



Province of the  
**EASTERN CAPE**  
EDUCATION

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

# **NATIONAL SENIOR CERTIFICATE**

## **GRADE 12**

## **JUNE 2026**

## **ECONOMICS P1**

**MARKS: 150**

**TIME: 2 hours**



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This question paper consists of 12 pages.

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**INSTRUCTIONS AND INFORMATION**

1. Answer FOUR questions as follows in the ANSWER BOOK:  
SECTION A: COMPULSORY  
SECTION B: Answer TWO of the three questions  
SECTION C: Answer ONE of the two questions
2. Answer only the required number of questions. Answers in excess of the required number will NOT be marked.
3. Number the answers correctly according to the numbering system used in this question paper.
4. Write the question number above each answer.
5. Read the questions carefully.
6. Start EACH question on a NEW page.
7. Leave 2–3 lines between subsections of questions.
8. Answer the questions in full sentences and ensure that the format, content and context of your responses comply with the cognitive requirements of the questions.
9. Use only black or blue ink.
10. You may use a non-programmable pocket calculator.
11. Write neatly and legibly.



**SECTION A: (COMPULSORY)****QUESTION 1****30 MARKS – 20 MINUTES**

- 1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A–D) next to the question numbers (1.1.1 to 1.1.8) in the ANSWER BOOK, for example 1.1.9 B.

1.1.1 The circular-flow model of an open economy shows the functioning of an economy that includes the ... sector.

- A public
- B business
- C foreign
- D domestic

1.1.2 Long term financial instruments, such as shares, are traded in the ... market.

- A money
- B capital
- C foreign exchange
- D labour

1.1.3 Fiscal policy is the action taken by the government in respect of taxation and ... to influence economic activity.

- A exchange control
- B money supply
- C government expenditure
- D credit control

1.1.4 Business cycles that are caused by changes in the construction industry and last for 15 to 20 years are called ... cycles.

- A Kuznets
- B Kitchin
- C Juglar
- D Kondratief

1.1.5 The removal of unnecessary restrictions by legislation is known as ...

- A regulation.
- B deregulation.
- C centralisation.
- D decentralisation.

1.1.6 Service delivery to ensure the daily management of cities and towns is the responsibility of the ... government.

- A local
- B national
- C provincial
- D central

1.1.7 To reap the benefits of efficient markets, countries rely on the principle of ... advantage.

- A competitive
- B absolute
- C relative
- D comparative

1.1.8 If the rand depreciates, prices and the rate of inflation will ...

- A increase.
- B tumble.
- C remain the same.
- D decrease.

(8 x 2) (16)

1.2 Choose a description in COLUMN B that matches an item in COLUMN A. Write only the letter (A–I) next to the question numbers (1.2.1 to 1.2.8) in the ANSWER BOOK, for example 1.2.9 J.

| COLUMN A                           | COLUMN B                                                                                          |
|------------------------------------|---------------------------------------------------------------------------------------------------|
| 1.2.1 Marginal propensity to save  | A transfer of ownership of assets from the private sector to the public sector                    |
| 1.2.2 Systems of national accounts | B outflow of money from the economy                                                               |
| 1.2.3 Open-market transaction      | C proportion of the disposable income that households do not consume                              |
| 1.2.4 Leakages                     | D liquid assets that are made available by the IMF to finance deficits on the balance of payments |
| 1.2.5 Nationalisation              | E prescribed by the United Nations to compile GDP figures                                         |
| 1.2.6 Non-rivalry                  | F proportion of the disposable income that households consume                                     |
| 1.2.7 Mass production              | G buying and selling of government securities to influence the money supply                       |
| 1.2.8 Special Drawing Rights       | H consumption by one person does not reduce consumption by another person                         |
|                                    | I ensures an increase in the supply of standardised goods through an automated mechanical process |

(8 x 1) (8)

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question numbers (1.3.1 to 1.3.6) in the ANSWER BOOK.

1.3.1 Market for short term savings and loans

1.3.2 A negative economic growth rate for at least two consecutive quarters

1.3.3 A business owned wholly by the state and run by a public authority

1.3.4 The value of the country's currency exchanged for another currency

1.3.5 The rate at which commercial banks borrow money from South African Reserve Bank

1.3.6 Illustrates a relationship between tax rate and tax revenue (6 x 1) (6)

**TOTAL SECTION A: 30**



**SECTION B**

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

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

2.1 Answer the following questions.

2.1.1 Name any TWO examples of taxes on products. (2)

2.1.2 How can the fiscal policy be used to influence economic activity? (2)

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

**MACROECONOMIC MULTIPLIER**

The macroeconomic multiplier refers to the effect of an increase in aggregate demand on overall level of economic activity when there is an injection (e.g. investment, government spending), leading to a larger increase in GDP due to induced consumption spending.

