KWAZULU-NATAL PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS) SUPPORT

LAST PUSH TEACHER DOCUMENT

ECONOMICS PAPER 1 & 2

GRADE 12

2025

PAPER 1

MACROECONOMICS

CIRCULAR FLOW
ACTIVITY 1

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 number (1.1.1–1.1.5) in the ANSWER BOOK, for example 1.1.6 D

1.1.1 Money withdrawn from the economy is called …
- A Injections.
- B Imports.
- C Leakages ✓✓
- D Money flow.

1.1.2 The method used to derive total remuneration on factors of production is called the …. method
- A Production.
- B Income ✓✓
- C Expenditure.
- D Circular.

1.1.3 Expenditure by businesses on capital goods for production purposes is known as…
- A. investments spending
- B. government spending.
- C. export.
- D. import.

1.1.4 market that provides short term deposits, loan and investment is known as… market.
- A money ✓✓
- B exchange
- C capital.
- D product market.

1.1.5 Earning received from the export of goods and services are regarded as …
- A. leakages
- B. injections ✓✓
- C. investment
- D. export

1.1.6 The circular flow that includes the foreign sector is called a/an... economy
- A. monetary
- B. open✓✓
- C. fixed
- D. closed

1.1.7 The market where labour is sold and bought is known as the … market
- A. factor ✓✓
- B. goods
- C. financial
- D. product

1.1.8 Spending that is dependent on the level of income…
- A. autonomous spending
- B. consumer spending
- C. national spending
- D. induced spending✓✓

2×8=16

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 1.2.7) in the ANSWER BOOK, e.g. 1.2.8 H**

COLUMN A	COLUMN B	Answers
1.2.1 Gross national product	A. Income and expenditure between the participants in the circular flow	1.2.1. G ✓
1.2.2 Real flow	B. A small initial increase in spending produces a proportionately larger increase aggregate national income	1.2.2. D ✓
1.2.3 Money flow	C. Where both short-term and long-term monetary assets are traded.	1.2.3. A ✓
1.2.4 Capital market	D. Shows the way that goods and services are produced and consumed in the economy	1.2.4. F ✓
1.2.5 Economic equilibrium	E. Value of final goods and services produced within the country	1.2.5. H ✓
1.2.6 Financial market	F. Where long term funds are borrowed and save by consumer and business enterprise	1.2.6 C ✓
1.2.7 Multiplier effect	G. Value of all final goods and services produced by the permanent residents of the country for specific period	1.2.7 B ✓
	H C+G+I = S+T+M	

1×7=7

1.3 Give the correct term for each of the following descriptions. Write only the term next to the question number (1.3.1 – 1.3.6)

1.3.1 The total market value of all final goods and services produced by within the borders of the country
Gross domestic product ✓

1.3.2 A representation of the economy showing how the economic participants interact with another
Circular flow ✓

1.3.3 Consumption that is independent of the level and changes of income
Autonomous consumption ✓

1.3.4 The flow of goods and services between the participants in the circular flow
Real flow ✓

1.3.5 The proportion of additional income that consumers do not spend on goods and services.
Marginal propensity to save✓

1.3.6 The year with very small price changes or price fluctuation.
Base year✓

1×6=6

ACTIVITY 2

2.1.1 Name any TWO types of consumer goods (2)

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

2.1.2 How do subsidies positively affect the price of goods and services? (2)

- Subsidies reduce cost of production to firms thus they charge relatively low prices for their goods and services ✓✓

2.1.3 Why is System of National Accounts important in determining the national aggregates. (2)

- The SNA is recommended by the United Nations and hence used in all countries to enable the economic information of different countries to be comparable. ✓✓
- The SNA gives information on the level of development of a country. ✓✓

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

> **The Multiplier effect**
>
> The consumption function consists of autonomous consumption and induced consumption. However, every time there is an injection into the circular flow of income there is likely to be a multiplier effect.
>
> The size of the multiplier depends upon households' marginal propensity to consume (mpc) and marginal propensity to save (mps.) For instance, if 60% of all new income in a given period is spent on South African products, the marginal propensity to consume would be 0,6.
>
> (Adapted from www.economicsonline.co.za)

2.2.1 Identify an example of a leakage in the extract above (1)

Saving/ Save ✓

2.2.2 Name one factor that determines the size of multiplier (1)

- Marginal propensity to consume✓
- Marginal propensity to save ✓

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

Induced consumption refers to the portion of consumer spending that is influenced by changes in income levels ✓✓

2.2.4 Why does the size of multiplier increase as marginal propensity to consume increase? (2)

Multiplier increase due to that the more people spend is the more income multiply or more people earn income ✓✓

2.2.5 Using the marginal propensity to consume (mpc) of 0.6, calculate the change in national income if there was an investment of R250M. show all calculations (4)

K=1/1-mpc
= 1/1-0.6 ✓
= 1/0.4 ✓
= 2.5 x R250M ✓
= R625M ✓

ACTIVITY 3

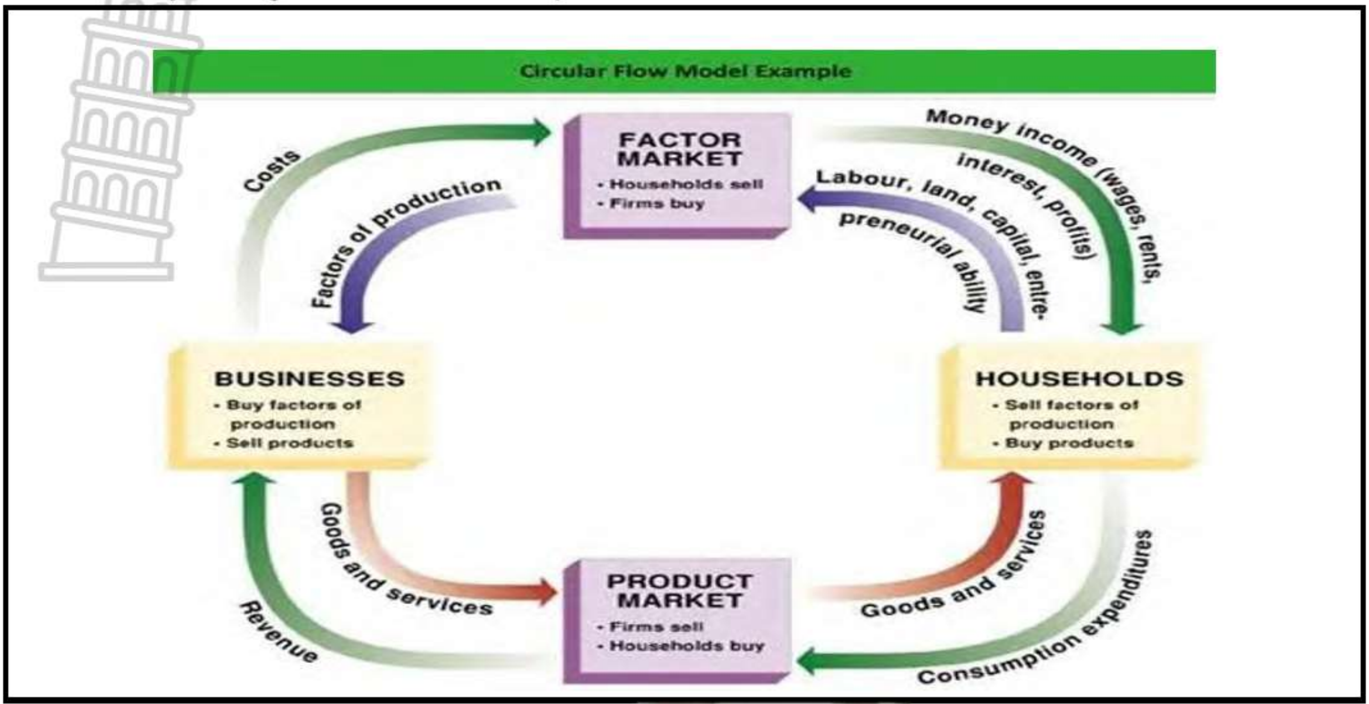
3.1.1 Name TWO examples of direct tax (2)

- Pay as you earn ✓
- Companies tax ✓

3.1.2 Why are households important participants in the circular flow? (2)

- Households ensure the availability of factors of production that are used in production of goods and services ✓✓
- They are the consumers of goods produced by firms ✓✓
- They contribute to the economy by paying tax to government so that government can provide public goods and services ✓✓

3.2 Study the diagram below and answer questions that follow



3.2.1 Identify the remuneration for natural resources (1)

Rent ✓

3.2.2 Name any other economic participant not mentioned above (1)

- Government ✓
- Foreign sector ✓

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

Factor market is a market where factors of production are bought and sold ✓✓

3.2.4 Explain the importance of factors of production in the circular flow? (2)

- Factors of production such as labourer are used to produce goods and services by facilitating the process of changing natural resources into finished goods ✓✓
- Natural resources are used as input to produce other goods ✓✓
- Capital, Tools or machineries help to fasten the process of producing goods more accurately ✓✓

3.2.5 How can foreign direct investment (FDI) influence the national income? (4)

- Its influence national income by attracting investors from other countries which lead to increase in gross domestic products ✓✓
- More people are employed when more firms are established in our country and more spending will occur which results to multiplier effect ✓✓

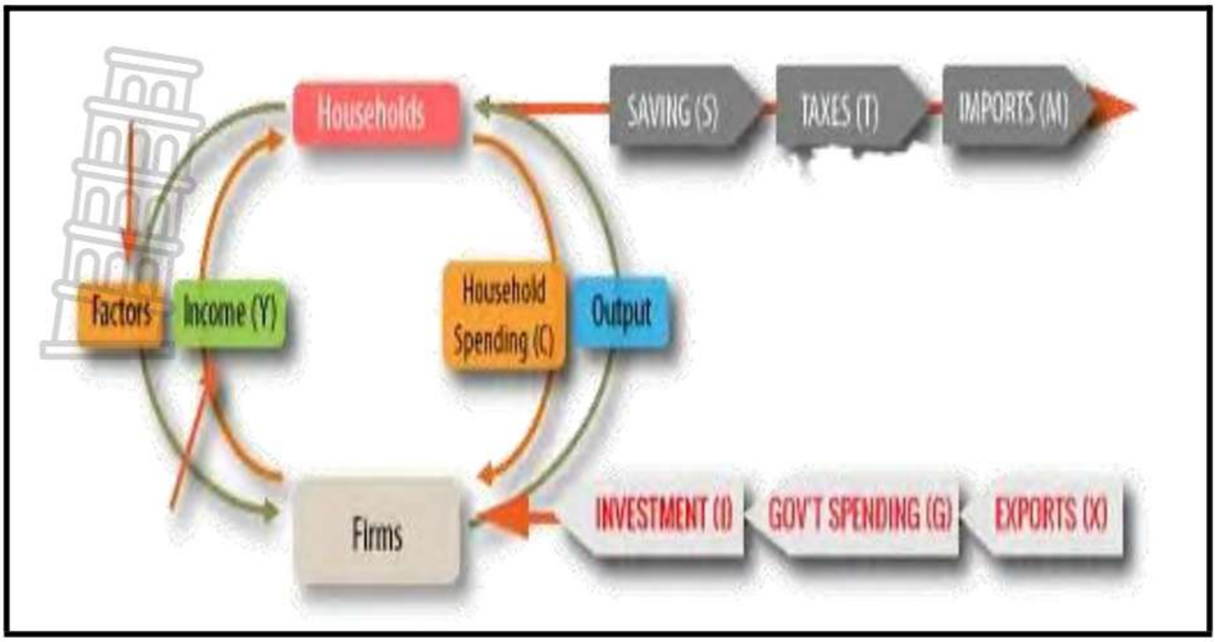
ACTIVITY 4

4.1 Give TWO examples of injections (2)

- Government Spending ✓
- Investment spending ✓
- Export earnings ✓

4.2 Study the diagram below and answer the questions that follow

The Two sector model



4.2.1 Identify the market where goods and services are traded from the diagram above. (1)

Output market ✓

4.2.2 Name any one example of money flow. (1)

- Income received from factors of production ✓
- Spending on goods and services ✓
- Taxes to the government ✓

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

Leakages are the withdrawal of money from the circular flow through taxes, savings and payment for imports. ✓✓

4.2.4 Explain the interaction between the government and foreign sector. (2)

- Imports flow through goods markets to government departments. ✓✓
- Payment for imports by government to the foreign sector. ✓✓
- Importers and exporters pay tax to the government. ✓✓
- Government providing subsidies to the exporters to encourage them to sell more goods to other countries. ✓✓

4.2.5 How does an increase in personal income tax influence households spending? (4)

- An increase in personal income tax will reduce the household's disposable income. ✓✓
- A reduction in disposable income result in a decrease in spending power resulting in less spending on goods and services. ✓✓

ACTIVITY 5

5.1 Why does the value of the multiplier in a four sector model smaller than that of a two sector model (8)

- In a two-sector model, typically consisting of households and firms, the main leakages are savings that households do not spend on consumption. ✓✓
- In a four-sector model, which includes households, firms, government, and the foreign sector (exports and imports), there are more sources of leakage ✓✓
- In a two-sector model, the marginal propensity to consume (MPC) is directly derived from households. Their consumption behavior is more straightforward, leading to a strong multiplier effect. ✓✓
- In a four-sector model, the effective MPC may be lower due to increased savings, taxation, and spending on imports. This reduced MPC results in a smaller multiplier since less of each additional dollar of income is circulated back into the economy. ✓✓

5.2 Discuss *production method* and *income method* as used to determine GDP (8)

Production method

- It includes production of goods and services from primary stage through processing it until it is finished ✓✓
- The value that was added at each stage of production is calculated to get the basic prices ✓✓

Income method

- This is the income earned by selling factors of production by household ✓✓
- Income method shows the income received by each factor of production like labour in compensation of employees ✓✓

5.3 How does inflow of money contribute to economic growth? (8)

- Inflows of money, whether from foreign direct investment (FDI) or capital markets, provide the necessary funds for businesses to invest in new projects, facilities, and technologies. ✓✓
- Access to funds encourages entrepreneurship, enabling start up and small businesses to emerge, which can drive innovation and diversify the economy. ✓✓
- When money flows into the economy, whether through government spending, foreign investment, or exports, it often leads to increased household incomes. ✓✓
- Increased consumption stimulates businesses to produce more, leading to further economic activity as these businesses hire employees and increase their orders for materials, creating a multiplier effect throughout the economy. ✓✓
- Inflows can lead to increased government revenues, allowing for greater public investment in infrastructure (roads, schools, hospitals). Improved infrastructure enhances productivity, lowers costs for businesses, and ultimately facilitates economic growth. ✓✓
- Investments in education and healthcare improve human capital, which is essential for a productive workforce. A healthier, more educated population can contribute more effectively to economic growth. ✓✓

5.4 How can business sectors contribute more meaningfully to the economy? (8)

- Businesses can Invest more in labour intensive projects in order to contribute towards skill development of workers. ✓✓
- Reinvesting their profits in producing a wide variety of goods to ensure diversification and consumer choice. ✓✓
- Invest in capital goods like machinery to ensure mass production at a lower cost thus improving their competitiveness. ✓✓
- Expanding their business operation and investing in the latest technology to ensure the upliftment of the quality of factors of production used in the production process. ✓✓

5.5 How do subsidies contribute to gross domestic product? (8)

- Subsidies lower the cost of production for businesses, allowing them to produce more goods and services. This increase in production can lead to higher GDP. ✓✓
- Subsidies can encourage both domestic and foreign investments in particular sectors by improving profitability and reducing operational risks. Increased investment typically leads to higher economic output and GDP growth. ✓✓
- Subsidies can result in lower prices for consumers, increasing the purchasing power of households. This rise in consumption feeds back into the economy, boosting GDP. ✓✓
- By making essential goods and services more affordable, subsidies can stimulate demand, encouraging further production and economic growth. ✓✓
- By subsidizing critical industries, governments can enhance the competitiveness of domestic products in international markets, potentially increasing exports, which adds to GDP. ✓✓
- Increased exports can improve a country's trade balance, contributing positively to its GDP. ✓✓

ACTIVITY 6

6.1. List any TWO examples of public goods (2)

- Schools ✓
- Hospitals ✓
- Infrastructure ✓

6.2 Study the table below and answer questions that follow

THE MORE YOU EARN, THE MORE YOU PAY RATE OF TAX FOR INDIVIDUALS	
TAXABLE INCOME (RANDS)	**RATE OF TAX (2021/2022)**
1 – 216 200	18% of taxable income
216 201 – 337 800	38 916 + 26% of taxable income above 216 200
337 801 – 467 500	70 532 + 31% of taxable income above 337 800
467 501 – 613 600	110 739 + 36% of taxable income above 467 500
613 601 – 782 200	163 335 + 39% of taxable income above 613 600
782 201 – 1 656 600	229 089 + 41% of taxable income above 782 200
1 656 601 and above	587 593 + 45% of taxable income above 1 656 600
	Source: http://www.teasury.gov.za

6.2.1 Identify the type of tax depicted on the above table (1)
Direct tax ✓

6.2.2 Name the income tax system represented in the table above (1)
Pay as you earn ✓

6.2.3 Briefly describe the term *tax revenue*. (2)
Tax revenue refers to state income earned through taxes charged direct or indirect ✓✓

6.2.4 Explain the impact of high tax rate on consumers. (2)

- High tax rate result to consumers having less disposable income which lead to less demand for goods and services ✓✓
- Consumers may have less or no money to save because lot of money goes to the state ✓✓

6.2.5 Use the information above to calculate the income tax payable by a person earning an annual income of R320 000 (4)
38 916 + (320 000-216 200) ✓ x 26%✓
38 916 + 26 988 ✓
65 904 ✓

ACTIVITY 7

7.1 Mention any 2 methods used to calculate Gross domestic products (2)

- Production method ✓
- Income method ✓
- Expenditure method ✓

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

National account 2022	**RANDS**
Gross domestic product at market price	**R568 250**
Primary income from the rest of the world	R990 550
Primary income to the rest of the world	R787 980
Gross National Product at Market price	**A**

7.2.1 Name the International Institution that guides the compilation of South Africa's National Account Aggregate. (1)
United Nations ✓

7.2.2 Give one example of primary income from the rest of the world. (1)
Compensation of Employees ✓

- Dividends ✓
- Interest income ✓
- Profit etc. ✓

7.2.3 Briefly describe the term *gross domestic product.* (2)

Gross domestic product refers to total value of all final goods and services produced within the borders of the country at a given period usually one year. ✓✓

7.2.4 How does an increase in government spending affect the size of the multiplier? (2)

An increase in government spending may result to high consumer spending thus increasing the multiplier. ✓✓

7.2.5 Calculate the value of A. Show all calculations. (4)

R568 250✓+R990 550✓-R787 980✓
=R770 820✓

ACTIVITY 8

8.1 Name TWO types of financial markets (2)

- Money market ✓
- Capital market ✓
- Foreign exchange market ✓

8.2 Study the table below and answer the questions that follow:

SOUTH AFRICAS GROSS DOMESTIC PRODUCT (GDP) – 2023	
Primary sector Secondary sector Tertiary sector	295 000 558 000 2 015 300
Gross value added at basic prices	**2 868 300**
Taxation on products Subsidies on products	78 500 41 265
Gross domestic product at market prices	**A**

8.2.1 Identify the sector that deals with extracting of raw materials (1)

Primary sector ✓

8.2.2 Name one example of taxes on product (1)

Value added tax, excise duties, custom duties, etc. ✓

8.2.3 Briefly describe the term *basic price*. (2)

Basic price is the price of goods before the effect of taxes and subsidies on product has been considered. ✓✓

8.2.4 Explain the effect of subsidies on products on the final market price of goods (2)

- Subsidies on products reduce the price of goods thus making goods more affordable✓✓

8.2.5 Calculate the gross domestic product at market price (A) show all workings (4)

- R2 868 300✓ + R78 500✓ – R41 265✓ = R2 905 535 ✓

ACTIVITY 9

9.1 Name any TWO types of consumer goods (2)

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

9.2 Study the table below and answer the questions that follow

NATIONAL ACCOUNT AGGREGATES – SOUTH AFRICA	
Summary of gross domestic product (At current prices)	**R million 2024**
Compensation of employees	2 510 326
Net operating surplus	1 130 210
Consumption of fixed capital	613 605
Gross value added at basic prices	**3 795 141**
Other taxes on production	86 008
Other subsidies on production	9 935
Gross value added at basic prices	**A**

9.2.1 Identify income earned by labour from the above table. (1)

Compensation of employees ✓

9.2.2 Name the method of calculating GDP was used in the table above (1)

Income method ✓

9.2.3 Briefly describe the term *basic prices.* (2)

- They are initial prices in the production of final goods and services before considering any taxes and subsidies. ✓✓
- Basic prices are the cost to the producer adding taxes on production and subtracting subsidies on production ✓✓

9.2.4 Why subsidies are removed when calculating GDP? (2)

- Subsidies are subtracted when calculating GDP in order to get the real value of GDP and avoid double counting ✓✓

9.2.5 Calculate the gross domestic product at basic prices (A). Show all calculations (4)

- R3 795 141✓ + R86 008✓ – R9 935 ✓= R3 871 214 ✓

ACTIVITY 10

10.1 Differentiate between *taxes on production* and *taxes on product.* (8)

Tax on Production

- These are taxes that producers incur as a cost of doing business, regardless of how much they produce or sell. ✓✓
- They are not directly linked to the quantity or value of output or sales e.g. Business licenses, Property taxes on land and buildings used in production ✓✓

Taxes on Products

- These are taxes directly linked to the production, sale, or import of goods and services. ✓✓
- They are typically ad valorem (percentage-based) or specific (fixed amount per unit). E.g. Value Added Tax (VAT), Excise duties (e.g., on alcohol, tobacco, fuel) ✓✓

10.2 Differentiate between real flow and money flow (8)

Money flow

- It refers to the flow or movement of money in the circular flow ✓✓
- When households pay for goods and services it is regarded as money flow ✓✓
- Taxes paid by other participants also form part of money flow ✓✓

Real flow

- It refers to the flow or movement of goods I the circular flow ✓✓
- The purchase of goods by households from firms is regarded as real flow ✓✓
- The movement of factors of production also represent real flow ✓✓

10.3 Analyse the relationship between the financial sector and other participants in the circular flow. (8)

- Financial sector includes banks and institutions that provide borrowing and lending services to the other participants on the circular flow model ✓✓
- Financial institutions act as intermediaries between the households who want to save money and businesses that borrow money to finance their investment ✓✓
- Commercial banks accept deposits money from from households as savings and pay interests on the savings ✓✓
- Households may borrow money from financial institutions to purchase goods and services such as houses and vehicle✓✓
- The government may borrow funds from different financial institution to cover the spending needs ✓✓
- Financial institution such as commercial banks and insurance companies pay tax to the government from the income that they generate ✓✓

ACTIVITY 11

- Discuss in detail the market within the four-sector model (26)
- Evaluate the functions of market in the circular flow (10)

INTRODUCTION:
A market is defined as any contact or communication between actual or potential buyers and actual and potential sellers of goods and services. ✓✓

BODY
MAIN PART:

1. **The Product/ goods market ✓**

- Goods and services are traded in the product market. All participants purchase these goods and services in the product market. ✓✓
- Goods are defined as tangible items (such as food, clothing and cars) that satisfy some human wants or need. ✓✓
- Services are non-tangible actions (such as cleaning services, medical care, etc.) that satisfy human wants or need. ✓✓
- Non-durable goods are those items which are used up when they are consumed and cannot be re-used, for example, cool drink, petrol and electricity. ✓✓
- Semi-durable goods last a short period of time and can be used more than once. ✓✓
- Durable goods can be used over again and do not wear out very easily e.g. vehicles. ✓✓
- Households purchase consumer goods for consumption and businesses purchase capital goods for use in the production process. ✓✓

2. **The Factor/ Resources market ✓**

- The four factors of production are traded for income in form of wages/ salaries, interest, economic rent and profit in this market. ✓✓
- Businesses purchase the factors of production from the households in the factor market. ✓✓
- The price and quantity traded is also determined by interaction between supply and demand. ✓✓
- The factor market can be further sub-divided into markets in which different factors of production like labour, property and financial market. ✓✓

3. **The financial market ✓**

- The financial market serves those who wish to save and those who wish to borrow. ✓✓
- The money, capital and foreign exchange markets are part of the financial market. ✓✓
- This sector represents financial institutions which are not directly involved in the production of goods and services but are a link between participants in the economy with surplus money and participants who require funds. ✓✓
- Households make their financial capital available to the financial sector in the form of savings. ✓✓
- The financial sector in turn makes financial capital available to firms through investments. ✓✓

a) Money market ✓

- This is used by participants as a means for borrowing and lending in short term, from a few days to just less than 3 years. ✓✓
- The South African Reserve Bank is a key institution in the money market. ✓✓

b) Capital market ✓

- This is a financial market where individuals and institutions trade financial securities in the long-term, which is 3 years and above. ✓✓
- The JSE is the key institution in the capital market. ✓✓

c) The foreign exchange market ✓

- In an open economy, foreign currency is needed to facilitate transaction between countries. ✓✓
- It is on this market that one currency can be exchanged for another. ✓✓
- The amount that is received in this exchange is known as exchange rate. ✓✓
- The exchange rates are normally determined by the interaction between supply and demand. ✓✓
- They are sometimes influenced by the Reserve bank. ✓✓
- Foreign currency can be acquired through commercial banks. ✓✓

(Allocate maximum of 8 marks for subheading and examples)
(Mark to a maximum of 26 marks)

- Evaluate the functions of market in the circular flow. (10)

Positive Impact

- Availing factors of production for economic activities e.g. capital for investments through the factor market ✓✓
- Allowing consumers to earn an income from the sale of the factors of production which enable them to purchase goods and services in the product market' ✓✓
- Enabling households, the business sector and other participants to access funds for trading and production through financial markets✓✓ e.g. banks✓
- Earning valuable income through exports through the foreign exchange markets✓✓

Negative Impact

- Failing to provide enough training, employment possibilities will be limited, if the factor market is ineffective✓✓
- SMMEs struggle to produce quality goods for the product market due to lack of capital or accessibility to funds through the financial market ✓✓
- Inefficiently satisfying the needs and wants of consumers ✓✓
- Providing inadequate transport, technology and communication to reach existing markets✓✓

Conclusion

The markets play a pivotal role in the economy, they also serve as link between various participants in the circular flow. ✓✓

BUSINESS CYCLES

ACTIVITY 1

1.1 Various options are provided as answers to the following questions. Choose the answer and write only the letter (A-D) next to the question number.

