation to the registration of professionals. ✓✓
- Attempts to increase the numbers of registered town planners were initially constrained by the lack of clarity on town planning competencies. ✓✓
- National Placement Programme, showed that despite good intentions, the programme had evolved over a two to three year period in an unplanned and uncoordinated way. ✓✓
- Massive changes in higher education institutions it difficult for these institutions to implement rapidly the changes required in the field of engineering provision. ✓✓

Additional part

- Infrastructure expansion with investment in five key physical and social infrastructure areas ✓✓
- The agricultural value chain by addressing the high costs of fertilizers and the inputs and the promotion of processing and export marketing ✓✓
- Mining value-chain by increasing mineral extraction and improving infrastructure, skills development and supporting the beneficiation on the final manufacture of consumer and capital goods ✓✓
- energy, wind energy and bio fuels
- Manufacturing sector through innovation and strong skills development, reduced input costs and increased research and development investment ✓✓
- Tourism and certain high-level services

TOPIC 10: REGIONAL DEVELOPMENT

- Discuss South Africa's initiatives (endeavours) in regional development.
- How successful is South Africa's regional development in terms of their benchmark criteria?

INTRODUCTION

- Regional development is the policies aimed at increasing economic activity in geographical areas that are less developed. ✓✓□

MAIN PART

- Spatial development initiatives (SDI) in South Africa with a link to the Private-public partnerships. ✓✓
- It is a policy aimed at attracting infrastructure and investments to areas with high unemployment and poverty. □✓✓
- The main objective is to create employment and stimulate economic growth in those regions. □✓✓
- This initiative makes provision for private-public partnerships (PPPs) to take advantage of the economic potential of underdeveloped areas. ✓✓
- Lubombo SDI is one of the example of the 9 local SDIs we have in South Africa. ✓✓
- The incentives from the government the SDIs enjoy includes;
- Duty free incentives- The benefit of importing intermediate goods with no charge of import tariff. ✓✓
- Skills support programme-Tax free grants for skills development. ✓✓

Industrial Development Zones (IDZs)

- IDZs are purpose built industrial estates located near a point of entry or exit into a country such as ports and airports. ✓✓
- The benefits of IDZs are supported to investing companies, especially for greenfield development projects. ✓✓
- Access to transport for export purposes is one of the key objective of the IDZs. ✓✓
- The other aim is to waiver import duties for products that are produced for export. ✓✓
- The example of the IDZ is Saldanha Bay which focuses on steel. ✓✓

Special Economic Zones (SEZs)

- It is a geographically demarcated area where specific economic activities have been identified to be developed. ✓✓

SEZ's can benefit the economy by:

- attracting new businesses (tax incentives) / investment ✓✓
- assisting businesses that establish new products lines and expand their operations □□✓✓
- creating more employment for the people in their neighbourhood ✓✓□
- increasing productivity and economic growth □□✓□
- promoting more effective use of resources□□✓□
- focusing on both domestic production and exports

- These areas may enjoy incentives such as tax relief and support systems to promote industrial development. ✓✓
- The government provides economic infrastructure to these areas and help in establishing industrial parks for employment-enhancing manufacturers. ✓✓
- These areas may enjoy incentives such as tax relief and support systems to promote industrial development. ✓✓
- It creates a basis for a broader range of industrial parks. ✓✓
- It also provides economic infrastructure to enable the effective clustering of value-adding and employment-enhancing manufacturers. ✓✓

Corridors.

- A corridor is a track of land that forms a passageway allowing access from one area to another. ✓✓
- The purpose of this can be to link two industrial areas or to link industries and the markets. ✓✓
- Maputo corridor is a major trade corridor which connects Limpopo, Mpumalanga and Gauteng with Maputo city in Mozambique. ✓✓
- This corridor comprises of roads, railway and border facilities at Komatipoort. ✓✓

ADDITIONAL PART

How successful is South Africa's regional development in terms of their benchmark criteria?

South Africa has been successful by:

- intervening in industries was based on sound economic research and analysis which lead to growth. ✓✓
- providing subsidies and incentives which enable substantial progress and growth in the upgrading of value-adding and labour intensive manufacturing sectors. ✓✓
- achieving great success in combating customs fraud, and targeting illegal imports and products of inferior quality through import restrictions. ✓✓
- aligning trade policy with industrial policy took place which resulted in South African industries being more competitive in global market. ✓✓

South Africa has not been successful:

- fraud and corruption are still applicable and inferior goods are produced. ✓✓
- the growth is declining due to non-availability of financial assistance or skilled employees. ✓✓

CONCLUSION

- Although the government has invested in such initiatives there has been some internal and external factors such as shortage of skills and unstable exchange rate that have hindered the progress of these initiatives. ✓✓

TOPIC 11: ECONOMIC AND SOCIAL INDICATORS

QUESTION 1

- Discuss in detail the following economic indicators:
 - Inflation rate
 - Foreign trade
 - Employment
 - Productivity
 - Interest rate
 - Money supply (26 marks)
- How successful is the South African Reserve Bank in stabilising prices on the different markets as its main objective? (10 marks)

[40]

INTRODUCTION

- Governments use different statistical data to predict economic trends and formulate suitable developmental strategies toward influencing the direction that the economy should take. ✓✓

(Accept any other suitable introduction)

(Max. 2)

BODY: MAIN PART

Inflation rate indicators

- Inflation may be defined as a significant and continual rise in the general price level of goods and services over a given time, with the result that the purchasing power of money will decrease. ✓✓

Consumer price index (CPI) ☐

- This is an indicator that measures the change in the cost of a fixed basket of goods and services that an average household will purchase. ✓✓

Producer Price Index (PPI) ☐

- This is the indicator of changes in the price of manufactured goods as they leave the factories and imported goods as they enter the country. ✓✓

The formula to determine inflation:

$(\text{CPI year 2} - \text{CPI year 1}) / (\text{CPI year 1}) \times 100 / 1$ ☐☐

- South Africa experienced double digit inflation for many years until the government and the South African Reserve Bank introduced the inflation target of 3% - 6%.☐✓✓

☒ Employment indicators

- It is not so easy to measure employment as there are a lot of people employed in the informal sector, they are not registered or recorded. ✓✓

