GAUTENG PROVINCE

EDUCATION

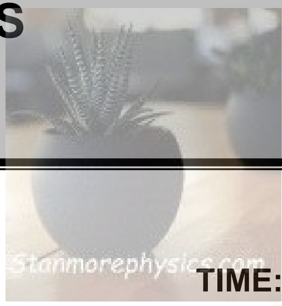
REPUBLIC OF SOUTH AFRICA

JUNE EXAMINATION
GRADE 12

2026

ECONOMICS

(PAPER 1)



ECONOMICS P1

C2731E

X05

TIME: 2 hours

MARKS: 150

14 pages

INSTRUCTIONS AND INFORMATION

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

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

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

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

4. Write the question number above each answer.

5. Read the questions carefully.

6. Start EACH question on a NEW page.

7. Leave 2 – 3 lines open 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, e.g. 1.1.9 D.

1.1.1 The method of calculating GDP that takes into account the different sectors of production is known as the ...

A production method.
B income method.
C tertiary sector.
D gross value added at market price.

1.1.2 Spending by consumers that changes with their income level is known as ...

A autonomous consumption.
B induced consumption.
C disposable income.
D marginal prospensity to consume.

1.1.3 The distance between the trend line and the peak or trough is known as the ...

A peak.
B trough.
C recession.
D amplitude.

1.1.4 Which business cycle is associated with change in inventory levels?

A Kuznets
B Juglar
C Kitchin
D Kondratieff

1.1.5 A model that plots the relationship between tax rate and tax revenue is known as the ...

A circular flow.
B phillips curve.
C laffer curve.
D business cycle.

1.1.6 Which of the following is NOT an effect of public sector failure?

A Exchange rate stability
B Economic instability
C Social instability
D Misallocation of resources

1.1.7 A measure by the Reserve Bank to take charge of the foreign exchange market is known as ...

A export promotion.
B import substitution.
C import control.
D change in demand.

1.1.8 An official and deliberate increase in the value of a currency, is known as ...

A appreciation.
B depreciation.
C devaluation.
D revaluation.

(8 x 2) (16)

1.2 Choose a description from 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, e.g. 1.2.9 J.

COLUMN A		COLUMN B	
1.2.1	Monetary flow	A	spending by firms on capital goods
1.2.2	Investment	B	affect the business cycle from oustide the market system
1.2.3	Political shocks	C	fiscal policy focus on achieving specific objectives for the government
1.2.4	Depression	D	represented by payment made in the circular flow
1.2.5	Goal bound	E	the exchange rate is allowed to fluctuate within a specific limit
1.2.6	Administrative income	F	errors and omissions in the balance of payments
1.2.7	Unrecorded transactions	G	distribute income less evenly
1.2.8	Managed floating	H	prolonged and continuous decline in economic activities
		I	money paid for traffic fines, stamp duties and licences

(8 x 1) (8)

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

1.3.1 The market value of all the final goods and services produced within the borders of a country over a period of time, usually a year

1.3.2 The portion of consumer income that is not spent

1.3.3 An increase in the capacity of the economy to produce more goods and services

1.3.4 A form of financial assistance that the government provides to another entity, usually a business or industry

1.3.5 When the value of a country's currency stays relatively constant against other countries' currencies with minimal fluctuations

1.3.6 The index of export prices expressed as a ratio of the index of import prices (6)

TOTAL SECTION A: 30

SECTION B

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

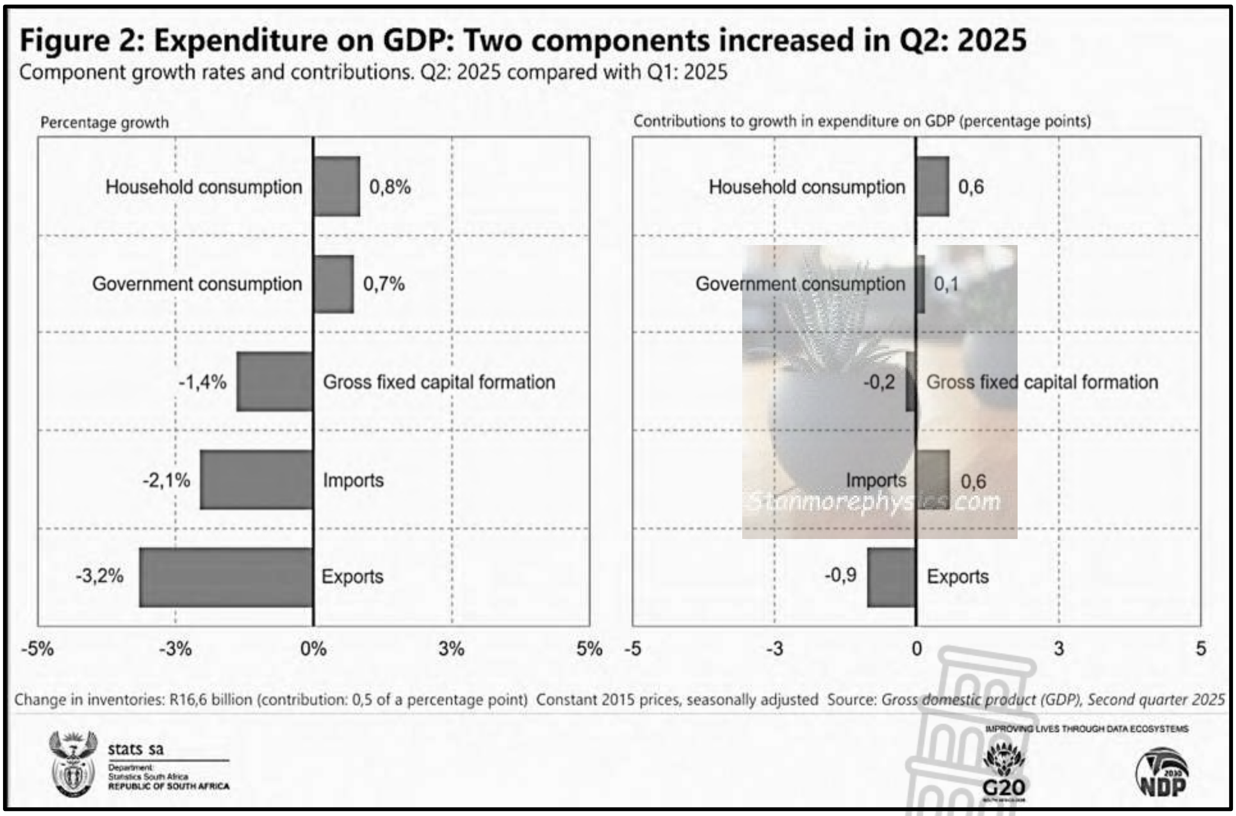
QUESTION 2: MACROECONOMICS **40 MARKS – 30 MINUTES**

2.1 Answer the following questions.

2.1.1 Name any TWO leakages in the circular flow. (2 x 1) (2)

2.1.2 How can natural disasters influence fluctuations in the business cycle? (2)

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



[Source: *https://www.statssa.gov.za/wp-content/uploads/2025/09/second.jpg*]