1.1.1 Estimating unknown data based on known data is called….

A. Prediction
B. Amplitude
C. Expansion

D. extrapolation ✓✓

1.1.2 Business cycle indicators change the direction before the economy changes is known as…

A. leading ✓✓
B. lagging
C. coincident
D. composite

1.1.3 The inverse relationship between inflation and unemployment is best illustrated by the… curve

A. lorenz
B. laffer
C. indifference
D. phillips ✓✓

1.1.4 Cycles that last 3-5 years and caused by change in inventory is known as …

A. Kuznets
B. kitchin ✓✓
C. kondrattief
D. juglar

1.1.5 The lowest turning point of a business cycle is known as…

A. trough ✓✓
B. peak
C. boom
D. slump

1.1.6 The new economic paradigm associated with smoothing business cycles is captured in …side.

A. demand only
B. demand and supply ✓✓
C. supply only
D. fiscal

1.1.7 Buying and selling of government securities to control money supply is known as …

A. cash reserve
B. moral suasion
C. interest rate
D. open market transaction ✓✓

1.1.8 A statistics used to measure some aspect of the economy is known as …

A. forecasting
B. social indicator
C. real GDP
D. economic indicator ✓✓

1.1.9 A business cycle that is obtained when the effects of irregular events are removed from time series data, is a(n) … business cycle.

A. actual ✓✓
B. natural
C. leading
D. new

1.1.10 Action taken by government in respect of taxation and expenditure to influence economic activity is a(n) … policy.

A. Monetary
B. fiscal ✓✓
C. exchange
D. credit

(2x10) 20

1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write ONLY the correct letter next to the question number.

COLUMN A	COLUMN B	ANSWER
1.2.1 Moral suasion	A Measured from peak to peak or trough to trough	1.2.1 G ✓
1.2.2 New economic paradigm	B A business cycle approach based on forces outside the market system	1.2.2 E ✓
1.2.3 Length	C A supply side policy to smooth out fluctuations in the economy	1.2.3 A
1.2.4 Phillips Curve	D Shows the general direction of the economy	1.2.4 I ✓
1.2.5 Monetarist approach	E The smoothing of business cycles using demand and supply side policies	1.2.5 B ✓
1.2.6 Open market transactions	F A business cycle approach based on forces inside the market system	1.2.6 H ✓
1.2.7 Reduction of costs	G Persuasion of banks by the SARB to offer credit responsibly	1.2.7 C ✓
1.2.8 Trend line	H used to control money supply through buying and selling of government bonds and securities	1.2.8 D ✓
	I Indicates the relationship between the unemployment rate and the inflation rate	

(8x1) 8

1.3 Provide the economic concept for each of the following descriptions. Write only the term/concept next to the question number. NO abbreviations, acronyms or examples will be accepted.

1.3.1 A summary of various indicators into a single value.

Composite indicator ✓

1.3.2 Successive periods of growth and decline in economic activities.

Business cycles ✓

1.3.3 A negative economic growth rate for at least two consecutive quarters.

Recession ✓

1.3.4 Indicators that change before the economy changes.

Leading indicators ✓

1.3.5 A business cycle approach based on forces inside the market system.

Endogenous explanation ✓

1.3.6 The curve that shows the relationship between inflation and unemployment.

Phillips curve ✓

1.3.7 It measures the vertical distance between a trough and a trend line.

Amplitude ✓

1.3.8 An indication of the general direction of the economy.

Trendline ✓

1.3.9 Removal of unnecessary restrictions by law

Deregulation ✓

1.3.10 An action taken by the SARB to occasionally change the balance that banks are required to keep.

Monetary policy ✓

(1x10)10

ACTIVITY 2

2.1 Answer the following questions:

2.1.1 Name TWO policies in which the new economic paradigm is embedded. (2)

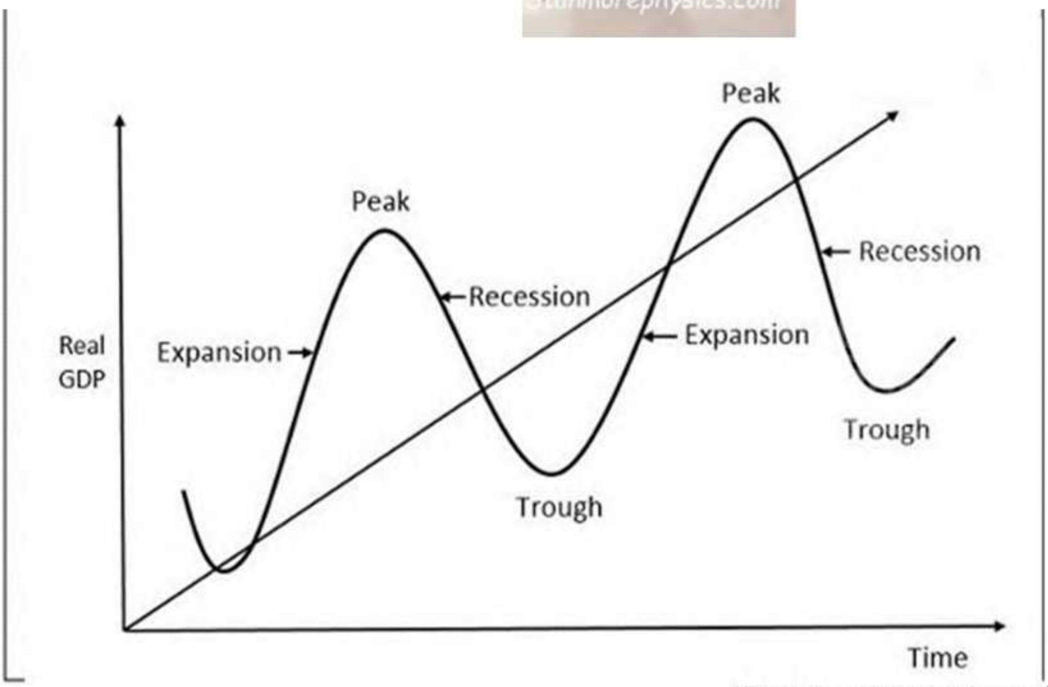
Demand side policies ✓

Supply side policies ✓

2.1.2 How is the complete cycles of fluctuations determined in the economy? (2)

- Complete cycles of fluctuations are determined by distances from peak to peak and from trough to trough. ✓✓

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



[Source: www.google.com]

2.2.1 Identify the point where inflation is the highest. **(1)**

Peak/upper turning point ✓

2.2.2 Name the feature that shows the general direction of the economy. (1)

Trend line ✓

2.2.3 Briefly describe the term *real business cycles*. (2)

Real business cycle occurs when the effects of irregular events (e.g Covid 19 pandemic) are removed from the time series of data. ✓✓

2.2.4 Why is the recession an undesirable situation the economy? (2)

- It leads to a decline in economic activities as well as a widespread drop in spending. ✓✓
- It decreases the availability of job opportunities and economic growth. ✓✓
- It decreases economic activities in various sectors of the economy such as manufacturing and services. ✓✓

2.2.5 How can the government lower the demand in the business cycle? (4)

- A decrease in government spending (G), will decrease job opportunities/availability of income, aggregate expenditure will decrease as well as inflation. ✓✓
- An increase in taxes (T) will reduce the household's disposable income, consumers will have less income to spend. ✓✓
- The government can simultaneously reduce government spending and increase taxes to decrease the demand of goods and services. ✓✓

2.3 Briefly discuss *amplitude* and *trend line* as features underpinning the forecasting of business cycle. (8)

Amplitude

- It is the difference between the total output between a peak and a trough. ✓✓
- measures the distance of the oscillation of a variable from the trend line. It is the intensity of the upswing and downswing in economic activity. ✓✓
- The larger the amplitude the more extreme the changes that may occur. ✓✓

Trend line

- A trend line 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 headed. It indicates the rate of increase or decrease in the level of output. ✓✓

ACTIVITY 3

3.1 Answer the following questions:

3.1.1 Name TWO types of business cycles. (2)

Juglar ✓

Kuznets ✓

Kitchin ✓

Kondratieff ✓

3.1.2 How can competition stimulate aggregate supply? (2)

- Competition allows the establishment of new businesses in different industries which will increase the production of goods and services, stimulating aggregate supply. ✓✓
- Competition encourages existing businesses to use more efficient production methods which will increase productivity, stimulating aggregate supply. ✓✓

3.2 Study the extract below and answer the questions follow

> **BUSINESS CYCLES**
>
> The analysis of the source of shocks has been a recurrent theme in business cycle literature. Not only is it relevant for understanding the forces driving the economic fluctuations but, in addition, the identification of sources of shocks is needed to inform the optimal policy response.
>
> Producers and consumers will not respond to the same extent to the initiating forces, and therefore the duration of business cycles differs. Business cycles ranges from 3 years (Kitchin) to more than 50 years (Kondratieff)
>
> **[Adapted from: www.google.com]**

3.2.1 Identify ONE factor from the extract which might cause economic fluctuations. (1)

Shocks ✓

3.2.2 Name the type of business cycle caused by changes in investment in equipment and machinery. (1)

Juglar ✓

3.2.3 Briefly describe the concept *moving averages*. (2)

Moving averages is a method of repeatedly calculating a series of different average values along a time series to produce a smooth curve. ✓✓

3.2.4 Why is the government intervention necessary under exogenous explanation (2)

Markets are inherently stable under exogenous explanations, and any government intervention can destabilise the markets. ✓✓

3.2.5 How can fiscal policy be used to stimulate a depressed economy? (4)

- The government can decrease taxation, so that aggregate demand can be increased due to more disposable income. ✓✓
- Government spending can also be increased especially for the previously marginalised groups. ✓✓
- Increased government spending can increase aggregate demand and total spending for the participants in the economy. ✓✓

3.3 How can the government use fiscal policy to stabilise the business cycle fluctuations? **(8)**

During downswing the fiscal policy can be used to stabilise the business cycle fluctuations by:

- Increasing government spending in order to directly increase aggregate demand in the economy. ✓✓
- Reducing taxes will increase income levels, therefore domestic demand and production will increase. ✓✓
- Simultaneously decreasing taxes and increasing government spending will increase aggregate demand. ✓✓

During upswing the fiscal policy can be used to stabilise fluctuations by:

- Decreasing government spending in order to decrease aggregate demand in the economy. ✓✓

- Increasing taxes to reduce the disposable income of household or to reduce inflationary pressure in the economy. ✓✓
- Simultaneously increasing taxes and decreasing government spending will reduce the inflationary pressure. ✓✓

ACTIVITY 4

4.1 Answer the following questions:

4.1.1 Name TWO theories used to explain the causes of the business cycles. (2)

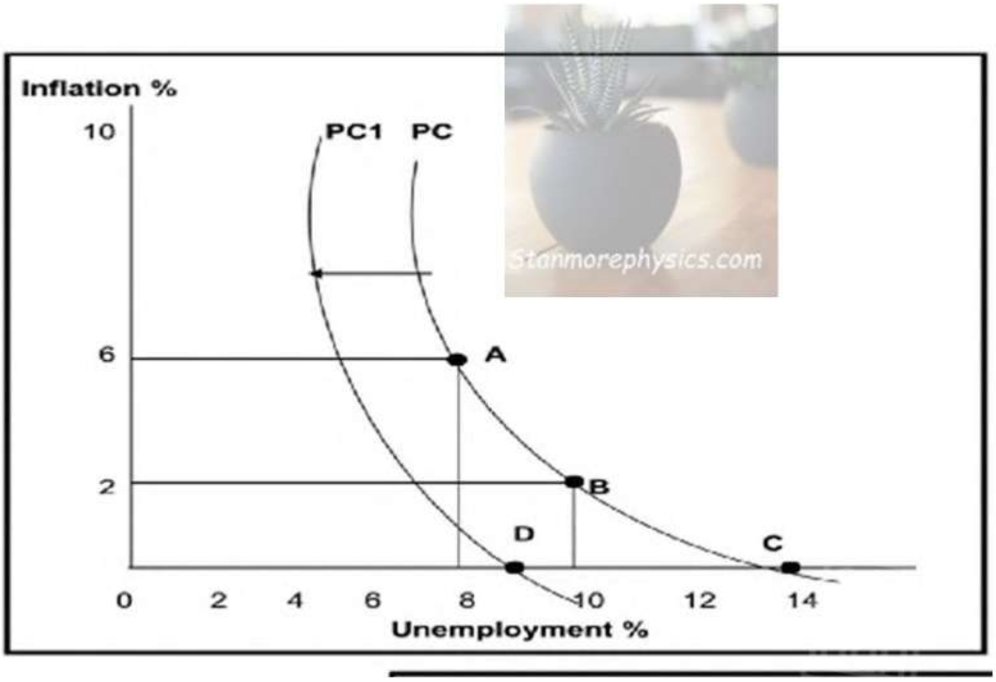
Monetarist approach ✓

Keynesian approach ✓

4.1.2 How can demand-side policies be used to stimulate economy activity. (2)

Demand side policies stimulate economic activities by increasing aggregate demand, this can be done by reducing interest rates, reducing taxation or increasing government spending. ✓✓

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



4.2.1 Identify the original unemployment rate in the graph above. (1)

14%✓

4.2.2 Name the graph illustrated above. (1)

Phillips curve✓

4.2.3 Briefly describe the term *new economic paradigm*. (2)

New economic paradigm discourages policy makers from using fiscal and monetary policies to smooth out fluctuations in the economy but rather use demand and supply side policies. ✓✓

4.2.4 Explain any factor that cause the above curve to shift to the left. (2)

- A decrease in the price of inputs can increase aggregate supply causing a shift to the left, indicating lower inflation for a given unemployment. ✓✓
- If workers anticipate lower inflation, they demand lower wages, and firms will be able to keep prices of goods and services lower, leading to a decrease in inflation. ✓✓

4.2.5 Why is it necessary to dampen an overheating economy? (4)

- An overheated economy causes a shortage in the of goods and services, leading to inflation. ✓✓
- The value of the rand may become too strong and lead to a decrease in exports. ✓✓
- Resources may get depleted if firms try and increase production in response to demand. ✓✓

ACTIVITY 5

5.1 Answer the following questions:

5.1.1 Name TWO turning points of a business cycles (2)

Trough ✓

Peak ✓

5.1.2 Why do economists use moving averages in their analysis of economic trends? (2)

Economists use moving averages:

- As a tool to analyse changes that occur in a series of data over a period of time. ✓✓
- As a calculation to iron out small fluctuations and reveal trends in the business cycles. ✓✓

5.2 Study the cartoon below and answer the questions that follow:

5.2.1 Identify the socio-economic challenge shown by the above cartoon. (1)

Unemployment ✓

5.2.2 Name the lower turning point of a business cycle (1)

trough ✓

5.2.3 Briefly describe the term *economic recession.* (2)

A negative economic growth rate for at least two consecutive quarters declines in economic output. ✓✓

5.2.4 Explain the relationship between GDP and business cycles. (2)

The business cycle shows how a nations GDP fluctuates overtime going through phases as aggregate output increases or decreases. ✓✓

5.2.5 Why does inflation tend to fall during recessions? (4)

- Inflation falls during recession because businesses have unsold goods will try discounting their goods to get rid of their excess stock. ✓✓
- Reduced prices of goods lead to lower costs thus pushing inflation down. ✓✓
- As unemployment rises, it becomes harder for workers to bargain for higher wages. ✓✓

5.3 Distinguish between *endogenous* and *exogenous explanations* of business cycles. (8)

Endogenous explanations:

- Endogenous factors are dependant variables. This follows the belief that economic growth is primarily the result of endogenous and not external forces. ✓✓
- The Keynesian approach holds the view that markets are inherently unstable and therefore government intervention is required. ✓✓
- The price mechanism fails to co-ordinate demand and supply in markets and this gives rise to upswings and downswings. ✓✓
- Prices are not flexible enough (e.g, wages). ✓✓
- A business cycle is an inherent feature of the market economy. ✓✓

Exogenous explanations:

- Exogenous factors are independent variables that originates from outside. ✓✓
- The Monetarist believe that the markets are inherently stable and disequilibrium is caused by incorrect use of policies. E.g. monetary policy ✓✓
- Weather conditions and market shocks cause upswings and downswings. ✓✓
- Government should not intervene in the markets. ✓✓
- Sunspot theory based on the belief that increased solar radiation causes changes in weather conditions. ✓✓

ACTIVITY 6

6.1 Answer the following questions:

6.1.1 Name any TWO instruments of the monetary policy. (2)

Interest rates ✓

Open market transactions ✓

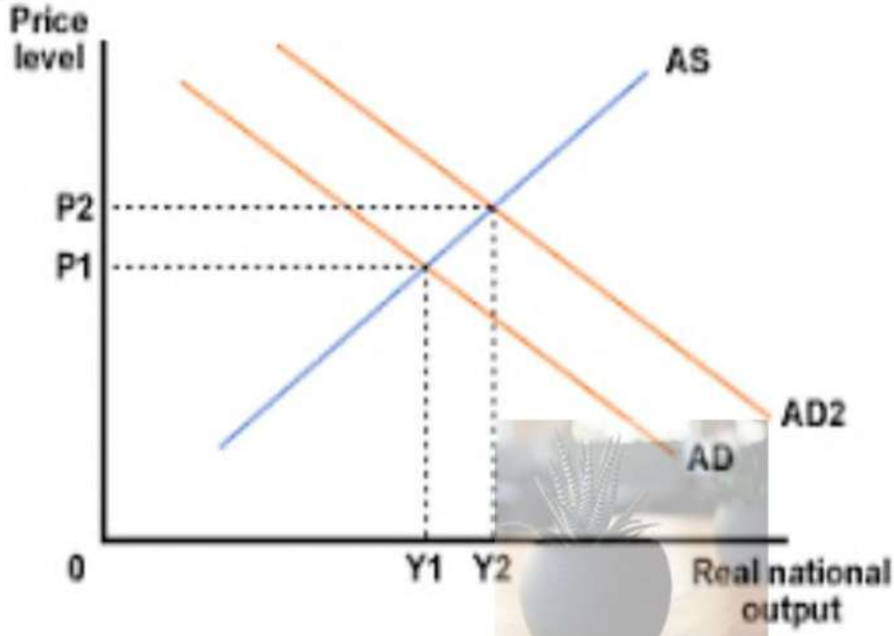
Cash reserve requirements ✓

Moral suasion ✓

6.1.2 How does unemployment relate to lagging indicators? (2)

The relationship is positive because unemployment statistics confirms the state of the economy later. ✓✓

6.2 Study the graph below and answer the questions that follow:



6.2.1 Identify the original equilibrium price. (1)

P1 ✓

6.2.2 Give a formula to calculate aggregate demand for a closed economy. (1)

AD = C + I + G ✓

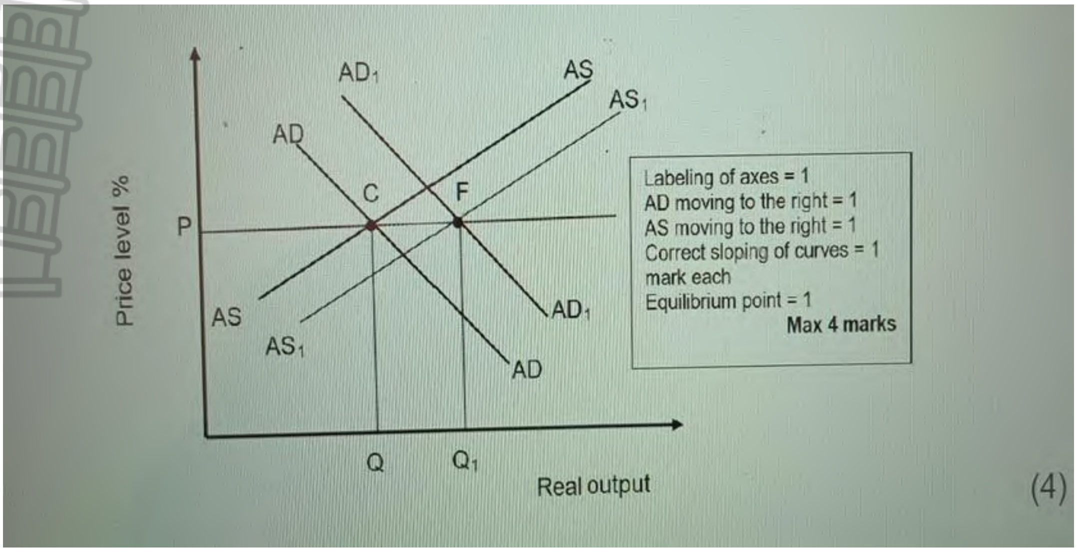
6.2.3 Briefly describe the term *real business cycle*. (2)

Real business cycle is when the effects of irregular events, seasons, and long-term growth trends are removed from the time series data. ✓✓

6.2.4 Explain the use of expansionary fiscal policy to stimulate economic activity. (2)

- Increasing government expenditure will increase aggregate demand which serves as an injection into the economy resulting in an increase in production. ✓✓
- Reducing taxation leading to an increase in disposable income which will subsequently results in an increase in demand. ✓✓

6.2.5 Redraw the graph in your ANSWER BOOK and complete it to show the effect of demand and supply side policies in smoothing business cycles. (4)



6.3 Briefly discuss *improving efficiency of inputs* and *improving efficiency of markets* as supply-side policies to smooth out business cycles. (8)

Improving the efficiency of inputs

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

Improving efficiency of markets

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

ACTIVITY 7

7.1 Answer the following questions:

7.1.1 Name any TWO features of the Phillips curve. **(2)**

Inflation ✓

Unemployment rate ✓

7.1.2 Why is the amplitude of a business cycle important? **(2)**

Amplitude indicates the intensity of economic fluctuations. ✓✓

7.2 DATA RESPONSE

7.2.1 Identify the turning point represented by the letter T in the graph above? (1)

Trough ✓

7.2.2 Name the indicator that changes at the same time as the economy changes. (1)

Coincident indicator ✓

7.2.3 Briefly describe the concept *lagging indicator*. (2)

Lagging indicator is an indicator that changes after the economy have changed. ✓✓

7.2.4 Explain the reason for the inverse relationship between unemployment rate and inflation. (2)

When unemployment is reduced, households earn income from their employment which is used to demand more goods and services resulting into an increase in inflation. ✓✓

7.2.5 How can the government use fiscal policy to achieve economic growth? (4)

- The government can increase government spending to stimulate economic activity by creating employment opportunities through infrastructure development. ✓✓
- Government can also reduce taxes, which will help consumers have more disposable income, thereby increasing their spending, which will then lead to economic growth. ✓✓

7.3 Analyse the importance of price stability in preventing extreme fluctuations in business cycles. **(8)**

- Price stability controls speculative behaviour among businesses and consumers thereby reducing supply-side and demand-side influences on economic fluctuations. ✓✓
- Positive consumer confidence is encouraged which enables businesses to maintain steady growth in production levels. ✓✓
- Stable prices result in longer cycles which show strength of the economy and economic growth path will have an upward trend. ✓✓
- Stable prices enable SARB to keep interest rates unchanged to ensure continued growth in the economy without big fluctuations. ✓✓

- The SARB can use the inflation target of 3-6% to keep prices stable in the interest of sustained and balanced economic growth. ✓✓

ACTIVITY 8

8.1 Answer the following questions:

8.1.1 Name TWO periods of the business cycles. (2)

Expansion/ Upswing ✓

Contraction/ Downswing ✓

8.1.2 Why is extrapolation important in the forecasting of business cycles. (2)

Economists use past data such as trends and assume that these trends will continue and then they make predictions about the future. ✓✓

Economists also make economic predictions in other settings. E.g. the prediction of future share prices. ✓✓

8.2 Study the cartoon below and answer the questions that follow:

Source: pharmacyeconomics.com

8.2.1 Identify ONE exogenous factor which can cause business cycles in the extract above? (1)

COVID 19

8.2.2 Name any ONE fiscal policy instrument that can be used to influence the economy. (1)

- Government spending ✓
- Taxation ✓
- Public debt ✓

8.2.3 Briefly describe the term *real economic growth*. (2)

- The real economic growth measures economic growth as expressed by gross domestic product from one period to another adjusted for inflation. ✓✓

8.2.4 Explain the purpose of a trend line in a business cycle (2)

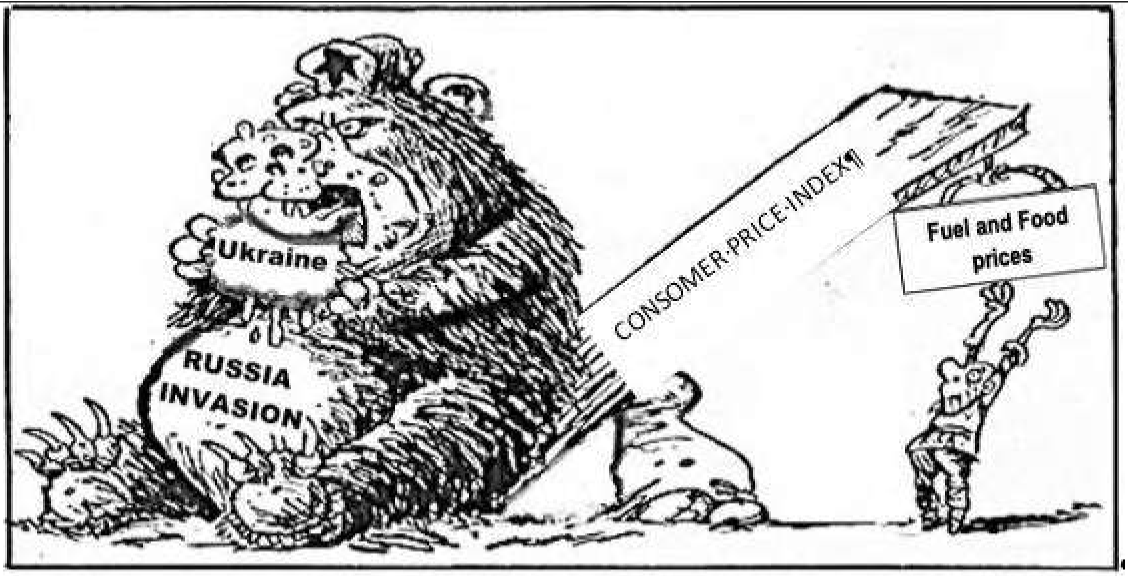
- The trend line indicates the general direction of the economy. ✓✓

