KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

PROVINCIAL STANDARDISED ASSESSMENT

GRADE 12

ECONOMICS P1

JUNE 2026

MARKS: 150

TIME: 2 Hours

This question paper consists of 13 pages.

Erratum Page 2 has been replaced

INSTRUCTIONS AND INFORMATION

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

   SECTION A: COMPULSORY
   SECTION B: Answer TWO questions.
   SECTION C: Answer ONE of the two questions.

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

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

4. Write the question number above each answer.

5. Read the questions carefully.

6. Start EACH question on a NEW page.

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

8. Answer the questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.

9. Use only black or blue ink pen.

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

11. Write neatly and legibly.

SECTION A

QUESTION 1 (COMPULSORY) **30 MARKS – 20 MINUTES**

1.1. Various options are provided as possible answers to the following questions. Choose the correct answer and write ONLY the letter (A – C) next to the question number (1.1.1 – 1.1.5) in the ANSWER BOOK. e.g. 1.1.6 D.

1.1.1 The total value of all spending by households on goods and services known is as … spending.

A. government
B. investment
C. export
D. consumption

1.1.2 The method that is used to calculate GDP at market price by adding the final values of all final goods and services produced is called …

A. Production.
B. Income.
C. Expenditure.
D. Consumption.

1.1.3 Business cycles that are caused by the changes in net investments by businesses are called … cycles.

A. Kitchin
B. Kuznets
C. Juglar
D. Kondratieff

1.1.4 Indicators that change at the same time and in the same direction as the economy changes are known as … indicators.

A. leading
B. lagging
C. composite
D. co-incident

1.1.5 Tax that is levied on luxury items such as alcohol is called ...

A. wealth tax.
B. value-added tax.
C. excise duty.
D. fuel levy.

1.1.6 The level of government that is responsible for the overall running of the country is called ... government.

A. provincial
B. national
C. local
D. public

1.1.7 The interaction of economies with trade as an important element is known as …

A. globalisation.
B. privatisation.
C. entrepreneurship.
D. export promotion.

1.1.8 The difference between the value of imports and exports of goods is referred to as …

A. net service.
B. trade balance.
C. reserve account.
D. financial account.

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

COLUMN A		COLUMN B
1.2.1 Moral suasion	A	Shows income and expenditure estimates for a three-year period
1.2.2 Nationalisation	B	Movement of income and expenditure between participants in the economy
1.2.3 Double counting	C	A comprehensive and systematic record of all transactions between one country and all other countries.
1.2.4 Exogenous approach	D	When government takes-over businesses that were previously owned by private sector
1.2.5 Money flows	E	Addition of intermediate goods and including the same value more than once when calculating GDP
1.2.6 Terms of trade	F	Independent factors that influence business cycles and originate outside the economy
1.2.7 Balance of payments	G	Persuasion of banks by the South African Reserve Bank (SARB) to grant credit responsibly.
1.2.8 Medium term expenditure framework	H	Estimate figures or trends in future from facts that are known
	I	A comparison of country's export prices compared to its import prices
		(8 x 1) (8)

1.3 Give one term for each of the following descriptions. Write only the term next to the question numbers (1.3.1 to 1.3.6) Abbreviations, acronyms and examples will not be accepted.