2.2.1 Identify the method used to calculate the gross domestic product from the graph above. (1)

2.2.2 Name any components that represent spending by the foreign sector. (1)

2.2.3 Briefly describe the term *gross fixed capital formation.* (2)

2.2.4 Why would an increase in household consumption lead to economic growth in South Africa? (2)

2.2.5 Discuss the importance of converting gross domestic product to gross national product. (2 x 2) (4)

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

[Source: *https://www.google.com/url?sa=i&url=https%3A%2F%2Fwww.wctrib.com %2Fopinion%2Fcartoons%2Feditorial-cartoon-for-nov-28-2023*]

2.3.1 Identify from the cartoon above any ONE characteristic of the prosperity phase. (1)

2.3.2 Name a monetary policy instrument that is used to reduce inflation. (1)

2.3.3 Briefly describe the term *prime lending rate*. (2)

2.3.4 Explain the importance of using leading indicators in forecasting the economy. (2)

2.3.5 How can fiscal policy be used effectively to address an economic downturn? (2 x 2) (4)

2.4 Discuss the function of the government within the circular flow of the economy. (4 x 2) (8)

2.5 Analyse the importance of maintaining price stability in preventing major fluctuations in the business cycle. (4 x 2) (8)
[40]

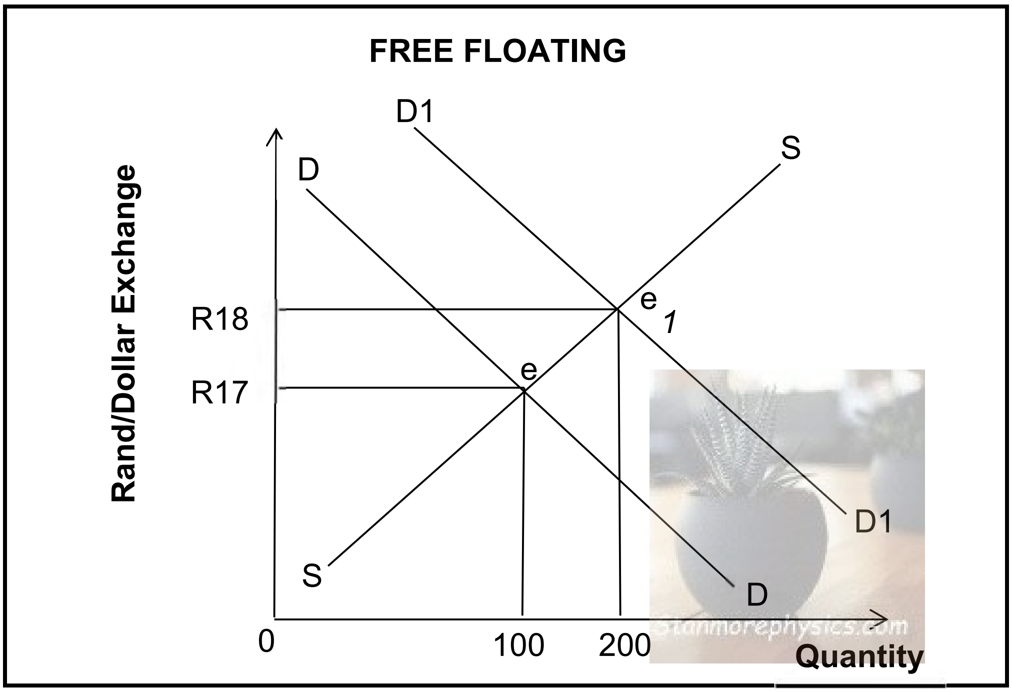
QUESTION 3: MACROECONOMICS **40 MARKS – 30 MINUTES**

3.1 Answer the following questions.

3.1.1 List any TWO items in the financial account of the balance of payments. (2 x 1) (2)

3.1.2 How can privatisation lead to an increase in economic growth? (1 x 2) (2)

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



3.2.1 What is the original equilibrium exchange rate in the above graph? (1)

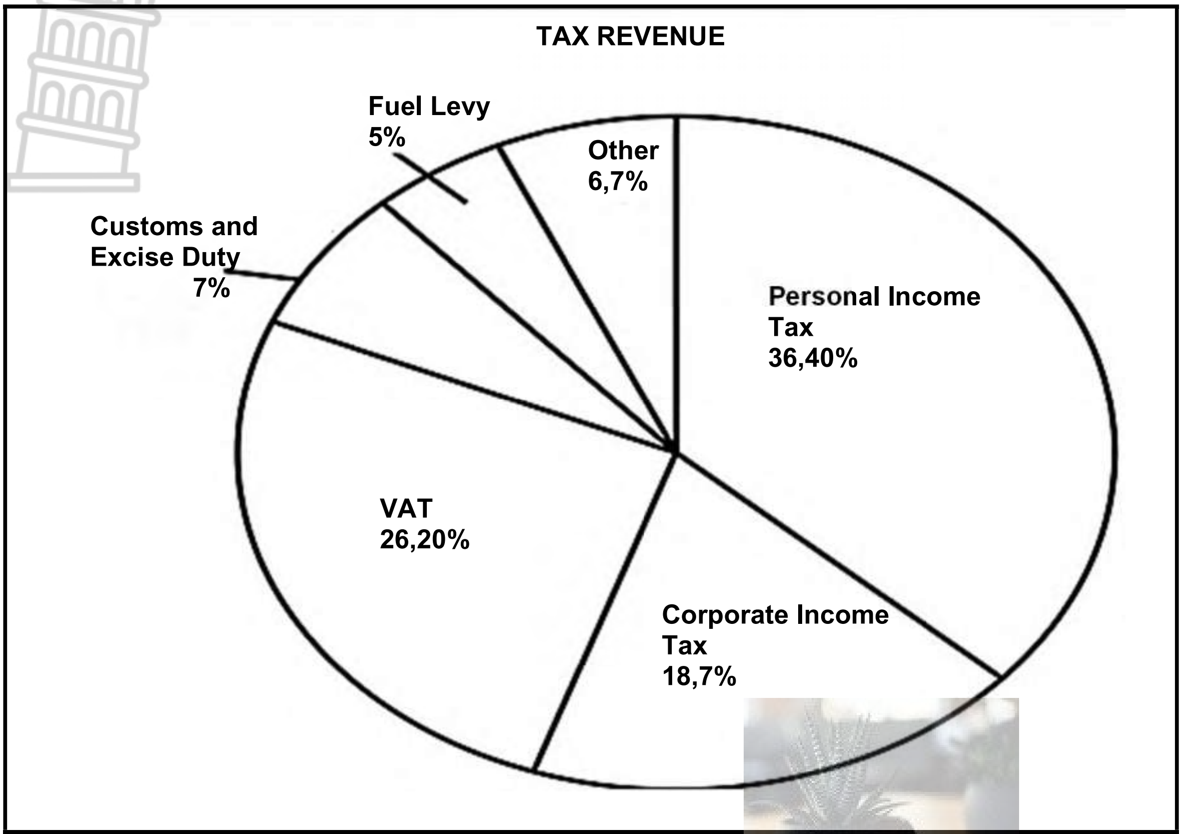
3.2.2 Which exchange rate system is used in South Africa? (1)