8.2.5 How can the government improve the efficiency of markets to revive the economy? (4)

- By removing rules and regulations that interfere in the functioning of the markets. ✓✓
- Promotion of health competition by reducing anti-competitive behaviour and encouraging foreign direct investment in the economy. ✓✓
- By levelling the playing field so that private sector can compete with public sector without government support and protection. ✓✓

ACTIVITY 9

9.1 Study the cartoon below and answer the questions that follow:



[Adapted from studyey.home.blog/2022/07/02]

9.1.1 Identify a concept that relates to the changes in cost of living in the cartoon above. (1)

Consumer Price Index ✓

9.1.2 Name the approach of business cycles illustrated in the cartoon above. (1)

Exogenous / Monetarist ✓

9.1.3 Briefly explain the term *recession*. (2)

Recession is a negative economic growth for at least two consecutive quarters. ✓✓

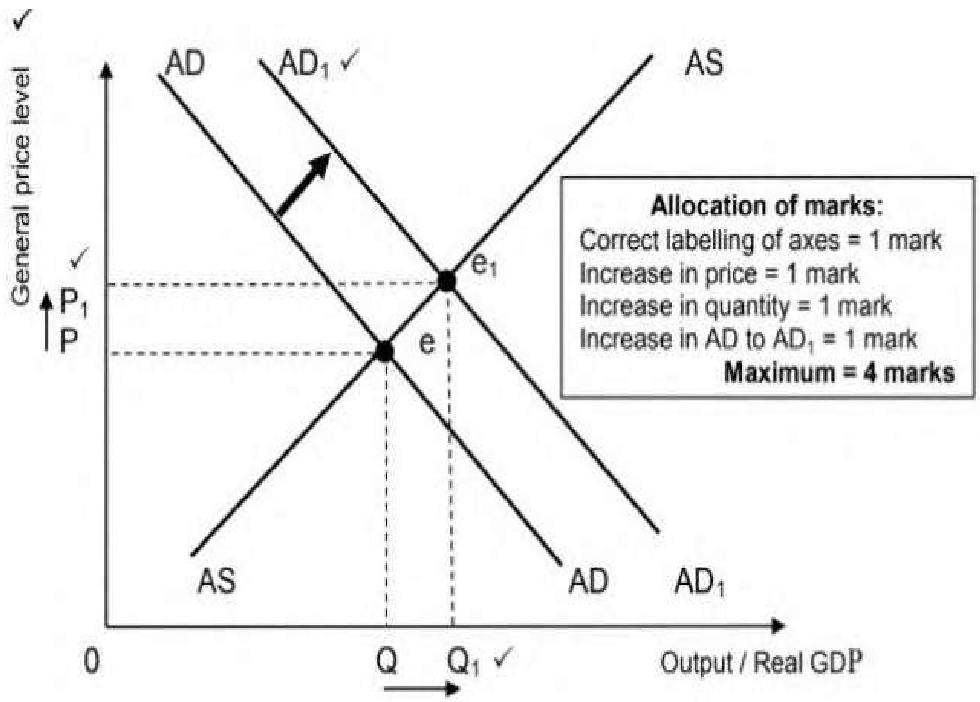
9.1.4 Explain the impact of the Ukraine/Russia war on local food prices. (2)

- The Ukraine/Russia war resulted in a decreased supply and an increase in the prices of agricultural inputs from Russia, which led to an increase in the local food prices. ✓✓
- Fuel prices increased resulting in higher cost of transport which increased local food prices. ✓✓

9.1.5 How can government use monetary policy to stimulate economic activity? (4)

- The government can use expansionary monetary policy to stimulate economic activity during the recession or depression phase. ✓✓
- Reduction in interest rates will make credit cheaper which will increase demand for goods and services. ✓✓
- Money supply can be increased by granting more credit or decreasing cash reserve requirements or buying securities via open market transactions which will increase consumer spending as well as production. ✓✓

9.2 With an aid of a graph explain the effect of demand side policies in smoothing out business cycles. (8)



- Demand side policies involve expansionary monetary such as a decrease in interest rates that encourages borrowing that would increase consumption and investment. ✓✓
- Expansionary fiscal policy involves a reduction in taxation and an increase in government spending which will increase spending as well. ✓✓
- Both policies will result in a shift of aggregate demand from AD to AD_1 while aggregate supply remains at AS. ✓✓
- Real GDP will increase from Q to Q_1, when aggregate demand increases. ✓✓
- The general price level will increase from P to P_1. ✓✓
- The demand side policies may be used to stimulate economic growth although inflation may increase. ✓✓ (Accept any other correct and relevant answer)

ACTIVITY 10

10.1 Discuss in detail the features underpinning the forecasting of business cycles. (26)

INTRODUCTION

Business cycles is successive periods of increasing and decreasing levels of economic activities over a period of time. ✓✓

Max (2)

Body: Main part

1. **Leading economic indicators✓**

- These are indicators that change before the economy changes/ coincide with the reference turning point. ✓✓
- They give consumers, businesses and policy makers a glimpse of where the economy is headed. ✓✓
- They reach the peak before the economy reaches the peak. ✓✓
- Most important type of indicator in helping economists to predict what the economy will be like in the future. ✓✓
- When these indicators show prosperity, the level of economic activities will also rise in a few months' time. ✓✓ e.g. number of new vehicles sold, real exports of goods, etc. ✓

2. **Coincident economic indicators✓**

- They move at the same time as the economy. If the turning point of a specific time series variable coincide with the reference turning point. ✓✓
- It indicates the current state of the economy. ✓✓ e.g. retail sales. ✓
- If the business cycle reaches a peak and then begins to decline, the value of retail sales will reach a peak and then begin to decline at the same time. ✓✓

3. **Lagging indicators✓**

- They do 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. ✓

4. **Composite indicators✓**

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

5. **Length✓**

- This is the time that it takes for a business cycle to move through one complete cycle. It is measured from peak to peak/ trough to trough. ✓✓
- It is useful to know the length because the length tends to remain relatively constant over time. ✓✓
- If business cycles have longer length, we consider the economy to be strong. ✓✓

6. **Amplitud**e✓

- It is the difference between the total output between a peak and a trough. ✓✓
- It measures the distance of the oscillation of a variable from the trend line. It is the intensity of the upswing and downswing in economic activity. ✓✓
- The larger the amplitude the more extreme the changes that may occur. ✓✓

7. **Trendline ✓**

- A trendline 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 headed. It indicates the rate of increase or decrease in the level of output. ✓✓

8. **Extrapolation✓**

- 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. prediction of future share price. ✓✓

9. **Moving averages✓**

- It is a statistical analytical tool that is used to analyse the changes that occur in a series of data over a certain period of time. ✓✓
- Moving averages can be calculated for the past three months in order to smooth out any minor fluctuations. ✓✓

CONCLUSION

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

ACTIVITY 11

Discuss in detail the new economic paradigm in smoothing out the business cycles. (26)

INTRODUCTION

The new economic paradigm is a policy approach that seeks to create economic growth and increase employment without resulting in a shortage of inputs and a rise in inflation by using both demand and supply side policies. ✓✓

MAIN PART

DEMAND-SIDE POLICIES ✓

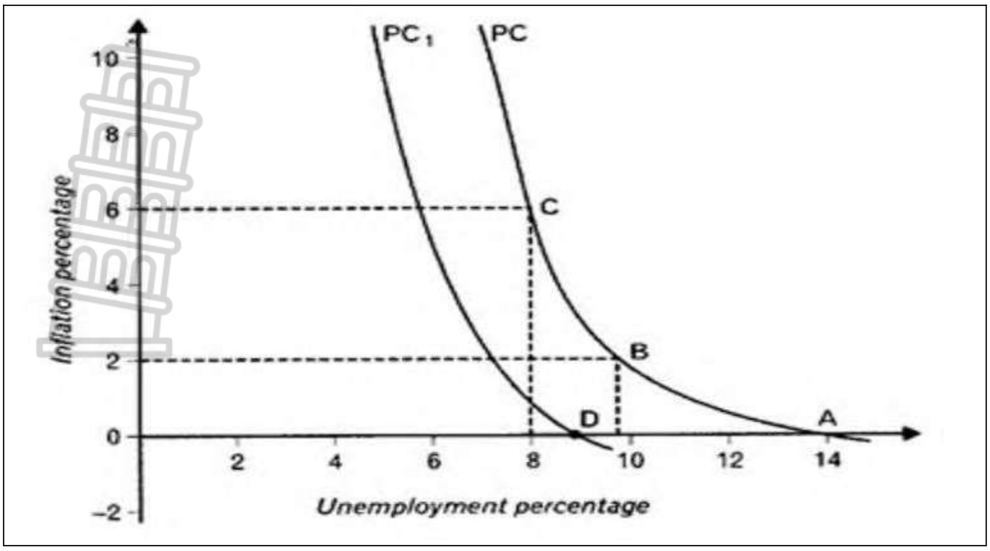
- Demand-side policies focus on increasing aggregate demand in the economy. ✓✓
- When households, firms and government spend more, demand in the economy increases. ✓✓
- This makes the economy grow but can lead to inflation. ✓✓

Inflation: ✓

- The decrease of interest rates by the reserve bank stimulates credit demand and enables consumers to spend more. ✓✓
- If aggregate demand increases more quickly than aggregate supply it may cause 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. ✓✓



(Drawing of the graph -mark to a maximum of 4, and explanation 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 8%, inflation caused by wage increases rises to 6% and if inflation rate decreases from 6% to 2%, unemployment rate increases from 8% to 10%. ✓✓
- 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 ✓

Measures that improve market efficiency include:

- 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. ✓✓

CONCLUSION

It is very important for policy makers not to rely on applying one school of thought in smoothing out business cycles because economic circumstances keep on changing. Demand side policy alone cannot efficiently smoothen the business cycle hence it's important to apply both demand and supply side policies. ✓✓

PUBLIC SECTOR

ACTIVITY 1

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.A

1.1. 1 Goods which are deemed to be socially harmful are called…goods.

A. demerit✓✓
B. communal
C. merit
D. collective

1.1.2 The relationship between tax rate and tax revenue for the government is illustrated by the …

A. Phillips curve
B. Laffer curve. ✓✓
C. Lorenz curve
D. Indifference curve

1.1.3 The business where government owns more than 50% shares is called…

A. public businesses
B. parastatals✓✓
C. nationalisation
D. privatisation

1.1.4 Long and time consuming procedures that hampers service delivery is known as …

A. corruption
B. inefficiency
C. bureaucracy. ✓✓
D. competent

1.1.5 Goods that exclude the free riders are called…goods

A. consumables
B. private
C. collective goods✓✓

D. public goods

1.1.6 The budget that is presented in October to inform parliament of changes in the budget since February is known as…

A. main budget

B. medium term budget policy statement ✓✓

C.medium term expenditure framework

D. national budget

1.1.7 Transfer of ownership of entities from the private sector to the public sector is called …

A. privatisation

B. commercialisation

C. deregulation

D. nationalisation. ✓✓

1.1.8 A duty of an individual or organization to explain their decisions and actions and accept responsibility for their behavior is known as …

A. effectiveness

B. self –interest

C. transparency

D. accountability. ✓✓ (16)

1.2 Choose a description from the COLUMN B that matches the item in COLUMN A. Write only the letter (A-F) next to the question numbers (1.2.1. to 1.2.5.) in the ANSWER BOOK.

COLUMN A		**COLUMN B**	
1.2.1Community goods	A	The government 's plan for government revenue for the coming fiscal policy	G. ✓
1.2.2Privatisation	B	This shows the income and expenditure estimates for a three- year period	D. ✓
1.2.3Taxation	C	Deals with economic and other issues specific to a province	I. ✓
1.2.4Corruption	D	Transfer of ownership from public to the private sector	F. ✓
1.2.5Medium- Term Expenditure Framework	E	Removal of unnecessary restrictions by law	B. ✓
1.2.6Parastatals	F	Dishonest action taken by people in position of responsibility	H. ✓
1.2.7Regional government	G	Public goods that are non-excludable and non-rival in consumption	C. ✓
1.2.8National budget	H	Refers to a company which is partly or wholly owned by government	A. ✓
	I	A compulsory payment by citizens and businesses to government without direct benefit	

(8)

1.3 **Give ONE term for each of the following descriptions. Write only the correct term next to the question number in the answer book. Abbreviations, Acronyms and examples will NOT be accepted.**

1.3.1 A graph that shows the relationship between tax rates and tax revenue.

Laffer curve. ✓

1.3.2 Money paid by the government to a person / institution without any counter performance.

Transfer payment. ✓

1.3.3 The percentage at which banks lend money to their most preferred clients.

Prime rate. ✓

1.3.4 A policy that target taxes and government expenditure to influence economic activity.

Fiscal policy. ✓ (5)

ACTIVITY 2

2.1.1 Give any TWO reasons for the necessity of the public sector. (2 x 1)2

- To supply public goods. ✓
- To conserve resources. ✓
- To manage the economy . ✓

2.1.2 Why is it necessary to calculate a country's total loan debt? (1 x 2)2

- Government's debt-to-GDP ratio is an indicator of an economy's health and a key factor for the sustainability of government finance.✓✓
- Government debt as a percentage of GDP is used by investors to measure a country's ability to make future payments on its debt, thus affecting the country's borrowing costs and government bond yields.✓✓

2.2. Study the cartoon below and answer the questions that follow:

Source: Google cartoons

2.2.1 Identify an objective of the state related to gross domestic product from the above cartoon. (1)

- Economic growth✓

2.2.2 Name any one level of the general government in South Africa. (1)

- National government✓
- Provincial government✓
- Local government ✓

2.2.3 Briefly describe the term *unemployment.* (2)

- Unemployment happens when people who are able, willing or looking for a job can't find a job or create self- employment. ✓✓

2.2.4 Explain the effect of high rate of unemployment on the economy. (2)

- A high rate of unemployment will decrease income received by household that will decrease aggregate demand and production will decrease. ✓✓
- Gross domestic product will fall and economic growth will decrease. ✓✓

- Government tax revenue will fall and infrastructure project will not be carried out. ✓✓

2.2.5 How can the government increase the level of economic growth in the economy? (4)

- The government can increase the level of economic growth by subsidies business to reduce their cost and employ more. ✓✓
- Reduce taxes so that investment will decrease✓✓
- Invite foreign direct investment and public work programmes✓✓

ACTIVITY 3

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

- Lack of accountability ✓
- Inefficiency ✓
- Problem in assessing needs✓
- Pricing policy ✓
- Parastatals ✓
- Privatisation/nationalisation✓✓

3.1.2 Why is it important for the government to establish price stability? (1 x 2)2

- To promote economic growth and development in the country. ✓✓
- To boost investor confidence that will enable businesses to maintain steady growth ✓✓.

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

R **billions/ percentage of GDP**	**2023/2024**	**2024/2025**
	MEDIUM- TERM EXPENDITURE FRAMEWORK	
Revenue(R)	**1853.2**	**1977.6**
Percentage of GDP	--------	27.3%
Expenditure	**2176.8**	**2281.1**
Percentage of GDP	**A**	**31.5%**
Budget balance	**-323,6**	**-304.2**
Percentage of GDP	-4.8%	-4.2%
Gross domestic product	**6805.3**	**7233.7**

(Adapted from: The National treasury: Budget Review)

3.2.1 Identify the term that refers to the three-year budget from the table above. (1)

- Medium –term expenditure framework✓

3.2.2 Name the government department that is responsible for preparing MTEF. (1)

- Treasury / Department of Finance✓

3.2.3 Briefly describe the term *medium- term budget policy statement.* (2)

- Medium- term budget policy statement refers to a budget that is presented in October to inform parliament of changes in the budget since February. ✓✓

3.2.4 Explain whether South Africa has maintained its budget deficit as a percentage to GDP according to international benchmark in 2023/2024 (2)

- South Africa exceeded the international benchmark of 3% deficit. South Africa's budget deficit is estimated to be 4.8%. ✓✓

3.2.5 Calculate the value of **A** (expenditure as a percentage of GDP), Show all calculations. (4)

- Expenditure as a percentage of GDP = $\frac{\text{Amount of expenditure}}{\text{Gross Domestic Product}} \times 100$

$= \underline{2176.5} \times 100$✓✓

6805.3
= 31.99✓✓

ACTIVITY 4

4.1.1 Name any TWO sources of state revenue. (2 x 1)2

- Taxes ✓
- Income from property rental✓
- Income from privatization✓
- Donations✓
- Loans✓
- Profits from SOE;s✓

4.1.2 Why are public goods and services more readily in developed countries compared to developing countries? (1 x 2)2

- Developing countries unemployed rate is much higher than in developed countries because their workers are less skilled, this causes the citizens of developing countries to be much more dependent on public goods. ✓✓

4.2 Study the extract below and answer the questions that follow:

NERSA's 12.7 % electricity increase sparks community outrage
There have been mixed reactions from taxpayers following the National Energy regulator in South Africa (NERSA) approving 12.7% increase in electricity tariffs for 2025/2026 financial year. This tariffs will impact household from 1 April and municipal customers from 1 July this year. This comes on top 18, 65% implemented last year.
Source: Business times report: 2 February 2025

4.2.1 Identify the organisation responsible for regulating electricity price in South Africa. (1)

- National Energy Regulator of South Africa✓

4.2.2 Name the state-owned enterprise that provides electricity in South Africa. (1)

- Eskom ✓

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

Parastatal are state-owned enterprises that are run by the same principles as private sector. ✓✓

4.2.4 Explain the impact that load shedding has on the economy. (2)

- Low income families struggle to afford alternatives sources during outrages✓✓
- Increased household expenditure through investment in alternatives sources like generators✓✓
- Reduces economic activity result in financial crises✓✓
- Decrease in production and businesses profits lead to low tax revenue for the government✓✓

4.2.5 How can the government address the electricity crises in a country? (4)

- Maintaining and upgrading existing power plants at Eskom, enabling private investment in new generation capacity✓✓
- Facilitating rooftop solar adoption by households and businesses, and improving grid infrastructure✓✓
- Encourage consumers to switching off non-essential appliances to reduce load on the grid and help to keep the lights on. ✓✓

ACTIVITY 5

5.1.1. Name any TWO government pricing policies when supplying public goods and services. (2 x 1)2

- Free-of-charge goods and services ✓
- Charging a small fee or toll ✓
- Subsidies✓

5.1.2 Why should the public sector participate in the management of the economy? (1 x 2)2

- To ensure the application of suitable , credible economic policies and equal opportunities to everyone to increase the standard of living ✓✓
- Ensure efficient and effective application , distribution of resources in the economy and limit anti-competitive behaviour to achieve macro-economic objectives✓✓

5.2 Study the image below and answer questions that follow:

Source: Google: dreamstime.com

5.2.1 Identify the problem of public sector provisioning depicted in the above image. (1)

Bureaucracy ✓

5.2.2 Provide the alternative term for the above problem. (1)

Red tape✓

5.2.3 Briefly describe the term *public sector failure* (2)

Public sector failure is when the government fails to manage the economy and resources under it control optimally. ✓✓

5.2.4 Explain the impact of mismanagement of funds on service delivery (2)

- Politicians tend to promote policies and continue to spend money on products if they can get votes in return and these resources might involve inefficient allocation of resources. ✓✓
- Lack of skills, experience and qualifications lead to poor management which impact poorly on service delivery. ✓✓

5.2.5 How can government effectively reduce public sector failure? (4)

Government can reduce management failure by:

- Employing people according to the skills, competent levels and qualifications. ✓✓
- Providing leadership workshop and training. ✓✓
- Ensuring that no one's welfare is improved at the expense of someone else. ✓✓

ACTIVITY 6

6.1 Read the extract below and answer the questions that follow:

Explosive allegations hit South Africa police

President Cyril Ramaphosa addresses police corruption by taking decisive and structured actions of establishment of a Judicial commission of enquiry. The president announced the creation of a commission chaired by acting deputy chief justice Mbuyiseli Madlanga.
The commission is tasked with investigating of infiltration by criminal syndicates with the South African Police Service (SAPS) law enforcement, intelligence, and associated institutions in the criminal justice system. In response to serious allegations, Ramaphosa placed the minister of police on temporary leave

and appointed Firoz Cachalia as the interim Police minister.

Source :*diplomaticinside.com*

6.1.1 Identify the feature that contributes to public sector failure in the above extract. (1)

Corruption✓

6.1.2 Name any ONE objective of the public sector. (1)

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

6.1.3 Briefly describe the *rent seeking* (2)

- Rent seeking attempts by interest groups to influence government behaviour to their advantage. ✓✓

6.1.4 Why would corruption allegations lead to economic instability? (2)

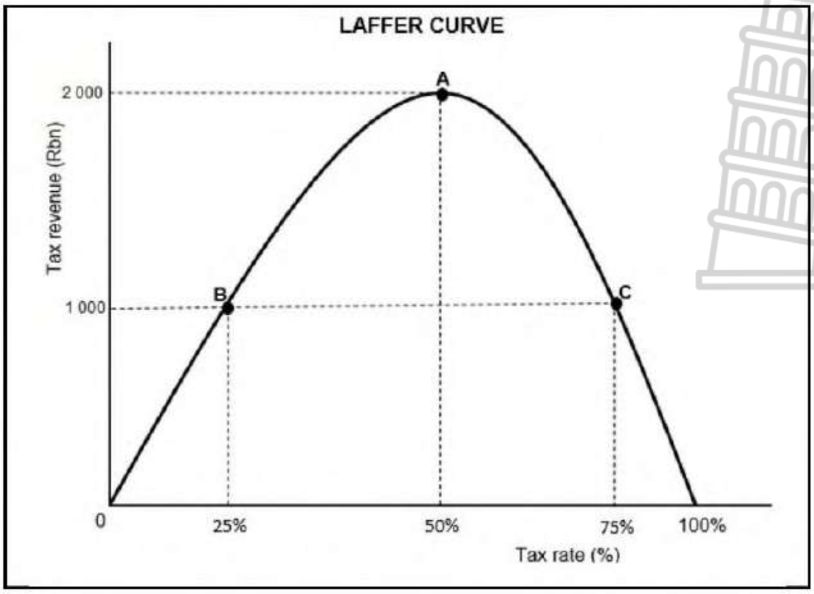
- Corruption can lead to resources being allocated based on personal connections or bribes rather merit or need. ✓✓
- Corruption can deter foreign and domestic investment, as investors may view the environment as unpredictable and risky. ✓✓
- Corruption can limit access to education, healthcare, and economic opportunities for marginalized. ✓✓

6.1.5 How can the government solve the issue of public sector provisioning in South Africa? (4)

- By ensure that qualified and competent individuals are appointed to key positions, based on merit rather than political affiliations. ✓✓
- Strengthen mechanisms for holding public officials accountable for their actions, ensuring transparency, and combating corruption. ✓✓
- This can involve strict monitoring and reporting systems, anti-corruption measurers, and enforcing penalties for malpractice. ✓✓

ACTIVITY 7

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



7.1.1 Identity the tax rate at which the government maximises tax revenue. (1)
50%✓

7.1.2 Name any form of indirect tax paid by households to the government. (1)
- Value Added Tax ✓
- Excise duty/ sin tax/ sugar tax✓
- Import duty/ import tariff✓✓

7.1.3 Briefly describe the term *progressive tax system.* (2)
Progressive income tax is the system whereby people in higher-income groups pay higher rates than those in lower-income groups. ✓✓

7.1.4 Explain the effect of regressive tax system on income distribution. (2)
- Regressive income tax system makes income to be more unequally distributed
- The income inequality amongst the population will increase ✓✓
- The gap between low –income earners and high-income earners will increase as low-income earners pay higher tax rates than higher –income earners. ✓✓

7.1.5 Why will tax revenue decrease if the government impose very high tax rates? (4)
- Some businesses and individual may be forced to evade tax, resulting in lower tax revenue for the government. ✓✓
- Some workers may be discouraged to enter the labour market, which will reduce the tax base for the government. ✓✓
- Businesses may reduce production or withdraw their investment from the economy, which shrinks the tax base✓✓

ACTIVITY 8

8.1 Briefly explain *non- rivalry* and *non-excludability* as characteristics of public goods. (8)

Non-rivalry
- Non-rivalry means that consumption of a good by one person does not reduce the amount available for others✓✓
- There is no competition amongst people when using these goods. ✓✓
- For example all people are protected by army in the country ✓

Non- Excludability
- Non-excludability implies that no one can be excluded from using the good, it is open for consumption by anyone. ✓✓
- Once goods are provided to public, it is difficult to exclude individuals from benefiting from a good, even if they do not pay for it. ✓✓
- For example, no one can be excluded from using clean air. ✓

8.2 How can the South African municipalities improve efficiency in service delivery? (8)
Municipalities can improve efficiency in service delivery by
- Appointing qualified staff with enough experience as top managers✓✓
- Training employees continually to equip them with relevant skills to handle the demand of their job✓✓
- Eliminate corruption by criminally charging and prosecuting those who are found to be involved in it✓✓
- Holding employees accountable for their poor job performance, as a way to ensure that every official take their jobs seriously✓✓
- Rewarding employees who perform above expectations rewarded accordingly to encourage them even more✓✓
- Improving revenue collection by ensuring the clients pay for the services they consume✓✓

8.3 Briefly discuss the *medium term expenditure framework* and *medium term budget policy statement.* (8)

Medium term expenditure framework
- MTEF is a plan of expected revenue and expenditure which covers a period of three years. ✓✓
- The MTEF is often integrated into the annual budget process, informing the formulation of the budget based on medium term priorities. ✓✓

Medium term budget policy statement

- MTBPS is a policy statement that is presented by the minister of finance in parliament every October to give a picture of the following next three years annual budget in February. ✓✓
- The MTBPS communicates the government's fiscal stance, outlook with an emphasis on the overall budget policy and economic strategy. ✓✓

8.4 Discuss privatization as problems of public sector provisioning. (8)

- Refers to the transfer of functions and ownership from the public to the private sector ✓✓
- The aim of privatization is to reduce the relative size of the public sector.
- Advantages of privatization: it provides additional funds to the government / generates an income to be used for redistribution of wealth ✓✓
- It attracts foreign investment / access to investment, innovative and able to adapt ✓✓
- It stimulates growth and improves the overall efficiency and performance of the economy and more people can participate in the economy ✓✓
- State-owned enterprises are bureaucratic, inefficient, and unresponsive to consumer needs / increase efficiency in the economy / optimal functioning of market forces✓✓
- Public enterprises do not pay tax – privatization broadens the tax base✓✓
- Make funds available for housing, education, health care and the poor / lessens the pressure on government's budget / eradicates fiscal problems ✓✓
- Promotes black economic empowerment / opportunity for all to participate in free market – benefits BEE✓✓
- Restructure ownership of state assets together with Department of Public Enterprises e.g., defence and transport ✓✓