The economically active population (EAP) ☒

- The economically active population figures are used (this was done in grade 11) All the people willing and able to work between 15 and 64 in a country☒☒ and includes: ✓✓
 - Workers in the formal sector ☒✓☐
 - Workers in the informal sector ☒✓☐
 - Employers ☒✓☐
 - Self-employed persons ☒✓☐
 - Unemployed persons ☒✓☐

Employment

- Refers to the number of employed persons expressed as a percentage of the EAP gives the employment rate. ✓✓

Employment indicators are important because:

- They calculate trends in employment in different sectors or industries – shows structural changes. ✓✓
- Show the success of the economy in utilising its full potential✓✓

Unemployment

- Unemployed are all the EAP, they were actively looking for work 7 days prior to the investigation and can start work 7 days after the investigation. ✓✓

Foreign trade indicators

Terms of trade ☒

- The Terms of Trade looks at the relationship between the price received for exports and the amount of imports we are able to buy with that money. ✓✓☐
- Terms of Trade = $\frac{\text{Average Price of Export}}{\text{Average Price of Imports}} \times 100/1$ ☒☒✓✓
- Changes in the terms of trade serve as an indicator of changes that may likely spill over into the balance of payment account and a deficit may follow this will lead to a depreciation in the currency. ✓✓

Exchange rates ✓

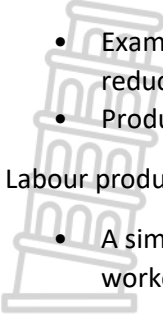
- Exchange rate is the rate at which one currency can be exchanged for another currency. ✓✓
- Exports and imports are strongly influenced by the exchange rate of the domestic currency☒✓✓

Productivity indicators

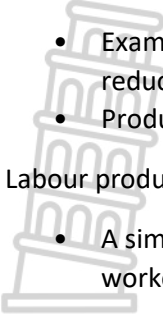
- Productivity measures the relationship between input and outputs☒✓✓
- . The more outputs you can produce for the same or less inputs the more productive you are. ✓✓
- Productivity is linked to cost – the more productive you are the lower costs are. ✓✓

- Example, if one labourer can produce more than another labourer the cost of labour will be reduced ✓✓
- Productivity will increase the Real GDP per Capita. This will increase economic growth. ✓✓

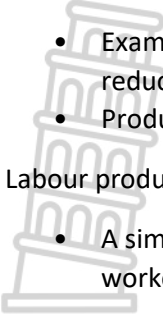
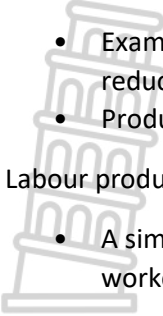
Labour productivity

- A simple formula to measure labour productivity is to divide real GDP by the number of workers employed. 

-Remuneration per worker

- If labour productivity increases by less than real wages, inflationary pressures will occur and the business cycle may turn unfavourable. 

The relationship between productivity and wages is important for the following reasons:

- Employers relate it to profits  ✓
- Workers relate it to improvements in the standard of living  ✓

Interest rates

- Interest as the main instrument in the monetary policy play a key role in the economy and would therefore be vitally important in measuring economic growth. ✓✓

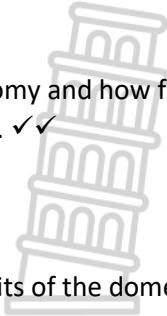
Repo rate

- Repo rate is the rate at which the SARB lends money to commercial banks. ✓✓

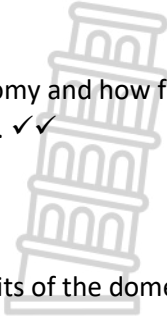
Prime Rate ✓

- The rate at which commercial banks lends money to households and business. ✓✓
- If interest rates move upward, the debt of households and business require bigger repayment instalments ✓✓
- This may indicate that the business cycle could be heading for a downward cycle, businesses might have to cut down production, unemployment may increase and economic growth will decline. ✓✓

Money supply

- The money supply indicate the money in circulation in the economy and how fast it moves from one person to another as this indicate high or low inflation. ✓✓ 

Money supply is divided in three categories:

- M1: This includes coins and notes. ✓✓
- M2: Includes M1 and other short-term and medium-term deposits of the domestic private sector with monetary institutions ✓✓
- M3: Includes M2 plus all long-term deposits of the domestic private sector with monetary institutions. ✓✓
- Too much money in circulation could lead to more spending and higher inflation . Too little money in circulation leads to under-spending, which leads to reduction in production, leads to unemployment and decline in economic growth. ✓✓

ADDITIONAL PART

- The CPI breached the upper range of the inflation target during 2014. SARB has increased interest rates to bring the inflation rate back into lower ranges, thus stabilising prices. ✓✓
- Setting the inflation target of 3 – 6% was a major initiative by the state that helped SARB to stabilize prices. ✓✓
- A decline in international crude oil prices in recent months suppressed global inflationary pressures. This contributed largely to lower domestic inflation favourably affecting Producer price inflation. Due to this the Reserve Bank were able to keep the repo rate unchanged. ✓✓
- PPI for intermediate manufactured goods has a positive impact on the stabilising of prices. ✓✓
- Although the Reserve Bank has been very successful in stabilizing prices, certain external factors which influenced the global economy like the World recession has impacted negatively on the SARB efforts in stabilizing prices. ✓✓
- Other factors like disinvestment due to poor governance led to a sharp decline in stability which hampered the stabilizing effects of SARB. ✓✓
- The poor value of the Rand on international markets is a major negative contributing factor on the inflation rate due to a major dependency on imports. ✓✓

(Accept any other relevant fact)

(Max. 10)

CONCLUSION

Economic indicators are some of the most important and powerful tools that the government can use to influence the direction that the economy should take as against other countries. ✓✓

(2 marks)

[40]

QUESTION 2

- Discuss in detail social indicators
- How successful has the South African government been in promoting economic development through use of these indicators

INTRODUCTION

- Social indicators are numerical measures that describe the well-being of individuals or communities used by economists.