2.2.1 Identify an example of injection from the extract above. (1)

2.2.2 Name any ONE type of flow in a circular-flow model. (1)

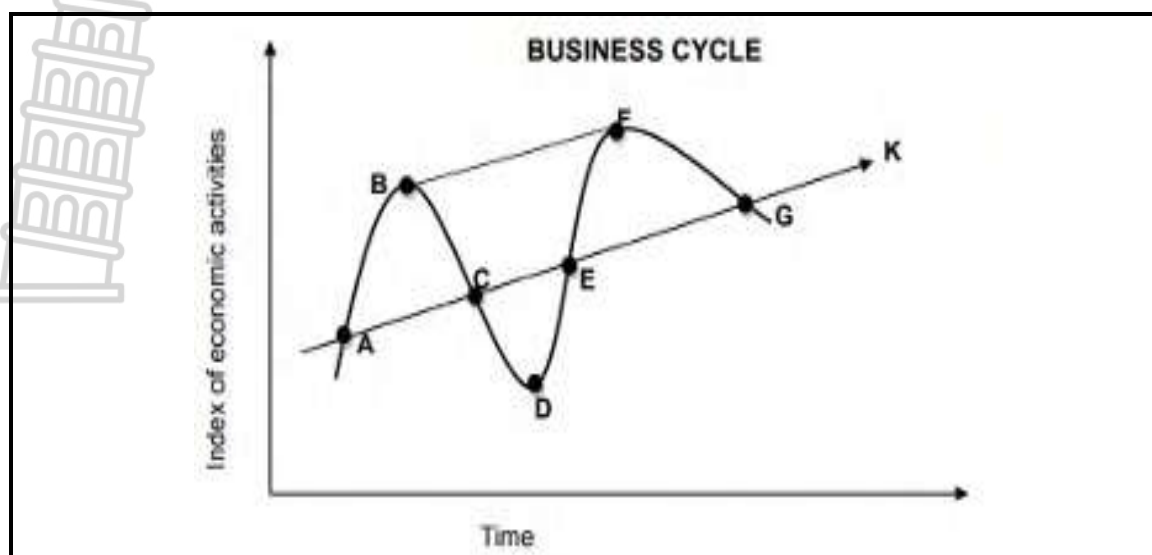
2.2.3 Briefly describe the term *induced consumption*. (2)

2.2.4 Explain the interaction between households and firms in a circular flow. (2)

2.2.5 Use the multiplier formula to calculate the eventual change in aggregate income, if there was an injection of R50 billion into the economy and an mpc of 0,5. Show ALL calculations. (4)



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



2.3.1 Identify the letter that represent the trendline in the illustration above. (1)

2.3.2 Name any ONE phase of the business cycle. (1)

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

2.3.4 Explain the economic activity during the phase EF in the business cycle above. (2)

2.3.5 How can the South African Reserve Bank prevent a recession in a business cycle? (4)

2.4 Explain the monetarist explanation of the business cycle. (8)

2.5 Evaluate the use of tax cuts as a means to stimulate the economy. (8)

**[40]**



**QUESTION 3: ECONOMIC PURSUITS****40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 Name any TWO features of the fiscal policy. (2 x 1) (2)

3.1.2 Why is it important for a country to attract foreign direct investment? (2)

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

| SOUTH AFRICA'S TERMS OF TRADE |                        |                        |                |
|-------------------------------|------------------------|------------------------|----------------|
| YEAR                          | INDEX OF EXPORT PRICES | INDEX OF IMPORT PRICES | TERMS OF TRADE |
| 2021                          | 100                    | 100                    | 100            |
| 2022                          | 120,10                 | 110                    | 109            |
| 2023                          | 115,95                 | 114,5                  | 101            |
| 2024                          | 121,5                  | 120,5                  | <b>A</b>       |

[Source: statssa 2024]

3.2.1 Identify the year used as a base in the table above. (1)

3.2.2 What was the trend in the index of export prices between 2022 and 2023? (1)

3.2.3 Briefly describe the concept *terms of trade*. (2)

3.2.4 What is the effect of a weak exchange rate on the terms of trade? (2)

3.2.5 Calculate the terms of trade for 2024 (**A**). Show ALL calculations. (4)

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

### BUDGET SPEECH 2025

The Medium-term Budget Policy Framework focuses on sustainable economic growth, fiscal consolidation and social welfare improvements, with projected growth of 4,5% to 5,5% and a fiscal deficit target of 3,8% of GDP.

[Source: National Treasury 2025]

- 3.3.1 Identify the focus area associated with economic development from the extract above. (1)
- 3.3.2 Name the accepted debt rule as a percentage of GDP. (1)
- 3.3.3 Briefly describe the term *national budget*. (2)
- 3.3.4 Explain the benefits of privatising state-owned enterprises to the state. (2)
- 3.3.5 Why is the pricing policy a problem to the government in respect of the provisioning of goods and services? (4)
- 3.4 Explain climatic conditions and labour resources as supply reasons for international trade. (8)
- 3.5 How can households as important participants in the circular-flow model contribute to building the economy? (8)

[40]