ACTIVITY 9

9.1 Discuss in detail the main objectives of the public sector in the economy. (26)

INTRODUCTION

The main objectives of the state are to serve the people and help in bringing about a systematic development for all citizens. ✓✓ **(2)**

BODY MAIN PART:

1. Economic growth✓

- Economic growth refers to an increase in the production of goods and service in the economy. ✓✓
- For economic development to take place, the economic growth rate must be higher than the population rate. ✓✓
- The state must ensure sustainable growth as it leads to an improvement in the standard of living. ✓✓

2. Full employment✓

- Full employment means that all persons who would like to work and who are looking for work should be able to find work or create work for themselves. ✓✓
- Attaining high levels of employment is one of the most important economic objectives for all governments. ✓✓

3. Exchange rate stability✓

- The state tries to protect the country's currency from excess depreciation and appreciation. ✓✓
- Depreciation and appreciation creates uncertainty for producers and investors and should therefore be limited. ✓✓
- Monetary and fiscal policies are used to ensure that exchange rates remain relatively stable for as long as possible. ✓✓

4. Price stability✓✓

- A market economy performs much better when prices are relatively stable. ✓✓
- In South Africa the relative price stability means maintaining an inflation rate of between 3% and 6%. ✓✓

5. **Economic equity**

- A redistribution of income and wealth is essential in market economies. ✓✓
- In South Africa the state uses a progressive tax system to provide free services to the poor. ✓✓
- Free social services such as basic education, primary healthcare, basic economic services and to pay cash grants to poor and other vulnerable people. ✓✓

(26)

9.2 How successful is the South African government in providing services to the public? (10)

The South African government is successful in providing services to the public because:

- Investment on infrastructural development project has been made to improve the standard of living for the citizens. ✓✓
- Provision of clean water, proper sanitation and cleaning services has been made to disadvantaged communities. ✓✓
- Effort has been made to improve the overall efficiency of state organs and improved accountability so that funds allocated to provide services will not be lost. ✓✓
- Job creation strategies like E.P.W.P. have been implemented while in turn providing for basic needs. ✓✓
- Emergency funds have been provided to bail-out state owned enterprises and to improve their overall efficiency.
- Improvement in terms✓✓ of community participation e.g. people's parliament, Ward committees, etc. are being implemented so as to improve service delivery. ✓✓

(10)

<u>OR</u>

The South African government is not successful in providing services to the public because:

- Infrastructural development project have only covered a fraction of the country at the moment thus leaving some of the rural areas underdeveloped. ✓✓
- Some areas are without clean water, proper sanitation and cleaning services which opens a development gap in the country. ✓✓
- Inefficiency caused by incompetent civil servants, corruption, rent-seeking, etc. hinder the service delivery by state organs. ✓✓
- Job creation strategies like E.P.W.P. can only provide jobs for a fraction of the country's population. ✓✓
- Emergency funds to bail-out state owned enterprises with the aim of improving their overall efficiency places a heavy financial burden to the government. ✓✓
- Platforms for community participation are not open to each and every individual because of bureaucracy. ✓✓

(10)

ACTIVITY 10

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

INTRODUCTION

- Public Sector Failure occurs when government intervention in the economy leads to an inefficient allocation of resources and leads to an overall decline in economic welfare. . ✓✓

MAIN PART

1. Management Failure. ✓

- Management failure is a shortfall of duty or performance in directing and controlling a government department, function or team. . ✓✓
- The government officials lack accountability and have ignorance, this is usually because of lack of leadership, experience and training. . ✓✓
- This leads to mismanagement which leads to serious failure of duty that leads to losses, errors, omissions and poor service delivery. ✓✓

2 **Apathy.** ✓

- Apathy is when you lack motivation to do anything or just don't care about what's going on around you which is one of the characteristics of some government servants. . ✓✓
- Government officials show little or no interest in delivering an efficient service to the public, there is usually long ques in government offices as apathy affect behaviour and ability to complete daily activities. . ✓✓
- Corruption and poor service delivery are some of the symptoms of apathy.

3 **Lack of motivation**. ✓

- Workers rarely receive incentives for successful service delivery but are only monitored on inputs and correctly following procedures and processes.
- This might lead to limited services, high cost, low quality work as workers feel that they are not valued by the employer. . ✓✓

4 **Bureaucracy** . ✓

- Bureaucrats tend to obey rules and regulations without judgement, bureaucrats 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 fosters a structure that doesn't create true productivity and thus lead to poor service delivery. . ✓✓

5 **Special interest groups.** ✓

- Certain people or groups with powerful influence usually manipulate politicians inside the government to grant economic favours to them for their own selfish gain. . ✓✓
- The pressures of the upcoming elections or the influence of interest groups can support an environment in which inappropriate spending and tax decisions can be made. . ✓✓
- Farmers tend to demand undeserved subsidies and organised labour tend to influence government to their own advantage (More salary) at the expense of service delivery. . ✓✓

6 **Structural weaknesses** . ✓✓

- Sometimes an economy's problems are deeper and longer lasting usually as a result of government policies
- Objectives are not met because they may work against each other. . ✓✓
- This might happen when government redistributes income and wealth too aggressively without proper projections. . ✓✓

10.2 How can the unfair distribution of income in South Africa be resolved? (10)

- South Africa uses a progressive income tax system where the higher income earners pay more tax. ✓✓
- Reducing unemployment through the EPWP. If it was not for the program, the unemployment rate would have been even higher. ✓✓
- Free social services are basic education, primary health, and financing basic economic services. ✓✓

- Taxation on profits, taxation on wealth, capital gains tax and taxation on spending, are used to finance free services. ✓✓

INTERNATIONAL TRADE
Activity: 1
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 number (1.1.1– 1.1.8) in the answer book, e.g.,1.1.9. C.

1.1.1 The systematic record of all the transactions of the country's inhabitants with the rest of world is known as …
A. trade balance
B. terms of trade
C. balance of payment ✓✓
D. unrecorded transaction

1.1.2 Buying of financial assets such as shares in companies on the stock exchange of another country is known as …
A. direct investment
B. portfolio investment ✓✓
C. capital investment
D. other investment

1.1.3 The ratio of export prices in relation to import prices in knowns as the…
A. trade agreement
B. free floating exchange rate
C. international trade
D. terms of trade ✓✓

1.1.4 The price of one country's currency expressed in terms of another county's currency is known as…
A. exchange rate ✓✓
B. market
C. foreign exchange market
D. trade deficit

1.1.5 An international institution that assist countries with ongoing balance of payment problems is known as…
A. World Bank
B. United Nations
C. International Monetary Fund✓✓
D. World Trade Organisation

1.1.6 Investment contracts that base their value on the underlying assets, such as currencies and commodities, are know as…
A. other investments
B. direct investments
C. financial derivatives✓✓
D. portfolio investments

1.1.7 Assistance provided by the International Monetary Fund to correct countries' balance of payment problems is known as....
A. Transfers
B. Special Drawing Rights ✓✓
C. Special Deposit Funds
D. Foreign Direct Investment

1.1.8 The difference between tangible exports and tangible imports are known as……

A. Trade balance ✓✓
B. Current transfer
C. Reserves assets
D. Trade deficit.

(8x2)16

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 number (1.2.1 to 1.2.6) in the answer book, e.g. 1.2.7 J

COLUMN A	Answers	COLUMN B
1.2.1 Specialisation	D ✓	A. Capital outflows exceeds capital inflows
1.2.2 Financial account deficit	A ✓	B. Financial capital held by the monetary authorities to finance disequilibrium.
1.2.3 Debt forgiveness	F ✓	C. An item in the balance of payment that caters for any ommissions and errors.
1.2.4 Reserve assets	B ✓	D. Focusing on production/provision of a particular product type of goods and services.
1.2.5 Unrecorded Transaction	C ✓	E. Money received without any productive service rendered
1.2.6 Transfer payment	E ✓	F. when an organisation or a country is released from its obligation to repay a loan

(6x1) 6

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1 – 1.3.6) in the ANSWER BOOK. Acronyms and abbreviations will NOT be accepted.

1.3.1 The increase in the price of currency through market forces of demand and supply.
Appreciation ✓

1.3.2 When a country can produce specific goods and services at lower average cost than other countries.
Comparative Advantage ✓

1.3.3 A decrease in the price of currency in terms of another country's currency due to government intervention.
Devaluation ✓

1.3.4 The state payment to individuals without any services rendered.
Transfer payment ✓

1.3.5 A system where the price of a currency is determined by market forces.
Free floating exchange rate system ✓

1.3.6 Compares a country's export prices with its import prices by means of indexes
Term of trade ✓

(6x1)6

ACTIVITY 2

2.1.1 Name any TWO sub accounts of the balance of payment. (2)
Current account ✓
Capital transfer account ✓
Financial account ✓

2.1.2 What is the purpose of the unrecorded transactions in the balance of payment? (2)
The main purpose of the unrecorded transaction is to capture the effects of errors and omissions in the balance of payments. ✓✓

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

BALANCE OF PAYMENT 2023

1. Current account	**2023**
Merchandise exports	1 175 547
Net gold exports	71 678
Service receipts	210 415
Income receipts	96 507
Less: Merchandise imports	1 222 944
Less: Payments for services	217 939
Less: Income payments	250 552
(A)	-35 674
Balance on the current account	**-172 062**
2. **Capital Transfer Account**	**236**
Net lending to (+) borrowing from (-) rest of world	**-172 726**

[*Adapted from SARB Quarterly Bulletin, March 2023*]

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

Net gold export ✓

2.1.2 Name the item (A) that is missing from the current account in the table above. (1)

Merchandise imports. ✓

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

It is a systematic record of all the transactions of a country's residents with the rest of the world over a given period. ✓✓

2.1.4 Explain the negative impact of a decrease in terms of trade on the economy. (2)

A decrease in terms of trade:

- brings a decline in the social welfare of a country because a country will need more exports to buy the same imports. ✓✓
- Is the result of a decrease in export prices, thereby generating less inflow of income. ✓✓
- Is the result of an increase in import prices, therby generating more outflow of money. ✓✓

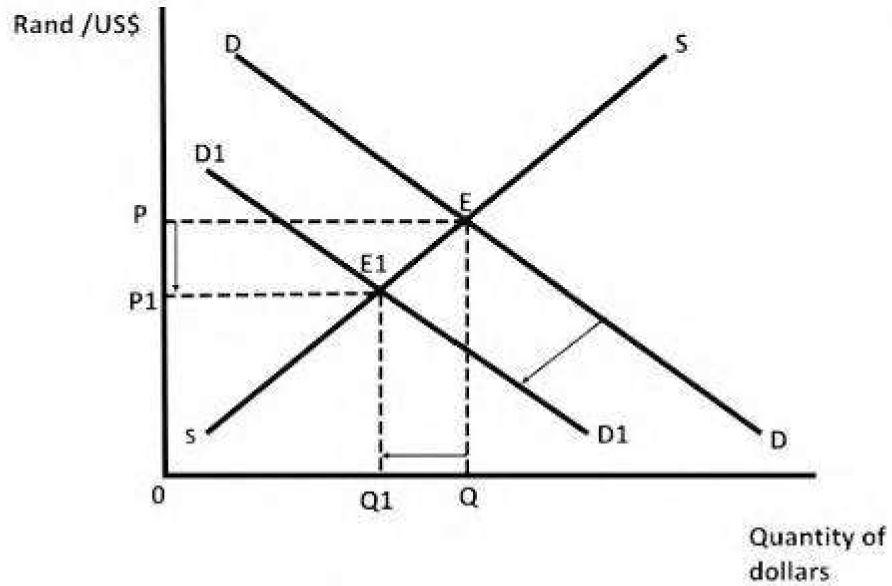
2.1.5 Determine the value of trade balance using the information given in the table above. Show all the calculations. (4)

Merchandise exports	1 175 547 ✓
Plus: Net gold exports	71 678 ✓
Less: Merchandise imports	1 222 944 ✓
	R 24 281 m ✓

ACTIVITY 3

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

IMPACT OF INCREASED DEMAND FOR DOLLARS ON THE RAND-DOLLAR EXCHANGE RATE



3.1.1 Identify the original exchange rate in the graph above. (1)

P ✓

3.1.3 Name any ONE country that uses a free-floating exchange rate system. (1)

South Africa ✓

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

Exchange rate is a price of one country's currency expressed by another country's currency. ✓✓

3.1.4 Explain the effect of an increase in supply of rands on the value of rand. (2)

An increase in the supply of rand will lead to the decrease in the value of a rand. ✓✓

3.1.5 How does the surplus on the current account benefit the economy? (4)

- The value of the rand will increase due to the net inflow of foreign currency. ✓✓
- Importing production inputs will be cheaper due to improved exchange rate. ✓✓
- Production will be stimulated and more employment opportunities will be created.✓✓

ACTIVITY 4

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

Years	**2022**	**2023**			
Quarters	Q 1-4	Q 1	Q 2	Q 3	Q 4
Current account items	R bn	R bn	R bn	R bn	R bn
Exported goods	1176	1193	1233	1258	1260
Net gold exports	72	56	50	70	93
Service receipts	210	208	213	215	215
Income receipts	97	123	106	117	121
Current transfers	-35	-36	-35	-36	-36

Imported goods	1223	1207	1314	1284	1250
Service payments	218	221	229	226	230
Income payments	251	266	230	303	241

[Adapted from SARB Bulletin, 2023]

4.1.1 Identify the current account item used to record donations? (1)

Current transfer ✓

4.1.2 Name the balance of payments account that records investments. (1)

Financial account ✓

4.1.3 Briefly describe the term *trade balance.* *(2)*

Trade balance is the difference between merchandise exports minus merchandise imports. ✓✓

4.1.4 Why are net gold exports calculated separately in the South Africa's trade balance? (2)

This is because gold is South Africa's major commodity and largest earner of foreign exchange. ✓✓

4.1.5 Calculate the balance on the current account for the second quarter of 2023. Show ALL calculations. (4)

Current account balance = (inflows) - (outflows) + (current transfers)

= (1233+50+213+106) ✓ - (1314+229=230) + (-35) ✓

= 1602 - 1773 - 35

= 206✓✓

ACTIVITY 5

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

SOUTH AFRICA'S BALANCE OF PAYMENTS – SECOND QUARTER 2023

The balance of payments consists of consists of a current account, capital transfer and financial account.
South Africa's trade balance switched from a surplus of R41.9 billion in the first quarter of 2023 to a deficit of R27,2 billion in the second quarter. The deterioration in the trade balance came about as the value of merchandise imports increased substantially. This has impacted the terms of trade.

(Adjusted from SARB, Statistical Press Release, September 2023)

5.1.1 Identify the account in the balance of payments that records foreign direct investment. (1)

Financial account ✓

5.1.2 Name the item that records errors and omission in the balance of payments? (1)

Unrecorded Transactions ✓

5.1.3 Briefly describe the term *special drawing right.* (2)

Special Drawing Right is a financial instrument distributed among member countries of the IMF who experience BoP difficulties. ✓✓

5.1.3 Explain the impact of an increase in export prices on South Africa's trade balance. (2)

- Export earnings would increase resulting in an increase in the value of the trade balance. ✓✓
- Demand for exports would decrease, reducing the volume of export and the trade balance. ✓✓

5.1.4 How can import control be used to correct the Balance of Payments deficit? (4)

- BoP deficit can be corrected by imposing import tariffs and import quotas. ✓✓
- Import tariffs makes imported goods more expensive thereby discouraging local markets from buying them. ✓✓
- Import quota limits the amount or quantity of imports allowed to the economy. ✓✓

5.2 Evaluate the impact of the depreciating rand on the South African economy. (8)

A depreciating rand will ***positively*** affect the South African economy in the following ways:

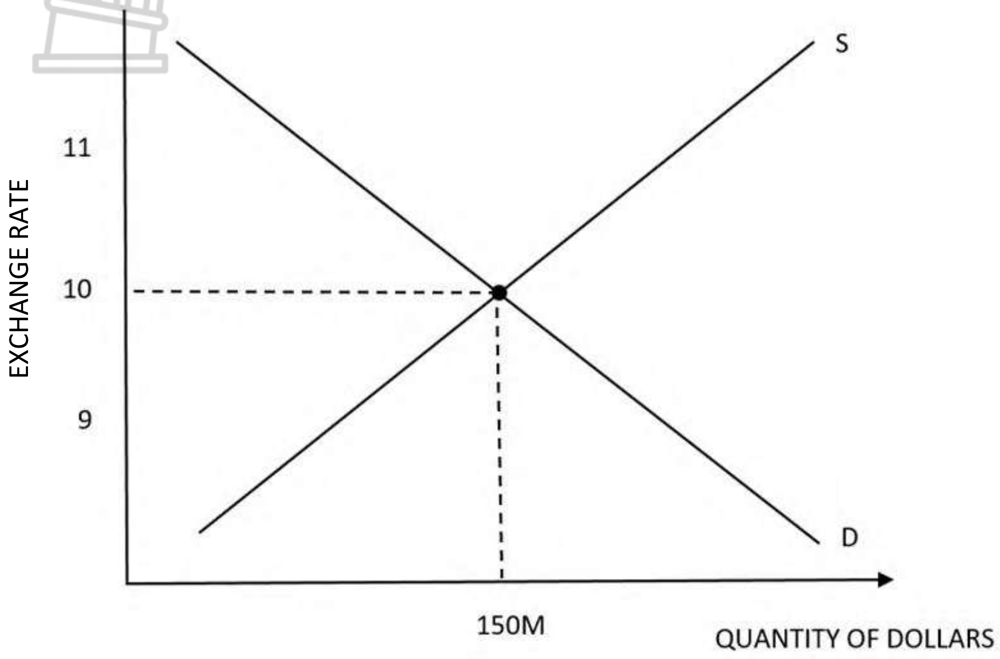
- Exports will become relatively cheaper thus leading to increased demand for South African goods ✓✓
- Demand for South African exports such as base metals and mineral products will increase as they become relatively cheaper. ✓✓
- Foreign tourist arrivals will increase because it will be cheaper for them to spend money in South Africa.✓✓
- Improvement in the trade balance as exports will be greater than imports. ✓✓

A depreciating rand will ***negatively*** affect the South African economy in the following ways:

- Imported production inputs such as crude oil and vehicle parts will become expensive, fueling cost-push inflation. ✓✓
- Higher cost of imported production inputs will decrease domestic production and economic growth. ✓✓

ACTIVITY 6

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



6.1.1 Identify the equilibruim exchange rate from the information in the graph. (1)

$1 = R10 ✓

6.1.2 Give any ONE cause of demand for foreign exchange. (1)

- Importing goods ✓
- Repayment of overseas loans ✓

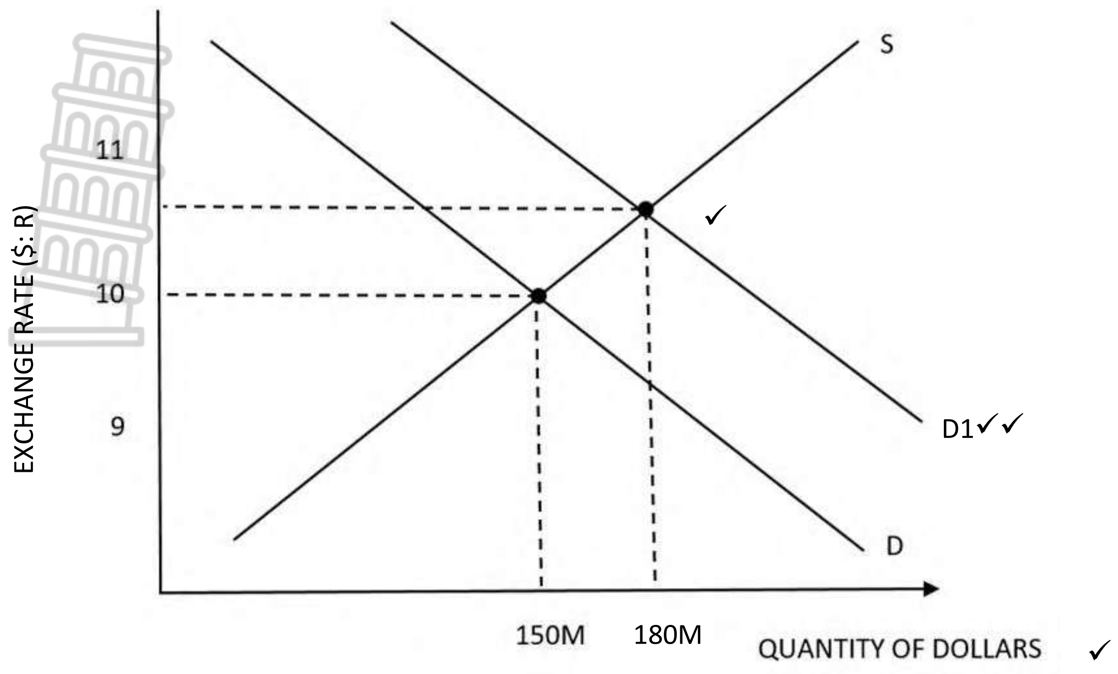
6.1.3 Briefly describe the term *transfer payment* (2)

Transfer payment is the money received without any productive service rendered. ✓✓

6.1.4 Why is terms of trade important in international trade? (2)

It shows whether the country can afford to pay for its imported goods with the amount of money earned from its exports over the same period. ✓✓

6.1.5 Redraw the graph above, and indicate what would happen in the market when the demand for dollars' increases. (4)



6.2 Briefly discuss *direct investments* and *portfolio investments* as sub-account of the financial account. (8)

Direct investment

- Foreign direct investment (FDI) refers to investment in real estate (fixed property) and obtaining a meaningful share (10%+) or control of such business. ✓✓
- Direct investments occur when foreign parties invest in South African businesses, or when South African people or businesses invest in foreign businesses. ✓✓
- When a foreign business invests in a South African business, this results in money flowing into the country. ✓✓
- Such an inward direct investment is recorded as a liability because it needs to be repaid. ✓✓
- When a South African business person invests in a business in a foreign country, this results in money flowing out of the country. ✓✓
- Such an outward direct investment is recorded as an asset because the entity acquired will generate an income for South African investors. ✓✓ (Max: 4)

Portfolio investments

- Refers to the buying of financial assets such as shares in companies on the stock exchange of another country. ✓✓
- These investments are highly liquid, and their flows can be reversed at any time. ✓✓
- Portfolio investment money is also known as 'hot money'. ✓✓
- The investor is only interested in financial returns from investing in shares and not in the management of a business. ✓✓
- When foreign people or businesses buy shares on the JSE or government bonds, this results in money flowing into the country. ✓✓
- However, these money need to be repaid at some stage, therefore it is recorded as a liability. ✓✓

- When South Africans buy shares in companies that are listed on foreign exchanges or buy foreign government bonds, this results in an outflow of money. ✓✓
- However, when South Africans are obtaining ownership of foreign shares or bonds, the purchases are recorded as assets. ✓✓ (Max. 4)

ACTIVITY 7

7.1 Study the table below and answer the questions that follows

SOUTH AFRICA'S TERMS OF TRADE			
YEAR	**Index of import prices**	**Index of import prices**	**Term of Trade**
Jul 2021	123,0	146,9	119.4
Jul 2022	134,2	168,7	**A**
Jul 2023	160,6	176,6	109.9

[Adapted from Trading economics.com / SARB]

7.1.1 Identity the institution that prepares the terms of trade in South Africa. (1)

South African Reserve Bank (SARB) ✓

7.1.2 Give ONE reason for an increase in import prices during July 2022. (1)

- A weaker domestic currency ✓
- Increase in global prices ✓
- Increase in demand of imported capital goods ✓
- Increase in import tariffs ✓

7.1.3 Briefly describe the term *globalisation.* *(2)*

- Globalisation is the worldwide interaction of economies with trade as an importand element. ✓✓

7.1.4 Explain the effect deterioration in the terms of trade has on a country's welfare. (2)

- It will lead to a decline in living standards as foreign currency earning are relatively less.✓✓
- Imported consumer goods will be more expensive.✓✓
- A deterioration in the term of trade shows that a country is poorer / more capital is flowing out of the country to pay for imports.✓✓

7.1.5 Calculate the term of trade for July 2022 (A). Write down the formula first and show ALL calculations. (4)

Terms of trade = $\left(\frac{index\ of\ export\ prices}{index\ of\ import\ prices}\right) x\ 100$✓

$= \left(\frac{168{,}7}{134{,}2}\right)$ ✓ x 100

$= \underline{125{,}7}$ ✓✓

7.2 How does the free-floating exchange rate system affect the economy? (8)

Free-floating exchange rate affects the economy by:

- Increasing the value of a currency when such a currency's demand in the foreign exchange market increases. ✓✓
- Making imported products cheaper and potentially increasing in the local market as a result of the currency appreciation. ✓✓
- Reducing the quantity of local goods exported as they become expensive in foreign markets. ✓✓
- Leading to a deficit in the balance of payment when imports are sustainably higher than exports. ✓✓

- Decreasing the value of a currency when the demand of such currency declines. ✓✓
- Making local exports cheaper in foreign markets and potentially increasing as a result of currency depreciation. ✓✓
- Resulting in a surplus on the Balance of Payment when the amount earned from exports is sustainably higher than the amount paid for imports. ✓✓

ACTIVITY 8

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

MOVEMENT IN THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENT
The surplus on the current account of the balance of payments narrowed markedly from R311 billion in the second quarter to R226 billion in the third quarter of 2022. The value of South Africa's exports of goods decreased slightly, while the value of merchandise imports increased. South Africa's terms of trade (including gold) deteriorated somewhat in the third quarter of 2022 as the rand price of imports of goods and services increased more than the price of exports.
[Adapted from quarterly bulletin, SARB, December 2022]

8.1.1 Identify the economic concept in the extract above relating to export and import prices. (1)

Terms of trade ✓

8.1.2 Give the current account item for recording donations. (1)

Current transfer✓

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

International trade is the exchange of goods and services with the rest of the world. ✓✓

8.1.4 Why did South African merchandise exports experience a decline in 2021 in relation to the COVID 19 pandemic? (2)

- Operations in the mining and processing of gold had to observe the Covid-19 pademic protocols and this slowed down productivity dramatically✓✓
- Sensitivity and attitudes of many leading countries toward impacted negatively on marchandise exports. ✓✓
- Closing down of cross-boarders as temporary precautionary measures for the pandemic, also had a negative effect on gold exports by South Africa. ✓✓

8.1.5 Calculate the percentage change of the surplus in the current account of balance payment in the second and third quarter of 2022. Show all your calculations.