3.2.3 Briefly describe the term *foreign exchange market.* (2)

3.2.4 Explain any possible reason for a shift of the demand curve from D to D1. (2)

3.2.5 Explain what happens to the value of the rand when D moves to D1 (4)

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



[Source: <*http://www.jnsfinancialservices.co.za/*>]

3.3.1 According to the graph above, which type of tax contributes the least to the tax revenue? (1)

3.3.2 Identify an indirect tax that brings the most income for the government. (1)

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

3.3.4 What is the main reason for charging excise duty? (2)

3.3.5 Why is VAT classified as a regressive tax? (2 x 2) (4)

3.4 Explain the reasons for public sector failure with reference to *apathy* and *bureaucracy*. (2 x 4) (8)

3.5 Analyse the impact of a stronger currency (rand) on the South African economy. (4 x 2) (8)

[40]

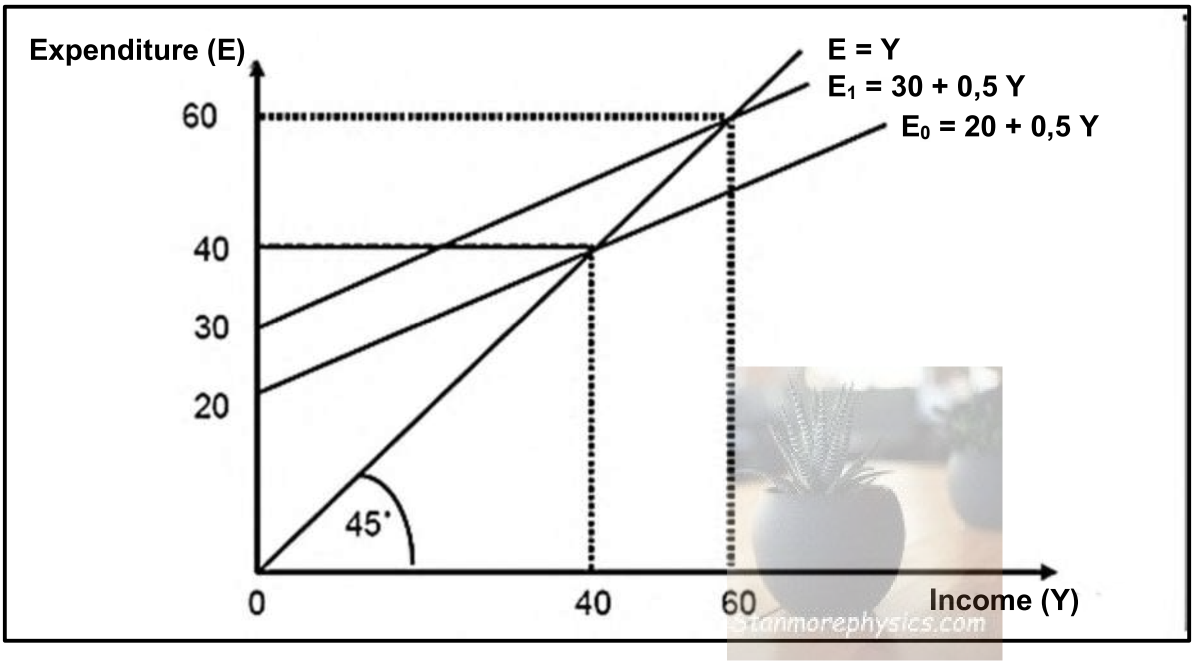
QUESTION 4: MACROECONOMICS **40 MARKS – 30 MINUTES**

4.1 Answer the following questions.

4.1.1 Name TWO theories used to explain the causes of the business cycle. (2 x 1) (2)

4.1.2 Why is a lack of motivation a reason for public sector failure? (1 x 2) (2)

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



4.2.1 Identify the original consumption function in the above graph. (1)

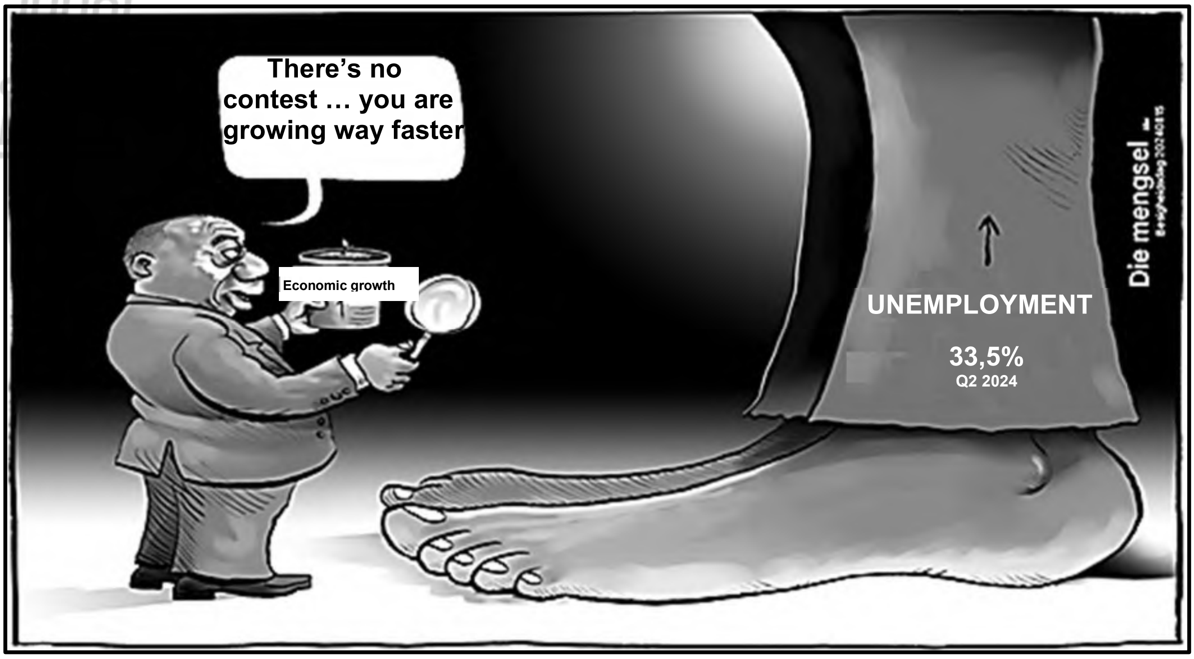
4.2.2 What is the change in national income shown on the graph above? (1)