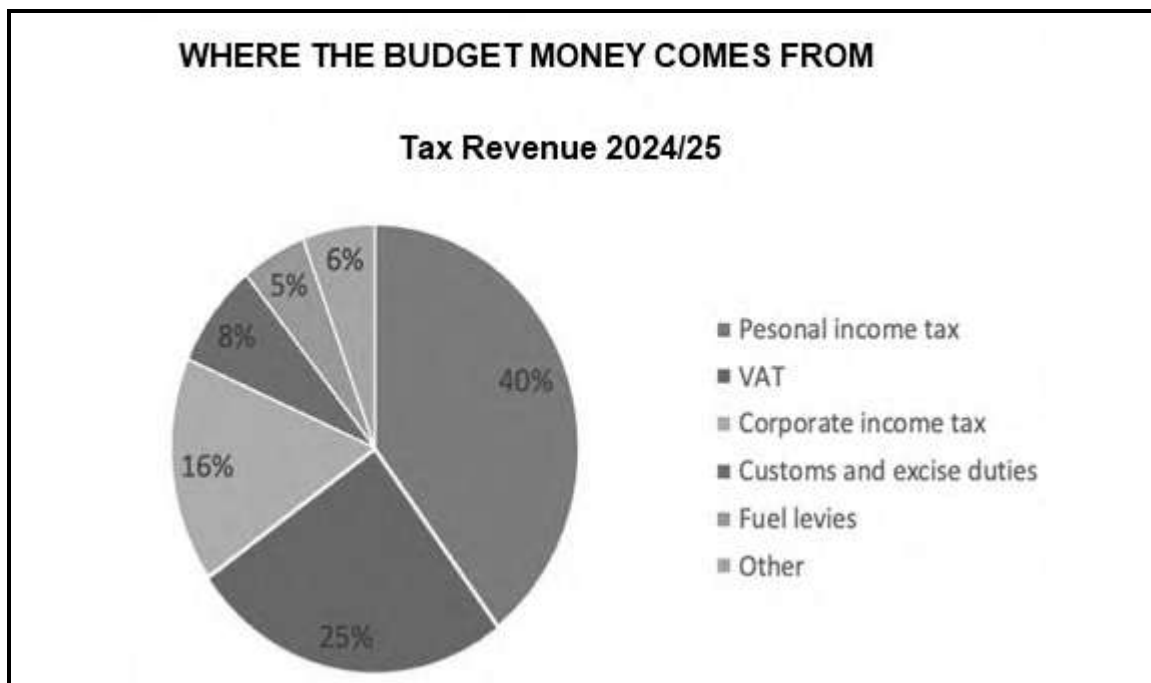
**QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS****40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

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

4.1.2 What is the significance of an improvement in terms of trade? (2)

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



[Source: National Treasury 2024]

4.2.1 Identify the type of tax levied on demerit goods from the information above. (1)

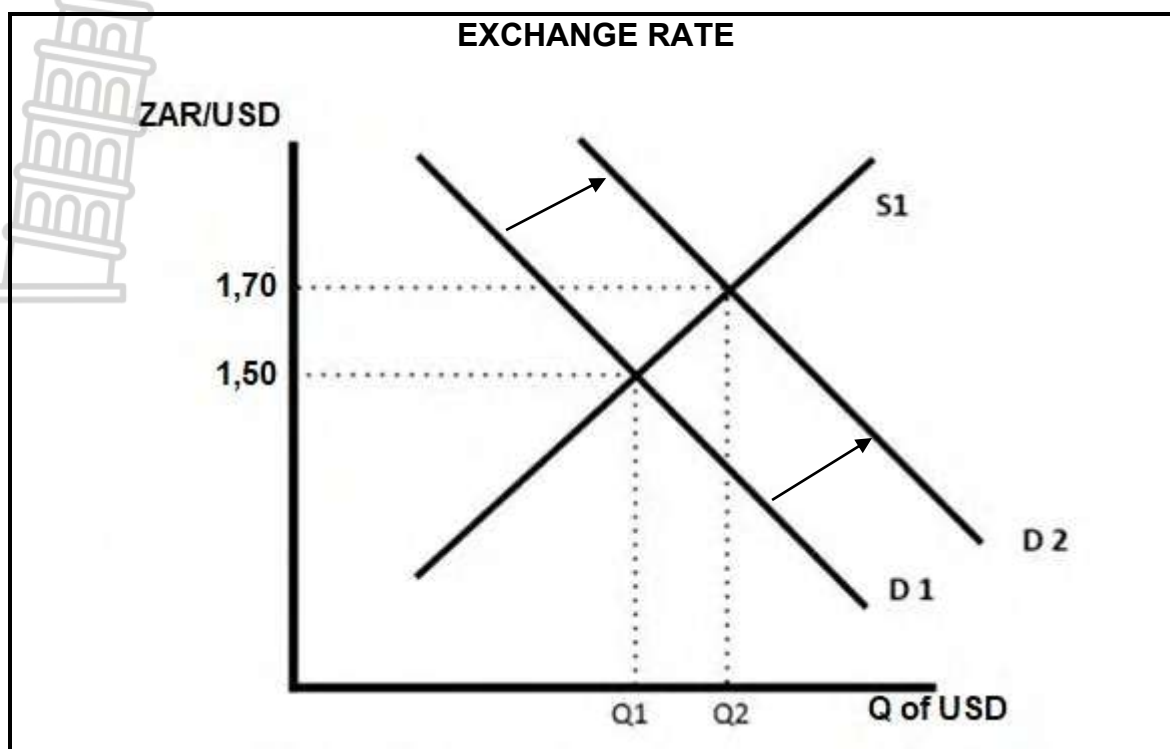
4.2.2 Name any ONE objective of the state. (1)

4.2.3 Briefly describe the term *indirect tax*. (2)

4.2.4 What would be the financial implication of a 2% increase in VAT for the government? (2)

4.2.5 How can the effective use of budgets help provinces in efficient service delivery? (2 x 2) (4)

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



4.3.1 Identify the original exchange rate on the graph above. (1)

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

4.3.3 Briefly describe the term *devaluation*. (2)

4.3.4 Explain any factor that can cause an increase in demand for US dollars in South Africa. (2)

4.3.5 How can imports be used to correct the balance of payments deficit? (4)

4.4 Differentiate between *current account* and *capital transfers account* of the balance of payment. (8)

4.5 Evaluate the extent to which an increase in both direct and indirect taxes will improve the budget deficit. (8)

[40]

Answer any ONE of the following questions in 100 words or less.

## Production

that appears

DO NOT include other  
DO NOT include  
DO NOT repeat  
Avoid saying  
the body.