1.3.1 An economy that does not engage in international trade.

1.3.2 Money paid by the government to a person without any service rendered.

1.3.3 A continuous flow of goods, services, and factors of production in the circular flow.

1.3.4 Goods that are supplied by the state because it is believed that they would be under-supplied.

1.3.5 The investment made by a company from one country into a business in another country.

1.3.6 An increase in the price of a currency in terms of another currency due to market forces.

SECTION B

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

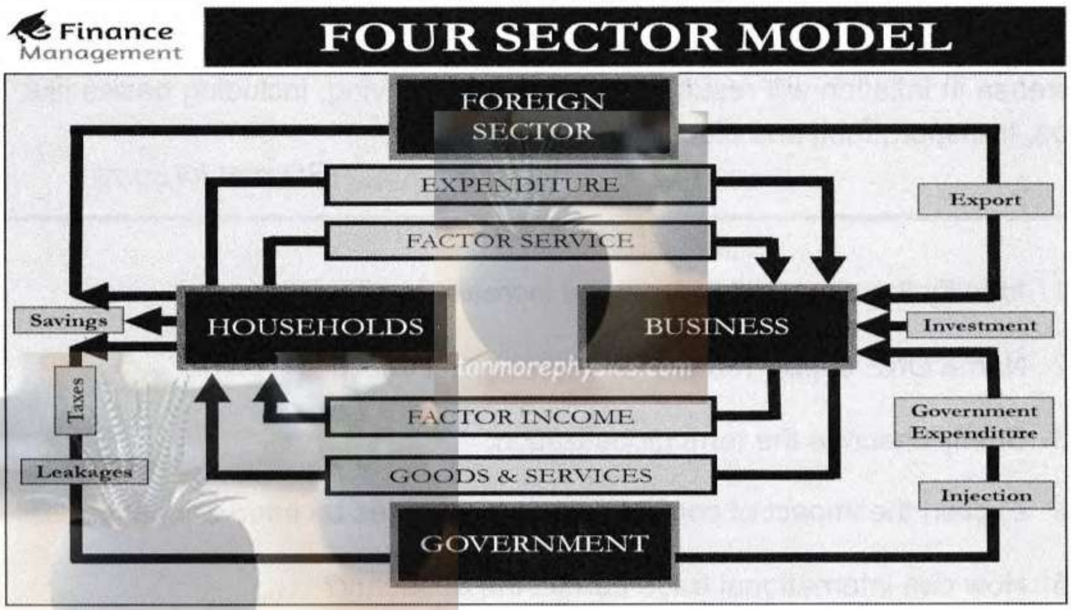
QUESTION TWO: MACRO-ECONOMICS 40 MARKS – 30 MINUTES

2.1 Answer the following questions

2.1.1 Name any TWO categories of consumer goods. (1 x 2) (2)

2.1.2 Why are unrecorded transactions important in the balance of payment? (2)

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



Source: bingimages.com

2.2.1 Identify the participant regarded as the owner of the factors of production. (1)

2.2.2 Name ONE injection on the diagram above. (1)

2.2.3 Briefly describe the term *real flows.* (2)

2.2.4 Explain the importance of the foreign sector in the economy. (2)

2.2.5 Why businesses are important economic participants in the circular flow? (4)

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

WORLD TRADE ON BRINK OF TOTAL DISSASTER

The on-going war between the U.S.-Israel and Iran has caused a major spike in oil and gas prices, mainly due to disruptions in the Strait of Hormuz, which handles about 20% of global oil trade. The supply interruptions and attacks on energy infrastructure, especially oil and gas, have reduced output and exports. This has destabilized global energy markets, and everything has become more expensive.

This has resulted in a global inflation surge. The rising oil prices are being directly fed into the inflation worldwide. Even a mere looking 10% rise in oil prices can increase inflation significantly in a stagnant process. Thus, the increase in inflation will result in a higher cost of living, including basics like food, transport, fuel, and electricity.

Source: *iol.co.za*

2.3.1 Identify the expected percentage increase in oil prices (1)

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

2.3.3 Briefly describe the term globalization. (2)

2.3.4 Explain the impact of conflict between countries on international trade. (2)

2.3.5 How can international trade benefit the economy? (4)

2.4 Distinguish between *real gross domestic product* and *nominal gross domestic product*. (8)

2.5 How can deficit in the balance of payments affect the economy? (8)

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

3.1 Answer the following questions.

3.1.1 Name any TWO types of the markets in a circular flow. (2)

3.1.2 How does direct investment affect the economy of the country? (2)

3.2 Study the table below and answer the questions that follow

SOUTH AFRICA'S GROSS DOMESTIC PRODUCT (GDP) – 2025

	R million
Compensation of employees Net operating surplus Consumption of fixed capital	1 592 121 1 005 900 760 521
Gross value added at factor cost	3 358 542
Other taxes on production Other subsidies on production	61 440 7 450
Gross value added at basic prices	**A**
Taxation on products Subsidies on products	337 500 11 505
Gross domestic product at market prices	**3 738 527**

[Adapted from the South African Reserve Bank Quarterly Bulletin, June 2025]

3.2.1 Identify the method of calculating national accounts used on the table above. downloaded from Stanmorephysics.com (1)

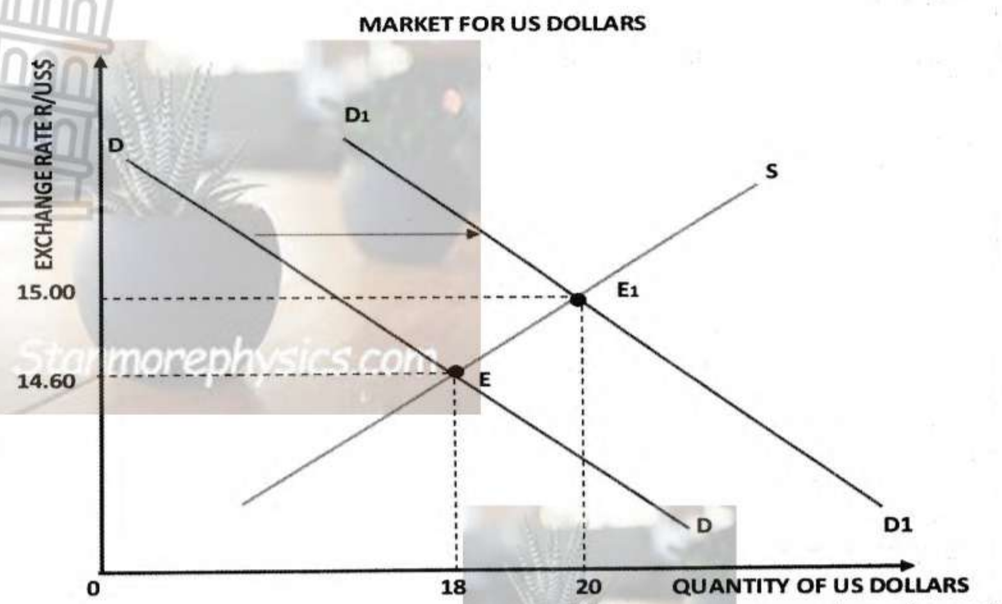
3.2.2 Name the item that records salaries and wages on the table above. (1)