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

4.2.4 How can an increase in income tax affect aggregate spending? (2)

4.2.5 Discuss the possible causes of an increase in autonomous expenditure. (2 x 2) (4)

4.3 Study the cartoon below and answer the questions that follows.



[Source: *Brandanreynolds.com/20240815*]

4.3.1 Identify a socio-economic issue depicted in the cartoon above. (1)

4.3.2 Name the institution that publishes the unemployment statistics in South Africa. (1)

4.3.3 Briefly describe the term *full employment*. (2)

4.3.4 Why do we use the real GDP to measure economic growth? (2)

4.3.5 How does low economic growth lead to unemployment? (4)

4.4 Differentiate between *product market* and *factor market*. (2 x 4) (8)

4.5 Why is it a necessity for the government to supply public goods? (4 x 2) (8)

[40]

TOTAL SECTION B: 80

SECTION C

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

Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower-order response. • 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.	Max. 2
Body **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 **A maximum of 8 marks may be allocated for headings/examples.**	Max. 26
Additional part: Critically discuss/Evaluate/Critically evaluate/Debate/ Deduce/Compare/Distinguish/Interpret/How?/Suggest **A maximum of 2 marks may be allocated for mere listing of facts.**	Max. 10
Conclusion Any higher-order conclusion should include: • A brief summary of what has been discussed without repeating facts already mentioned • Any opinion or value judgement on the facts discussed • Additional supporting information to strengthen the discussion/analysis • A contradictory viewpoint with motivation, if required • Recommendations	Max. 2
TOTAL	**40**

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

- Discuss in detail the new economic paradigm in smoothing out business cycles. (26)
- How has the Keynesian (endogenous) school of thought influenced business cycles? (10)

[40]

QUESTION 6: ECONOMIC PURSUITS **40 MARKS – 40 MINUTES**

- Discuss in detail the reasons for international trade. (26)
- Analyse the positive impact of globalisation on the South African economy. (10)

[40]

TOTAL SECTION C: 40

TOTAL: 150

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MARKING GUIDELINES

ECONOMICS

(PAPER 1)

22 pages

SECTION A (COMPULSORY)

QUESTION 1

1.1 MULTIPLE-CHOICE QUESTIONS

1.1.1 A – production method ✓ ✓

1.1.2 B – induced consumption ✓✓

1.1.3 D– amplitude ✓✓

1.1.4 C – Kitchin ✓✓

1.1.5 C – Laffer curve ✓✓

1.1.6 A – Exchange rate stability ✓✓

1.1.7 Accept A B C D – ✓✓

1.1.8 D – revaluation ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS

1.2.1 D ✓ represented by a payment made in the circular flow

1.2.2 A ✓ spending by firms on capital goods

1.2.3 B ✓ affect the business cycle from outside the market system

1.2.4 H ✓ prolonged and continuos decline in economic activities

1.2.5 C ✓ fiscal policy focuses on achieving specific objectives for the government

1.2.6 I ✓ money paid for traffic fines, stamp duties and licences

1.2.7 F ✓ errors and osmisions in the balance of payments

1.2.8 E ✓ the exchange rate is allowed to fluctuate within a specific limit

(8 x 1) (8)

1.3 **GIVE THE TERM**

1.3.1 Gross domestic product ✓

1.3.2 Savings/Marginal propensity to save ✓

1.3.3 Economic growth ✓

1.3.4 Subsidy ✓

1.3.5 Exchange rate stability/stability ✓

1.3.6 Terms of trade ✓ (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

2.1 Answer the following questions.

2.1.1 **Name any TWO leakages in the circular flow**

- Import expenditure ✓
- Taxes ✓
- Savings ✓

(Accept any other correct relevant response.) (2 x 1) (2)

2.1.2 **How can natural disasters influence fluctuations in the business cycle?**

Natural disasters:

- Reduce the productivity of the agricultural sectors hence causing a downturn in the economy. ✓✓
- Decrease supply of raw materials used to produce other goods thus causing a retarding growth in the level of economic activities. ✓✓

(Accept any other correct relevant response.) (1 x 2) (2)

2.2 **DATA RESPONSE**

2.2.1 **Identify the method used to calculate domestic product from the table above.**

- Expenditure method ✓ (1)

2.2.2 **Name the component that represents spending by the Foreign Sector.**

- Exports ✓ (1)

2.2.3 **Briefly describe the term *gross fixed capital formation*.**

Gross fixed capital fromation refers to the spending on capital goods such as machinery and other equipment that is used to produce other goods and services ✓✓

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

2.2.4 **Why would an increase in household consumption lead to economic growth in South Africa?**

- Higher household consumption increases the demand for goods and services, leading to an increase in production. ✓ ✓
- Business will expand due to an increase in demand which will stimulate employment and increase economic activities. ✓✓

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

2.2.5 **Discuss the importance of converting gross domestic product to gross national product.**

- Converting GDP to GNP accounts for the total income earned by a country's residents, including income from abroad, offering a more accurate reflection of the national economic performance. ✓✓
- GDP includes income earned by residents from investments and work abroad, providing insights into the economic contribution of international activities. ✓✓
- GNP helps policy makers to understand the economic well-being of the permanent residents, guiding decisons that better adresss income distribution and external economic relations. ✓✓

(Accept any other correct relevant response.) (2 x 2) (4)

2.3 DATA RESPONSE

2.3.1 **Identify from the cartoon above any ONE characteristic of the prosperity phase.**

Rapid growth/booming labour market ✓ (1)

2.3.2 **Name any monetary policy instrument used to reduce inflation.**

- Interest rates ✓
- Open market transactions ✓
- Cash reserve requirements ✓
- Moral suasion ✓
- Exchange rate targeting ✓

(Accept any other correct relevant response.) (1)

2.3.3 **Briefly describe the term *prime lending rate.***

Prime lending rate refers to the interest rate that commercial banks charge their most credit worthy customers. ✓✓
(Accept any other correct relevant response.) (2)

2.3.4 **Explain the importance of using leading indicators in forecasting the economy.**