(Accept any correct relevant introduction)

MAIN PART

Demographics

- These deal with statistical data relating to the population such as size, race, age, sex, income, language and education. [?]
- Government and businesses must know the size of the country's population to be able to provide for its infrastructure and businesses to know the availability of labour and size of markets. [?]

Population growth

- South Africa's population was estimated at 58,78 million in 2019. [?]
- Growth is slowing down. [?]

Life expectancy

- This expresses the number of years a new born infant will live if the prevailing patterns of mortality remained the same throughout his or her life. ✓✓
- Life expectancy at birth was estimated at 61,5 years for males and 67,7 years for females in 2019. ✓✓
- Assurance companies are interested in life expectancy as unexpected reductions reduce the number of years policy holders can pay premiums. ✓✓

Nutrition and health

- The standard of living of the population is related to the quality of nutrition and health.

Nutrition

- Nutrition is an important indicator for the well-being of infants and young children. ✓✓
- Child nutrition – Malnutrition is expressed in two ways – weight for age (underweight) and height for age (dwarfism). ✓✓ [?]
- The proportion of underweight children is the most important indicator of malnutrition.
- Overweight children : there is an association between obesity of children and other diseases. ✓✓

Health

- Infant mortality: The number of children that will die before one year of age is one way of measuring the health of a population. ✓✓
- Under-five mortality: the number of children that will die before the age of 5 years. ✓✓
- Health expenditure: the amount of health expenditure as a percentage of GDP. ✓✓
- Access to safe drinking water: the percentage of a population that has reasonable access to safe drinking water. ✓✓
- Access to sanitation facilities: the percentage of a population with at least adequate sanitation facilities that can prevent human, animal and insect contact. ✓✓
- Housing and urbanisation ✓ []

Housing

- A significant proportion of South Africans are poor and cannot afford to buy residential property. [?]
- The government facilitates home ownership by means of a subsidy system and loans from the private sector. [?]

- More than 3 million subsidised houses have been handed over to households since 1994. [?]

Urbanisation

- Urbanisation is the increase in the population numbers of cities and towns [?]
- The level of urbanisation is one of the indicators of a country's social development. ✓✓
- Urbanisation is an important social indicator because it points out to governments and developers that land has to be provided for a variety of purposes and services. ✓✓

It is measured by:

- Natural growth of the urban population [?]
- Migration [?]
- Establishment of new towns ✓
- South Africa is experiencing a trend of rapid urbanisation [?]

Education

- People's standard of living is directly related to their level of education. ✓✓
- Five or six years of schooling is a critical threshold for the achievement of sustainable literacy and numeracy skills. ✓✓
- A society of literate and skilled citizens has more chances of development at economic and social levels. ✓✓
- Education can reduce poverty and social injustice by providing the under-privileged with resources and opportunities for upward social mobility and social inclusion ✓✓
- Public expenditure percentage – shows the percentage of public expenditure that is directed towards education. ✓✓
- It measures public sector input but excludes private expenditure. ✓✓
- Secondary enrolment percentage – shows the percentage of designated age group attending secondary education. ✓✓
- It is considered a prerequisite for entry into employment for the semi-skilled ✓✓

Services

- A number of services are vital to enhance people's lifestyle and level of economic and social development.
- Electricity
- A large percentage of South African households have access to electricity. [?]
- Refusal disposal
- Some households in South Africa have access to refuse removal by local authorities once a week. [?]
- Water supply
- The average number of households who have access to an improved water source has increased in South Africa since 1994. [?]
- An improved source refers to an adequate amount of water from sources such as household connections, taps inside the yard, public taps etc [?]
- Reasonable access is defined as the availability of 20 litres per person per day from a source within at least one kilometre of the dwelling. ✓✓

Sanitation

- More households in South Africa have access to functioning sanitation. [2]✓✓
- This includes flush toilets, chemical toilets and pit toilets with ventilation pipes. ✓✓
- All other types of sanitation are defined as substandard [2]✓✓

ADDITIONAL PART

The South African government has been successful in the following ways:

- It has provided free health services of quality at the provincial hospitals and clinics.
- The government has developed more major road infrastructure leading into economic hubs to accommodate more traffic [2]
- The government extended school feeding schemes to more primary schools in the country where major unemployment is experienced in communities [2]
- Improved the provision of clean water to communities, especially when droughts are experienced [2]
- Increased free housing services and grants to the needy.
- The South African government has not been successful in the following ways:
- There is still poor school infrastructure, poor learning conditions and a lack of learning materials in most schools in the country. [2]
- Most public hospitals experience a shortage of resources in medicine and equipment [2]
- Strike actions by municipal workers hamper delivery of services to the citizens [2]
- Escalating corruption in the public sector hampers attempts by the government to provide for the welfare of the population. [2]
- Overall poor service delivery is still rife in the country.

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

CONCLUSION

- Social indicators can serve as a focal point in directing government expenditure on issues that will guarantee social development and quality lifestyle. [2]

(Accept any other relevant higher order conclusion) Max (2)

TOPIC 12: INFLATION

Question 1

- Discuss in detail the measures to combat demand-pull inflation. (26 marks)
- Evaluate the impact of inflation on individual tax payer in the economy (10 marks)

INTRODUCTION

- Demand pull inflation occurs when aggregate demand in an economy outpaces aggregate supply, even though gross domestic product rises and unemployment falls. ✓✓

Main body:

- Policy makers can use various policy measures to fight inflation when it gets too high. ✓✓

Fiscal measures

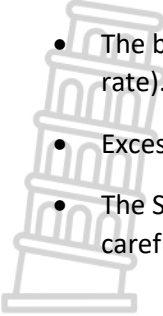
Fiscal measures are measures taken by the Minister of Finance regarding taxation and expenditure. Examples of measures that can be taken include:

- An increase in direct taxation (personal income tax) which will help to decrease demand. ✓✓
- An increase in indirect taxation (VAT) causes spending to decrease because goods become more expensive. ✓✓
- A loan levy. Reduces the disposable income of consumers. ✓✓
- The state cuts back on expenditure by cancelling government projects like roads, hospitals and schools. ✓✓
- The country's finance budget deficit is non-inflationary (the government uses loans from the non-banking sector to limit inflation). ✓✓
- The state imposes surcharges on imported goods. This increases the price of these imported goods, resulting in many people being unable to afford to buy these goods. ✓✓