3.2.3 Briefly describe the term *factor cost*. (2)

3.2.4 Explain the impact of subsidies on production to producers. (2)

3.2.5 Use the information in the table above to calculate the gross value added at basic prices (**A**). (Show all calculations). (4)

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



[Source: www.economicgraphs.com]

3.3.1 Identify the new exchange rate on the graph above. (1)

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

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

3.3.4 Explain the effect of an increase in demand for foreign exchange on the exchange rate. downloaded from Stanmorephysics.com (2)

3.3.5 Why would the reserve bank intervene in the foreign exchange market? (4)

3.4 Distinguish between *injections* and *leakages* in the circular flow. (8)

3.5 How can the depreciation of the rand impact the South Africa economy? (8)

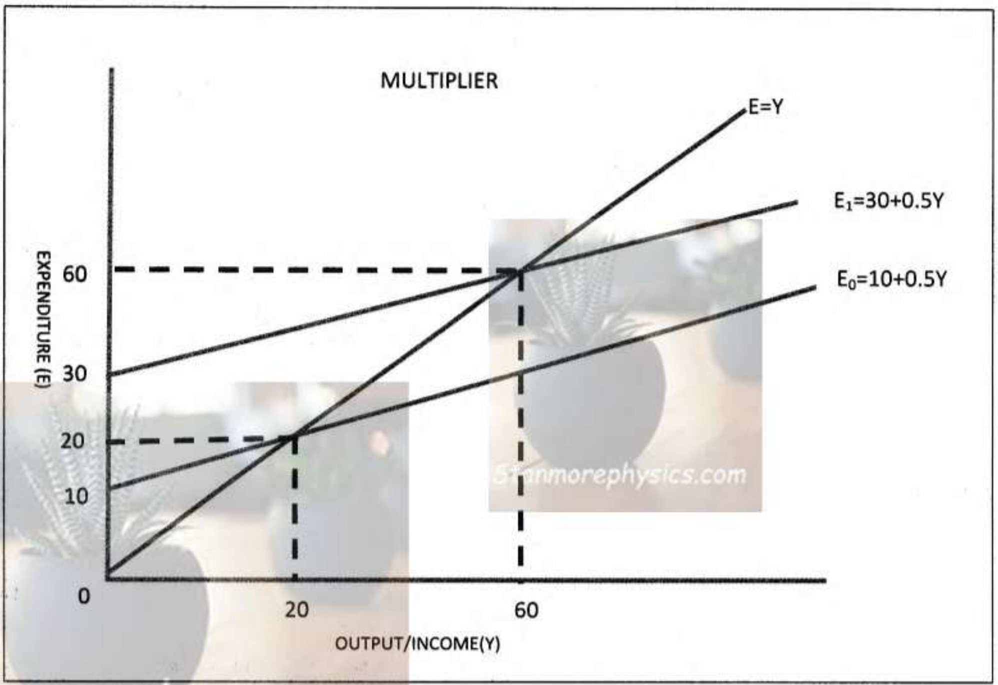
QUESTION 4: MACROECONOMICS **40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

4.1.1 Name any TWO effects of international trade. (2)

4.1.2 Why is it important that a country prepares national accounts? (2)

4.2 Study the graph below and answer the questions that follow



4.2.1 Identify the value of induced consumption on the graph above. (1)

4.2.2 Give the original consumption function on the graph. (1)

4.2.3 Briefly describe the term *autonomous consumption*. (2)

4.2.4 Explain the effect of an increase in government spending on the Multiplier. (2)

4.2.5 Use the above graph to calculate the multiplier using the formula= k= $\Delta Y/\Delta J$. (Show all calculations) (4)

4.3 Study the table below and answer the questions that follows

SOUTH AFRICA'S TERMS OF TRADE 2021-2025

Year	Export price index	Import price index	Terms of trade
2021	102	98	104
2022	94	100	94
2023	62	99	93
2024	105	103	102
2025	110	100	**A**

Source: Statistics South Africa

4.3.1 Identify the base year used by South African Reserve Bank to compile the terms of trade. (1)

4.3.2 Name ONE example of current transfers . (1)

4.3.3 Briefly describe the term *special drawing rights*. (2)

4.3.4 Explain the impact of an increase in import prices on international trade? (2)

4.3.5 Calculate the terms of trade for the year 2025 (A). Show all calculations. (4)

4.4 Briefly discuss *portfolio investment* and *net financial derivatives*. (8)

4.5 How can the financial sector positively affect the economy? (8)

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STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower –order response. • A good starting point will be to define the main concept related to the 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.	Max. 2
Body: **Main part:** Discuss in detail/In-depth discussion/Examine/ Critically discuss/ Analyse/Compare/ Evaluate/Distinguish/ Differentiate/Explain/Assess/Debate	Max. 26
Additional part: Give own opinion/Critically discuss/ Evaluate/Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/ Calculate/Deduce/Compare/Explain/Distinguish/Interpret/ Briefly debate	Max. 10
Conclusion: Any higher-order conclusion should include: • A brief summary of what has been discussed without repeating facts already mentioned in the body • Any opinion or valued judgement on the facts discussed • Additional support information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations	Max. 2
TOTAL	**40**

SECTION C

Answer ONE question from this section.