- Leading indicators provide early signals about the direction of the economy, helping to anticipate future economic trends before they fully develop. ✓✓
- Policymakers and businesses use leading indicators to make proactive decisions, allowing them to address economic challenges. ✓✓

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

2.3.5 **How can fiscal policy be used effectively to address an economic downturn?**

- During an economic downturn, increased governement spending on infrastructure, public services and social programmes can stimulate demand and create job opportunites.✓✓
- Reducing taxes for individuals and businesses can increase the disposable income of consumers and encourage consumer spending and investment. ✓✓

(Accept any other correct relevant response.) (2 x 2) (4)

2.4 **Discuss the function of government within the circular flow of the economy.**

- Provides subsidies and incentives to firms in order to boost the production of goods and services. ✓✓
- The state provides the households and businesses with public goods and services that are produced from factors of production bought in the factor market. ✓✓
- Receives tax from households e.g. income tax and from the business sector e.g. company tax. ✓✓
- Government regularly borrows money from the private sector and from abroad to balance its budget. ✓✓
- Government engages in trade agreements to influence imports and exports. ✓✓

(Accept any other correct relevant response.)
(Allocate a maximum of 4 marks for the mere listing of facts/examples) (4 x 2) (8)

2.5 **Analyse the importance of maintaining price stability in preventing major fluctuations in the business cycle.**

- It assists in improving the transparency of the price mechanism so that people can recognise changes in relative prices without being confused by changes in the overall price. ✓✓
- Price stability helps households and businesses to plan and make long term decisions with confidence. ✓✓
- It encourages investment and savings, when inflation is low and stable investors and savers are encouraged to save and invest more because they will have confidence that the value of their money will not decline quickly. ✓✓

- Supports employment and growth because it helps to maintain consistent levels of production and employment. ✓✓
- Avoids the risk of deflation which makes it more difficult to implement policies guarding against fluctuations. ✓✓

(Accept any other correct relevant response.)
(Allocate a maximum of 2 marks for the mere listing of facts/examples) (4 x 2) (8)
[40]

QUESTION 3: MACROECONOMICS

3.1 Answer the following questions.

3.1.1 **List any two items in the financial account of the balance of payments.**

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

(Accept any other correct relevant response.) (2 x 1) (2)

3.1.2 **How can privatisation lead to an increase in economic growth?**

Private sector firms should invest more because of the profit incentive which would increase production and lead to economic growth. ✓✓
(Accept any other correct relevant response.) (1 x 2) (2)

3.2 **DATA RESPONSE**

3.2.1 **What is the original equilibrium exchange rate in the above graph?**

- R17/$1 ✓ (1)

3.2.2 **Which exchange rate system is used in South Africa?**

- Free floating exchange rate system ✓
- Flexible exchange rate system ✓ (1)

3.2.3 **Briefly describe the term *foreign exchange market*.**

It is a market where a currency of one country is traded or exchanged for the currency of another country. ✓✓
(Accept any other correct relevant response.) (2)

3.2.4 **Explain any possible reason for a shift of the demand curve from D to D1.**

- The shift in the demand is because of the import of goods to South Africa from the USA (more South Africans are buying from the USA). ✓✓
- Outbound tourists from South Africa to the United States of America. ✓✓
- Paying insurance premium to a company that operates in the USA. ✓✓

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

3.2.5 **Explain what happens to the value of the rand when D moves to D1**

- The value of the rand will depreciate which means it becomes weaker. ✓✓
- Before the shift the exchange rate was R17/$1 and after it is R18/$1, which means we pay R1 more to get the same $1. ✓✓
- The reason for the rand becoming weaker is the outflow of funds from South Africa's economy. ✓✓

(Accept any other correct relevant response.) (2 x 2) (4)

3.3 **DATA RESPONSE**

3.3.1 **According to the graph above, which type of tax contributes the least to the tax revenue?**

Fuel levy ✓ (1)

3.3.2 **Identify an indirect tax that brings the most income for the government.**

Value added Tax (VAT) ✓ (1)

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

It is a tax charged by the government on the sale of goods and services. ✓✓ (2)

3.3.4 **What is the main reason for charging excise duty?**

- To discourage the consumption of harmful goods. ✓✓

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

3.3.5 **Why is VAT classified as a regressive tax?** **(2 x 2)**

- It is regressive because people in lower income groups pay higher tax in proportion to their income than those in higher income groups, even if the VAT is 15% for all. ✓✓
- VAT redistribute income less evenly as the poor are left with less income after paying VAT.
- A person who earns R5 000 pays R750 VAT (15% of income) on certain purchases, compared to a person who earns R50 000 and pays R750 VAT (1,5% on income) on the purchases.

(Accept any other correct relevant response.) (4)

3.4 **Explain the reasons for public sector failure with reference to *apathy* and *bureaucracy*.**

Apathy

- Some government servants lack dedication to do their job, and they just do not care about working. ✓✓
- Government officials show little or no interest in delivering an efficient service to the public, there is usually long queues in government offices as apathy affect the behaviour and ability to do daily activities. ✓✓
- Corruption and poor service delivery are some of the symptoms of poverty. ✓✓
- Apathy links with parastatals as people employed by the state-owned enterprises such as Eskom and the Post Office seek to maximise their salaries even when the business is operating at a loss. ✓✓ (Max. 4)

Bureaucracy

- Bureaucrats tend to obey rules and regulations without judgement; they are all about following the law. ✓✓
- There is no emphasis on creating additional competencies and there is less freedom to act within a bureaucracy. ✓✓
- Bureaucrats foster a structure that does not create true productivity and thus leads to poor service delivery. ✓✓
- Bureaucracy is associated with inefficiency as government officials provide fewer public goods and services than what they can provide with the available resources because of too much red tape. ✓✓ (Max. 4)

(Accept any other correct relevant response.) (2 x 4) (8)
(Allocate a maximum of 4 marks for the mere listing of facts/examples)

3.5 **Analyse the impact of a stronger currency (rand) on the South African economy.**

A stronger currency (rand) may positively impact on the South African economy as follows:

- The import of production inputs such as crude oil, agricultural chemicals and vehicle parts will become affordable and lead to an increase in productivity and economic growth. ✓✓
- Foreign investors may increase their investments in the economy because a stronger rand increases the returns on their investments. ✓✓
- A stronger currency would decrease the demand of South African products which helps to stabilise prices or decrease inflation. ✓✓

A stronger currency (rand) may negatively impact on the South African economy as follows:

- People from other countries may find it expensive to buy from South Africa which will reduce our exports and injections. ✓✓
- South Africans would buy more goods from other countries which would reduce the profits of local businesses and increase the unemployment rate. ✓✓
- The deficit in the balance of payments may worsen because there would be more outflows of money and less inflow of money since the rand is powerful. ✓✓