Monetary measures

The South African Reserve Bank (SARB) and the government apply certain monetary measures to curb inflation:

- The SARB adjusts the quantity of money to the needs of the economy, (e.g. through open-market policy, thus maintaining a fine balance) between the supply of goods and services and money supply. ✓✓
- The SARB curbs inflation caused by excess demand by reducing the money supply. ✓✓

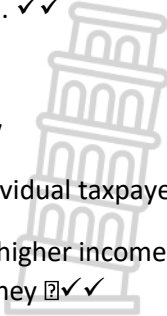
- 
- The bank rate of the central bank (SARB) affects the interest rates in the economy (repo rate). The bank rate can be raised to encourage savings. ✓✓
 - Excessive credit can be reduced by restricting the granting of credit by banks. ✓✓
 - The SARB can apply moral pressure (moral suasion) on financial institutions to be more careful when granting credit ✓✓

Other measures

Additional measures that can be taken to combat inflation include:

- Increase productivity: This is a long-term measure generated through improved education and training which allows more people to be employed and ensures they are more productive. ✓✓
- Price control: By fixing the price of certain essential goods, the government assures they remain affordable. ✓✓
- Wage policy: The government takes a decision to break the inflationary spiral of increased wages and prices by keeping the increase in wages below or at the level of inflation. ✓✓
- Stricter conditions for consumer credit: The government makes it harder for consumers to get credit in order to restrict their spending. ✓✓
- Encourage personal savings: The government implements measures to encourage savings, e.g. by cutting taxes on savings. The imbalance between demand and supply is corrected by increased savings, as people save more and spend less. ✓✓
- Import controls are relaxed. ✓
- Floating exchange rate: Prices are automatically adjusted to international conditions. ✓✓
- Indexation: A policy of linking prices of items such as wages, pensions and mortgage bond interest rates to price indices to eliminate the effects of inflation. ✓✓

Evaluate the impact of inflation on individual tax payer in the economy

- 
- Inflation increases the marginal and average tax rates of the individual taxpayer ☒✓✓
 - The progressive income tax system, where the individual with a higher income will be taxed at a higher tax rate, leaves this consumer with less spending money ☒✓✓
 - Tax is levied on nominal income and not on real income – therefore the average rate of personal income tax increases and disadvantages the individual taxpayer even more ☒✓✓
 - Individuals end up paying higher taxes even when they are not actually better off ✓✓
 - Bracket creeping has the same effect as an increase in the tax rate, thereby reducing the purchasing power of the tax payer ☒✓✓

(Accept any relevant points)

Conclusion

- While the resources are not being fully used, production and income will increase. However, when there is no excess capacity, the prices will increase. As long as consumers are able to borrow from commercial banks, they are able to increase their demand output. Demand inflation is often described as 'too much money chasing too few goods.' ✓✓

Question2

- **Discuss in detail the measures to combat cost-push inflation** (26)
- **Evaluate the impact of inflation on individual taxpayer in the economy?** (10)

INTRODUCTION

- Demand pull inflation occurs when aggregate demand in an economy outpaces aggregate supply, even though gross domestic product rises and unemployment falls. ✓✓

Main body:

- Policy makers can use various policy measures to fight inflation when it gets too high. ✓✓

Fiscal measures

Fiscal measures are measures taken by the Minister of Finance regarding taxation and expenditure. Examples of measures that can be taken include:

- An increase in direct taxation (personal income tax) which will help to decrease demand.
- An increase in indirect taxation (VAT) causes spending to decrease because goods become more expensive. ✓✓
- A loan levy. Reduces the disposable income of consumers. ✓✓
- The state cuts back on expenditure by cancelling government projects like roads, hospitals and schools. ✓✓
- The country's finance budget deficit is non-inflationary (the government uses loans from the non-banking sector to limit inflation). ✓✓
- The state imposes surcharges on imported goods. This increases the price of these imported goods, resulting in many people being unable to afford to buy these goods. ✓✓

Monetary measures

The South African Reserve Bank (SARB) and the government apply certain monetary measures to curb inflation:

- The SARB adjusts the quantity of money to the needs of the economy, (e.g. through open-market policy, thus maintaining a fine balance) between the supply of goods and services and money supply. ✓✓
- The SARB curbs inflation caused by excess demand by reducing the money supply. ✓✓
- The bank rate of the central bank (SARB) affects the interest rates in the economy (repo rate). The bank rate can be raised to encourage savings. ✓✓
- Excessive credit can be reduced by restricting the granting of credit by banks. ✓✓
- The SARB can apply moral pressure (moral suasion) on financial institutions to be more careful when granting credit. ✓✓

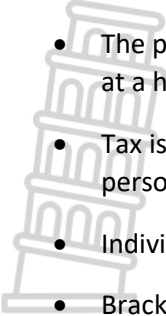
Other measures

Additional measures that can be taken to combat inflation include:

- Increase productivity: This is a long-term measure generated through improved education and training which allows more people to be employed and ensures they are more productive. ✓✓
- Price control: By fixing the price of certain essential goods, the government assures they remain affordable. ✓✓
- Wage policy: The government takes a decision to break the inflationary spiral of increased wages and prices by keeping the increase in wages below or at the level of inflation. ✓✓
- Stricter conditions for consumer credit: The government makes it harder for consumers to get credit in order to restrict their spending. ✓✓
- Encourage personal savings: The government implements measures to encourage savings, e.g. by cutting taxes on savings. The imbalance between demand and supply is corrected by increased savings, as people save more and spend less.
- Import controls are relaxed. ✓✓
- Floating exchange rate: Prices are automatically adjusted to international conditions. ✓✓
- Indexation: A policy of linking prices of items such as wages, pensions and mortgage bond interest rates to price indices to eliminate the effects of inflation. ✓✓

Evaluate the impact of inflation on individual tax payer in the economy

- Inflation increases the marginal and average tax rates of the individual taxpayer ✓✓