QUESTION 5: MACRO-ECONOMICS **40 MARKS – 40 MINUTES**

- Discuss in detail the new economic paradigm. (26)
- Evaluate the effectiveness of the South African Reserve Bank (SARB) in correcting fluctuations on the economy. (10)

[40]

QUESTION 6: MACRO-ECONOMICS **40 MARKS – 40 MINUTES**

- Discuss in detail the reason(s) for public sector failure (link them to typical problems experienced through public sector provisioning). (26)
- Analyse the effectiveness of the South African government in using the national budget to address inequality in the country. (10)

TOTAL SECTION C: 40 MARKS
GRAND TOTAL: 150 MARKS

FINAL

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GRADE 12

ECONOMICS P1

MARKING GUIDELINES

JUNE 2026

MARKS: 150

This marking guideline consists of 18 pages.

SECTION A

QUESTION 1 (COMPULSORY) **30 MARKS – 20 MINUTES**

1.1. MULTIPLE CHOICE

1.1.1. D - consumption✓✓
1.1.2. A – production ✓✓
1.1.3. C - Juglar✓✓
1.1.4. D - co-incident✓✓
1.1.5. C - excise duty✓✓
1.1.6. B - national ✓✓
1.1.7. A - globalisation.✓✓
1.1.8. B - trade balance✓✓ (8x2) (16)

1.2. MATCHING ITEMS

1.2.1. G- Persuasion of banks by the South African Reserve Bank (SARB) to grant credit responsibly. ✓

1.2.2. D-When government takes-over businesses that were previously owned by private sector. ✓

1.2.3. E- Addition of intermediate goods and including the same value more than once when calculating GDP✓

1.2.4. F- independent factors that influence business cycles and originate outside the economy. ✓

1.2.5. B- movement of income and expenditure between participants in the economy. ✓

1.2.6. I- a comparison of a country's exports prices compared to its import prices. ✓

1.2.7. C- a comprehensive and systematic record of all transactions between one country and all other countries ✓

1.2.8. A- shows income and expenditure estimates for a three-year period. ✓ (8x1) (8)

1.3 GIVE THE TERM

1.3.1. Closed economy ✓

1.3.2. Transfer payments ✓

1.3.3. Real flow ✓

1.3.4. Merit goods / public goods ✓

1.3.5 Foreign direct investment ✓

1.3.6. Appreciation ✓ (6x1) (6)

SECTION B

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

2.1 Answer the following questions

2.1.1 Name any TWO categories of consumer goods.

- Durable goods✓
- Semi durable goods✓
- Non - durable goods✓

(1x2) **(2)**

2.1.2 Why are unrecorded transactions important in the balance of payments?

Unrecorded transactions act as a balancing figure that is there to limit the effect of omissions and errors in the balance of payments. ✓✓

(1x2) **(2)**

(Accept any other relevant and correct response)

2.2 DATA-RESPONSE

2.2.1 Identify the participant regarded as the owner of the factors of production.

Households✓ **(1)**

2.2.2 Name ONE injection on the diagram above.

- Investment✓
- Government expenditure✓
- Export✓

(1)

2.2.3 Briefly describe the term *real flow.*

Real flow is the movement of goods, services and factors of production between economic participants.✓✓ (1x2) **(2)**

(Accept any other relevant and correct response)

2.2.4 Explain the importance of the foreign sector in the economy.

- The foreign sector is crucial for the economy as it encompasses all economic transactions between domestic residents and the global market, including exports, imports, capital flows, and labour movements.✓✓
- It facilitates trade, finance, and investment, which are essential for economic growth.✓✓ (1x2) **(2)**

(Accept any other relevant and correct response)

2.2.5 Why businesses are important economic participants in the circular flow?

- Businesses are important economic participants in the circular flow because they produce goods and services that satisfy needs and wants of the households. ✓✓
- They employ factors of production such as labour, land, capital and pay wages, rent and profit to households. ✓✓
- Businesses also generate income for households, which is spent on goods and services, keeping the economy active. ✓✓
- They contribute to government through taxes which help fund public goods and services. ✓✓ (2x2) **(4)**

(Accept any other relevant and correct response

2.3. Data-response

2.3.1 Identify the expected percentage increase in oil prices

10%✓ (1)

2.3.2 Name ONE supply reason for international trade.

- Natural resources✓
- Climate conditions✓
- Labour resources ✓ (1)

(Accept any other relevant and correct response)

2.3.3 Briefly describe the term *globalisation*.

Globalisation refers to the integration of nations through trade, investment, technology, communication, effectively reducing barriers between countries.✓✓ (1x2) (2)

(Accept any other relevant and correct response)

2.3.4 Explain the impact of conflict between countries on international trade.

The disruption caused by conflicts affects trade routes, commodity prices, production capabilities, and global economic stability.✓✓ (1x2) (2)