(Accept any other correct relevant response.)
(Allocate a maximum of 2 marks for the mere listing of facts/examples) (4 x 2) (8)

[40]

QUESTION 4: MACROECONOMICS

4.1 Answer the following questions.

4.1.1 **Name TWO theories used to explain the causes of business cycles.**

- Monetarist approach/Exogenous ✓
- Keynesian approach/Endogenous ✓

(2 x 1) (2)

4.1.2 **Why is lack of motivation a reason for public sector failure?**

Government officials hardly receive rewards for a job well done and they end up working the barest minimum which leads to poor service delivery.
(Accept any other correct relevant response.) (1 x 2) (2)

4.2 **DATA RESPONSE**

4.2.1 **Identify the original consumption function on the graph above.**

- $E_\circ = 20 + 0.5Y$ ✓ (1)

4.2.2 **What is the change in national income shown on the above graph?**

- 20 ✓

(Accept any other correct relevant response.) (1)

4.2.3 **Briefly describe the term *multiplier.***

The multiplier refers to the process whereby a small initial change in spending such as investment leads to a higher proportional change in national income. ✓✓
(Accept any other correct relevant response.) (2)

4.2.4 **How can an increase in income tax affect the aggregate spending?**

- An increase in income tax reduces the disposable income of consumers, leaving them with less money to spend on goods and services. ✓✓
- Lower disposable income leads to a decrease in consumer spending which is the major component of aggregate demand. ✓✓ (2)

(Accept any other correct relevant response.)

4.2.5 **Discuss the possible causes of an increase in autonomous expenditure**

- Increase in government spending on infrastructure, education and healthcare will result to an increase in autonomous spending. ✓✓
- An increase in exports will boost total autonomous expenditure. ✓✓
- Lower interest rates encourage increased consumer borrowing which results to an increase in autonomous spending.✓✓
- Spending of savings and inheritance by households. ✓✓

(Accept any other correct relevant response.) (2 x 2) (4)

4.3 **DATA RESPONSE**

4.3.1 **Identify a socio-economic issue in the cartoon above.**

- Unemployment ✓ (1)

4.3.2 **Name the institution that publishes the unemployment stats in South Africa.**

- Statistics South Africa ✓ (1)

4.3.3 **Briefly describe the term full employment.**

- It is when everybody who is looking for work can find work or get employment. ✓✓

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

4.3.4 **Why do we use the real GDP to measure economic growth?**

Real GDP excludes the effect of inflation in its prices, and it gives the accurate figures. ✓✓
(Accept any other correct relevant response.) (2)

4.3.5 **How does low economic growth lead to unemployment?**

- A decrease in production or low production should result in less profits for the businesses which forces them to retrench workers leading to an increase in unemployment. ✓✓
- Low economic growth suggests less demand for goods which discourages the business to produce more which keeps unemployment at high levels. ✓✓
- Low economic growth leads to the withdrawal of funds from the country by investors as they get less returns and the unemployment rates increase as the businesses shut down. ✓✓

(Accept any other correct relevant response.) (4)

4.4 **Differentiate between *product market* and *factor market*.**

Product Market	Factor Market
• It is a market where final goods and services are traded. ✓✓ • Capital goods which are used to produce other goods such as machines are traded in this market ✓✓ • Consumer goods like durable goods (Furniture) that last for a long term are traded in this market. ✓✓ • Money flows from households to business for payment of goods and services. ✓✓	• It is a market where factors of production are bought and sold. ✓✓ • Natural resources can be sold in this market, and the remuneration will be rent. ✓✓ • Labour will be employed in this market, and the remuneration will be salaries and wages. ✓✓ • Money flows from business to household as payment for the factors of production. ✓✓

(Accept any other relevant response.) (2 x 4) (8)
(Allocate a maximum of 4 marks for the mere listing of facts/examples)

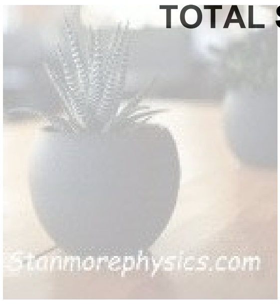
4.5 **Why is it a necessity for the government to supply public goods.**

- Community goods have non-rivalry and non-excludability and thus lead to market failure which requires government intervention. ✓✓
- Community goods cannot be charged a price based on use; the public sector will have to provide them for free for the benefit of the society. ✓✓
- The government provides collective goods for the benefit of all the people as they would be very expensive if they are provided by the market, but they are forced to charge a small fee to exclude the free riders. ✓✓
- Government provides collective goods such as roads, public transport, water supply and more to support economic growth and development. ✓✓
- Government provides merit goods as they have important benefits for their users and the economy. ✓✓
- People are usually not willing to pay for education and healthcare, and the government provide such goods and services as they are aware of the positive externality and social benefits of merit goods. ✓✓

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

(4 x 2) (8)
[40]

TOTAL SECTION B: 80



SECTION C

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

Your answer will be assessed as follows:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction The introduction is a lower-order response. • 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.	Max. 2
Body **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 **A maximum of 8 marks may be allocated for headings/examples.**	Max. 26
Additional part: Critically discuss/Evaluate/Critically evaluate/Debate/ Deduce/Compare/Distinguish/Interpret/How/Suggest **A maximum of 2 marks may be allocated for the mere listing of facts.**	Max. 10
Conclusion Any higher-order conclusion should include: • 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	Max. 2
TOTAL	**40**

QUESTION 5: MACROECONOMICS

- **Discuss in detail the new economic paradigm in smoothing-out business cycles. (26 marks)**
- **How has the Keynesian (endogenous) school of thought influenced business cycles? (10 marks)**

INTRODUCTION

- The new economic paradigm suggests that it is possible to implement measures to promote economic growth and reduce unemployment without provoking inflation. ✓✓
- The new economic paradigm is embedded in both demand-side and supply- side policies. ✓✓

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

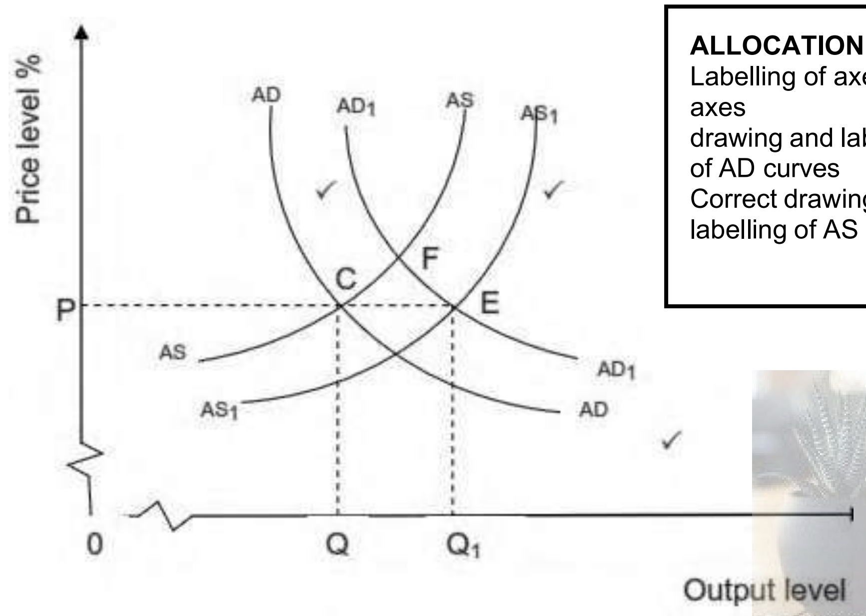
MAIN PART
Demand-side policies: ✓
Monetary policy: ✓