- 
- The progressive income tax system, where the individual with a higher income will be taxed at a higher tax rate, leaves this consumer with less spending money ✓✓
 - Tax is levied on nominal income and not on real income – therefore the average rate of personal income tax increases and disadvantages the individual taxpayer even more ✓✓
 - Individuals end up paying higher taxes even when they are not actually better off ✓✓
 - Bracket creeping has the same effect as an increase in the tax rate, thereby reducing the purchasing power of the tax payer ✓✓

(Accept any relevant points)

Conclusion

- While the resources are not being fully used, production and income will increase. However, when there is no excess capacity, the prices will increase. As long as consumers are able to borrow from commercial banks, they are able to increase their demand output. Demand inflation is often described as 'too much money chasing too few goods.' ✓✓



TOPIC 13: TOURISM

Question 1

- Discuss in detail the effects of tourism on the South African Economy. (26)
- Evaluate the success of indigenous knowledge systems (IKS) in promoting tourism in South Africa. (10)

INTRODUCTION

Tourism is the activities of people travelling to and staying in places outside their usual environment for no more than one consecutive year for leisure, business and other purposes. ☑✓✓

(Accept any other correct relevant introduction)

(Max. 2)

BODY: MAIN PART

GDP ✓

- Tourism is the fourth-largest industry in South Africa and supports about 700 hotels, 2 800 guesthouses and bed-and-breakfast establishments and 10 000 restaurants ✓✓
- Tourism has the potential of bringing the economy out of a slump, although it dropped by 5% before 2010, it increased by 5% thereafter ☑✓✓
- Tourism has direct as well as indirect impacts on the GDP. ☑✓✓
- Direct impact Indirect impact Tourism contributed 3% of the GDP in 2018 ✓✓
- Internal spending on travel and tourism by residents and non-residents for business and leisure ✓✓
- Tourism contributed 9% in 2018 ☑✓✓ (update for current figures)
- Government and private sector spending such as purchase of new aircrafts and construction of new hotels ☑✓✓

Employment ✓

Tourism:

- industry employs about 7% of the South African workforce, and is potentially regarded as the largest provider of jobs and earner of foreign exchange ✓✓
- industry has employed more than 1,2 million people ✓✓
- is ideal for providing employment in areas that offer few employment opportunities ✓✓
- is labour intensive although it has the lowest ratio of investment to employment creation ✓✓

- uses different skills, from accountants to hairdressers ✓✓
- has the potential to create jobs and offer opportunities for small entrepreneurs ✓✓
- provides immediate employment like live entertainment at holiday resorts ✓✓
- provides entrepreneurial opportunities in the informal sector such as fruit vendors ✓✓

Poverty ✓

- The income the tourism industry earns contributes to the country's growth and development. Tourism can affect the lives of the poor in many ways ✓✓
- The Department of Tourism is involved in poverty relief projects that promote community owned tourism products and services ✓✓
- Poverty relief programme manages and administer poverty relief proposals and spin-off projects in the tourism and environment sectors ✓✓
- Their focus is on infrastructure investment (e.g., information centres, tourist ablution facilities, walkways) and product development (e.g., heritage sites, rock art and conservation) ✓✓
- Through this programme, the DEAT is seeking to provide long-term sustainable work opportunities for the members of South Africa's poorest communities in rural areas ✓✓
- Tourism is an effective mechanism for distributing resources to rural areas to develop them as tourist sites ✓✓

Tourism externalities ✓

- Tourism activities may result in benefits or costs to third parties who are not part of the buyer-seller market ✓✓
- Negative externalities: Aircraft noise disturbing residents near airports ✓✓
- Other examples/costs: Traffic and congestion, extra policing due to crime, increased health service and sanitation, destruction of flora and fauna, spoiling views of the landscape, increased maintenance of infrastructure ✓✓
- Positive Externalities: the Gautrain provides links to different areas speedily especially to the airport ✓✓
- Other benefits are new recreational amenities, increased direct and indirect tax revenue ✓✓
- Tourism can cause inflation, which makes some goods unaffordable to locals ✓✓

The environment ✓

- The influx of tourism and vehicles into conservation areas damages grass cover affecting plant and animal species. ✓✓

- Tourism involves transport and transport is a major 'source of pollution'. ✓✓
- Policy should be in place to ensure tourists are transported in the most environmentally friendly way e.g., Rickshaw at the beachfront, horse-riding, cycling ✓
- The use of the Gautrain is more environmentally friendly as it decreases carbon emissions ✓✓
- The rapid degradation of the environment poses a major threat to the tourism industry ✓✓
- The environment is divided in four main categories: permanent environmental restructuring like airports direct environmental stress caused by tourist activities ✓✓
- effects on population dynamics ✓

Investment/ infrastructure ✓

- Tourism leads to increased demand, which makes business more willing to invest in capital goods and labour ✓✓
- Government expenditure on infrastructure is encouraged because it can generate income ✓✓
- With regard to travel and tourism, infrastructure includes fixed passenger transportation investment, destination services such as power, water and sewerage, cleaning and health, fixed communications investments ✓✓
- South Africa has a first-world infrastructure; however, there is a lack of infrastructure in the rural areas, which limits the participation of the rural communities in the tourism industry ✓✓
- The absence of adequate transportation services also prevents rural communities from participating in the tourism industry, both as potential suppliers of products, and as tourists themselves ✓✓
- Energy infrastructure like electricity needed by tourists at tourist sites ✓✓
- Tourists need basic services like clean water and refuse removal. ✓✓

(Accept any other relevant response)

(Allocate a maximum of 8 marks for the mere listing of facts/examples) (Max 26)

ADDITIONAL PART

Evaluate the success of indigenous knowledge systems (IKS) in promoting tourism in South Africa. (10)

Indigenous Knowledge Systems (IKS) is successful in promoting tourism in South Africa by:

- offering unique attractions, it encouraged foreign tourists to learn about South Africa's indigenous culture, history, and cultural diversity ✓✓
- giving tourists an opportunity to experience the indigenous culture e.g., cultural villages such as Shangana in Mpumalanga and Basotho in Free State ✓

- offering inexpensive cultural tours based on indigenous knowledge ✓✓
- encouraging government to create policies to protect, develop and promote indigenous knowledge systems e.g., medicine, arts, and crafts ü✓
- expanding the experiences of tourists in township by visiting places such as Soweto where they can eat and drink at a shebeenü displaying African art and culture ✓✓ e.g., music the National Arts festival held in Grahams town caters for this need ✓
- developing sites of cultural and historical importance ✓ such as Robben Island ✓

(Accept other correct relevant response)

(Max. 10)

CONCLUSION

Marketing of tourism products to both domestic and international markets is important for achieving the full growth potential of the sector in South Africa ✓✓

(Accept any other correct relevant higher order response)

(Max. 2)

[40]

QUESTION 2

Examine the effects of tourism on the following:

- Poverty
- Employment
- Externalities

(26)

How can South Africa promote domestic tourism?