(Accept any other relevant and correct response)

2.3.5 How can international trade benefit the economy?

- International trade acts as a catalyst for economic expansion, by accessing global markets, countries can increase their production and generate higher income levels.✓✓
- One of the primary benefits of international trade is the variety of goods and services it offers to consumers. ✓✓
- Trade allows access to products and services that may not be available domestically.✓✓
- Global trade compels domestic businesses to innovate and improve efficiency to compete on the international stage. This competition leads to better products and services at competitive prices.✓✓ (2x2) (4)

(Accept any other relevant and correct response)

2.4 Distinguish between *real gross domestic product* and *nominal gross domestic product*. **(8)**

Real Gross Domestic Product	**Nominal Gross Domestic Product**
Real GDP provides the value of the country's economic output adjusted for inflation. By using constant prices from a selected base period.✓✓	Nominal GDP reflects the monetary value of all finished goods and services produced within a nation's borders using current market prices during the measured period. ✓✓
Real GDP allows for a better comparison of output over different time periods. ✓✓	It does not make adjustments for inflation or deflation, and it may reflect higher values simply because prices have increased.✓✓
It gives a clearer picture of whether actual production has increased or declined, irrespective of price changes.✓✓	It can overstate economic growth if prices have risen, making it less reliable for comparing output over time. ✓✓

(4x2) (8)

(Accept any other relevant and correct response)

A maximum of 4 marks maybe allocated for mere listing of facts

2.5 How can deficit in the balance of payments affect the economy? (8)

- A deficit indicates that more money is leaving the economy than entering, leading to a depreciation of the currency and make imports more expensive and potentially increase inflation rates.✓✓
- A deficit can lead to a country needing to borrow from foreign lenders to finance its imports and pay for its trade deficit, which leads to increased dependence on foreign countries..✓✓
- A very high balance of payments deficit may cause a decrease in the level of investments, employment and leading to a rapid devaluation of the rand. ✓✓
- A country that is dependent on external sources of finance may be more vulnerable to external economic shocks.✓✓
- A persistent current account deficit may imply that the economy is relying on consumer spending, leading to an unbalanced economy between different sectors and between short-term consumption and long-term investment.✓✓

(4x2) (8)

(Accept any other relevant and correct response)
(A maximum of 2 marks may be allocated for mere listing of facts/ examples)

[40]

QUESTION 3: MACRO-ECONOMICS 40 MARKS – 30 MINUTES

3.1.1 Name any TWO types of the markets in a circular flow.

- Products / goods market✓
- Financial market✓
- Resource/ factor market✓
- Foreign exchange market✓ (2x1) (2)

3.1.2 How does direct investment affect the economy of the country?

Direct investment stimulates production thereby fostering economic growth and creates sustainable employment.✓✓ (1x2) (2)
(Accept any other relevant and correct response)

3.2 DATA-RESPONSE

3.2.1 Identify the method of calculating national accounts used on the table above.

Income method✓ **(1)**

3.2.2 Name the item that records salaries and wages on the table above.

Compensation of employees✓ **(1)**

3.2.3 Briefly describe the term *factor cost*.

Factor cost is the total sum of all factors of production that are used in the production process.✓✓ (1x2) (2)
(Accept any other relevant and correct response)

3.2.4 Explain the impact of subsidies on production to producers.

- Subsidies lower production costs for producers, allowing them to increase output and supply more goods. ✓✓
- Subsidies on production may lead to higher profits or enable producers to reduce prices, making their products more competitive in the market. ✓✓
- Producers may expand their operations and invest more in production, leading to growth in the industry. ✓✓ (1x2) (2)

(Accept any other relevant and correct response)

3.2.5 Use the information in the table above to calculate the gross value added at basic price (show all workings).

3 358 542✓ + 61 440✓ - 7 450✓ = 3 412 532✓ (1x4) (4)

OR

3 738 527 ✓ + 11 505 ✓ - 337 500 ✓ = 3 412 532 ✓

3.3. DATA-RESPONSE

3.3.1 Identify the new exchange rate on the graph above. **(1)**

1$ = R15,00✓

3.3.2 Name the exchange rate system used in South Africa. **(1)**

Free floating exchange rate✓

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

Revaluation is the deliberate act by the central bank to increase the value of the currency in terms of other currencies. ✓✓ (1x2) (2)

(Accept any other relevant and correct response)

3.3.4 Explain the effect of an increase in demand for foreign exchange on the exchange rate.

- An increase in the demand for foreign exchange currency will shift the demand curve from DD to D1D1 raising the exchange rate from R14, 60 to R15,00. ✓✓
- The value of the rand depreciates making it more expensive to buy foreign currency or one US Dollar.✓✓ (1x2) (2)

(Accept any other relevant and correct response)

3.3.5 Why would the reserve bank intervene in the foreign exchange market?

- The South African Reserve Bank, may intervene in the foreign exchange market to stabilise the value of the currency and prevent excessive fluctuations. ✓✓
- It can buy or sell foreign currency to influence the exchange rate, helping to protect the economy from inflation or loss of investor confidence. ✓✓
- Intervention is also used to maintain a competitive exchange rate that supports exports and economic growth. ✓✓ (2x2) (4)