Percentage change of the surplus

= 2nd quarter surplus - 3rd quarter surplus / 2nd quarter surplus x 100

= R311billion - R226 billion✓ / R31 billion✓ x 100✓

= 85 billion / R31 billion x 100

= 27,3%✓

ACTIVITY 9

- Discuss in detail the reasons for international trade. (26)
- Analyse the impact of a weaker currency (rand) 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 correct relevant introduction) (Max 2)

BODY: 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 cause a change in the demand for goods and services. ✓✓
- An increase in the per capita income of people results in more disposable income that can be spent on local goods and services, some of which may then have to be imported. ✓✓
- 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 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 case 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 product 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 globalization. ✓✓
   - 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, 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. ✓✓
- 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 price than other countries. ✓✓
- Brazil is the biggest producer of coffee in the world because its climate conditions are favourable for coffee production. ✓✓

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 specialized 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 specializes in the production of electronic goods and sells these at a lower price. ✓✓
- Specialisation ensures that mechanization, division of labour and economies of scale are associated with mass production are achieved. ✓✓
- Countries therefore earn international reputation for specializing in the production of certain products. ✓✓

6. Capital ✓

- Capital allows developed countries to enjoy an advantage over underdeveloped countries. ✓✓
- Developed countries are usually highly industrialized 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. ✓✓

(Allocate a max of 8 marks for headings/subheadings/examples) (Max 26)

ADDITIONAL PART

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

- Imports will become relatively more expensive which may discourage importing and increase demand of local products. ✓✓
- Demand for South African exports such as base metals and mineral products will increase as they become relatively cheaper. ✓✓

- Tourism activities will increase as more tourists visit the country due to the weaker rand. ✓✓
- Balance of payments deficit will decrease as less goods are imported while more goods are exported. ✓✓

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

- Importing production inputs such as crude oil, agricultural chemicals and vehicle parts will become expensive fuelling cost-push inflation. ✓✓
- Higher cost of importing production inputs may decrease domestic production which will slow down economic growth. ✓✓
- Foreign investors may withdraw their investments in the economy because a weaker rand reduces the returns on their investments. ✓✓
- Import payments will increase which may reduce welfare as more resources are used to produce more exports to finance higher cost of import. ✓✓
- Export earnings will decrease, resulting in a decrease in trade balance. ✓✓ (Max 10)

(A maximum of 2 marks may be allocated for mere listing of facts/examples)

CONCLUSION

As a developing country, South Africa should encourage international trade to achieve higher economic growth. ✓✓
(Accept any other higher-order conclusion) (Max. 2) **[40]**

INTERNATIONAL TRADE POLICIES

ACTIVITY 1

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

1.1.1 The exchange of goods and services across international borders is called…

A. Export promotion
B. Import substitution
C. International trade✓✓
D. Globalisation

1.1.2 A policy where the government implements measures to increase the quantity and variety of exported goods and services. Is known as…

A. export promotion✓✓
B. import substitution
C. international trade
D. globalisation

1.1.2 Abolishment of government intervention in trade flows is known as …

A. sanctions
B. protectionism
C. trade liberalisation✓✓
D. embargo

1.1.3 A trade protocol where member countries agree to the removal of all tariffs and maintain the same external restriction on non- members is referred to as…

A. Economic union
B. Common market

C. Free trade area
D. Customs union✓✓

1.1.4 The tariff is levied as a fixed amount per unit, weight or size of imported goods is known as…
A. Ad valorem
B. Specific✓✓
C. Composite
D. Quota

1.1.5 A global body that deals with the rules of free trade between counties is known as….
A. World bank
B. United Nations
C. International Monetary Fund
D. World Trade Organisation✓✓

1.1.6 The withdrawal of capital investment from a company or a country is called…
A. Disinvestment
B. Protectionism
C. Embargo
D. Sanctions

1.1.7 When production costs decrease as the quantity produced increases is referred to as …
A. Absolute advantage
B. Economies of scale✓✓
C. Trade balance
D. Comparative advantage **(8x2) (16)**

1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the correct letter next to the question number (A-I) next to the question number (1.2.1-1.2.8) in the answer book.

COLUMN A	Answers	COLUMN B
1.2.1. Import substitution	I✓	A. A form of government support that doesn't earn certain types of government income but provides benefits through other means.
1.2.2. Free trade	E✓	B. A policy whereby the state discourages the importing of certain goods and services in order to protect local industries against unequal competition from abroad.
1.2.3. Embargo	G✓	C. A United States initiative with the purpose to assist the economies of African countries and improve trade relations.
1.2.4. Protectionism	B✓	D. Tariffs calculated on the value of a good,
1.2.5. Ad valorem	D✓	E. Producers and consumers are free to buy goods from anywhere in the world without government's interference.
1.2.6. Economic union	F✓	F. A trade protocol where member countries also establish a single authority responsible for joint monetary policy, one

		central bank and a common foreign economic policy.
1.2.7.Africa Growth and Opportunity Act (AGOA)	C✓	G. An official state ban on trade or other activities with a particular country.
1.2.8. Indirect subsidies	A✓	H. An organisation aimed to promote free trade among Argentina, Brazil, Paraguay and Uruguay.
		I. Goods that were imported are replaced with locally produced goods.

(8x1) (8)

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1- 1.3.6) in the ANSWER BOOK. Acronyms and abbreviations will not be accepted.

1.3.1 Duties or taxes levied on goods as they enter the country.
Import tariffs✓

1.3.2 A situation where manufactures export product to another country at a price below the cost of product in their country of origin
Dumping✓

1.3.3 The practice of charging different prices to different customers for the same goods.
Price discrimination✓

1.3.4 A policy where government implements measures aimed to increasing the quantity and variety of goods and services sold to other counties.
Export promotion✓

1.3.5 A trade protocol where member countries agree to the removal of all tariffs and government- imposed restrictions.
Free Trade Area✓

1.3.6 The increasing interconnectedness and interdependence of countries driven by the exchange of goods and services across borders.
Globalisation✓

(6x1) (6)

ACTIVITY 2

2.1 Study the picture below and answer questions that follow.

Source: google.com

2.1.1 Identify the term that indicates the selling of goods abroad from the picture above. (1)

Exports✓

2.1.2 Name any one method South Africa uses to promote exports. (1)

Subsidies✓

Incentives✓

Trade neutrality✓

2.1.3 Briefly describe the term *export promotion*. (2)

Export promotion involves providing incentives to encourage local businesses to produce goods for exports. ✓✓

2.1.4 Explain the effect of imports on the balance of payments. (2)

Imports have a negative impact on the balance of payments as they represent an outflow of funds leading to a trade deficit. ✓✓

2.1.5 How can a country benefit from export promotion? (4)

- Export promotion leads to higher production levels contributing to a higher GDP and economic growth. ✓✓
- Increased production necessitates hiring more workers, leading to job creation in export-oriented industries. ✓✓
- Export promotion help domestic firms to expand their reach to international markets, reducing their dependence on the domestic markets. ✓✓
- Exports can facilitate the transfer of technology and knowledge from developed to developing countries✓✓

ACTIVITY 3

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

3.1.1 Identify a term for taxes on imports. (1)

tariffs✓

3.1.2 Name the trade policy that uses tarrifs to restrict goods entering the country. (1)

Import substitution✓

3.1.3 Briefly describe the term *embargo.* (2)

Embargo is an official ban on trade or other activity with a particular country. ✓✓

3.1.4 Explain foreign exchange control as a measure to restrict imports. (2)

Governments can reduce imports by limiting the amount of foreign currency available to importers. It is not possible to buy goods and services from the other countries without the necessary foreign currency. ✓✓

3.1.5 How will the United States tariffs impact South Africa's competitiveness ? (4)

- The cost of South African goods in the US markets will be raised, making them less attractive to American consumers. ✓✓
- Higher prices can lead to decreased demand for South African exports, impacting sales volume and job losses in affected sectors. ✓✓
- Mining and resources that were previously duty- free, face tarrifs, affecting the competitiveness of these exports

ACTIVITY 4

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

17th BRICSSUMMIT

The summit was held under the theme "Strengthening Global South Cooperation and Promoting a More Inclusive and Sustainable Global Governance," focusing on six major agenda items. These included global health, trade, investment and development financing, climate change response, governance of artificial intelligence, reform of the global security architecture, and the institutional development of the BRICS mechanism.

Adapted from: Wikipedia.org

4.1.1 Identity any ONE item that was discussed in summit from the above extract (1)

- Global health✓
- Trade✓
- Investment and development financing✓
- Climate change✓

4.1.2 Name any ONE member that joined the BRICS group after South Africa. (1)

- Egypt✓
- Ethiopia✓
- Iran✓
- United Arab Emirates✓

4.1.3 Briefly describe the term *free trade.* (2)

Free trade is a policy in which the government does not interfere by imposing trade barriers. ✓✓

4.1.4 Explain the role of the World Trade Organisation (WTO) (2)

- The WTO is a global body that deals with the rules of free trade between nations. ✓✓
- It strives to persuade countries to abolish trade barriers, to create trade and investment through increasingly open markets. ✓✓

4.1.5 How has South Africa benefited from being a member of BRICS? (4)

- BRICS membership elevates South Africa's standing as an important emerging economy and provides a platform to voice its interest on the global stage. ✓✓
- The New Development Bank (NDB), established by BRICS, funding for infrastructure and sustainable development projects in member countries. ✓✓
- BRICS cooperation fosters stronger economic ties with countries, creating new markets for South African goods and services and attracting investment contributing to economic growth✓✓

ACTIVITY 5

5.1 Study the extract below and answer the question follow

THE IMPACT OF TRADE POLICIES ON GLOBAL TRADE

Developing countries often relies on import substations as strong measure to develop their economies. As an important trade policy tool, tariffs serve as a mechanism to protect domestic industries and generate government revenue**.** However high import duties can increase costs for businesses and consumers, hence hinders economic growth and competitiveness.

Source:google.com

5.1.1 Identify the method of import substitution mentioned in the above extract. (1)

- Tariffs✓

5.1.2 Give the government policy designed to increase the volume of exports. (1)

- Export Promotion✓

5.1.3 Briefly describe the term *trade policy*. (2)

- Trade policy refers to the set of rules, regulations and agreements that govern how the country exchange goods and services with other countries. ✓✓

5.1.4 Explain the impact of product diversification on the economy? (2)

- Lead to more stable economic growth and reduced vulnerability to economic shocks✓✓
- A diversified economy creates more job opportunities across different sectors✓✓
- Encourage innovation and improve productivity. ✓✓

5.1.5 How can developing countries expand their domestic market? (4)

Developing countries can:

- Produce goods and services with high value (beneficiation) and invest on technology✓✓
- Identify sectors with competitive advantage and where global demand is growing✓✓
- Invest in research and development, support businesses with innovation and improve technological content of domestic goods. ✓✓
- Improve infrastructure to facilitate trade and attract investment. ✓✓
- Lower tariffs and regulations to encourage both exports and imports. ✓✓
- Collaborate with neighboring countries to reduce trade barriers and facilitate regional trade. ✓✓

- Offer incentives subsidies and other forms of support to specific sectors. ✓✓

ACTIVITY 6

6.1 Study the picture below and answer follow questions

6.1.1 Identify the trade policy depicted by the above picture. (1)

- Free Trade✓

6.1.2 Name any ONE form of economic integration used in world market. (1)

- Free trade area, custom union, common market, economic union✓

6.1.3 Briefly describe the term *trade liberalisation* (2)

- Trade liberalisation refers to the process of reducing or removing trade barriers between countries✓✓

6.1.4 Explain the benefit of free trade for consumers (2)

- Free trade expose consumers to different products, styles and innovation that might not be available in their domestic market. ✓✓
- Removal of trade barriers, consumers import products at a lower price. ✓✓

6.1.5 How can South African government intensify international trade relations? (4)

- Strengthening regional integration and collaboration by participating in African Continental free trade Area. ✓✓
- Promoting cross border infrastructure development to facilitate trade flow. ✓✓
- Broadening the export base by supporting local firms to be exporters and diversify their product. ✓✓
- Focus on exporting value added products to key markets to promote inclusive growth✓✓
- Negotiate new trade agreements and improve the existing ones to diversify the market. ✓✓
- South Africa should actively participate in the ongoing WTO reform process to address developing countries disadvantages✓✓

ACTIVITY 7

7.1 Study the extract below and answer questions follow.

WORLD TRADE ORGANISATION REPORT ON TRADE AND INCLUSIVENESS
The income levels between economies have narrowed. The open trade stimulated economic growth and has improved living conditions for many people around the world. The inter-linkages of trade and inclusiveness across and within economies, discussing how trade policies need to be complimented by domestic policies to make the benefit of trade more inclusive.
Source:google.com

7.1.1 Identify the organisation that promotes free trade between countries. (1)

World Trade Organisation (WTO) ✓

7.1.2 Name any ONE-member country of the SADC. (1)

South Africa, Zimbabwe, Swaziland etc✓

7.1.3 Briefly describe the term *deregulation*. (2)

Deregulation refers to the reduction or removal of government-imposed restrictions on international trade. ✓✓

7.1.4 Explain the importance of AGOA on South African economy. (2)

- AGOA grant South African products duty –free access to the US market, making them more competitive and increasing exports to US Hence create more job opportunities. ✓✓
- Partnership with US attracted foreign direct investment, as companies take advantages of favourable terms of trade. ✓✓

7.1.5 How can globalisation negatively affect South African economy? (4)

- The influx of cheaper imported goods led to job losses in South Africa✓✓
- Globalization benefited the elite and foreign investors, the majority of poor South Africans are excluded, that widens the economic inequality. ✓✓
- South Africa highly experience environmental degradation as a results of pollution and deforestation. ✓✓
- South Africa's dependency on foreign aid and investment lead to economic instability on the withdrawal. ✓✓
- South Africa is vulnerable to economic shocks and changes in international market making it subjected to economic downturns in major trading partners✓✓

ACTIVITY 8

8.1 Study the picture below and answer the questions follow

8.1.1 Identify the trade policy depicted by the above picture. (1)

Free Trade agreement✓

8.1.2 Give ONE example of trade protocol that South Africa participate in. (1)

BRICS, SACU, AU, SADC✓

8.1.3 Briefly describe the term *trade bilateral*. (2)

Trade bilateral refers trade agreements or transactions conducted directly between two countries, on exports and imports✓✓

8.1.4 Why is it important for developing countries to participate in economic integration? (2)

Provide access to bigger market, enable developing countries to expand their exports and attract foreign direct investment✓✓

Economic integration can reduce poverty through job creation hence improve standard of living in developing countries. ✓✓

8.1.5 How can South African government reduce the impact of increased tariffs by USA (4)

- South Africa must explore alternative markets beyond the USA, such as Brics and EU trade bloc to diversify their export market. ✓✓
- Invest in infrastructure development, focus must be the development of industries that are highly affected by USA tariffs. ✓✓
- South Africa must shift to high value industries ✓✓

8.2 Briefly discuss *trade tariffs* and *diverting trade* as import substitution strategy (8)

Tariffs

- Tariffs are a form of tax on imported goods such as custom duties. ✓✓
- The effect of imposing tax is to make imported goods expensive to local customers, so as to shift demand from imported goods to domestic goods. ✓✓
- Specific tariffs, levied as fixed amount per unit e.g. R10 per kilogram✓✓
- Ad valorem tariffs, levied as a percentage based on the value of goods. ✓✓
- Composite tariffs, occurs when specific and ad valorem tariffs are levied on imported goods simultaneously. ✓✓

Diverting Trade

- These are the measures that make it difficult or restrict the import of goods: ✓✓
- Imports deposits. The government may require importers to deposit a certain amount of money before they can import products✓✓
- Quantity standards, government may set high quality standards that make importing difficult for importers✓✓
- Administrative obstacles, time consuming custom procedures or significant levels of paper work will discourage potential importers. ✓✓

8.3 Evaluate the success of free trade to developing economies, (8)

- Free Trade led to faster economic growth through sound trade relations and market evolution. ✓✓
- New job opportunities have been created and lifted people out of poverty through global trade. ✓✓
- Local producers are encouraged to improve the quality of their goods and invest in innovation, making product to become more competitive in the global market. ✓✓
- Free trade makes it possible for developing countries to gain access to new market and goods hence they experience economies of scale. ✓✓
- Free trade only benefits the elite group and foreign investors, that cause uneven distribution of income and wealth. ✓✓
- Free trade expose developing countries to economic shocks such as change in commodity price, currency fluctuation✓✓
- Developing countries may be highly dependent to their trading partners and become more vulnerable to economic instability. ✓✓

ACTIVITY 9

9.1 Answer the following questions.

9.1.1 Name any TWO import substitution methods that can be applied to protect domestic industries. (2)

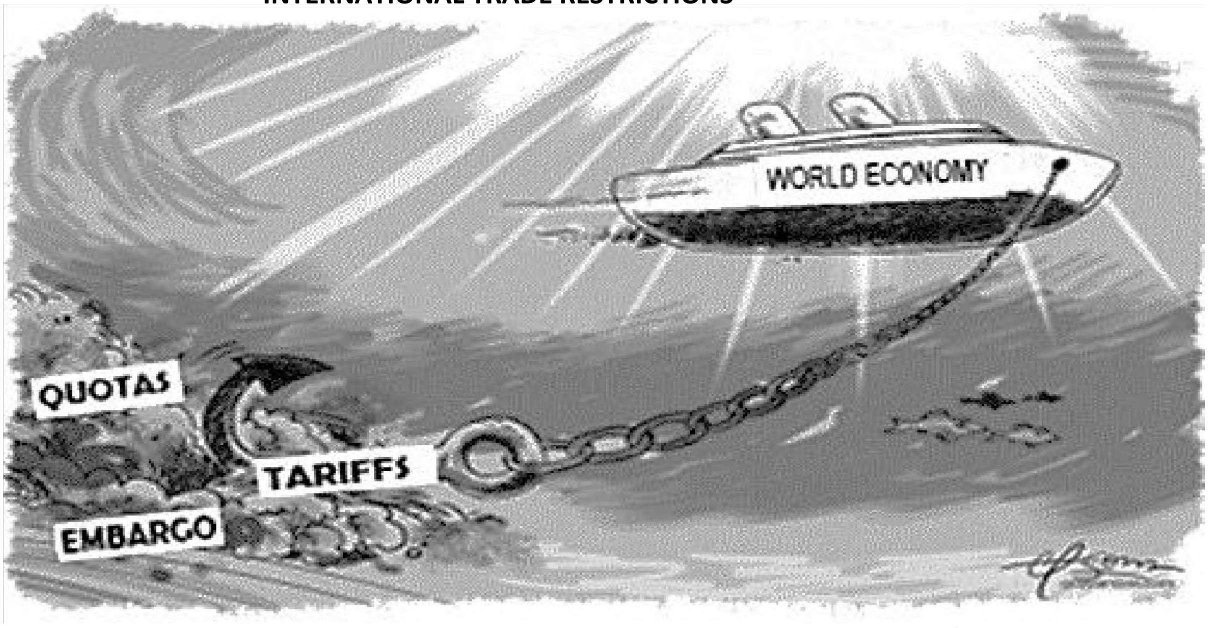
Tariffs √
Quotas√
Subsidies √
Exchange control ✓

9.1.2 How can government use tariffs to protect local industries? (2)

The government levies tax on imported goods. This makes imports to be more expensive than the locally manufactured products. √√

9.2 Study the cartoon below and answer questions follow.

INTERNATIONAL TRADE RESTRICTIONS



[Adapted from www.guyparsons.com]

9.2.1 Identify a trade restriction that bans the imported goods. (1)

Embargo

9.2.2 Name the international organisation that promotes free trade (1)

World Trade Organisation (WTO). √

9.2.3 Briefly describe the term *dumping*. (2)

Dumping is the sale of imported goods at prices so low that local firms cannot compete. √√

9.2.4 Explain the importance of protecting infant industries from foreign competition. (2)

Infant industries are young and developing industries who cannot compete with firms from developed countries.

These firms must be protected until they have developed enough to compete with foreign firms. √√

9.2.5 How can the economy benefit from free trade as a policy on international trade? (2 x 2) (4)

- Countries can specialize (focus) only in the production of goods over which they have a competitive advantage.√√
- Countries can enjoy the benefits of the economies of scale i.e. countries will increase their scale of production which in turn will reduce their production costs per unit owing to fixed costs. √√
- Consumers will have a wide range of goods to choose from when there is free trade. √√

ACTIVITY 10

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

Spending on imports

South Africa want to spend money only on essentials, which are anything that is not, and cannot be produced domestically. This method is designed to increase spending on domestic products and subsequently stimulate the manufacturing industry and decrease unemployment.

Source: hpps.//www.occorian.com.

10.1.1 Identify one advantage of import substitution from the extract above. (1)

- Decreases unemployment √
- Increased spending on domestic products. √
- Stimulation of the manufacturing industry. √

10.1.2 Name the international organisation that promotes the removal of trade barriers in Southern Africa. (1)

Southern African Development Community (SADC). √√

10.1.3 Briefly describe the term *protectionism*. (2)

Protectionism is the policy whereby the government introduces measures to restrict imports to the country. √√

10.1.4 Explain the negative impact that protectionism might have on the South African economy. (2)

- Protectionism may result to a retaliation of other countries. √√
- Local customers may end up paying higher prices for local goods. √√

10.1.5 How can the economy benefit from free trade? (2 x 2) (4)

- Freedom of choice – Global market offers consumers a wider choice of products to purchase. √√
- Competition ensures that consumers get products at competitive prices and are not compelled to buy locally manufactured goods if they are more expensive. √√
- Specialisation – Free trade allows specialization in industries in which countries have a comparative advantage. √√
- Economic efficiency – Competition will ensure that resources are not wasted and production occurs at the lowest possible cost which ensures competitive prices in the market. √√

10.2. Briefly discuss *specialisation* and *economies of scale* as arguments in favour of free trade. (2 x 4) (8)

Specialisation

- Free trade allows specialisation in industries in which countries have a comparative advantage, and have lower opportunity cost. ✓✓
- Specialisation will increase economic efficiency and prevent wasting of resources. ✓✓
- Countries that are best suited for specific product will in producing more of those goods and services. ✓✓

Economies of scale

- Free Trade allows industries to maximise economies of scale, reduce costs and become comparative in world market. ✓✓
- Global market benefit by distributing labour effectively and creating economic efficiency. ✓✓
- Producers compete to find the best production method that cut costs and improve the quality of goods. ✓✓

10.3. How would dumping negatively affect the South African economy? (8)

- Dumping is when countries sell large quantities of their products in another country below their cost of production in the local market. √√
- Dumping will force the local industries to shut down because of losses when consumers prefer cheaper imports over the locally manufactured goods. √√

- Economy will experience a negative growth rate as a lesser demand for local goods will force firms to decrease their production levels. √√
- Unemployment will increase with industries forced to scale down on their operations or completely shut down√√.
- A deficit in the Balance of Payments (BoP) could be experienced with imports exceeding exports in

ACTIVITY 12

12.1 Discuss in detail export promotion. (26)

12.2 Evaluate the success of protectionism as a trade policy (10)

INTRODUCTION

Export promotion involves providing incentives to encourage local businesses to produce goods for export. ✓✓

(Max 2)

Body: MAIN PART

Methods of export promotion:

Incentives: ✓

- Involves a programme administered by EMIA, aiming to compensate exporters for costs incurred in developing export markets for South Africa✓✓
- Also participation in National Pavilion exhibitions, where government ministers conclude future trade agreements for business✓✓
- Providing support in credit facilities, such as government assisting businesses to get low interest loans by signing surety on certain loan agreements✓✓
- The DTI is providing Business Intelligence by providing market research as well as export opportunities overseas✓✓
- Technical advice and expertise is provided by the DTI on matters such as product specification, advertising and marketing✓✓
- To provide insurance contracts for export transactions. ✓✓

  Other grants
- Tax concessions on earnings from exports✓✓
- Tax concessions on capital investments to produced export goods✓✓
- Implementing Export-Processing Zones (EPZs) to attract export investment firms to such zones by offering tax exemptions and less labour restrictions. ✓✓
- The government supplies information on export markets in order to stimulate exports✓✓
- Other examples are research on new markets, concessions on transport charges, export credit✓✓
  - **Subsidies:** ✓

    -Incentives to encourage exporters to increase the amount of their production✓✓

    -It includes direct and indirect subsidies:
    - Direct subsidies: Cash payments to exporters✓✓
    - Indirect subsidies: Refunds on import tariffs and general tax rebates✓✓
  - **Trade neutrality:** ✓

    -Subsidies, equal in size to import duties, are paid✓✓

    -Neutrality can be achieved through trade liberalization✓✓

    -Experience growth in exports if cost-raising effects of protection are neutralized by subsidies✓✓

Reasons for export promotion:

- Exports helps to pay for the goods we need to import, and thus improves the BOP/it earns foreign exchange✓✓
- Export promotion can provide the financial assistance required by domestic efficient firms to become more competitive✓✓
- Export promotion can also lead to an increase in South Africa's trade globally✓✓
- It stimulates industrial development, which is very important for economic growth and development in the country✓✓
- The country achieves significant export-led economic growth✓✓
- Export promotion enlarges the production capacity of the country because more manufacturing industries are established✓✓
- Export markets are much bigger than local markets and to capture them many greater volumes need to be produced✓✓
- More workers will be employed due to the increased volumes produced✓✓
- Prices will be reduced due to larger volumes of goods being produced✓✓

Advantages

- No limitations of size of size of scale since world market is very large✓✓
- Production is based on cost and efficiency organized according to comparative advantages✓✓

- Increased domestic production leads to growth in exports and imports (supply foreign exchange to pay for necessary imports) ✓✓
- Exchange rates would be realistic no exchange control or quantitative limitations exists✓✓
- Increased employment opportunities, which could improve income and skills✓✓
- The increased size of domestic businesses and the increase in the number of producers will result in increased competition, more efficient output, lower prices and larger variety of goods/inflation could be reduced✓✓