(10)

INTRODUCTION

Tourism is the activities of people travelling to places outside their usual environment for not more than one consecutive year, for leisure, business, and other purposes ✓✓ü (Max. 2)

MAIN PART

Poverty

- Tourism is one of the fastest and most efficient redistribution mechanisms in development ✓✓
- Tourism stimulates economic growth and brings development to the poor in rural areas ✓✓
- Tourism offers opportunities to diversify sources of income for poor people ✓✓
- Allowing them a stake ü for example, to start and operate small-scale tourism businesses around community assets and to establish SMMEs to provide services ✓✓
- Empowerment ü for example, to exploit opportunities of on-the-job and other training ✓

- Creating partnerships ü linking up with mainstream tourism businesses supplying goods and services ✓✓ (Max 10)

Employment

- Tourism sector directly and indirectly employ people ✓✓
- The sector is the largest creator of jobs (employs 7% of the workforce in SA) ✓✓ for the following reasons:
 - Tourism is labour intensive It has the lowest ratio of investment to employment creation. This means that more jobs can be created with every unit of capital invested in tourism ✓✓
 - Many tourist activities are therefore within the reach of small tour operators ✓✓
 - Tourism employs many skills ✓ Various skills are employed in the tourism sector ✓ for example, tour guides, hairdressers, accountant ✓ It also offers a huge potential for on-the-job training ✓
 - Tourism provides immediate employment ü If it is properly organised and focused, the tourism sector can create many jobs within a short period of time ✓✓
 - Tourism provides entrepreneurial opportunities. The tourism industry accommodates informal sector enterprises ✓ from craft and fruit vendors to pavement vendors, chair rentals and others ✓✓ (Max 10)

Externalities

The rapidly expanding tourism industry could have both positive and negative impacts that extend well into the future:

- Attracts large amounts of revenue, but can cause undue environmental damage (uses resources and produces waste) ✓✓
- Rapid growth aimed at short-term benefits has more negative than positive effects: degeneration of traditions and cultural values, environmental damage to sites and natural settings – pollution and waste ✓✓
- Global tourism will grow due to increased population, improved living standards, increased free time and expansion of transportation systems, but put unnecessary pressure on tourist sites ✓✓
- Economic effect on individuals: new transport systems, recreation, shops and increase in property value compared to an increased inflation rate ✓✓
- Economic effect on government: more direct and indirect tax compared to conservation of infrastructure and tourist attractions ✓✓
- Social effect on individuals: improved health care and education compared to traffic congestion, crime ✓✓
- Social effect on government: an increased value put on culture, less migration compared to policing, sanitation, and health services ✓✓ (Max 10) (Max 26)

(Accept any other correct relevant response)

(Allocate a maximum of 8 marks for mere listing of facts / examples)

ADDITIONAL PART

How can South Africa promote domestic tourism? (10)

South Africa can promote domestic tourism by

- Improving its marketing and advertising - Domestic tourism is encouraged through increased advertising - TV magazine programmes like Shot'left inform people about local places of interest ✓✓
 - Promoting special holiday packages - Special off-season rates make it possible to enjoy cheaper holidays ✓✓
 - Enhancing efficiency of tourist information outlets - Many towns have information outlets that supply pamphlets and information about a specific area. ✓✓
 - Distributing information booklets (awareness) and offer transport to visit places of interest. This is mostly done by hotels and other accommodation resorts ✓✓
 - Improving infrastructure ü a greater variety, using new technology to provide reliable infrastructure ✓✓
 - Government effectively managing its tourist sites and other tourist attractions e.g., maintenance, upgrading, security etc. ✓ (Max.10)
- (Accept any other correct relevant response)

QUESTION 3

Discuss the benefits of tourism for:

-Business (10)

-Infrastructure development (8)

-Households (8) (26)

How can South Africa promote domestic tourism? (10)

INTRODUCTION

Tourism is the activities of people travelling to and staying in places outside their usual environment for no more than one consecutive year for leisure, business, or other purposes ✓✓ (Max 2)

(Accept any other correct relevant response)

MAIN PART

Business sector ✓

- Tourism stimulates business in areas such as accommodation and entertainment. ✓✓

- The construction industry, in private-public partnership with the government to provide the infrastructure, manufacturing sector and recreation sector all benefits from increased demand due to tourism ✓✓
- The previously disadvantaged communities get entrepreneurial opportunities through the black economic empowerment schemes. ✓✓
- Many people get business opportunities in the informal sector ✓✓ e.g., selling of artefacts ü
- Local retailers may have an increase in sales (and profits) because of increased demand from tourists ✓✓
- Private businesses and government work in partnership to provide the infrastructure needed for tourism ☒☒
- This increases the market share of and income of these businesses ✓✓
- Allow existing businesses to improve the quality and variety of their products ✓✓
- Allow natural monopolies e.g., Table Mountain Cableway to achieve abnormal profits ✓✓
- The public sector also provides a range of financial incentives for private sector tourism investment (grants, subsidies, loans, tax rebates) ✓✓ (10)

Infrastructure development ✓

- Adequate and well-maintained infrastructure is essential for tourist destinations ✓✓
- Locals share this infrastructure with tourists ✓✓
- Government often prioritises economic infrastructure such as ports and beaches ✓✓
- In addition to physical and basic infrastructure, social infrastructure is also important for the growth of tourism ✓✓
- Most of the SDIs and development corridors also have tourism as an important focus ✓✓ (8)

Households ✓

- Members of households earn income from the tourism sector as tour operators, travel agents etc. ☒ ✓✓
- Many households are indirectly involved in tourism as employees ☒☒ e.g., in hotels, transport sector ✓✓
- Entrepreneurs from households that operate as curio producers or musicians can earn income from tourism
- Many households acquire skills in the tourism industry ✓✓
- School curriculum and learnership offer opportunities to acquire these skills ✓✓
- Encourages rural development because many tourist attractions are in rural areas ☒ ✓✓ (8)

(Accept any other correct relevant response) (Allocate a maximum of 8 marks for mere listing of facts/examples)

(Max.
26)

ADDITIONAL PART

How can tourist attractions in less popular destinations be marketed successfully?