## dy

**in part:**

- Additional part**  
 e own opinion  
 graph and ex  
 en graph/Can  
 rpret/Briefly

## Conclusion

A brief summary

- A brief summary  
 repeating facts  
 An opinion of  
 Additional sources  
 analysis  
 A contradictory  
 Recommendation

# TAL



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# **NATIONAL SENIOR CERTIFICATE**

**GRADE 12**

**JUNE 2026**

## **ECONOMICS P1 MARKING GUIDELINE**

**MARKS: 150**



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This marking guideline consists of 18 pages.

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**SECTION A (COMPULSORY)****QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

- 
- 1.1.1 C – Foreign sector ✓✓
  - 1.1.2 B – Capital ✓✓
  - 1.1.3 C – Government expenditure ✓✓
  - 1.1.4 A – Kuznets cycle ✓✓
  - 1.1.5 B – Deregulation ✓✓
  - 1.1.6 A – Local ✓✓
  - 1.1.7 D – Comparative ✓✓
  - 1.1.8 D – Decrease ✓✓
- (8 x 2) (16)

**1.2 MATCHING ITEMS**

- 1.2.1 C – proportion of disposable income that households do not consume ✓
  - 1.2.2 E – prescribed by the United Nations to compile GDP figures ✓
  - 1.2.3 G – buying and selling of government securities to influence the money supply ✓
  - 1.2.4 B – outflow of money from the economy ✓
  - 1.2.5 A – transfer of ownership of assets from the private sector to the public sector ✓
  - 1.2.6 H – consumption by one person does not reduce consumption by another person ✓
  - 1.2.7 I – ensures an increase in the supply of standardised goods through an automated mechanical process ✓
  - 1.2.8 D – liquid assets that are made available by the IMF to finance deficits on the balance of payments ✓
- (8 x 1) (8)

**1.3 GIVE THE TERM**

- 
- 1.3.1 Money market ✓
  - 1.3.2 Recession ✓
  - 1.3.3 Parastatals/state-owned enterprises ✓
  - 1.3.4 Exchange rate ✓
  - 1.3.5 Repo rate ✓
  - 1.3.6 Laffer curve ✓
- (6 x 1) (6)

**TOTAL SECTION A: 30**

**SECTION B**

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

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

2.1 2.1.1 **Name any TWO examples of taxes on products.**

- Value-added tax/VAT ✓
- Imports tariffs ✓
- Excise duty ✓
- Fuel levy ✓
- Customs duty ✓

(Accept any other relevant correct response)

(Any 2 x 1)

(2)

2.1.2 **How can the fiscal policy be used to influence economic activity?**

- Providing essential goods and services, building human capital and creating fiscal space for infrastructure investments that drive higher economic growth. ✓✓
- Expanding spending and cutting taxes to stimulate an ailing economy slashing spending or raising taxes to combat rising inflation. ✓✓

(Accept any other correct relevant answer)

(Any 1 x 2)

(2)

2.2 **DATA RESPONSE**

2.2.1 **Identify an example of injection from the extract above.**

- Investment ✓
- Government spending ✓

(1)

2.2.2 **Name any ONE type of flow in a circular flow model.**

- Real flow ✓
- Money flow ✓

(1)

2.2.3 **Briefly describe the term *induced consumption*.**

Induced consumption is the portion of spending on goods and services that change directly with a consumer's disposable income as income rises so does induced consumption or as income falls so does it/consumption spending that depends on current income, when income increases consumption increases because people spend part of existing income ✓✓

(Accept any other correct relevant response)

(2)

2.2.4 **Explain the interaction between households and firms in a circular flow.**

Households provide factors of production to firms and firms pay for them. ✓✓

Firms produce goods and services and sell them to households and in return receive an income. ✓✓

(Accept any other correct relevant response)

(Any 1 x 2)

(2)

- 2.2.5 Use the multiplier formula to calculate the eventual change in aggregate income, if there was an injection of R50 billion made into the economy and an mpc of 0,5. Show ALL calculations



$$K = 1/1 - \text{mpc}$$

$$K = 1/1 - 0,5 \checkmark$$

$$K = 2 \checkmark$$

$$\Delta Y = 2 \times 50 \text{ bn} \checkmark$$

$$= 100 \text{ bn} \checkmark$$

The change in aggregate income is R100 bn

(4)

## 2.3 DATA RESPONSE

- 2.3.1 Identify in the letter that represent the trendline in the illustration above.

K ✓

(1)

- 2.3.2 Name any ONE phase of the business cycle.

- Prosperity ✓
- Recession ✓
- Recovery ✓
- Depression ✓

(1)

- 2.3.3 Briefly describe the term *business cycle*.

Business cycle refers to the successive increasing and decreasing economic activity over time/a time series showing repeated increasing and decreasing economic activity/refers to the current pattern of expansion and contraction in the level of economic activity ✓✓  
(Accept any other relevant correct answer)

(2)

- 2.3.4 Explain the economic activity during the phase EF in the business cycle above.

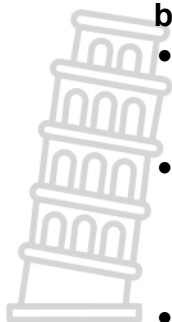
- The economy is growing and improving rapidly. ✓✓
- The businesses open up and employment is increasing. ✓✓
- Higher demand and higher prices for capital goods and firms make higher profits and households salaries increase. ✓✓

(Accept any other correct relevant response)

(2)



### 2.3.5 How can the South African Reserve Bank prevent a recession in a business cycle?



- The SARB would adjust the repo rate downwards which will lead to lower interest rates that will encourage borrowing leading to increased capital investment by businesses to increase production. ✓✓
- Lower interest rates weakens the currency causing the rand to depreciate, therefore, making South African exports more competitive and stimulating demand for local goods and the economy will be boosted. ✓✓
- The SARB can buy government securities from banks, which will lead to commercial banks having more more for lending to consumers and businesses. ✓✓
- The SARB can lower the cash reserve requirements, which make banks to lend more money, leading to increased spending and investment in the economy.