Disadvantages of export promotion

- The real cost of production is hidden:
  -It reduces the total costs by subsidies and incentives✓✓
  -The real cost of production is concealed by the subsidies✓✓
  -The product may thus never be able to compete in the open market✓✓
- Lack of competition: ✓
  -Incentives and subsidies reduce prices and force competitors who may be able to create sustainable and profitable businesses out of the market✓✓
  -Total potential trade is therefore reduced with subsidies rather than without subsidies✓✓
- Increased tariffs and quotas: ✓
  -Overseas countries may retaliate with tariffs and even quotas when similar goods are sold domestically below their real cost of production✓✓
  -Powerful overseas businesses can afford to offer similar products at much lower prices✓✓
  -Compared to their production, the subsidised business's domestic market may be so small that it will destroy the business who received the subsidy✓✓

- Protection of labour-intensive industries: ✓
  -Developed countries often maintain high levels of effective protection for their industries that produce labour-intensive goods in which developing countries already have or can achieve comparative advantage✓✓
  -Export promotion results in the protection of labour-intensive industries by developed countries✓✓
  -Increased exports could be seen as dumping,which enables foreign firms to obtain a larger market share and force local producers out of the market✓✓

(Max 26

BODY: ADDITIONAL PART

Protectionism has been successful by:

- promoting industrial development by focussing on the implementing of technology and markets (for example the NIPF) ✓✓
- achieving stable wage levels by introducing a national minimum wage applied in all sectors of employment, affecting productitivity of workers positively✓✓
- supplying certain much needed strategic key industries like Sasol andd Mittal Steel that ensured the national independence✓✓
- developing secondary industries for example in the provision of electricity, mechanical services and the building industry that created a more differentiated economy with greater economic stability✓✓
- protecting the natural resources such as rooibos tea and safeguarding of the indigenous knowledge that allowed the hoodia plant to be used as medicine✓✓

Protectionism has not been successful because:

- Some industries were not protected against price-cutting/dumping of foreign goods and services for example the dumping of chicken by the US✓✓
- industries that have been granted protection, tend to become dependent on it and can never survvive financially without it✓✓
- the rising of unemployment figures (29%) compromised the standard of living due to a lower demand impacting negatively on local production✓✓
- the disadvantages of higher prices against the advantages of lower imported prices is difficult to weigh up in the long term✓✓
- protection largely encourages import substitution, not the export of goods due to lack of government subsidies. This dampens economic growth and job creation✓✓

- it is difficult for the government to determine when to phase out protection, because if it is done too early, it will leave the industries vulnerable✓✓
- the inflation spiral is activated, because the costs involved I protection means that locally produced goods are more expensive than imported goods✓✓
- it is difficult to design a policy of protection and decide wheter a particular industry is beneficial to the whole country or not✓✓
- it is difficult to identify infant industries that maybe granted temporary protection✓✓

(Max 10)

CONCLUSION

World economies grow and develop on better international relations with other countries by applying different trade policies such as import substitution and free trade✓✓

(Max 2)

ACTIVITY 13

13.1 Discuss the arguments in favour of protectionism. (26)

13.2 How can South Africa benefit from trading in global markets (10)

INTRODUCTION

A trade policy whereby state implements measures to protect local industries against unfair competition from abroad✓✓

(Max 2)

BODY: MAIN PART

Industrial development✓

- Some developing countries are suitable for establishing certain kinds of industries✓✓
- Free trade makes it impossible to complete with well-established older countries, due to the first few years of existence of an industry being the most difficult✓✓
- Older industries use unfair methods of price-cutting and dumping- therefore young industries need protection until properly established✓✓
- Protection will prevent competition, because it is difficult to do away with, once applied✓✓

Infant industries✓

- It is difficult for a young industry to survive, due to their average costs being higher than well-established foreign competitors✓✓
- If they are given protection in their early years, they may grow and take advantage of economies of scale/lower their average costs/become competitive✓✓

Stable wage levels and high standard of living✓

- A country with high wages has a view that standard of living will be undermined if cheaper goods are imported from countries with low wages✓✓
- In reality, high wages are paid to workers with high productivity✓✓

Increased employment✓

- Local industries cannot find profitable markets, may stop production and cause unemployment
- Protection will result in less unemployment✓✓

Economic self-sufficiency and strategic key industries✓

War causes cut off, or friction between countries, depression, shifts in demand, all factors that are vital to be self-supporting Protection is granted especially to key industries to ensure survival✓✓

Maintaining domestic employment, to reduce unemployment and provide more job opportunities✓

- Countries with high levels of unemployment are pressured to stimulate employment creation. ✓✓
- Protectionism policies are used to stimulate industrialisation. ✓✓
- Domestic employment is encouraged through imposing import restrictions. ✓✓
- Domestic employment creation at the expense of other countries is known as "Beggar thy neighbour" policies. ✓✓

Prevent dumping✓

- Countries selling goods in a foreign country at lower prices than cost of production in home country✓✓
- Dumping is used to capture new markets and forces financially weaker industries out of competition. ✓✓
- Foreign enterprises may engage in dumping because government subsidies permit them to sell goods at very low prices or below cost or because they are seeking to raise profits through price discrimination. ✓✓
- The initial reason for exporting products at a low price may be to dispose of accumulated stocks of goods. ✓✓
- In this case consumers are likely to lose out as a result of the reduction in choice and the higher prices that the exporters will be able to charge. ✓✓
- Protectionism prevents foreign industries from dumping their surpluses and out-of-season goods at low prices, which may be harmful to home industries. ✓✓

Stabilising exchange rates and balance of payments✓

- Traders buy on cheapest markets and sell on most expensive ones✓✓

- Countries export primary products and import manufactured goods causing a disrupted balance of payments and exchange rates✓✓
- Prices of imports increase through tariffs and quotas✓✓
- A stable exchange rate and BoP increases government revenue/prevents harmful goods from entering the country/develop greater technical skills✓✓

Protection of natural resources✓

- Free trade will exhaust resources because the world shares✓✓
- Protection ensures that industries survive✓✓

Ensures greater economic stability✓

- Over-specialisation is a result of free trade and is harmful in times of war and friction (more guns than food) ✓✓
- Protection prevents over-specialisation, thereby creating a more differentiated economy and greater stability✓✓
- It also promotes secondary industries and the welfare of people dependant on protected industries✓✓
- If imports are greater than exports, a country may introduce import controls such as customs duty and quotas eliminate the deficit on the balance of payments✓✓
- Developing countries rely on the export of primary products. Selling processed goods is more beneficial to a country as more foreign exchange can be earned. ✓✓
- Protection ensures the processing of primary goods until completion✓✓ (Max 26)

BODY: ADDITIONAL PART

South Africa will benefit from global markets as follows:

- Production of goods and services will increase as local businesses will sell their products to larger markets✓✓
- Quality of goods and services will improve as businesses try to match world standards✓✓
- Competition from foreign products will encourage local businesses to be more innovative✓✓
- Efficiency in the production of goods and services will improve resulting in businesses charging lower prices✓✓
- South African consumers will have more choice on goods and services, as they will have access to foreign products✓✓
- More job opportunities may be created as production of goods and services increase✓✓
- Inflation may be controlled as local prices will be linked to international prices✓✓
- South Africa will increase its trade relations with other countries which will result to it gaining a larger market share internationally✓✓
- Earn foreign currency which will strengthen the domestic currency✓✓
- South Africa will specialise in the production of goods on which they have a comparative advantage✓✓

(Max 10)

CONCLUSION

The policy of restriction of international trade (protectionism) with the aim of preventing unemployment or capital losses in industries threatened by imports, might not affect the internal distribution of income sufficiently or improve the country's terms of trade, because it is not based on international monopoly power and expert knowledge

ECONOMIC GROWTH AND DEVELOPMENT
ACTIVITY 1

1.1 Various options are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A-D) next to the question number (1.1.1 to 1.1.5).E.g. 1.1.6 B

1.1.1 The return of land to those who were dispossessed due to discriminatory laws is known as____________
A Black Economic Empowerment. B
land redistribution. C
land distribution. Dland
restitution. ✓✓

1.1.2 Interest rate that commercial banks offer to their clients is known as _______________
A repo
B prime ✓✓
C fixed
D preference

1.1.3 A strategy to promote economic growth, increase employment and redistribute income is____________

A Growth Employment and Redistribution. ✓✓
B Integrated Manufacturing Strategy C
New Growth Path. D
Broad Based Black Economic Empowerment.

1.1.4 The improvement in the lives of the people is known as ________________
A social indicator. B
economic indicator. C
economic development. ✓✓ Deconomic
growth.

1.1.5 An economic indicator used to measure the standard of living is known as …
A per capita income. ✓✓
B nominal income.
C wages.
D gross domestic product.

(5x2) (10)

Activity 2

2.1 Answer the following questions.

2.1.1 Name any TWO wealth taxes. (1x2) (2)
Estate duty ✓
Capital gains tax ✓
Transfer duty✓

2.1.2 Why is wealth tax used to achieve economic growth? (2)
Wealth tax is used to ensure income inequality and fair distribution of income and wealth. ✓✓

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

OUR FUTURE, MAKE IT WORK

SOURCE: google.com

2.2.1 Identify the policy with vision 2030 from the extract above. (1)

New Development Plan. ✓

2.2.2 Name the policy used by the South African Reserve bank to influence the economy. (1)

Monetary policy✓

2.2.3 Briefly describe the term *economic development.* (2)

Economic development is an improvement in the quality of life of the majority of people in a country over a period of time. ✓✓

2.2.4 Why do African countries struggle to become more economically developed? (2)

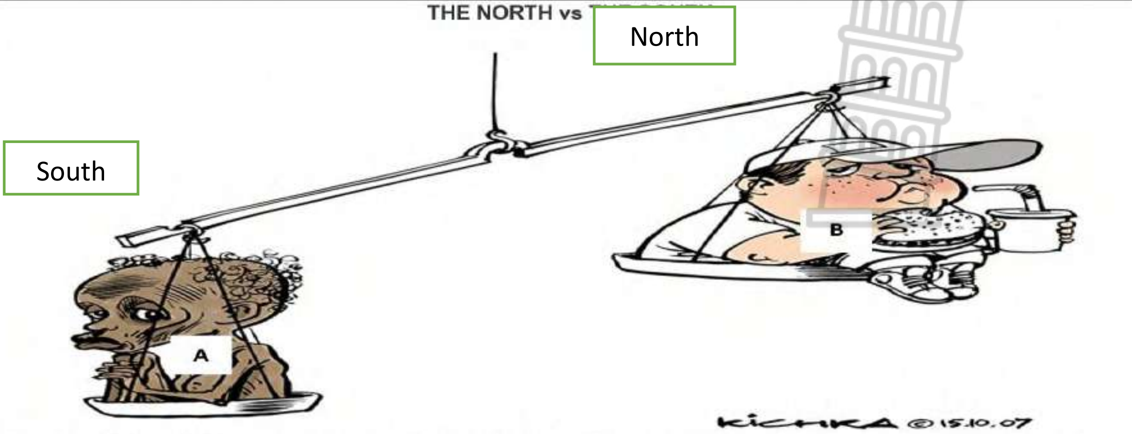
African economies are largely primary sector based and export most of their natural resources unprocessed. ✓✓

2.2.5 How can an increase in investments lead to economic growth? (2x2) (4)

- An increase in investments by business lead to an increase in employment hence consumption spending increase resulting into a positive multiplier effect. ✓✓
- Investment in infrastructure improves productivity and gross domestic product increase. ✓✓
- Capital investment allows research and development which yield new technology eventually increasing output and quality of products. ✓✓

ACTIVITY 3

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



20 of the leading global economies are in the "South". In the "South" Some countries are 80 times richer than their neighbours. Some argue that the world is divied between a "Global North" and a "Global South".

SOURCE: Cartooning for peace

3.1.1 Identify the concept that best describes income inequality. (1)
North/South divide✓

3.1.2 Name any ONE example of cash benefit. (1)
Old age grant ✓
Disability grant ✓
Unemployment insurance✓

3.1.3 Briefly describe the term *economic growth.* (2)
Economic growth is an increase in the production capacity of a country over a period of time. ✓✓

3.1.4 Why do developed countries have a higher life expectancy than developing countries? (2)
Countries in the north have a high life expectancy because they have high income per capita resulting in affordability of better health care. ✓✓

3.1.5 How can countries in the global south reduce poverty? (2x2) (4)

- Countries should invest more on education in order to occupy better paying jobs. ✓✓
- Developing countries must industrialise into order to be exporters of finished goods, this will also help in job creation. ✓✓

3.2 Briefly discuss *Reconstruction and Development Programme* and *Growth Employment and Redistribution Programme* *(8)*

Reconstruction and Development Programme

- Reconstruction and Development Programme (RDP) is a policy that was introduced in 1994 as a development strategy for the government✓✓.
- The main aim was to alleviate poverty and address the inequalities and shortfalls in social services. ✓✓
- It focuses on job creation through public works, provision of housing water and sanitation and electrification. ✓✓ (4)

Growth Employment and Redistribution Programme

- The main aim of Growth Employment and Redistribution was to strengthen economic development, redistribute income and create socio-economic opportunities for the poor. ✓✓
- GEAR was meant to have an exchange rate policy that can result in stability to the currency and ✓✓
- The reduction of tariffs to reduce the costs of inputs and facilitate industrial reforms. ✓✓ (4)

3.3 How can fiscal policy be used to promote economic development? (4X2) (8)

- The government can apply progressive tax in order to tax lower income earners and tax high income earners more, this will ease the financial burden on the poor. ✓✓
- The poor also benefit more than high income earners through social relief programmes. ✓✓
- When user fees are charged, low income earners pay less or nothing, this assists the poor to improve their quality of life. ✓✓
- Charging wealth taxes which can be used to improve the lives of the poor. ✓✓
- The South African Reserve Bank encourages banks to be less strict with granting loans, this can increase consumption and help development. ✓✓

ACTIVITY 4

4.1 Answer the following questions

4.1.1 Name TWO land reform programmes. (2x1) (2)

- land redistribution✓
- land restitution✓

4.1.3 Why is South Africa regarded as a developing country? (2)
South Africa is regarded as a developing country because of its low growth rate, poor public health care among other reasons✓✓.

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

South African economy faces an uphill battle as the economy stagnates

South Africa's economy remains under significant strain, with gross domestic product (GDP) growth lagging behind population increases over the past decade. South Africa 2025, economic output grew by a mere 0.7% annually in the past ten years.
This slow pace resulted in stagnating or declining GDP per capita, further deepening the country's entrenched unemployment and inequality.

SOURCE: Cape Argus

4.2.1 Identify the annual economic growth rate from the extract above. (1)
0,7%✓

4.2.2 Name any one measure of the standard of living in the North—South divide (1)
life expectancy✓
Per capita income✓
education✓

4.2.3 Briefly describe the term *fiscal policy.* (2)
Fiscal policy is a government instrument that uses government spending and taxation to influence the economy. ✓✓

4.2.4 Why is technology important for economic growth? (2)
Modern technology enables producers to produce quality goods in large quantities which increases gross domestic product. ✓✓

4.2.5 How can South Africa as a developing country improve its life expectancy? (2x2) (4)
- The South African government should spend more in public health care in order to provide ✓✓
- quality health care for the betterment of the lives of the people. ✓✓
- Public private partnership in the health sector will help the government to ensure that skilled workers are effectively used in the public and private sector to deliver services for the benefit of the people. ✓✓
- More effort should be put in terminal diseases; this will help reduce the death rate. ✓✓

4.3 Differentiate between *economic growth* and *economic development.* (8)

Economic growth:
- Economic growth is an increase in a country's productive capacity over a period of time. ✓✓
- Economic growth is measured in terms of real gross domestic product. ✓✓
- Economic growth can lead to economic development. ✓✓
- Economic growth is measured by real Gross Domestic Product of a country. ✓✓

(2x2) (4)

Economic development:
- Economic development is an improvement in the quality of life of the majority of the country's people. ✓✓
- It is concerned with the standard of living of the people. ✓✓
- Economic development is measured by per capita income. ✓✓

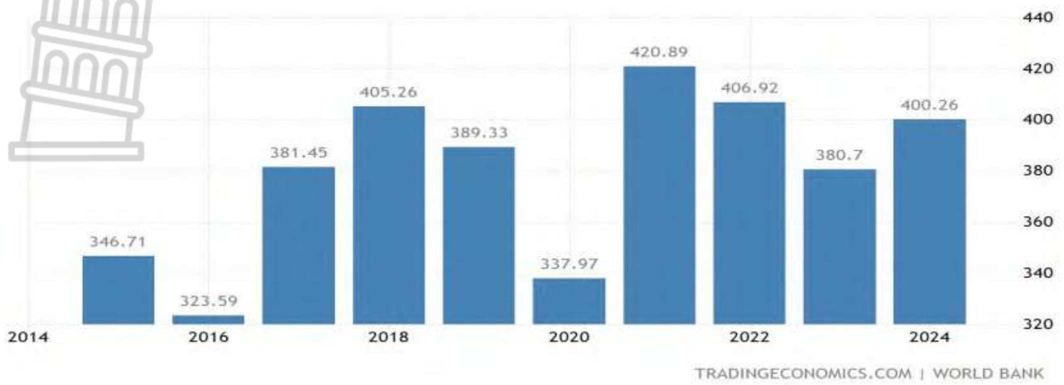
(2x2) (4)

4.4 How can Black Economic Empowerment contribute towards economic growth? (8)
- BEE will improve access to various business opportunities, the extension of black entrepreneurship will increase and will improve trading activities and increase aggregate supply. ✓✓
- This could lead to job creation, which will increase the purchasing power of people and foster greater demand for goods and services. ✓✓
- It will increase competitiveness which could lead to increased productivity of the factors of production. ✓✓
- BEE uplifts small businesses in the economy eventually these businesses contribute to gross domestic product. ✓✓

ACTIVITY 5

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

South Africa's GDP (Rbn)



South Africa's economy is currently experiencing sluggish growth.

5.1.1 Identify the year with the lowest economic growth rate in the graph above. (1)

2016✓

5.1.2 Name the policy applied by Treasury to influence the economy (1)

Fiscal policy✓

5.1.3 Briefly describe the term *economic growth.* (2)

Economic growth is an increase in real gross domestic product. ✓✓

5.1.4 Why is the cost of doing business in South Africa still too high? (2)

Energy and transport costs contribute substantially to business operational costs owing to government's inadequate investment. ✓✓

5.1.5 How can small, medium and micro enterprises contribute to economic growth and development? (4)

- Increase the aggregate demand will lead to high production level. ✓✓
- Competition will increase resulting in low prices for goods and services. ✓✓
- More jobs opportunities will be created resulting in more sources of income✓✓

5.2 How can investment spending be utilised efficiently to stimulate economic development? (8)

Investment spending can be utilised efficiently to stimulate economic development by:

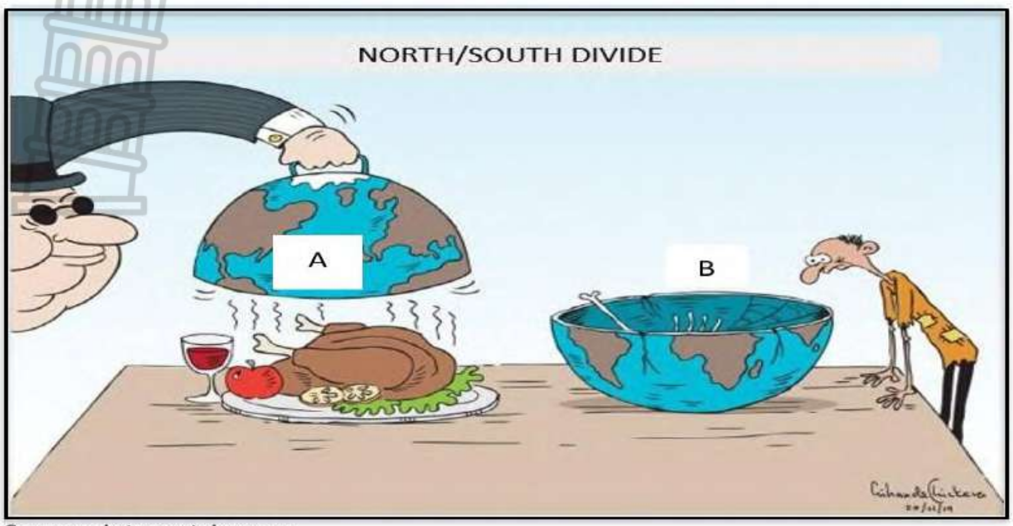
- involving spending on capital goods such as machinery, tools, and factory building, aiming to produce more goods and services as part of investment spending. ✓✓
- the provisioning of more capital goods leading to the employment or more workers, who in turn earn income. ✓✓
- increasing infrastructure by government, this will lead to growth and development. ✓✓
- government using financial incentives such as subsidies and tax allowances for new businesses to get loans cheaper. ✓✓

5.3 How can monetary policy be used to stimulate the economy? (8)

- The central bank can reduce the repo rate in order to encourage borrowing thus aggregate demand increases
- which will lead to increase in production. ✓✓
- The South African Reserve Bank can buy securities from the banks which will result in more money supply, aggregate demand increases and eventually production increases. ✓✓
- Cash reserve requirements can be reduced in order for banks to increase credit, this will lead to an increase in spending and production. ✓✓
- Banks can be persuaded to be less strict when lending money, consumption and production of goods will increase. ✓✓

ACTIVITY 6

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



Source: internet images

6.1.1 Identify the picture that represents the countries of the North from the cartoon above. (1)

Picture A ✓

6.1.2 Name ONE measure of income inequality. (1)

Lorenz curve/Gini co-efficient. ✓

6.1.3 Briefly describe the term *globalisation.* *(2)*

Globalisation is a worldwide interaction of economies with trade as a key element. ✓✓

6.1.4 Why economic growth may not lead to economic development? (2)

Economic growth can sometimes not lead to economic development because of population growth rate that increases faster than economic growth. ✓✓

6.1.5 How do countries in the north divide contribute to the destruction of the environment? (2x2) (4)

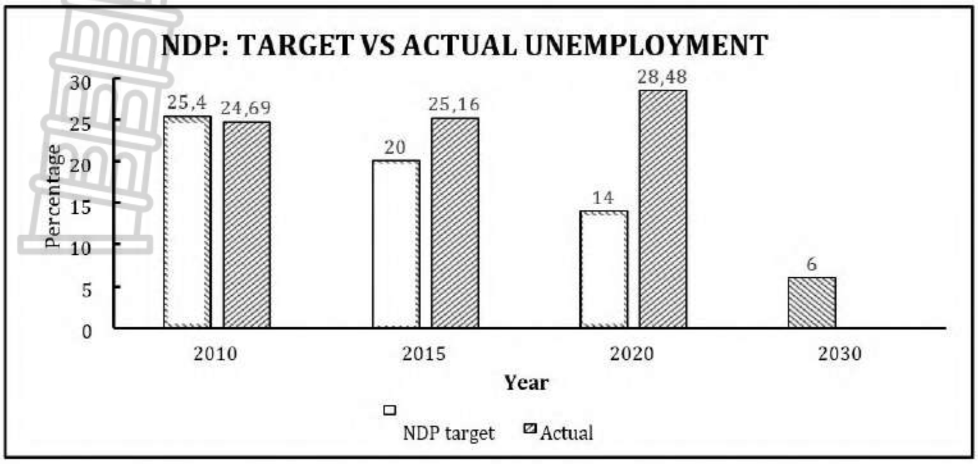
- Countries of the North are highly industrialised which causes high levels of pollution which could cause climate change. ✓✓
- Over industrialisation in the North lead into the exhaustion of natural resources. ✓✓

6.2 Discuss *the National Development Plan* as a growth and development policy. (4x2) (8)

- The National Development Plan sets a long-term vision for South Africa, aiming at eliminating poverty and reduce inequality. ✓✓
- The plan focuses on key priorities such as uniting South Africans around a common programme, encouraging active citizenry, promoting faster and inclusive growth. ✓✓
- The NDP provides a coherent and holistic approach to development, addressing various aspects of society through interlinked priorities. ✓✓
- The plan emphasizes the importance of citizen participation, moving from passive recepients of services to active participants in their own development. ✓✓
- NDP aims to enhance capabilities of South Africans, enabling them to live the lives they desire and contribute to the country's development. ✓✓

ACTIVITY 7

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



7.1.1 Identify the year with the highest actual unemployment rate from the above. (1)
2020 ✓

7.1.2 Name an economic policy that uplifts previously disadvantaged groups in the workplace. (1)
Affirmative action ✓

7.1.3 Briefly describe the term *north/south divide.* (2)
North-South divide is a socio economic and political disparity between wealthy and poor countries. ✓✓

7.1.4 Why is it important for the South African government to support small businesses? (2)
Small businesses should be supported in order to reduce high levels of employment since they are the largest job creator. ✓✓

7.1.5 How can tourism impact positively to economic development? (2x2) (4)

- The government invests a lot of money in infrastructure development to attract tourists which also benefits locals in the long run. ✓✓
- An increase in tourism spending leads to an increase in local production hence economic growth, this will have a positive impact on economic development. ✓✓

ACTIVITY 8

- Discuss in detail the South African growth and development policies and strategic initiatives. (26)
- Evaluate broad-based black economic empowerment (BBBEE) in promoting economic development in South Africa. (10)

INTRODUCTION

South Africa's approach to economic growth and economic development is to increase economic growth and to use the benefits of this growth to achieve economic development by improving the livelihoods of all its people. ✓ ✓ (2)

BODY

MAIN PART

South African growth and development policies and strategic initiatives:

1. **Reconstruction and Development Programme (RDP)** ✓

• This is a policy introduced in 1994 to address problems such as poverty alleviation and shortcomings in the provision of services across the country. ✓✓

• The provision of affordable housing, access to clean and safe water and electrification of homes were also the main purposes of this policy. ✓✓

• The South African government also wanted to improve healthcare and education, implement land reforms and create jobs so that a stronger economy could be built. ✓✓

• To achieve the development goals of RDP, South Africa needed a sustained growth rate above 6%. ✓✓

2. **Growth, Employment and Redistribution (GEAR) ✓**

• GEAR as a macroeconomic policy was implemented in 1996 to rebuild and restructure the economy in keeping with goals set in the RDP. ✓✓

• Creation of job opportunities, lowering inflation and stimulation of economic growth through foreign direct investments, are but some of the aims of GEAR. ✓✓

• Attracting foreign direct investments and growing the economy would mean

that GEAR has an emphasis on supply-side policies.