- 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 recession 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 the increase in demand, inflation will increase. ✓✓

Fiscal policy: ✓

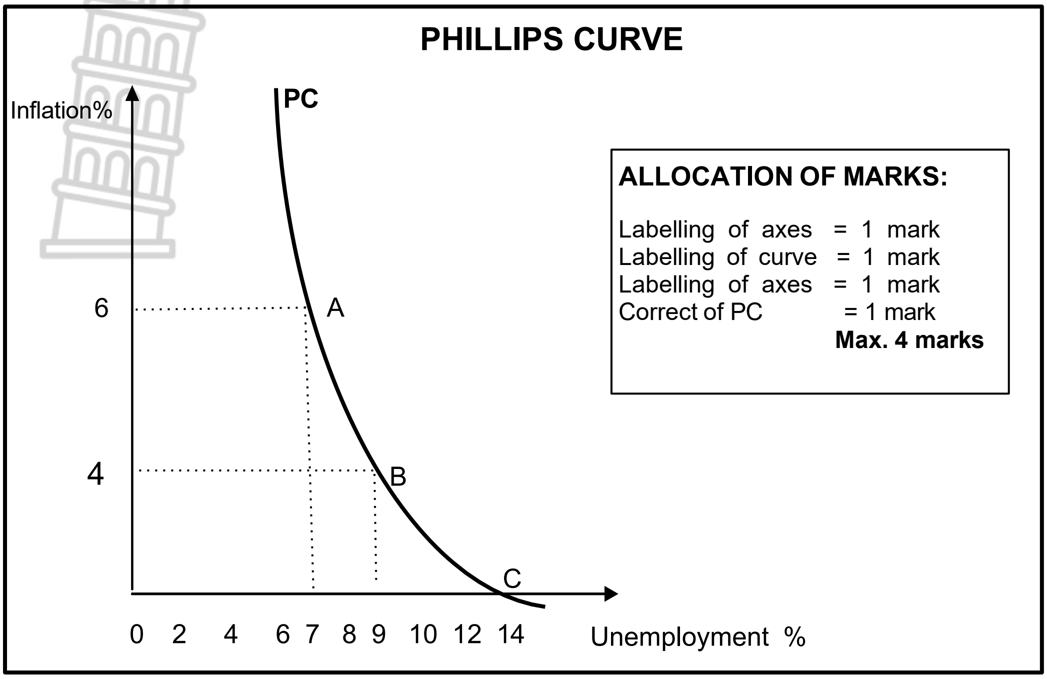
- When the level of economic activity is low, expansionary fiscal measures can be used to stimulate growth and reduce unemployment. ✓✓
- An increase in government expenditure will increase the aggregate demand as more people will be employed and earn an income. ✓✓
- When there is an increase in injection in the economy, production 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 will lead to an increase in disposable income. ✓✓
- This will increase consumer spending and investments, stimulating aggregate demand. ✓✓

Inflation: ✓
- Aggregate demand increases more quickly than aggregate supply and this causes prices to increase. ✓✓
- If the supply does not react to the increase in demand, prices will increase and this will lead to inflation. ✓✓
- Aggregate demand and supply are in equilibrium where AD = AS at point **C**, and again where AD1 = AS1 at point **E**. ✓✓
- The diagram below illustrates that if AD increases to AD1 and AS does not respond, the new equilibrium will be at point **F**, therefore, real production will increase and prices will also increase, inflation will prevail. ✓✓



ALLOCATION OF MARKS:
Labelling of axes = 1 mark
axes = 1 mark
drawing and labelling of AD curves = 1 mark
Correct drawing and labelling of AS curves = 1 mark
Max. 4 marks

Unemployment: ✓
- Demand-side policies are effective in stimulating economic growth during an economic recession. ✓✓
- The demand for labour will increase due to economic growth, and that leads to reduced unemployment. ✓✓
- A decrease in unemployment results in an increase in inflation because more people are employed, which causes an increase in demand for labour. ✓✓
- This relationship between unemployment and inflation is illustrated using the Phillips curve. ✓✓



- The Phillips curve shows the negative or inverse relationship between unemployment and inflation. ✓✓
- PC shows the initial situation, where at point C the PC curve intersects x/axis i.e. natural rate of unemployment is 14%. ✓✓
- If unemployment falls to B i.e. 9% will cause wages to increase, and inflation will kick in and increase to 4%. ✓✓
- The government can choose how much unemployment it wishes to trade-off for inflation. ✓✓

SUPPLY-SIDE POLICIES ✓

Reducing cost of doing business ✓
- Improving infrastructural services such as communication, transport and energy can lower logistical costs for businesses. ✓✓
- Simplifying and streamlining administrative costs such as inspections and regulations can reduce compliance costs for businesses, making it easier and cheaper to operate. ✓✓
- Cash incentives such as subsidies can be used to encourage businesses to locate in areas where unemployment is high. ✓✓
- Subsidies can also be used to compensate exporters for certain costs they incur to encourage increased production aimed at foreign markets. ✓✓

Improving efficiency of inputs ✓

- Lower rates of personal income tax are incentives for high productivity and increase aggregate supply. ✓✓
- Capital consumption: by replacing capital goods on a regular basis that will create opportunities for businesses to keep up with technological development. ✓✓
- Businesses are allowed to subtract depreciation allowance before tax is deducted from their profits to reduce their tax liability. ✓✓
- Human resources development: the quality of labour can be improved by improving health care, education and training which will increase the efficiency of businesses. ✓✓
- Free advisory services given to businesses can promote opportunities to export and establish business activities in foreign countries and this includes information on weather forecasts, veterinary services and research and development (R&D). ✓✓

Improving efficiency of markets ✓

- Deregulation involves removal of laws, regulations and by-laws to make markets free ✓✓ labour and other resource inflexibility should be addressed. ✓✓
- Competition is encouraged to establish new businesses, invite foreign direct investment and remove power imbalances. ✓✓
- Leveling the economic playing fields: private businesses cannot compete with public enterprises due to legislative protection. ✓✓