(Accept any other relevant correct response)

(2 x 2) (4)

### 2.4 Explain the monetarist explanation of the business cycles.

- Monetarists explanation refers to those independent factors that can influence business cycles and originate outside the economy. ✓✓
- The monetarists believe markets are inherently stable and any disequilibrium is caused by outside forces, e.g. inappropriate government policies. ✓✓
- Government should not intervene in the market because external factors cause deviations. ✓✓
- Sunspot theory based on belief that increased solar radiation caused changes in weather conditions. ✓✓
- Weather conditions, technological changes and shocks cause upswings and downswings in the business cycle disrupting the operation of markets. ✓✓

(Accept any other correct relevant rresponse)

(4 x 2) (8)

### 2.5 Evaluate the use of tax cuts as a means to stimulate the economy.

#### Positive impact:

- Tax cuts can boost the short term economic activity by increasing demand especially when the economy is in recession and taxes are targeted at low and middle income earners. ✓✓
- Corporate tax cuts encourage businesses to reinvest in operations leading to job creation and GDP growth and in the process businesses would reap higher profits encouraging further production. ✓✓
- Tax cuts would increase business cash flow and reduce capital costs, encouraging businesses to expand and increase hiring to meet the high demand. ✓✓
- Lower income tax increases disposable income encouraging increased consumer spending on goods and services which will result in higher GDP. ✓✓
- Competition among businesses will improve making the country to be more attractive for more foreign direct investment. ✓✓

**Negative impact:**

- Tax cuts financed by increased government borrowing can raise interest rates, slow down economic growth. ✓✓
- Higher disposable income from tax cuts may discourage people to work more, thus, affecting economic growth. ✓✓
- Tax cuts can slow long term economic growth by increasing deficits. ✓✓
- Higher marginal tax rates can discourage work, savings, investment and innovations. ✓✓

(Accept any other relevant correct response)

(4 x 2)

(8)

**[40]**



**QUESTION 3: ECONOMIC PURSUIT****40 MARKS – 30 MINUTES**3.1 3.1.1 **Name any TWO features of fiscal policy.**

- Goal bound ✓
- Demand biased ✓
- Cyclical ✓

(2 x 1) (2)

3.1.2 **Why is it important for a country to attract foreign direct investment?**

- Foreign direct investment will inject capital into the economy, boost reserves, fund infrastructure and reduce reliance on debt. ✓✓
- It encourages industrial development and diversification of the economy. ✓✓
- FDI creates employment opportunities, reducing unemployment. ✓✓
- Foreign direct investment improves productivity and efficiency in the economy, which in turn leads to lower prices. ✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

3.2 **DATA RESPONSE**3.2.1 **Identify the year which is used as a base year in the above table.**  
2021 ✓

(1)

3.2.2 **What was the trend in the index of export prices between 2022 and 2023?**

Decreasing or declining ✓

(1)

3.2.3 **Briefly describe the concept *terms of trade*.**

Terms of trade is measured by the ratio between a country's export prices and its import prices. ✓✓

(Accept any other correct relevant response)

(1 x 2) (2)

3.2.4 **What is the effect of a weak exchange rate on the terms of trade?**

- A weak exchange rate increases the prices of imports, decreasing demand for imported goods ✓✓
- A country's terms of trade will be improved by making exports cheaper for foreigners, increasing demand for exported goods ✓✓

(Accept any other relevant correct response)

(2)

3.2.5 **Calculate the terms of trade for 2024 (A). Show ALL calculations.**

Terms of trade = export prices / import prices x 100

= 121,5 ✓ ÷ 120,5 ✓ x 100 ✓

= 100,8 or 101 ✓

(Accept any other correct relevant response)

(4)

3.3 **DATA RESPONSE**3.3.1 **Identify the focus areas associated with economic development in the information above.**

Social welfare improvement ✓

(1)

3.3.2 **Name the accepted debt rule as a percentage of GDP.**

60% or less than 60% ✓

(1)

**3.3.3 Briefly describe the term *national budget*.**

National budget is the state document showing anticipated revenue and estimated expenditure. ✓✓

(Accept any other correct relevant response)

(2)

**3.3.4 Explain the benefits of privatising state-owned enterprises to the state.**

- The state would generate more revenue to fund other programmes. ✓✓
- Foster competition to lower prices and drive product development. ✓✓
- Reduce financial burden from subsidising state-owned enterprises. ✓✓

(Accept any other relevant correct response)

(2)

**3.3.5 Why is the pricing policy a problem to the government in respect of the provisioning of goods and services?**

- Inappropriate pricing policy such as subsidies or price control can distort market signals. ✓✓
- For instance, subsidies may encourage overconsumption or waste while price control can lead to shortages or surpluses. ✓✓
- These distortions hinder optimal resource allocation affecting the sustainability of public sector provisioning. ✓✓

(Accept any other correct relevant response)

(Any 2 x 2) (4)

**3.4 Explain the climatic conditions and labour resources as supply reasons for international trade.****Climatic conditions**

- Climatic conditions make it possible for some countries to produce certain goods at a lower price than other countries. ✓✓
- These countries have a comparative advantage over other countries. ✓✓
- For example, Brazil is the biggest producer of coffee in the world. ✓