3. **National Skills Development Strategy (NSDS) ✓**

• This is a strategy that was introduced in 2005 to provide a framework for skills development in the workplace. ✓✓

• NSDS was developed as a result of the formation of the Skills Development Act (SDA) and focuses on trades such as nursing, plumbing, welding, electricians, finance and administration. ✓✓

4. **Accelerated and Shared Growth Initiative for South Africa (AsgiSA) ✓**

• The programme was implemented in 2006 to address the country's chronic problem areas which are poverty, unemployment and skills shortages. ✓✓

• Halving unemployment and poverty by 2014 and accelerating economic growth, were the main objectives of AsgiSA. ✓✓

5. **Joint Initiative on Priority Skills Acquisition (JIPSA) ✓**

• JIPSA was launched in South Africa with the purpose of a skills empowerment arm of AsgiSA. ✓✓

• It intended to identify skills shortages and to correctly address them. ✓✓

• Measures such as Adult Basic Education and Training (ABET) and Sector Education and Training Authorities (SETA) were introduced to teach new skills or improve the existing ones. ✓✓

6. **Expanded Public Works Programme (EPWP) ✓**

• The programme was initiated in 2004 to create jobs for the poor and vulnerable. ✓✓

• EPWP is a nationwide government programme to create employment using labour-intensive methods and to give them skills they can use to find jobs. ✓✓

• Poverty relief specifically amongst unskilled workers is the main objective of EPWP. ✓✓

7. **New Growth Path (NGP) ✓**

• NGP was introduced in 2011 to accelerate employment, growth and close the inequality gap. ✓✓

• This strategy is also to improve cooperation and forge better relations with other African countries as well as the BRICS consortium. ✓✓

8. **National Development Plan (NDP) ✓**

NDP was initiated in 2012 with the purpose of eliminating poverty and reduction of inequality by 2030. ✓✓

9. Small Business Development Promotion Programme (SBDPP) ✓

- The programme was launched in 2014 to provide support and thereby promote growth of small businesses. ✓✓
- New entrepreneurs are properly mentored, supported and nurtured by this programme. ✓✓

(Allocate a maximum of 8 marks for mere listing/headings/and examples.) (Max. 26)

ADDITIONAL PART

- **Evaluate broad-based black economic empowerment (BBBEE) in promoting economic development in South Africa. (10 marks)**

Broad-based Black Economic Empowerment (BBBEE) managed to:

- empower previous disadvantaged groups through the system by being appointed into senior positions both in the public and private sectors ✓✓
- involve many previously disadvantaged people actively in the economy of the country ✓✓
- create opportunities for upcoming young entrepreneurs to enter the business world ✓✓
- offer accessibility of open business opportunities in the different sectors of the economy ✓✓
- increase the number of black people in the shareholding of large companies ✓✓

Broad-based Black Economic Empowerment (BBBEE) is not successful because:

- few people are benefiting from BBBEE due to corruption by top government officials ✓✓
- fronting is leading to wrong people benefiting from BBBEE programs ✓✓
- many black people do not have the skills and experience to occupy senior management positions especially in big companies ✓✓
- black people do not have capital to establish businesses or buy shares in big companies ✓✓

A maximum of 2 marks may be allocated for mere listing of facts (Max 10)

CONCLUSION

The South African government has come up with all initiatives, strategies, programmes and policies to address growth and development. However, what is missing is their effective implementation and evaluation. ✓✓ (Max. 2)

ACTIVITY 9

- Discuss in detail the demand-side approach in promoting economic growth and development in South Africa. (26)
- Analyse the importance of promoting small businesses to the South African economy. (10)

INTRODUCTION

The demand-side approach involves discretionary changes in monetary and fiscal policies with the aim of changing the level of aggregate demand and therefore output. ✓✓ (Max 2)

BODY: MAIN PART

THE SOUTH AFRICAN DEMAND-SIDE APPROACH

- The South African government uses both monetary and fiscal policies for stabilisation purposes. ✓✓
- It uses monetary policies, through the SARB, mainly to stabilise prices during the long upswings of the business cycles. ✓✓
- The government uses fiscal policy to meet social development and economic growth. ✓✓

Monetary policy ✓

- The SARB, as the central bank, is responsible for formulating South Africa's monetary policy and is largely responsible for implementing this policy. ✓✓
- Its primary goal, as defined in the Constitution, is to protect the value of the currency, by stabilising prices in terms of inflation targets ✓✓.

It uses mainly the following monetary policy instruments: -

1. Interest rate changes ✓

- In South Africa interest rates are used to influence credit creation by making credit more expensive or cheaper. ✓✓
- To stimulate economic growth, the SARB may reduce interest rates to make borrowing cheaper which will encourage consumer spending and encourage production. ✓✓
- Interest rates are used to stabilise the exchange rate by encouraging capital inflows or outflows in order to take care of a deficit or a surplus on the current account of the balance of payments. ✓✓

2. Open market transactions ✓

- To restrict bank credit, the SARB may sell securities on open markets which results in money flowing from the banks to the SARB and cannot extend credit. ✓✓
- To encourage credit creation, the SARB buys securities on open markets leading to money flowing into the banking system and used to extend credit. ✓✓

3. Moral suasion ✓✓

- The SARB consults with banks and persuades them to act in a manner that is desirable in terms of the economic conditions that prevail at the time. ✓✓
- The persuasion is often linked to transactions of the SARB in the money market, for example buying and selling paper such as bills and bonds. ✓✓
- For instance, if banks are too generous in extending credit, the SARB can call on them to be stricter. ✓✓
- To encourage credit extension, the SARB may persuade commercial banks to be more lenient when granting credit to their clients. ✓✓

4. Cash reserves requirement ✓

- To restrict bank credit, the SARB may increase the cash reserve requirement which reduces credit extension by banks. ✓✓
- To encourage credit creation, the SARB decreases the cash reserve requirement to allow banks to extend more credit to the public.
- Access to more credit will increase consumer spending and investments which will stimulate economic growth.

Fiscal policy

- South Africa's fiscal policy is put into practice by means of the budgetary process.
- The main purpose of fiscal policy in South Africa is to stimulate macroeconomic growth and employment, and to ensure a desirable redistribution of income (economic equity).
- The price stability and exchange rates stability objectives are left for the most part to monetary policy.
- The government compiles its expenditure and taxation in a way that enhances its chances of achieving its macroeconomic objectives.

In South Africa, fiscal policy includes the following elements: -

1. Progressive personal income tax

- Higher-income earners are taxed at higher rates than lower-income earners.
- The taxes are used to finance social development.
- Tax revenue will benefit the poor through social grants and social allowances such as pensions.

2. Wealth taxes
- Properties such as houses, offices and factory buildings in urban areas are taxed annually (Property tax).
- Transfer duties are paid when properties are bought.
- Securities (shares and bonds) are taxed when they are traded.
- Capital gains tax (CGT) is levied on gains earned on the sale of capital goods, such as properties and shares.
- Estate duties are levied on the estates of deceased persons with a value of more than R3,5 million.
- Taxes are used to finance development expenditures which benefit the poor more than those who are not poor.

3. Cash benefits
- The government provides social security payments such as old-age pensions, disability grants, child support grants, foster child grant, unemployment insurance and the social relief of distress (SRD) grant.

4. Benefits in kind/Natural/Natura benefits
- Benefits in kind include the provision of healthcare, education and school meals, protection, municipal services and infrastructure.
- Where user-fees are charged, poor people and low-income earners benefit more than others because they pay nothing or less than higher-income earners.
- For instance, Free basic electricity (FBE) of 50kWh per household per month and Free basic water (FBW) of 6 kl (6 000 litres) of water per month per household are provided.

5. Other redistribution methods
- Some macroeconomic policies have advantages that favour poor and low-income earners.
- Public works programmes provide employment and strategic integrated projects (SIPs), provide employment subsidies and a number of other cash and financial benefits to SMMEs.
- Previously disadvantaged persons receive first preference to redress the imbalance of the past.

6. Land restitution and land redistribution
- The purpose of land restitution is to return land (or pay cash compensation) to those who lost their land because of discriminatory laws of the past.
- Land redistribution focuses on land for residential (town) and productive (farm) use.
- The aim is to redistribute 30% of the country's agricultural land to previously disadvantaged persons.
- The funds for land restitution and land redistribution programmes are provided for in the main budget.

7. Property subsidies
- Subsidies help beneficiaries to acquire ownership of fixed residential property.
- The government's housing subsidy scheme provides funding options to all eligible persons earning a specified range of monthly income.
- A housing subsidy is not a cash pay-out but it is paid directly to the financial institution providing the housing bond or to the seller.
- The subsidy depends on a person's income but the lower the income, the higher the subsidy.
- The housing subsidy scheme is financed from the main budget.

(Accept any other correct relevant response)

(Allocate a max of 8 marks for headings/subheadings/examples) (Max 26)

ADDITIONAL PART

- Small businesses can help to create employment for those who are structurally unemployed in the economy thereby reducing the unemployment rate.
- Small businesses may compete with larger businesses which improves economic efficiency and promotes innovation.
- Output produced by small businesses contributes to the GDP of the country thereby stimulating economic growth.
- Small businesses may create a source of income for the households which helps to alleviate poverty in South Africa.
- The establishment of small businesses may expand the tax base which increases tax revenue for the government.
- Output produced by small businesses may contribute to an increase in exports which helps to reduce balance of payments (BOP) problems.
- Promotion of small businesses may help to encourage skills development amongst the South African population.

- The population percentage that depends on social grants may decrease thereby reduce the welfare expenditure for the government.
- Tax revenue collected from small business may increase the financial capacity of the government to develop infrastructure. (Accept any other correct relevant response)

(A maximum of 2 marks may be allocated for mere listing of facts/examples)

(Max 10)

CONCLUSION

The government should complement demand-side policies with supply-side policies to achieve higher economic growth.
(Accept any other relevant higher order conclusion.) (Max. 2) **[40]**

INDUSTRIAL DEVELOPMENT

ACTIVITY 1

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 question number.

1.1.1 A track of land that forms a passageway allowing access from one area to another is known as ….

A. Corridor✓✓
B. Special economic zone
C. Spatial development initiative
D. Industrial development zone

1.1.2 A cash incentive that aims to provide investment in the training of the South African labour force is known as …

A. Critical infrastructure programme
B. Skill support programme✓✓
C. Custom free incentives
D. Small business support programme

1.1.3 An international benchmark criterion for regional development that requires democratic decision making is known as…

A. Free-market orientation
B. Integration

C. Partnership
D. Good governance✓✓

1.1.4 Geographical areas that have a wider industrial development objectives is known as …
A. Corridor
B. Manufacturing zones
C. Special economic zones✓✓
D. Infrastructure

1.1.5 Cost-sharing grants by government to improve roads is known as….
A. Expanded public works
B. Critical infrastructure✓✓
C. Small business support
D. Skills development **(5 x 2 = 10)**

1.2 Choose a description from Column B that matches an item in Column A. Write only the letter (A) next to the question number.

COLUMN A	COLUMN B	Answers
1.2.1 Integrated manufacturing strategy 1.2.2 Industrial development 1.2.3 Industrial development zone 1.2.4 National industrial policy framework 1.2.5 Strategic investment program	A. Extensive increase in organized economic activity to manufacture, mine, farm and deliver services B. Cash incentive intended to encourage business in manufacturing, computer and development fields. C. Coordinate government actions to increase the competitiveness of South African businesses D. Purpose built industrial estates that are physically enclosed and link to international port E. Passageway allowing access from one area to another usually advantageous to business F. Sets out the governments broad approach towards industrialization.	1.2.1 C✓ 1.2.2. A✓ 1.2.3. D✓ 1.2.4. F✓ 1.2.5 B✓

(5x1) =5

1.3 Give one term for each of the following descriptions. Write only the letter next to the question number.

1.3.1 A regional development initiative that attracts infrastructure and business investment to neglected area.
Spatial development initiative ✓

1.3.2 A strategy to strengthen the institutional capacity to deliver services that facilitate economic and social development
Integrated manufacturing strategy ✓

1.3.3 Policies that are aimed at increasing the economic livehood of specific areas.
Regional development ✓

1.3.4 The total industrial capacity of an economy that is available for use
Industrial/production base/manufacturing✓

1.3.5 Effort by governments to move manufacturing and other business from metropolitan areas to rural areas
decentralization✓

(5x1) 5

ACTIVITY 2

2.1 Answer the following questions

2.1.1 Name any TWO key growth sectors of integrated manufacturing strategy. (2)

- Tourism✓
- Agriculture✓
- Information technology✓
- Cultural industries✓

2.1.2 Name TWO South Africa's industrial development policies (2)

- National Industrial Policy Framework(NIPF) ✓
- Industrial Policy Action Plan. (IPAP) ✓

2.1.3 Name any TWO incentives used by South African government to improve industrial development (2)

- Skill support program (SSP) ✓
- Critical infrastructure facilities (CIF) ✓
- Custom –free incentives✓
- Foreign investment incentives ✓

2.1.4. Name TWO industrial development strategies. (2)

- National research and development strategies✓
- Integrates manufacturing strategy✓

2.1.5. Name any TWO regional development benchmark criteria. (2)

- Competitiveness✓
- Sustainability✓
- Good governance✓
- Partnership✓
- Integration ✓
- Investment of social capital✓

2.2 Study the extract below and answer the questions that follows

FOCUS ON SPECIAL ECONOMIC ZONES
The new Special Economic Zone programme originated from developments in the national economic policies and strategies, such as National industry Policy Framework .The SEZ policy helped to address challenges with the current industrial development zones, which form part of Spatial Development Initiative.
Adapted from Business Report,2023

2.2.1 Identify the initiative strategy that aim to encourage investment in underdeveloped regions from the above extract. (1)

Spatial Development Initiative ✓

2.2.2 Name the government department that is responsible for industrial development in South Africa. (1)

Department of Trade and Industry ✓

2.2.3 Briefly describe the term *Industrial Development Zone* (2)

Industrial development zone is the purpose built industrial estates that are physically enclosed and linked to an international port or airport. ✓✓

2.2.4 Explain the importance of Special Economic Zone strategy (2)

- The SEZ involves a broader range of industrial parks and does not need to be located near a port or airport✓✓
- The SEZ involves production for export and domestic use, leading to a more diversified economy. ✓✓

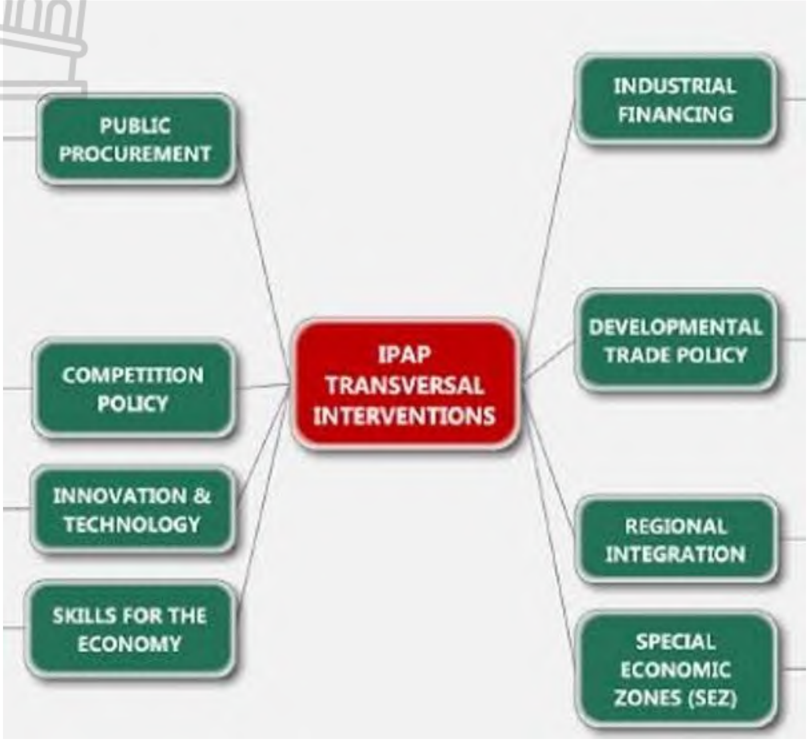
2.2.5 How does the foreign investment grant help to promote regional industrial development? (4)

- It is a cash incentive to assist foreign investor to cover their start-up cost which encourages the establishment of businesses in the different regions such as the cost of relocating or purchase of new machinery and equipment. ✓✓

- Funding for infrastructure development enhances the business environment, making regions more attractive to investors. ✓✓
- By targeting specific regions, these grants contribute to more balanced economic development and reduce regional disproportion ✓✓

ACTIVITY 3

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



www.google.com

3.1 .1 Identify the geographical area where specific economic activities have been identified in the diagram above. (1)

Special Economic Zones✓

3.1.2 Name the industrial development policy that sets out the government broad approach. (1)

National Industrial Policy Framework ✓

3.1.3. Briefly describe the term *innovation* (2)

Innovation is the incorporation of new ideas into production processes✓✓

3.1.4 Explain the challenge faced in the implementation of Industrial Policy Action Plan. (2)

- A lack of policy coherence and programme alignment ✓✓
- The opening up of the economy to diversity of participants has not happened

3.1.5 How does industrial development promote entrepreneurship? (4)

- Encourage entrepreneurs to exploit the world economy to trade and acquire knowledge ✓✓
- Industrial development can create new market opportunities for entrepreneurs, particularly in sectors like manufacturing, technology and innovation ✓✓
- Industrial development can lead to the transfer of knowledge and skills between industries, which can benefit entreprenuers and help them develop new product or services.✓✓

ACTIVITY 4

4.1 Study the information below and answer the questions that follow

SEZ HOW?

The SEZ programme attracted 234 investors, creating 15 000 direct jobs	Offer Duty -free incentives, Foreign Investment Grant and Skills Support programme Tax incentives

SOURCE: WWW. GOOGLE,COM

4.1.1 Identify the financial incentive that allows the importing of intermediate goods without paying any tariffs from above. (1)

Duty –free✓

4.1.2 Name any ONE special economic zone in South Africa (1)

- Coega SEZ (Eastern Cape) ✓
- Richards Bay SEZ (KZN) ✓
- East London SEZ (Eastern cape) ✓

4.1.3 Briefly describe the term *corridors.* (2)

A corridor is a track of land that form a passageway allowing access from one area to another and is developed as part of regional development✓✓

4.1.4 Explain the importance of public-private partnership in spatial development initiatives (2)

- More factors of production will be employed as more investments will be attracted ✓✓
- Businesses benefit from profit and government benefits from taxes, levies and decreased unemployment ✓✓

4.1.5 How can corporate tax be used to attract investments into special economic zones (4)

- The government reduced corporate tax from 27 % to 15 % for businesses that are established in SEZs✓✓
- The tax relief makes it possible for new businesses to survive the first few years in production by reducing operational cost for them✓✓

ACTIVITY 5

5. **1 Study the extract below and answer the questions that follow**

COEGA INDUSTRIAL DEVELOPMENT ZONE
South Africa loses jobs, four new companies are investing a combined R49 m at the Coega industrial development zone (IDZ) in Nelson Mandela Bay. This creates employment for at least at 100 people. The investment comes aimed the devastating state of an already depressed economy with South Africa losing more jobs than it creates. The unemployment rate is sitting at a staggering 40,4 %
SOURCE: www.google.com

5.1.1 Identify the South Africa initiative for regional development from the extract above. (1)

- Industrial Development Zone (IDZ) ✓

5.1.2 Name any ONE corridor in South Africa (1)

- Maputo development✓

- Coast to Coast✓

5.1.3 Briefly describe the term *regional development* (2)

Regional development are policies that are aimed at increasing the economic livelihood of specific areas or geographical regions that under-developed. ✓✓

5.1.4 Explain the importance of infrastructure development in previously neglected areas (2)

- Adequate infrastructure such as transport, communication and energy supply help to attract more investment ✓✓
- Development of infrastructure improves the economic live hood of previously disadvantaged areas ✓✓

5.1.5 How can industrial development improve the competitiveness of the South Africa's manufacturing sector? (4)

- Industrial development increases the variety of goods and services that can be exported to other countries. ✓✓
- Some industrial development measures such as subsidies and incentives may allow local businesses to export goods at lower prices that may be more competitive. ✓✓
- Use of new technologies in manufacturing may improve the quality of South African exports. ✓✓

ACTIVITY 6

6.1 **Study the extract below and answer the following questions.**

INVESTMENT BRINGS ENDLESS POSSIBILITIES

The special economic zone in Atlantis, launched on Thursday, is expected to attract large-scale investment that will create jobs and bolster manufacturing in the area and the Western Cape.

The 124.5-hectare area is designated for the establishment of a green technology hub in the Western Cape. This means that the special economic zone will oversee the manufacture of green technologies, alternative waste management, energy efficient technology and alternative building material, among others.

www.citizens.co.za

6.1.1 Identify one benefit from Atlantis SEZ from the above extract (1)

- Create jobs ✓
- Bolster manufacturing✓

6.1.2 Name any one IDZ found in KwaZulu Natal (1)

- Dube trade port ✓
- Richard bay IDZ✓

6.1.3 Briefly describe the term *corridor*. (2)

- Corridor is a track of land that provides a passageway that links different economic regions✓✓

6.1.4 Explain the importance of public - private partnerships in regional development (2)

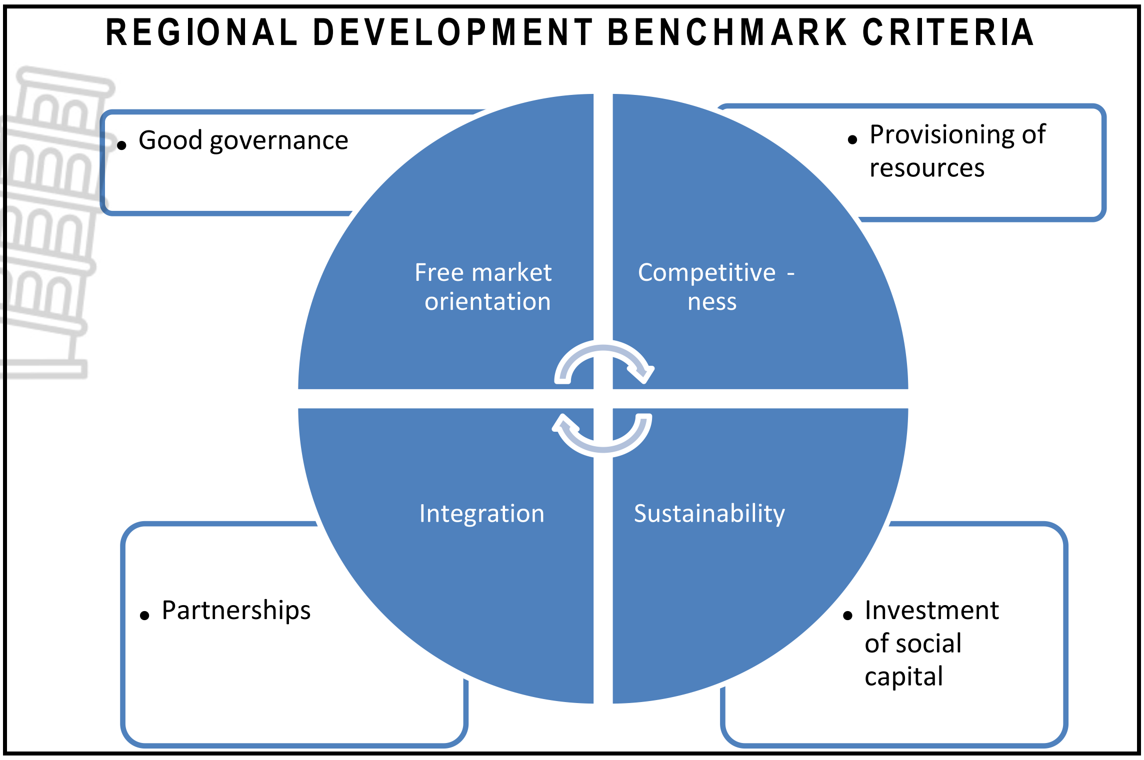
- Public-Private Partnerships allows the government and private sector to pool together their financial resources for regional development projects ✓✓
- Public-Private Partnerships allow both sectors to share expertise and knowledge✓✓

6.1.5 How can the integrated manufacturing strategy (IMS) promote industrialisation in South Africa? (4)

- The IMS focus on improving the competitiveness of manufacturing businesses by improving infrastructure such as energy, communication and transport✓✓
- The strategy aims to improve cross-cutting issues by examining a range of factors such as technology, innovation and transport. ✓✓
- Access to finance is improved through the provision of funding for the development of industries ✓✓

ACTIVITY 7

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



7.1.1 Identify the international benchmark that requires democratic decision making in the above diagram (1)

Good governance ✓

7.1.2 Name the institution that focus on developing the global competitiveness of South Africa manufacturing enterprise (1)

Department of Trade Industry and competition (DTIC) ✓

7.1.3 Briefly describe the term *industrial development*. (2)

Industrial development are the laws or regulations aimed at encouraging investment, improvement and the expansion of industries ✓✓

7.1.4 Explain the importance of key input for industrial development such as energy (2)

- Energy is a key sources of economic growth because many production and consumption activities involve energy as a basic input ✓✓
- The use of energy drives economic productivity and industrial growth and is central to the operation of any modern economy ✓✓

7.1.5 How does improved infrastructure contribute to industrial development? (4)

- It will create easy access to exploit the world economy to trade and acquire knowledge ✓✓
- Improved infrastructure results in a diversification of an economy as more good will be delivered to different regions✓✓
- It will result in more investors in the region which will result in more employment. ✓✓
- Manufacturing, agricultural, mining and services production will increase their production as competition will be tight within the local industries ✓✓

ACTIVITY 8

8.1. Briefly discuss *good governance* and *investment* in social capital as the benchmark criteria for regional development (8)

Good governance

- Regional development strategies should be managed effectively and free of corruption✓✓
- Must be supported by democratic decision -making that should not be compromised by nepotism and secrecy/appoint people with correct skills✓✓

- Involves transparency where all role-players should be consulted✓✓
- Proper financial management and control is essential to meet set by government✓✓

Investment in social capital

- Regional development focuses on the principle of the people,for people ,by the people✓✓
- Development should be addressed from below where most urgent human need exist✓✓
- Total development covers all human life including education, health and nutrition. ✓✓