(Accept any other relevant and correct response)

3.4 Distinguish between *injections* and *leakages* in the circular flow

Injections	Leakages
Injections refer to the inflow of capital to the economy that increases overall economic activity. ✓✓	Leakages are withdrawals from the circular flow of income that reduces overall economic activity. ✓✓
They are the flow of any spending which is not derived from income (Y). ✓✓	They do not give rise to the national income as they are deductions.✓✓
In an open economy injections are government spending (G), revenue earned by exports (X) and investment spending (I). ✓✓	In an open economy leakages are taxes (T), expenditure on imports (M) and savings (S). ✓✓

(4x2) (8)

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

3.5 How can the depreciation of the rand impact the South Africa economy.

- A weaker rand increases the cost of imported goods, including essential items like fuel, machinery, and food, leading to imported inflation. ✓✓
- Households experience reduced purchasing power, as salaries and wages may not keep pace with rising prices, effectively lowering real income. ✓✓
- Businesses that rely on imports face higher operational costs, which can reduce profit margins and limit salary increases. ✓✓
- A weaker rand makes South African goods and services cheaper for foreign buyers, enhancing export competitiveness. ✓✓
- The South African Reserve Bank (SARB) may respond to rand depreciation by raising interest rates to curb inflation. ✓✓ (4x2) (8)

(Accept any other relevant and correct response)
(A maximum of 2 marks may be allocated for mere listing of facts/ examples

QUESTION 4: MACROECONOMICS **40 MARKS – 30 MINUTES**

4.1 Answer the following question.

4.1.1 Name any TWO effects of international trade. **(2)**

- Specialization✓
- Mass production✓
- Efficiency✓
- Globalisation✓ (2x1) (2)

4.1.2 Why is it important that a country prepares national accounts?

National accounts are prepared to measure the performance of the economy and compare it with the rest of the world .✓✓ (1x2) (2)
(Accept any relevant and correct response)

4.2 DATA-RESPONSE

4.2.1 Identify the value of induced consumption on the graph above. **(1)**

0.5 ✓

4.2.2 Give the original consumption function on the graph. **(1)**

Eo = 10 +0.5Y✓

4.2.3. Briefly describe the term *autonomous consumption*. **(2)**

Autonomous consumption is the minimum level of consumption that is independent to any change in income.✓✓ (1x2) (2)
(Accept any other relevant and correct response)

4.2.4 Explain the effect of an increase in government spending on the multiplier?

- An increase in government spending raises the level of income in the economy, which leads to a larger proportional increase in total output. ✓✓
- The overall impact on national income is greater than the initial increase in government spending.✓✓ (1x2) (2)

(Accept any other relevant and correct response)

4.2.5 Use the above graph to calculate the multiplier using the formula: K = $\Delta Y/\Delta J$. (Show all calculations).

K = $\frac{(60-20)}{(30-10)}$ ✓✓
K = $\frac{40}{20}$✓
K = 2✓ (1x4) (4)

4.3. DATA-RESPONSE

4.3.1 Identify the base year used by South African Reserve Bank to compile terms of trade.

2021✓ (1x1) (1)

4.3.2 Name ONE example of current transfers.

- Donations ✓
- Gifts ✓
- Social aid ✓ (1x1) (1)

4.3.3 Briefly describe the term *special drawing rights.*

Special drawing rights are international reserve assets that are created by the IMFto assist member countries with balance of payments problems.✓✓ (1x2) (2)
(Accept any other relevant and correct response)

4.3.4 Explain the impact of an increase in import prices on international trade?

- An increase in import prices makes foreign goods more expensive, leading to a decrease in imports as consumers and businesses reduce their demand. ✓✓
- The increase in import prices can improve a country's trade balance in international trade, as spending shifts toward locally produced goods and exports may become relatively more competitive.✓✓ (1x2) (2)

(Accept any other relevant and correct response)

4.3.5 Calculate the terms of trade for the year 2025 (A). Show all calculations.

$$\text{Terms of trade} = \frac{\text{Indexes of export prices}}{\text{Indexes of import prices}} \times 100$$

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

(1x4) (4)

4.4 Briefly discuss *portfolio investment* and *net financial derivatives*. (8)

Portfolio investment

- Portfolio investment involves owning a diversified collection of financial assets, such as stocks, bonds, and mutual funds. ✓✓
- The main aim of portfolio investments is that they are expected to generate returns or capital appreciation.✓✓
- Portfolio investments are investment made in foreign stock exchange and it highly liquid as they can be turned to cash very easily.✓✓

Net financial derivatives

- Financial derivatives are future financial contracts whose value are based on the value of underlying factors.✓✓
- Financial derivatives are usually associated with contracts of commodities with highly volatile prices. ✓✓
- Financial derivatives are normally associated with sales involving the exchange rate and crude oil ✓✓ (4x2) (8)