**Labour resources**

- Labour resources differ in quality, quantity and cost between countries ✓✓
- Some countries have highly skilled, well-paid workers with high levels of productivity ✓✓
- Developed countries usually have more trained workers than developing countries ✓✓

(Accept any other relevant correct response) ✓✓

**NOTE:** (Allocate a maximum of 4 marks for a mere listing of facts)

(8)

**3.5 How can households as important participants in the circular-flow contribute to building the economy?**

- The owners of the factors of production can try to increase the quality, therefore, making a better contribution to the economy. ✓✓
- Households can sell their factors of production to businesses, thus contributing to production of goods and services which fuels economic growth. ✓✓
- Households can increase their savings which are channelled as investment, providing capital for businesses to expand and innovate, therefore, contributing indirectly to increased production in the manufacturing sector. ✓✓
- Households can concentrate on buying South African goods to stimulate local production, future exports and increased penetration of markets internationally. ✓✓
- Households can pay their relevant taxes contributing to government revenue, provision of infrastructure, public goods and social welfare programmes. ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 2 marks for mere listing of facts/examples)

(8)  
[40]



**QUESTION 4: MACROECONOMICS AND ECONOMIC PURSUITS****40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

4.1.1 **Name any TWO sub-accounts of the financial account of the balance of payment.**

- Direct investment ✓
- Portfolio investment ✓
- Other investment ✓
- Financial derivatives ✓

(2 x 1) (2)

4.1.2 **What is the significance of the improvement in terms of trade?**

- It indicates that the country is earning more from its exports than it spends on imports, potentially strengthening its balance of payment position. ✓✓
- Suggests that a country is benefiting from its trade which can enhance its overall economic stability. ✓✓
- Can signal economic growth and potentially more resources for domestic investment. ✓✓
- Favourable terms of trade can open up new markets and revenue streams and reach a broader customer base ✓✓

(Accept any other correct relevant response)

(2)

**4.2 DATA RESPONSE**4.2.1 **Identify the type of tax levied on demerit goods from the information above.**

- Customs and excise duties ✓

(1)

4.2.2 **Name any ONE objective of the state.**

- Economic growth ✓
- Full employment ✓
- Economic equity ✓
- Price stability ✓
- Exchange rate stability ✓

(1 x 1) (1)

4.2.3 **Briefly describe the term *indirect tax*.**

Indirect tax refers to the tax levied on the sale of goods and services and can be transferable, e.g. VAT ✓✓

(Accept any other relevant response)

(2)

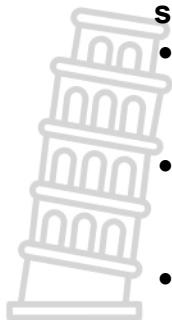
4.2.4 **What would be the financial implication of a 2% increase in VAT for the government?**

- An increase in VAT would provide the government with an additional revenue, ensuring a stable revenue source ✓✓

(Accept any other relevant response)

(2 x 1) (2)

#### 4.2.5 How can effective use of budgets help provinces in efficient service delivery?



- Provinces can improve service delivery by strategically allocating budget resources to areas with the greatest need/potential Impact. ✓✓
- This involves analysing data on population demographics, socio-economic indicators and service utilisation rates to identify the most effective areas for investment. ✓✓
- Evaluating costs and benefits of different service delivery methods can help provinces choose the most efficient options. ✓✓
- Open budget processes and clear accountability mechanisms can reduce waste and corruption, leading to more efficient service delivery. ✓✓

(Accept any other relevant response)

(2 x 2)

(4)

### 4.3 DATA RESPONSE

#### 4.3.1 Identify the original exchange rate on the graph above.

1,50 ✓

(1)

#### 4.3.2 Name the exchange rate system used in South Africa.

- Free-floating ✓

(1)

#### 4.3.3 Briefly describe the term *devaluation*.

Devaluation is a deliberate decrease in the value of the currency by the central bank. ✓✓

(Accept any other correct relevant response)

(2)

#### 4.3.4 Explain any factor that can cause an increase in demand for US dollars in South Africa.

- South Africa may demand US dollars when they wish to buy goods and services from USA ✓✓
- South African tourists who wish to travel to USA will demand dollars ✓✓

(Accept any other correct relevant response)

(2)

#### 4.3.5 How can imports be used to correct the balance of payments deficit?

- Exchange rate depreciation can be adjusted by reducing the value of a country's currency relative to other currencies, whereby a depreciated currency makes imports more expensive and exports cheaper encouraging exports and reducing imports. ✓✓
- The state may implement import tariffs and quotas to limit the volume of imports making them more expensive and encouraging domestic production. ✓✓
- Imports can be substituted with local production when countries give incentives to encourage domestic production of goods instead of importing them. ✓✓

(Accept any other correct relevant response)

(2 x 2)

(4)

**4.4 Differentiate between the *current account* and *capital transfer account* of the balance of payments.**

**Current account**

- Current account records international transactions relating to production, income and expenditure in the current period. ✓✓
- Current account shows the net income of the country. ✓✓
- It is mainly concerned with the receipts and payments of cash and non-capital items. ✓✓
- The key components of the current account are export and import of goods and services. ✓✓ (Max. 4)

**Capital transfer account**

- Capital transfer account records movement of capital in and out of the economy. ✓✓
- Capital transfer account shows the change in the ownership of the nation's assets. ✓✓
- The balance shown reflects the net amount of capital transfer, either negative or positive. ✓✓
- The account has thoroughly considered the sources and application of capital. ✓✓
- Foreign direct investment and loans by the government of one country to the government of another country are the key components of capital account. ✓✓ (Max. 4) (8)