(10 marks)

Tourism can be successfully marketed in less popular destinations by:

- advertising the firms' attractions in a variety of media including social media and internet which may reach both local and international potential tourists [2] ✓✓
- focusing on a clear message that concentrates on the strength of the attraction/ uniqueness of the destination ✓✓
- using the indigenous knowledge systems of that area where possible ✓✓
- describing the service offered in the best possible way to catch the interest of the likely tourist [2] E.g., the use of slogans ✓
- charging a price that is competitive and money well spent for the service offered [2]
- helping the tourist to view the entire service as value for money – deliver a world class visitor experience ✓✓
- highlighting other places of interest in the vicinity of the attraction as part of a package [2]
- focusing on proudly South African products/services / Short Left campaign ✓✓
- help disadvantaged South Africans to benefit from tourist attractions in the less popular destinations ✓✓

(Accept any other correct relevant response)

(Max. 10) **CONCLUSION**

A weaker exchange rate has been a major contributing factor to South Africa's tourism industry growth over many years ✓✓

(Accept any correct relevant response)

Max 2

TOPIC 14: ENVIRONMENTAL SUSTAINABILITY

- Discuss in detail how the government can ensure sustainable development (26)
- How does South Africa use a conservation to ensure a sustainable environment (10)

INTRODUCTION

Environmental sustainability refers to the development that satisfies the current needs of the people without compromising the quality of the environment so that it remains equally capable of supporting the future generations ✓✓ (2)

(Accept any other relevant introduction.) (Max. 2 marks)

MAIN PART

Granting property rights ✓

- Property rights are laws that govern how individuals can control, use, benefit from and transfer resources ✓✓
- Property rights have positive conservation effects because they ensure that people take care of the property, they own ✓✓
- They will use it profitably for as long as possible, even for generations to come ✓✓
- To prevent fauna and flora species from becoming extinct, the government can allow people property rights over them ✓✓
- Property owners can then preserve the environment at little cost to taxpayers ✓✓
- Property rights can be expanded to common goods such as clean air ✓✓
- Kyoto Protocol is an international agreement whereby developed countries pay developing countries for their right to pollute ✓✓

Pay for environmental use ✓

- The government can protect the environment by imposing user-fees and charges on individuals who use or damage the environment ✓✓
- Government levies fees for waste produced and dumped in the environment ✓✓
- In South Africa, local authorities levy charges on rubbish collected and sewage disposal ✓✓
- Charges should be proportional to the waste for best results because a fixed total charge will not encourage waste producers to reduce waste ✓✓

Levy environmental taxes ✓



- These are also known as green taxes or eco taxes ✓✓
- Government imposes these taxes on consumption of a good that has a negative impact on the environment and is not for the good of the environment ✓✓
- E.g., levy on plastic bags, filament light bulbs, tyres etc. ✓
- To achieve a socially efficient output the rate of tax should be equal to the marginal external cost ✓✓

Pay environmental subsidies ✓

- The government pays a subsidy to firms that enable them to reduce pollution levels by a certain percentage or below a certain level ✓✓
- E.g., government subsidizes new technology that saves energy such as energy saving bulbs or solar geysers ✓✓

Issue marketable permits ✓

- The government issues a permit to each firm which allow a certain amount of pollution, so this sets a standard ✓✓
- Firms are allowed to trade the permits to other firms that have a larger pollution level ✓✓
- When increasing output each firm can decide whether it is more profitable to buy permits for additional pollution or to alter its technology to produce less pollution using its current permits ✓✓

Command and control ✓

- Maximum permitted levels are set, e.g., emission minimum acceptable levels of environmental quality ✓✓
- Inspectors monitor the activities and impose fines if the legal limits are not respected ✓✓
- There are three approaches to devising command and control system:
- Quantity standards: ✓ focus on quantities of pollution emitted ✓✓
- Quality standards ✓: These focus on the environmental impact of the pollution emitted. ✓✓
- Social impact standards: ✓ These focus on the effect on people of the pollution emitted. ✓✓

Voluntary agreements ✓

- The government tries to enter into voluntary agreements with businesses to cut pollution. Rather than imposing laws and regulations ✓✓


Education ✓

- These agreements include formal contracts or informal commitments that businesses negotiate to suit their own circumstances ✓✓

- It is used to try to change people's attitudes towards the environment ✓✓
- Innovative approaches have been tried in developing the world to educate people, e.g., setting up a community wildlife reserve ✓✓
- Education should include aspects of indigenous knowledge systems because indigenous people have a broad knowledge of how to live sustainable ✓✓
- People should be made aware of environmental issues and the consequences of their actions ✓✓
- To make their consumption habits more environmentally friendly ✓✓
- Education plays an important role in improving people's ability to manage the environment ✓✓

(Accept any other relevant correct response.) (Max. 26 marks)

(26)

Maximum of 8 marks for mere listing of facts or examples.


ADDITIONAL PART

- **How does South Africa use a conservation to ensure a sustainable environment?**

Conservation relates to the taking care of natural resources to ensure they are not completely used up and disappear from the environment. ✓✓

South Africa ensure sustainable environment through conservation by:

- recognizing, protecting, and maintaining traditional knowledge, practices, and cultures ✓✓
- using traditional knowledge with approval and involvement of those who possess the knowledge ✓✓
- establishing and managing efficiently a representative and effective system of protected areas ✓✓
- controlling and preventing introduction of harmful species that threaten the biodiversity ✓✓

- 
- strengthening measures for the conservation of biological diversity outside of natural habitat ✓✓
 - maintaining stock levels of environment resources through issuing of permits and quota ✓✓
 - maintaining renewable stocks through forces of demand and supply ✓✓ (10)

(Accept any other correct relevant response.)