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

4.5 How can the financial sector positively affect the economy?

- The financial sector channels savings from households, businesses, and governments to productive investments.✓✓
- Financial institutions, including banks and capital markets, play a key role in facilitating investment by providing businesses with the capital needed for expansion, research and development. ✓✓
- Financial institutions offer various instruments and services for risk management, including insurance and derivatives. ✓✓
- Banks and other financial intermediaries provide liquidity by converting assets into cash. This function supports daily transactions, facilitates trade, and ensures the smooth functioning of the economy. ✓✓
- The SARB influences economic growth through monetary policy, particularly by setting interest rates. ✓✓
- The financial sector, particularly central banks, plays a role in maintaining currency and exchange rate stability. Stable currencies provide a favorable environment for trade and investment, supporting economic growth. ✓✓

(4x2) (8)

(Accept any other relevant and correct response)
(A maximum of 2 marks may be allocated for mere listing of facts/ examples)

SECTION C

QUESTION 5: MACRO-ECONOMICS 40 MARKS – 40 MINUTES

- **Discuss in detail the new economic paradigm.** **(26)**

INTRODUCTION

The new economic paradigm is a policy approach that seeks to create economic growth and increase employment without it resulting in a shortage of inputs and a rise in inflation by using both demand and supply side policies. ✓✓ (Max 2)
(Accept any other correct and relevant introduction)

BODY (MAIN PART)

DEMAND-SIDE POLICIES ✓
- Demand-side policies focus on increasing aggregate demand in the economy.✓✓
- When households, firms and government spend more, demand in the economy increases
- Aggregate demand that is higher than aggregate supply can lead to inflation.✓✓

Monetary policy: ✓
- When the level of economic activity is depressed the SARB can use expansionary measures to stimulate economic activities.✓✓
- An expansionary monetary policy is implemented when the economy is in a recession in order to stimulate economic activities.✓✓
- Interest rates can be reduced to make borrowing cheaper and encourage spending by households and businesses.✓✓
- The increased spending increases the level of economic activity investment will increase and more factors of production will be employed.✓✓
- Higher levels of production, 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.✓✓

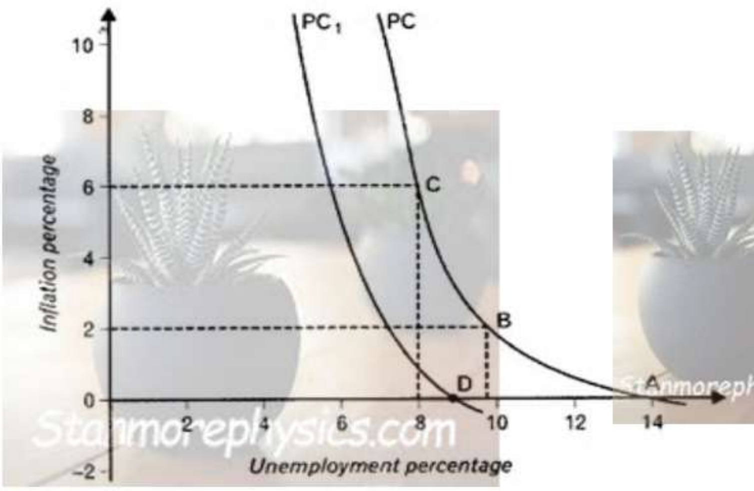
Fiscal policy: ✓
- When the level of economic activity is low the minister of finance can use expansionary fiscal measures to stimulate growth and reduce unemployment.✓✓
- An expansionary fiscal policy can be implemented when the economy is in recession in order to stimulate economic activities.✓✓
- An increase in government expenditure will increase aggregate demand.✓✓
- When there is an increase in injection in the economy, production which will result in a higher employment of the factors of production. The result will be higher income and higher expenditure.✓✓
- Taxes can be reduced, which leads to an increase in disposable income. This will increase consumer spending and investments, stimulating aggregate demand.✓✓

Inflation ✓

- The decrease of interest rates by the reserve bank stimulates credit demand and enable consumers to spend more.✓✓
- If aggregate demand increases more quickly than aggregate supply it may causes prices to increase and result to inflation.✓✓

Unemployment ✓

- Government may decide to decrease taxes for individuals and companies which then results to an increase in aggregate demand. ✓✓
- The increase in government spending makes firms to start producing more goods and increase employment.✓✓
- As unemployment decreases inflation is likely to increase because more people will have more money to spend.✓✓
- This inverse relationship between unemployment and inflation is illustrated using the Phillips curve.✓✓



MARK ALLOCATION:
Correct labelling of and on the axis = 1 mark
Correct labelling of the PC curves = 1 mark
Correct shift of the PC curve = 1 mark
Correct indication of natural rate of unemployment = 1 mark

Max. = 4 marks

- The PC curve shows the initial situation where letter A is the point of intersection of the PC curve with the x-axis. It shows the natural rate of unemployment of 14% and inflation rate is zero.✓✓
- If unemployment rate falls to point C for instance, 8%, inflation caused by wage increases rises to 6% and if inflation rate decreases from 6% to 2% to 0% unemployment rate increases from 8% to 10% to 14%. ✓✓
- The trade-off between inflation and unemployment can be resolved by stimulating both demand and supply side policies.✓✓
- This will cause the shift of the Phillips curve from PC to PC1 resulting in decreasing unemployment rate to 9% and inflation rate remaining constant at zero. ✓✓