**4.5 Evaluate the extent to which an increase in both direct and indirect taxes will improve the budget.**

- Increase in direct corporate income tax/taxes on specific goods and services can positively influence economic growth and potentially reduce the budget deficit by providing more revenue for government expenditures. ✓✓
- However, personal income tax increases can have adverse effects on growth and may not be as effective as direct taxes in generating revenue. ✓✓
- An increase in VAT can improve revenue collection efficiency and reduce tax evasion. ✓✓
- It is the second largest contributor to tax revenue in South Africa, following personal income tax. ✓✓
- However, VAT regressive nature means that poorer households spend a larger proportion of their income on VAT taxed goods which may not be as beneficial as direct taxes for reducing the budget deficit ✓✓
- The effectiveness of tax increases in improving the budget deficit is contingent on how the government uses the additional revenue. ✓✓
- If the funds are allocated to productive investments, the long term benefits to aggregate supply could outweigh any short term negative effects on aggregate demand. ✓✓

(Accept any other correct relevant response)

(4 x 2) (8)

**[40]**

**SECTION C****QUESTION 5: MACROECONOMICS**

- **Discuss in detail features underpinning forecasting.** (26 marks)
- **How can fiscal and monetary policies be used to positively influence economic activity?** (10 marks)

**INTRODUCTION**

- Forecasting in business cycles is a crucial aspect of economic planning, allowing businesses and policy makers to anticipate and prepare for future economic trends. ✓✓
- Economists need to foretell what is like to happen in the economy by studying and monitoring a variety of economic variables. ✓✓

(Accept any other correct relevant introduction)

(Max. 2)

**MAIN PART****Leading indicators** ✓

- Leading indicators are statistical measures that tend to change before the economy as a whole changes. ✓✓
- They give consumers, businesses and the state a glimpse of the direction in which the economy might be leading. ✓✓
- These indicators change direction before the economy changes direction. ✓✓
- They reach the peak before the economy reaches the peak. ✓✓
- When these indicators show prosperity, the level of economic activities will also rise in a few month's time, e.g. number of new vehicles sold, real exports of goods etc. ✓✓
- Leading indicators help forecasters anticipate turning points in the business cycle, enabling businesses to adjust their strategies accordingly. ✓✓

**Coincident indicators** ✓

- Coincident indicators provide a snapshot of the current state of the economy, helping forecasters understand the present economic situation, informing decisions on investment, production and hiring. ✓✓
- They change at the same time as the economy. ✓✓
- If the business cycle reaches a peak and begins to decline, the value of retail sales will reach the peak and then begin to decline at the same time. ✓✓
- They indicate the actual state of the economy. ✓✓

**Lagging indicators** ✓

- Lagging indicators will not change direction until after the business cycle has changed its direction. ✓✓
- They serve to confirm the behaviour of coincident indicators e.g. new machinery sold. ✓✓
- If the business cycle reaches the peak and begins to decline, we are able to predict the value of new machinery sold. ✓✓
- Examples of these indicators are hours worked in construction and total of commercial vehicles sold. ✓✓
- Lagging indicators help forecasters confirm trends and adjust their forecasts accordingly. ✓✓

**Composite indicators ✓**

- This is a grouping of various indicators of the same type into a single value. ✓✓
- This single figure forms the norm for a country's performance. ✓✓

**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. ✓✓
- Trends are useful because they indicate the general direction in which the economy is heading. ✓✓
- It indicates the rate of increase/decrease in the level of output. ✓✓
- Trends help economists identify the broader economic context. ✓✓

**Length ✓**

- Length refers to the time it takes for a business cycle to move through one complete cycle. ✓✓
- It is measured from peak to peak or trough to trough. ✓✓
- If business cycles have longer length, we consider the economy to be strong. ✓✓
- Longer cycles show strength and shorter cycles show weaknesses with regard to economic activities. ✓✓
- Understanding length help forecasters to anticipate the timing of potential turning points. ✓

**Amplitude ✓**

- Amplitude is the vertical difference between the total output and between a peak of a trough. ✓✓
- It measures the distance of the oscillation of a variable from the trendline. ✓✓
- It is the intensity of the upswing and downswing in economic activity. ✓✓
- The larger the amplitude, the more extreme the changes that may occur. ✓✓
- It measures the magnitude of fluctuations in economic activity – how strong an expansion or contraction is. ✓✓
- Amplitude helps assess the potential impact of a business cycle phase. ✓✓

**Extrapolation ✓**

- Extrapolation means to estimate something unknown from facts that are known. ✓✓
- This is the technique of using past data to make predictions about the future. ✓✓
- It is also used to make economic predictions in other settings e.g. predictions of future share prices. ✓✓
- It involved extending past trends or patterns into the future assuming continuity. ✓✓
- Extrapolation is commonly used but can be risky if trends change. ✓✓

**Moving averages ✓**

- They are used to analyse the changes in a series of data over a certain period of time. ✓✓
- It is a statistical analytical tool that is used to analyse the changes that occur in a series of data over certain period of time. ✓✓
- Moving averages can be calculated for the past three months in order to smooth out any minor fluctuations. ✓✓
- A statistical tool that smooths out short term fluctuations, highlighting longer trends or cycles. ✓✓
- They help identify underlying patterns in noisy data. ✓✓

(Accept any other correct relevant response)

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

(Max. 26)

**ADDITIONAL PART**

The government may use various instruments such as government spending, taxation and transfer payments. ✓✓