(Accept any other correct relevant response.)
(Allocate a max of 8 marks for heading/subheadings and examples)

Max. 26

ADDITIONAL PART

- The Keynesian (endogenous) view is that markets are inherently unstable, therefore government intervention is necessary to stabilise the economy. ✓✓
- They argue that changes in value of total expenditure bring about changes in demand. ✓✓
- Government can intervene through fiscal policy which includes taxes and government spending. ✓✓
- During a recession, governments can increase their spending and reduce taxes. ✓✓
- This will increase the level of economic activity e.g., production, employment, income and demand.
- During a peak the government can increase taxes and reduce government spending. ✓✓
- This will result in reduced income, reduced demand for factors of production, and expenditure. ✓✓

(Accept any other correct relevant response.)
(A maximum of 2 marks may be allocated for the mere listing of facts/examples) Max. (10)

CONCLUSION

- By implementing demand-side policies and supply-side policies, the government can help create a stable and prosperous economy while ensuring price stability. ✓✓

Max. (2)

(Accept any other correct relevant response.) **[40]**

QUESTION 6: MACROECONOMICS

- **Discuss in detail the reasons of international trade.** **(26)**
- **Analyse the positive impact of globalisation on the South African economy.** **(10)**

INTRODUCTION
International trade refers to the exchange of goods and services between two countries or more. ✓✓
(Accept any other relevant introduction.) (Max. 2)

MAIN PART

REASONS FOR INTERNATIONAL TRADE

Demand reasons

1. **Size of population** ✓

- 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, and consumers will be forced to import from other countries. ✓✓

2. **Income levels** ✓

- Changes in income will cause a change in the demand for goods and services. ✓✓
- An increase in the per capita income of people results in more disposable income being spent on local goods and services, some of which may then have to be imported. ✓✓
- Local supply may be insufficient to satisfy the demand, thereby creating a demand for imports. ✓✓

3. **Changes in the wealth of the population** ✓

- An increase in the wealth of the population leads to a greater demand for goods. ✓✓
- People have access to loans and can spend more on luxury goods, many of which are produced in other countries. ✓✓
- In cases where luxury goods and services cannot be produced locally, people will have to import them from other countries. ✓✓

4. **Preferences and tastes** ✓

- Preferences and tastes play a part in the determination of prices. ✓✓
- Customers in Australia prefer a specific good which they do not produce and need to import, and it will have a higher value than in other countries. ✓✓
- People's taste and preferences evolve and are often influenced by social media and globalisation. ✓✓
- Changes in preference create markets for goods and services that are not always manufactured domestically. ✓✓

5. **Difference in consumption patterns** ✓

- The difference in consumption patterns is determined by the level of economic development in the country. ✓✓
- In countries where the level of disposable income is high, the demand for luxury goods is high, which creates a larger market for imports. ✓✓

- A poorly developed country will have a high demand for basic goods and services but a lower demand for luxury goods. ✓✓

Supply reasons

1. **Natural resources** ✓
- Natural resources are not evenly distributed across all countries of the world. ✓✓
- They vary from country to country and can only be exploited in places where these resources exist. ✓✓
- South Africa has large deposits of gold while Nigeria has crude oil. ✓✓
- The availability of natural resources creates a platform for specialisation and an opportunity to earn valuable export revenue. ✓✓

2. **Climate conditions** ✓
- Every country has a unique climate which allows it to grow specific crops and fruits. ✓✓
- Specialisation is promoted in production which empowers countries to produce at lower cost per unit. ✓✓
- Climate conditions make it possible for some countries to produce certain goods at lower prices than other countries. ✓✓
- Brazil is the biggest producer of coffee in the world because its climate conditions are favourable for coffee production, and they sell to other countries. ✓✓

3. **Labour resources** ✓
- Labour resources differ in quality, quantity and cost between countries. ✓✓
- Some countries have highly skilled and well-paid workers with high productivity levels. ✓✓ such as Switzerland ✓
- Some countries have bigger or smaller labour force, where minimum wage may be higher while others have no regulations regarding remuneration. ✓✓
- Some countries have specialised labour force in the production of certain goods and services. ✓✓
- Germany has the most skilled labour in the production of BMW, VW, Mercedes Benz cars, which gives it the capacity to export to other countries. ✓✓

4. **Technological resources** ✓
- Technological resources are available in some countries that enable them to produce certain goods and services at a low unit cost. ✓✓
- Some countries have access to advanced technological resources such as machinery and equipment. ✓✓
- Japan and Singapore are technologically advanced which gives them a competitive advantage on the global markets. ✓✓

5. **Specialisation** ✓
- Specialisation in the production of certain goods and services allows some countries to produce them at a lower cost than others (comparative advantage). ✓✓
- Japan specialises in the production of electronic goods and sells these at a lower price. ✓✓
- Specialisation ensures that mechanisation, division of labour and economies of scale are associated with mass production are achieved. ✓✓
- Countries therefore earn an international reputation for specialising in the production of certain products. ✓✓

6. **Capital** ✓
- Real and money capital encourages developed countries to enjoy an advantage over underdeveloped countries. ✓✓
- Developed countries are usually highly industrialised and have well-developed infrastructure which promotes higher levels of productivity. ✓✓
- Due to a lack of capital, some countries cannot produce all the goods they require themselves. ✓✓

(Accept any other correct relevant response.)
(Allocate a max of 8 marks for headings/subheadings/examples) (Max. 26)

ADDITIONAL PART

Positive impact of globalisation on the South African economy

- With globalisation local firms can sell on international markets which would increase their profits and encourage better productivity which leads to economic growth. ✓✓
- Foreign companies are then able to open their branches in South Africa, and this helps in international relations and economic integration. ✓✓
- Mass production becomes possible as we also produce for international markets which increases employment opportunities in the country. ✓✓
- The prices of goods and services in the country decreases because of specialisation and foreign competition. ✓✓
- Globalisation ensures foreign direct investment for South Africa as foreign firms seek favourable production environments which leads to an inflow of foreign currency. ✓✓
- Government provides subsidies and incentives to exporting businesses which encourages industrial development. ✓✓
- With globalisation South Africa can import the rare skills and technology which assist us to be able to utilise our natural resources for our own benefit. ✓✓

(Accept any other correct relevant response.) (Max. 10)
(A maximum of 2 marks may be allocated for the mere listing of facts/examples)

CONCLUSION

It is important for South Africa to encourage investments in export industries so that we benefit from international trade. ✓✓
(Accept any correct relevant response.) (Max. 2) **[40]**

TOTAL SECTION C: 40

TOTAL: 150