SUPPLY-SIDE POLICIES ✓

Supply-side policies refer to any measures undertaken by government to influence the level of aggregate supply in the economy. ✓✓

Reduction of costs of production ✓

- Reducing of the costs of production means that a greater output can be supplied at any given price level.✓✓
- Infrastructure services**:** Government can provide infrastructure services such as transport, water and energy at lower or reasonable prices to help business reduce their costs of production. ✓✓
- Administrative costs**:** these costs include various laws and regulations such as tax returns, registration and licenses which the government needs to make simpler and less costly for businesses.✓✓
- Cash incentives**:** includes subsidies for businesses to locate areas where unemployment is high and compensation to exporters for certain costs they incur in the development of export markets. ✓✓

Improving the efficiency of inputs ✓

- Tax rates: government needs to lower taxes in order to encourage investment, increase production and profits. ✓✓
- Capital consumption: replacing capital goods regularly creates opportunities for businesses to keep up with technological development.✓✓
- Depreciation allowances are subtracted from gross profit before taxes are calculated and therefore reduce the amount of tax liability. ✓✓
- Human resource development**:** the quality of labour can be improved by improving health care, education, training skills and mobility of labour.✓✓
- Free advisory services: these promote opportunities to export and establish business activities in foreign countries and provide research and development and statistical information.✓✓

Improving the efficiency of markets ✓

- Deregulation: this includes the removal of laws, regulations and by-laws, and other forms of government controls to stimulate supply of goods and services.✓✓
- Competition**:** this entails arranging the market in such a way that allows for new businesses, increase competition and invite foreign direct investment.✓✓
- Levelling the playing field: government policy should protect the private sector and public enterprises by legislation to survive on available resources.✓✓

(Max 26)

(Accept any other relevant and correct response)
(Award a maximum of 8 marks for sub-headings and examples)

Evaluate the effectiveness of the South African Reserve Bank (SARB) in correcting fluctuations on the economy. (10)

The Reserve bank has:

- Increased and decreased the repo rate therefore forcing commercial banks to increase or decrease interest rates thereby controlling borrowing and expenditure. Recent development has been that of keeping the interest rates unchanged.✓✓
- Used moral suasion by Increasing or relaxing regulations pertaining to credit trading.✓✓This has been done through the implementation of various policies like the consumer protection Act.✓✓
- Increased and decreased money supply by printing more notes and coins to control money in circulation.✓✓
- Implemented open-market transactions by selling or buying government bonds to rationalise the supply of money that is available to consumers. ✓✓
- Used exchange rate controls by either using a free-floating exchange rate policy or a managed floating exchange rate policy.✓✓The South African Reserve bank has allowed the market forces to determine the value of currency. ✓✓
  Used cash reserve requirements to occasionally change balances the banks are required to maintain in order to manipulate the money creation activities of the banks. ✓✓

(Max 10)

(Accept any other relevant and correct response)
(A maximum of 2 marks may be allocated for mere listing of facts)

Conclusion

Economists need to foretell what is likely to happen in the economy by studying and monitoring a variety of economic variables. ✓✓ (Max) (2)

(Accept any other correct relevant higher order conclusion)

[40]

QUESTION 6: MACRO-ECONOMICS **40 MARKS – 40 MINUTES**

Discuss in detail the reason(s) for public sector failure (link them to typical problems experienced through public sector provisioning). **(26)**

INTRODUCTION

Public sector failure is a result of wrong government intervention in the economy as well as inefficiency in the use of available resources. ✓✓ (Max 26)
(Accept any other suitable introduction)

BODY (MAIN PART)

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 can not 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 neighboring 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. ✓✓ (Max. 26)

(Accept any other relevant and correct response)
(Award a maximum of 8 marks for sub-headings and examples)

Evaluate the effectiveness of the South African government in using the national budget to address inequality in the country. (10)

- The budget serves as a financial framework that allocates resources for public services, infrastructure, and economic growth, which are essential for addressing social inequalities. ✓✓
- The National Budget therefore affects all South Africans, as it determines how resources are allocated for public services, infrastructure development, and economic growth. ✓✓
- The social wage which refers to the government's investment in education, health services, social development including social assistance to vulnerable households and individuals as well as contributory social security. ✓✓
- public transport, housing, and access to 12 basic services – has played a notable role in the government's efforts to reduce poverty and inequality. ✓✓
- The extensive cash transfer system benefits low-income South Africans. ✓✓
- The achievement of redistributive goals has also been pursued through several channels including changing patterns of ownership, training programmes, tax collection and redistribution, and compliance with BBBEE legislation. ✓✓
- However, challenges remain, including slow progress in meeting NDP targets and the need for sustained inclusive growth to effectively reduce poverty and inequality. ✓✓

(5x2) (10)

(Accept any other relevant and correct response)
(A maximum of 2 marks may be allocated for mere listing of facts/ examples)

CONCLUSION

The problems in public sector provision of goods and services result in public sector failure and eventually failure in achieving macroeconomics objectives. ✓✓ **(Max 2)**
(Accept any other correct relevant higher order conclusion)

TOTAL SECTION C: 40 MARKS
GRAND TOTAL: 150 MARKS