- When the economy is in recession, the state can adopt an expansionary fiscal policy in an attempt to contain the economic slump and stimulate economic activity. ✓✓
- Increasing government spending can boost aggregate demand, therefore stimulating economic growth. ✓✓
- Employment will be created in the economy and people will have money to spend on goods and services leading to a further increase in production. ✓✓
- Taxes can be reduced thus increasing disposable income in the hands of the individuals, encouraging consumption and investment. ✓✓
- Government may increase government spending and cutting taxes at the same time and this will have a double effect. ✓✓
- Raising government spending with borrowed money (i.e. budget deficit) ✓✓
- Aggregate expenditure increases so does demand. ✓✓
- The economy is stimulated and employment is likely to increase. ✓✓

(Accept any other correct response)

(Allocate a maximum of 4 marks for mere listing/facts)

(10)

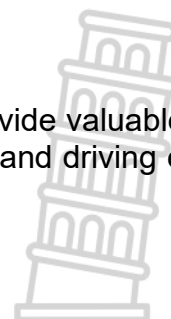
**CONCLUSION**

By employing various techniques and tools forecasters can provide valuable insights for businesses and policy makers, informing strategic decision and driving economic growth ✓✓

(Accept any higher order relevant conclusion)

(Max. 2)

(2)  
[40]



**QUESTION 6**

- **Discuss in detail the reasons for public sector failure** (26)
- **How does the public sector failure impact the economic stability?** (10)

**INTRODUCTION**

The public sector fails when it is unable to allocate resources in the right quantity and quality. ✓✓

Public sector failure refers to the inability of the government agencies and institutions to achieve their intended goals often resulting in inefficient allocation of resources, poor service delivery and decreased public trust. ✓✓

Public sector failure occurs when the economy and the country's resources are managed in such a way that the welfare of the people is not improved and the delivery of services is ineffective and inefficient. ✓✓

**MAIN PART****Management failure** ✓

- Ignorance e.g. lack of leadership, experience and training might result in the improvement of the welfare of someone at the expense of someone else. ✓✓
- Sometimes government departments and state-owned enterprises are poorly managed due to bureaucracy, insufficient experiences, lack of leadership and inadequate skills. ✓✓
- These departments are not expected to maximise profits, they receive budget allocations based on estimated costs and needs. ✓✓
- Failures can result in budget allocations not being spent – resources are wasted and this will render government interventions costly, inefficient and ineffective. ✓✓

**Apathy** ✓

- Government officials show little or no interest in delivering an efficient service to the public because there is no accountability. ✓✓
- Corruption and poor service delivery are some of the symptoms of apathy. ✓✓
- Successful public production relies on long term accountability. ✓✓

**Lack of motivation** ✓

- Workers rarely receive incentives for successful service delivery but are only monitored on input and correctly following procedures and processes. ✓✓
- This might lead to limited services, high cost and low quality. ✓✓
- Lack of motivation among government employees leads to low levels of productivity, bad service to the public and an inefficient use of resources. ✓✓
- Public sector has a poor record for monitoring and evaluating its own performance and delivery and this results in poor government accountability. ✓✓

**Special interest groups ✓**

- Attempts by interest groups such as farmers or organised labour influence government to their own advantage. ✓✓
- Politicians sometimes promote policies and continue to spend money on projects if they can get votes in return, these policies may involve inefficient allocation of resources. ✓✓
- Politicians can also serve their own interests through corruption, personal and hidden agendas and suspicious motives. ✓✓
- Special interest groups can influence the government to act to their advantage, for example, to provide them with profitable contracts and favourable regulations. ✓✓

(Accept any other relevant correct response)

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

**ADDITIONAL PART**

Public sector failure significantly harms an economy by causing the following:

- Resource wastage and misallocation – inefficient allocation of taxpayer's funds means money is not used optimally, wasting valuable resources on productive projects or failing to deliver promised services (e.g. unbuilt schools) can lead to misallocation of resources as government interventions may distort market mechanisms and lead to inefficient allocation of goods and services. ✓✓
- Inequality and poverty – failure to effectively redistribute income and provide equitable access to opportunities (education, health care, jobs) exacerbate poverty and widens the gap between rich and poor. ✓✓
- Reduced investment and growth-instability, corruption and poor governance discourages both domestic and foreign investment slowing economic growth and development. ✓✓
- Persistent public sector failure can erode investor and consumer confidence leading to reduced investment, lower consumption and overall economic instability. ✓✓
- Lower productivity – lack of motivation and bureaucratic hurdles in the public sector reduce overall productivity, affecting service delivery and economic output. ✓✓
- Inefficient public sector operations can reduce overall productivity and resources are not utilised optimally leading to lower output and even growth. ✓✓
- Economic instability – ineffective fiscal and monetary policy, missed growth targets and poor management of public finances can destabilise the entire economy. ✓✓
- Decreased trust and social unrest – citizens become apathetic or resentful when taxes don't yield results, potentially leading to protests and social instability, further hindering economic progress. ✓✓
- Higher costs – inefficient public services force individuals and businesses to pay more for private alternatives e.g. security power, increasing input costs and reducing competitiveness. ✓✓
- Budgetary pressures – public sector failure can strain government budgets leading to increased public debt and potential crowding out of private investment, which can negatively impact economic stability. ✓✓

(Accept any other relevant correct response)

**(Allocate a maximum of 4 marks for mere listing/facts)**

(10)

**CONCLUSION**

By acknowledging the challenges and limitations of public sector institutions, governments can work towards creating more efficient accountable and responsive public services that support economic growth and improve quality of life ✓✓

(Accept any other relevant higher order conclusion)

Max. 2 (2)  
**[40]**

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