CONCLUSION

The environment is important as a precious resource which needs to be taken care of by both the government and individuals at large. ✓✓ (Max. 2 marks)

(Accept any other relevant conclusion)

Question 6

- Discuss the major environmental problems that affect countries globally , and the international measures taken to ensure sustainable development (26marks)
- Evaluate the success the international measures adopted to address the environmental problems. (10marks)


INTRODUCTION


The existence of the environment is under threat due to many problems which intensify as time moves along ✓✓ (Max. 2)

(Accept any other correct relevant response)

BODY: MAIN PART

Loss of biodiversity ✓

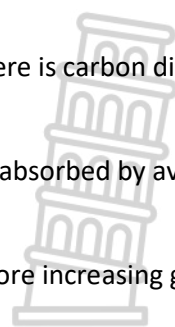
- 
- It relates to the number of genetic varieties among individual plant and animals within a community of organisms ✓✓
 - The depletion of natural resources can lead to extinction of some species and in so doing, decrease biodiversity ✓✓
 - Extinction of species is an irreversible process, therefore a major threat to the process of gene transplant among species ✓✓

- 
- Some modern techniques make it possible to transplant desirable genes from one species to another to create a new species, however, the genes used must be diverse ✓✓
 - **Convention on International Trade in Endangered Species** bans commercial international trade in an agreed list of endangered species that is reviewed from time to time

Chemical waste ✓

- Exposure to chemicals such as insecticides and pesticides can result in immediate death ✓✓
- In other instances, it can result in death after a period due to digestive incapacity or nerve malfunctioning ✓✓
- In human beings, plants and animals, exposure to toxicity may result in infertility ✓✓
- In normal concentration most chemicals are not toxic, but in excess amount they all can be dangerous ✓✓ e.g., incorrect medicine dosage ✓
- Other chemicals such as DDT are by design toxic substances ✓✓
- The production of chemicals results in chemical waste and disposing of such chemicals is always a problem to the environment ✓✓
- The Stockholm Protocol prohibits twelve of the deadliest man-made chemicals ✓✓
- The Rotterdam Convention protects countries which do not have the necessary infrastructure to monitor the trade in hazardous chemicals ✓✓

Climate change ✓

- 
- A build-up of greenhouse gases causes the heat from the sun to be trapped in the atmosphere ✓✓
 - The most common greenhouse gas produced into the atmosphere is carbon dioxide which is released from burning of fossil fuels and wood ✓✓
 - The amount of carbon dioxide produced is not being able to be absorbed by available trees ✓✓
 - Increasingly natural forests are cut down for human use, therefore increasing greenhouse gases into the atmosphere ✓✓
 - Increased greenhouse gases lead to the damage of the ozone layer and eventually the global warming ✓✓
 - Global warming influences the world's weather patterns which include extreme temperatures and a change in rainfall patterns ✓✓

- Voluntary deduction of carbon dioxide levels did not succeed – led to signing of Kyoto Protocol in 1997 ✓✓

Hazardous waste ✓

- These types of waste are dangerous to living organisms and the ecosystem as a whole and because they are very slow to decompose ✓✓
- The Basel Convention allows parties to export hazardous waste that has not banned its import ✓✓

Loss of indigenous knowledge ✓

- The organic methods and natural processes used by traditionally indigenous people are not well-known amongst all local communities or foreign tourists ✓✓
- Government programs undertaken to protect these systems, will increase legitimacy and credibility in the eyes of both local people and the outside world ✓✓
- There is an urgent need to respect and promote inherent rights of indigenous people that they derived from social structures ✓✓
- Indigenous knowledge provides a powerful basis from which to develop alternative ways of managing resources ✓✓
- Care should be taken that indigenous knowledge is not overwhelmed and lost forever ✓✓

(Max. 26)

(Accept any other correct relevant responses)

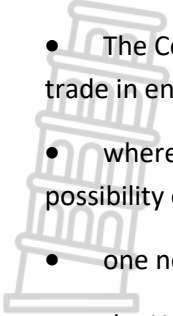
(Accept any other problems like deforestation, soil erosion, land degradation, over-population, pollution, melting ice caps)

ADDITIONAL PART

Evaluate the success the international measures adopted to address the environmental problems.
(10)

The international measures to address the environmental problems have been successful because:

- The United Nations Convention on Climate Change and the Kyoto Protocol has created an awareness and formulated measures to address climate change ✓✓
- Kyoto protocol was signed by 186 countries, and binding emission targets (5.2%) was set ✓✓

- 
- The Convention on International Trade in Endangered Species (CITES) has regulated the trade in endangered animals and plants to address biodiversity loss ✓✓
 - whereby control is carried out through the issuing of permits and quotas to reduce the possibility of extinction ✓✓
 - one needs a permit to import plants and animals to South Africa ✓✓
 - the United Nations facilitated several agreements such as the Stockholm Protocol on Persistent Organic Pollutants to address a problem of toxic wastes worldwide ✓✓
 - the protocol bans twelve of the most dangerous manufactured substances such as the DDT ✓✓
 - ✓✓ the Basel Convention agreed to manage nuclear waste ✓✓

The international measures to address the environmental problems have not been successful because:

- the rate at which greenhouse gases are produced keep on increasing, despite many climate change conventions (UNFCCC) and protocols (Kyoto) ✓✓
- countries still experience the negative effects of climate change in recent year's ✓✓
- extreme natural disasters such as cyclones that caused damage in Mozambique in 2019 the Paris agreement of climate change (2012) was undermined by the withdrawal by powerful countries such as the USA which has influence in other countries and is a major polluter ✓✓
- endangered species such as rhinoceros are still being killed for their horns despite the measures put in place by CITES ✓✓
- developing countries allow dumping of hazardous waste which encourages the rich industrialized countries to contribute to the problem ✓✓

(Max. 10)

(Accept any other correct relevant higher order response)

CONCLUSION

The success of the efforts made in addressing environmental problems is dependent on whether the governments, businesses and consumers around the world take such measure seriously enough to implement them ✓✓ (Max. 2)

(Accept any other correct higher order conclusion)