8.2. Discuss the aims of regional development (8)

- Reduce unequal development of economic activities within a country ✓✓
- Prevent new imbalances from emerging /enhance competitiveness of all provinces. ✓✓
- Implement and coordinate the implementation of national and regional industrial policies✓✓
- Involving local communities in the planning and decision –making process to ensure that development initiatives meet their needs and priorities ✓✓
- Encouraging innovation, entrepreneurship and the adoption of new technologies to drive regional growth. ✓✓

8.3. Briefly discuss Small Business Support Programme (SBSP) and Skill support Programme (SSP) as incentives for industrial development in South Africa (8)

Small Business Support Program

- Small Business Support program is designed for small businesses with assets of R100 milllion or less✓✓
- Small Business Support incentive consists of a tax free cash grant for investment in industries✓✓
- Grants are available to new and expanding businesses✓✓
- Grants are given for three years after which the company is expected to become self-sustaining ✓✓

Skills Support Program (SSP)

- Skills Support Program (SSP is a tax -free cash grant for skills development ✓✓
- It aims to encourage greater investment in skills training and to introduce new, advanced skills to the SA labour force✓✓
- Government covers a maximum of 50 % of a company's training costs are covered over a period of 3 years✓✓

8.4. Discuss spatial development initiatives as South Africa's endeavors in regional development (8)

- Spatial development initiative is a link between important economic hubs and regions in a country✓✓
- SDI promote sustainable industrial development in areas where poverty and unemployment are at their highest✓✓
- The intention of the government was to grow the SDIs mostly through private sector investment through granting of incentives
- SDIs promote the establishment of public private partnership to increase the economic potential of underdeveloped areas✓✓
- SDIs attract private sector and foreign direct investment and maximize collaboration between various type of investment✓✓

8.5. Discuss industrial development zones (IDZ) as South Africa's initiative in regional development (8)

- An industrial development zone is a purpose -built industrial estate that is physically enclosed, with export as the main objective✓✓
- An IDZ is often linked to an international airport or seaport, which make it easier to import and export the goods✓✓
- IDZ fall outside the domestic custom zones and are able to import production inputs free of customs duties and trade restrictions✓✓
- The imported inputs are used in the manufacturing process with the intention of exporting the finished goods ✓✓
- IDZ were aimed to attract new investment in export driven industries✓✓
- Encourage economic growth by attracting foreign investments in industries and thereby expanding local markets. ✓✓

8.6 Briefly explain competitiveness and sustainability as regional development benchmark criteria. (8)

Competitiveness

- Industries established as a result of regional policies should be competitive ✓✓
- Industries should not need financial assistance from the state ✓✓
- They should be self-sufficient in the long run and not depend on the state✓✓

Sustainability

- A region should have the capacity to support its own development✓✓
- The natural resources aand human resources should be used efficiently✓✓
- Employment and sustainable development should achieved ✓✓
- Development should be a long term approach rather than for short –term profit –making purpose. ✓✓

8.7 Discuss the challenges faced by South Africa in promoting industrial development

- Skills shortages and mismatches hinder the growth of industries which require specialized knowledge and expertise, affecting their competitiveness on a global scale✓✓
- Labour -related challenges such as industrial strikes, wage disputes, and labour market rigidities, negatively impact on industrial stability✓✓
- International barriers may limit export volumes by South African industries which limits the expansion of industries✓✓
- Burdensome regulations, bureaucracy and uncertainty discourage investment and limit the establishment of new businesses. ✓✓
- Energy constraints including load shedding and high energy costs, disrupt industrial operations, leading to decreased productivity and competitiveness. ✓✓

8.8 Evaluate the appropriateness of South Africa's industrial development policy in terms of international benchmark. (8)

- Spatial Development Initiatives (SDIs) and Special Economic Zones (SEZs) are managed through transparent, ethical and efficient governance to decentralize economic activity ✓✓
- The government ensures that no region is developed at the cost of another region's potential through integration between different areas by means of spill-over benefits ✓✓
- partnership between all role players in the economy is encouraged by the government as it builds a more inclusive economy ✓✓
- provision of resources is ensured by prioritising infrastructure development projects in all provinces so that regional development is achieved ✓✓
- competitive businesses that are not in need of ongoing financial aid from government have been established✓✓
- healthy competition in the economy is promoted through the competition policy as well as the Competition Commission, Competition Tribunal and Competition Appeal Court ✓✓
- people from different regions are involved in education and training, to improve productivity and ensure development of people by people ✓✓
- issues at grass roots level such as poverty and inequality, are addressed to ensure that development starts from below ✓✓
- more emphasis is put on total development covering all human life to achieve inclusive development, e.g. education, health and nutrition ✓✓
- various programmes were implemented by the Department of Trade, Industry and Competition (DTIC) to render support to SMMEs and entrepreneurship in an effort to remain market oriented ✓✓

South Africa's regional development policies DO NOT comply with international benchmarks criteria because:

- corruption, nepotism and mismanagement of public funds have occurred in many provinces and municipalities resulting in poor governance ✓✓
- lack of resources, especially infrastructure, has resulted in some parts of the countries failing to attract investments and unemployment remained higher ✓✓
- ignorance towards education and training opportunities has resulted in poor investment in human capital ✓✓
- While South Africa encourages competition, there are many occurrences of collusion that have been investigated by the Competition Commission ✓✓

(A maximum of 2 marks may be allocated for mere listing of facts/examples)

ACTIVITY 9 **(ESSAY)** **MARKS: 40**

- Discuss in detail South Africa's initiatives (endeavours) in regional development. (26)
- How can Small Business Development Programme stimulate regional development? (10)

INTRODUCTION

Regional development is aimed at increasing the economic livelihood of specific areas or regions by limiting the negative effects of economic activities in only a few areas. ✓✓

Accept any relevant introduction. (Max 2)

BODY:

MAIN PART

Spatial development initiatives (SDI'S)

- SDI program attracts infrastructure and business investments to underdeveloped areas to create employment. ✓✓
- Department of trade and industry is the driving force behind industrial and spatial development. ✓✓
- DTI plans together with central, provincial and local government, IDC, parastatals and research institutions. ✓✓

Key objectives

- Stimulate economic activity in selected strategic locations. ✓✓
- Generate economic growth and foster sustainable industrial development. Develop projects of infrastructure in certain areas and finance them through lending and private sector investment. ✓✓
- Establish private-public partnerships (PPP'S). in areas with high poverty and unemployment, SDI focuses on:
- High-level support in areas where socio-economic conditions require concentrated government assistance where inherent economic potential exists. ✓✓
- The approach is towards international competitiveness, regional cooperation and a more diversified ownership base. ✓✓
- Example KwaZulu-Natal (ports of Durban and Richards bay); Industrial development zones (IDZS) ✓
- They are purpose-built industrial estates, physically enclosed and linked to a port or airport. ✓✓
- Industrial development zones are built in duty-free import areas. ✓✓This strategy was aimed at making exports internationally competitive. ✓✓
- They focus on creating jobs and promoting exports. ✓✓
- Goods produced in these zones should be exported to foreign countries. ✓✓
- As services are provided from outside, the economy in the areas should be stimulated. ✓✓
- an IDZ offers a world-class infrastructure, enjoys a zero rate of vat on supplies from South African sources and reduced taxation on some products✓✓

Each IDZ is designed to:

- Provide location for establishment of strategic investments. ✓✓
- Promote and develop links between domestic and zone-based industries. ✓✓
- Enable exploitation of resource-intensive industries. special economic zones ✓✓

Special Economic Zones

Geographically demarcated area where specific economic activities have been identified to be developed. ✓✓

- It creates a basis for a broader range of industrial parks and provide economic infrastructure to promote employment. ✓✓
- These areas may enjoy incentives such as tax relief and support systems to promote industrial development. ✓✓
- There are plans to reduce tax to 15% as an incentive to attract new industries. ✓✓

The aim of creating sez is to attract:

- New businesses and businesses which are developing a new product line. ✓✓
- Business which are expanding their volume. ✓✓
- The DTI has indicated that the existing IDZS where special tax incentives do not apply would be graduated into SEZS. ✓✓

Corridors

A corridor is a track of land that forms a passageway allowing access from one area to another and particular advantages to mining, manufacturing and other businesses. ✓✓
Example of domestic corridor e.g. lubombo, west coast, fish river. ✓✓

Benefits of corridors

- Corridors promote South Africa's regional integration in southern Africa.
- They lead to political and stable neighbours. ✓✓
- Corridors create important export markets and a future source of water and energy supplies. ✓✓
- Integration may be a precondition for support from foreign investors, donors and multilateral institutions. ✓✓
- A robust regional transport system and a solid infrastructure base hold the key to attracting investment into the SADC region
- Improving competitiveness and promoting trade. ✓✓

(max.26)

(a maximum of 8 marks for headings and examples.)

Additional part

- Small business development programme transforms and integrate opportunities in townships and rural areas into productive business ventures. ✓✓It focuses on creating platforms that provide the business support, infrastructure and regulatory environment that enables entrepreneurs to thrive. ✓✓
- It overcomes the legacy of economic exclusion by creating a conducive environment for entrepreneurial activity. ✓✓
- It provides dedicated business support to enterprises in rural and township areas including access to funding. ✓✓
- Small business development program provides business skills training; product development support; credit guarantee; pitch-for-funding; and access to funding including working capital. ✓✓
- This policy has improved the competitiveness of the South African manufacturing sector by focusing on both informal and formal sector business. ✓✓

(10)

CONCLUSION

A range of programs gives effect to government's commitment to support regional economic development AND integration in the Southern African region and beyond✓✓

ECONOMIC INDICATORS

ACTIVITY 1

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 e.g. 1.1.4 E

1.1.1 The statistics used to assess the performance of an economy is called …. indicator

A. interest rate
B economic✓✓
C money supply
D social

1.1.2 The number of employed persons as a percentage of the economically active population (EAP) is called the …

A employment rate. ✓✓
B economic growth.
C productivity rate.
D labour productivity

1.1.3 The South African Reserve Bank policy that aims to stabilise prices by combating inflation is called……. policy.

A fiscal
B demand
C supply
D monetary ✓✓

1.1.4 An indicator that compares a country's export prices to its import prices by means of indexes is called …….

A exchange rate
B production prices
C terms of trade ✓✓
D consumer prices

1.1.5 The rate at which banks borrow money from the Reserve Bank is called …. rate

A repo ✓✓
B interest
C wage
D prime lending

2x5 (10)

ACTIVITY 2

2.1 Answer the following questions

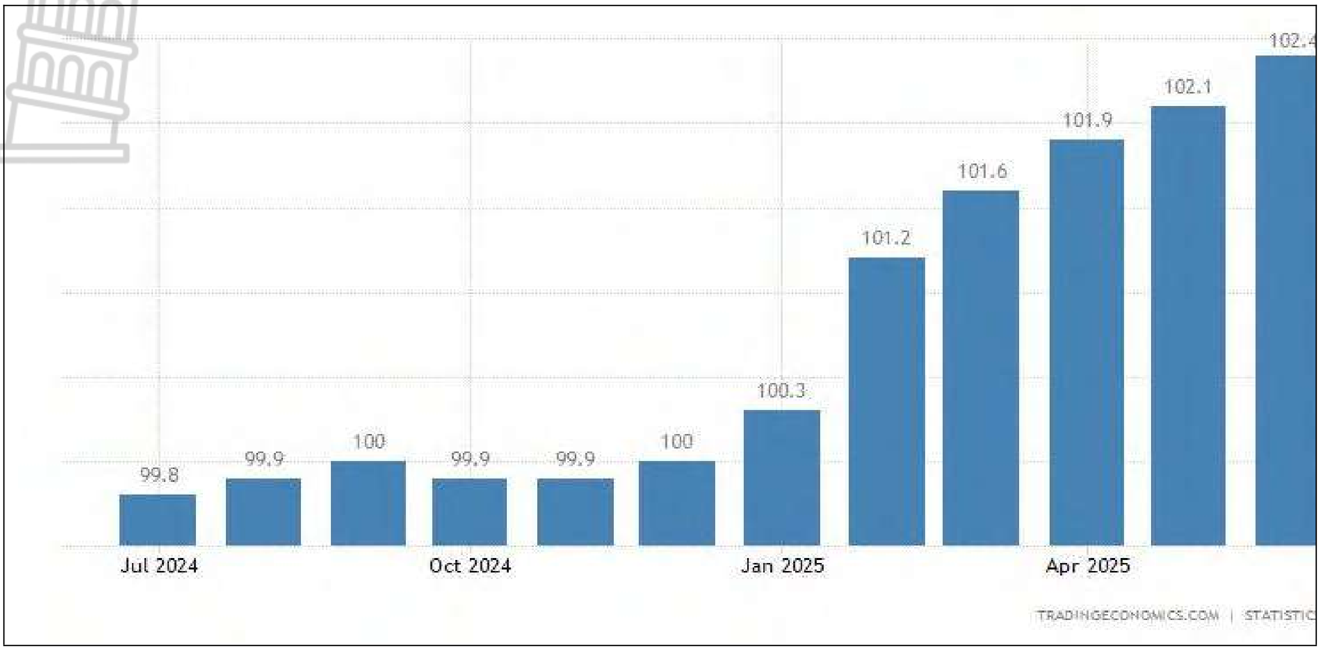
2.1.1 Name any TWO employment indicators. (2)

- Employment rate ✓
- Unemployment rate ✓
- Economically active population (EAP) ✓

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

SOUTH AFRICAN CONSUMER PRICE INDEX 2024-2025

-



2.2.1 Identify the inflation rate indicator that is depicted above. (1)

Consumer Price Index✓

2.2.2 Name any ONE of the productivity indicator (1)

- Labour productivity✓
- Remuneration per worker✓.

2.2.3 Briefly describe the term *Producer Price Index* (2)

Producer price Index is the price of goods when they leave the factory gate✓✓

2.2.4 Explain the purpose of economic indicator? (2)

- Economic indicator helps us to judge the overall condition of a particular country's economy. ✓✓

2.2.5 How can the government improve the productivity of the South African Labour Force? (2x2) (4)

- Government can provide better quality education and training to improve the skills and knowledge of the labour force✓✓
- Impose fair personal income tax rate and other incentive such as improved minimum wages tomotivate workers to produce more output ✓✓
- Improve health care service to ensure physical and mental fitness of workers. ✓✓

ACTIVITY 3

3.1 Study the graph below and answer the following questions

www.bing.com

*

3.1.1 Identify the percentage of African males that are economically active from the above graph. (1)

42.9%✓

3.1.2 Name any ONE example of foreign trade indicators (1)

- Exchange rate ✓
- Terms of trade ✓

3.1.3 Briefly describe the term *labour productivity.* (2)

- Labor productivity is a measure that compares economic output against the amount of labor required to produce that output. ✓✓

3.1.4 Why it is important for the government to prepare economic indicators? (2)

- Economic indicators are used to compare the performance of the economy with the rest of the world ✓✓
- Preparation of indicators is a statutory requirement by the united nation✓✓

3.1.5 How can the government create sustainable employment opportunities? (4)

- The government must improve human resource development through quality education and training ✓✓
- The government must improve the competitiveness of the manufacturing sector by investing in value added production ✓✓
- The government must invest in infrastructure development in order to attract foreign investment✓✓

ACTIVITY 4

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

www.bing .com

4.1.1 Identify the monetary authority responsible for money supply from the above cartoon. (1)

Central bank ✓

4.1.2 Name any ONE price change indicator. (1)

- Consumer price index✓
- Producer price index✓

4.1.3 Briefly describe the term *economically active population.* (2)

- EAP includes all those between the ages of 15 to 65 who are working, as well as those who are actively seeking employment. ✓✓

4.1.4 Explain the importance of managing money supply in the economy (2)

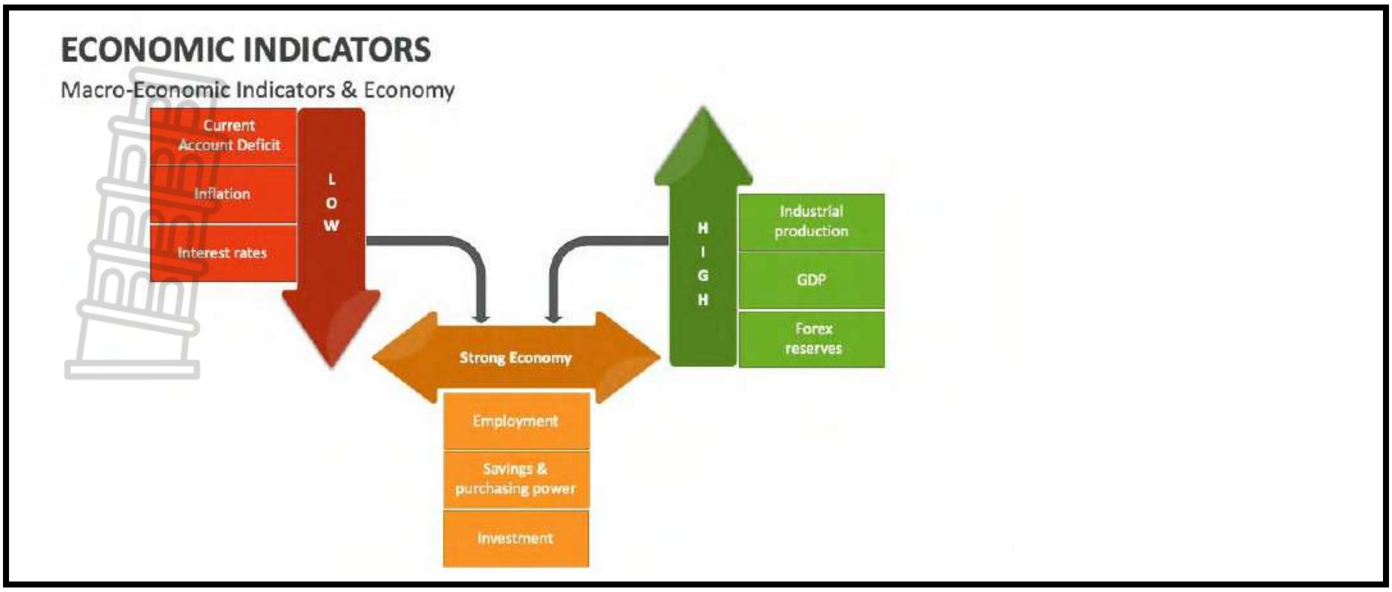
- Money supply is critical because too much money in circulation will result in too much money chasing few goods causing inflation ✓✓
- When too much money is in circulation, this will result in a decrease in the value of the currency✓✓

4.1.5 How does South Africa comply with international institutions that standardize indicators. (4)

- South African indicators and national accounts are prepared in line with the United Nations system of national accounts ✓✓
- South Africa works closely with the world bank and IMF which provides guidelines and framework for macroeconomic policy ✓✓
- South Africa follows the guidelines and standards set by the UN statistical commission to ensure national statistics align with international best practice✓✓

Activity 5

5.1 Study the information bellow and answer the questions that follow.



5.1.1 Identify any one economic indicator in the information above (1)

- Employment✓
- Inflation✓
- Interest rate✓

5.1.2 Name the indicator that reflects an increase in the economy of the country in the above? (1)

- Industrial Production✓
- Gross Domestic Produ0ct / GDP✓
- Forex reserve✓

5.1.3 Briefly describe the term *economic indicator* (2)

- Economic indicators are used to establish the performance of an economy in terms of the basic economic objectives.✓✓

5.1.4 Explain the importance of measuring economic indicators in the country. (2)

- Economic indicators provide the insight into the economic performance of the country✓✓
- They help the government to make informed decisions about distribution of income and wealth✓✓

5.1.5 How does poor performance of economic indicators affect the economy of the country? (4)

Poor performance of indicators:

- Bring uncertainty to the investors which results to disinvestment and economic decline✓✓
- Companies might adopt a more conservative approach to investment, focusing on maintaining cash reserves rather than pursuing new projects or innovations✓✓
- Reduce in consumption by consumers that lead to decrease in revenue to firms✓✓
- The reserve bank may lower interest rates in response to stimulate borrowings and investments ✓✓

ACTIVITY 6

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

Hypothetical Terms of Trade Figures

Year	**Indexes of average Export prices**	**Indexes of average Import prices**	**Terms of Trade**
1	100	100	100
2	102	100	102
3	106	104	101.92
4	110	110	100
5	108	106	A

Source:google.com

6.1.1 Identify the terms of trade for year 3 in table above (1)

101.92 ✓

6.1.2 Name the international institution that publishes the information above. (1)

World bank ✓

6.1.3 Briefly describe the term *terms of trade.* (2)

Terms of trade is the ratio between the average price of exports and the average price of imports. ✓✓

6.1.4 Explain the relationship between export prices and the terms of trade. (2)

The is a direct relationship between export prices and terms of trade. An increase in export prices will improve the terms of trade. ✓✓

6.1.5 Why is it important for the government to keep track of money supply in a country? (4)

- Money supply is an indicator of the amount of money in circulation. ✓✓
- The more money that is in circulation, the less the value of this money due to inflation pressure. ✓✓
- If the government keep track of the amount of money supplied, it could regulate the economy by making use of the monetary of fiscal policy. ✓✓
- The amount of money indicates the level of economic activity, if there is too much money in circulation it will lead to demand pull inflation. ✓✓

ACTIVITY 7

7.1 Answer the following questions

7.1.1 Discuss the role of international institutions in the standardisation of a country's indicators. (8)

- The international institutions involved in standardisation are the International Monetary Fund, the World Bank and United Nations ✓✓
- Bridging finance for balance of payments deficits is paid by the IMF if the balance of payments is compiled according to their requirements ✓✓
- The IMF manually focus on government finance statistics on public finance accounting, basing their predictions only on transactions that have indeed taken place and those expected to happen ✓✓
- The World Bank is responsible for development aid and is the world's largest source of financial assistance ✓✓
- The United Nations is responsible for child aid through the UNICEF ✓✓
- The United Nations prescribes the use of the System of National Accounts when compiling the production, income, and expenditure accounts ✓✓

- Economic and social indicators are important that international aid and funding organisations have specifications on how to compile them ✓✓
- Benefits may not be given to countries if their indicators are not available, not in line with the institutions' requirements or do not show performances that qualify a member for aid or funding ✓✓

(Accept any other relevant responses) (4 x 2) (8)

7.1.2 Differentiate between *producer price index* and *consumer price index* as economic `indicators. (8)

Producer Price index (PPI)

- PPI is used to measure the prices of domestically produced goods✓✓
- Producer Price index pertains to cost of production ✓ ✓
- It also measures an increase or decrease in the price of imported goods. ✓✓
- When the rand depreciates it will first be reflected in the PPI. ✓✓
- Producer Price index their prices exclude VAT ✓ ✓
- Capital and intermediate goods are included. ✓✓

(Max 4)

Consumer Price index (CPI)

- It represents the cost of a shopping basket of goods and services of a typical SA household. ✓✓
- Capital and intermediate goods are excluded. ✓✓
- It shows changes in the purchasing power of the rand. ✓✓
- Consumer Price index pertains to cost of living ✓ ✓
- Consumer Price index their prices include VAT ✓ ✓
- This is the official index used in inflation targeting. ✓✓ (Max 4)

7.1.3 Discuss productivity as an economic indicator (4 x 2) (8)

- Productivity shows outputs relative to inputs – the higher the outputs relative to inputs, the more productive an economic unit ✓✓
- Productivity is an economic unit that is more competitive and has a better chance of being profitable and succeeding ✓✓
- Productivity keep up with an increases in labour cost, or otherwise it will lead to a country that is less competitive ✓✓
- helping countries to invest in policies that will improve their productivity ✓✓
- Productivity focusing more on higher education and training and technological readiness in South Africa ✓

7.1.4 How does services delivery impact economic development in South Africa? (8)

- In South Africa we are currently facing an energy crisis. Powercut causes economic activity to slow down, which leads to fewer jobs created. ✓✓
- South Africa does not make use of green energy of recycling for refuse removal, the high level of pollution lowers the health of south Africans. ✓✓
- South Africa is a dry country and has water shortage, not all South Africans has access to clean water. ✓✓
- Only 83% of South Africans has access to sanitation and flush toilets, which impacts economic development negatively. ✓✓

7.1.5 Discuss the importance of measuring the performance of the economy? (8)

:

- It is important for the government to assess the performance of the economy because it develops mechanisms to caution the most affected sectors of the economy promptly ✓✓
- The measurement of the performance of the economy develops some economic stabilisers to defuse the huge impact that may result from the unexpected economic downturn ✓✓
- Measuring the performance of the economy opens some other alternative markets for their goods and services ✓✓

- Accurate economic data enable police makers to conduct ersearch and advises the business community before the actual moment hits ✓✓
- Accurate economic data enable police makers use information to stimulate thinking about growth in several sectors in the economy ✓✓

7.1.6 Discuss employment as an economic indicator. (8)

- Data relating to employment is an important indicator that is used to determine the success or state of the economy✓✓
- It indicates the number of workers employed, as well as the total number of people that are unemployed✓✓
- If the employment rate is compared with the economically active population, the unemployment rate can be determined✓✓
- It indicates the productivity of labour in the country✓✓
- E.g., The productivity rate could be used as a useful tool to justify the income per worker✓✓
- It relates to the employment rate in various sectors of the economy✓✓
- Employment indicators can be used by government to formulate the best policies to decrease unemployment and reduce poverty✓✓

ACTIVITY 8

8.1 Discuss the various economic indicators in detail. (26)

8.2 How did the COVID-19 pandemic negatively influence the South African economy? (10)

INTRODUCTION

Governments use different statistical data to predict economic trends and formulate suitable developmental strategies toward influencing the direction that the economy should take / Economic indicators are used to establish the performance of an economy in terms of the basic economic objectives✓✓. (Max. 2)

BODY: MAIN PART

1. PRODUCTION INDICATORS.

- Nominal GDP (at current / market prices).
- Nominal GDP cannot be used because the amount tends to be overestimated (inflation). ✓✓
- Real GDP (at constant prices).
- The growth performance of an economy is measured in terms of real GDP figures. ✓✓
- Real GDP is obtained when the effect of inflation is removed from the data. ✓✓
- When nominal growth is 8% and inflation is 3% then real growth is 5%.✓✓

Per capita real GDP

- Per capita real GDP is calculated by dividing the real GDP figure by the total population. ✓✓
- The purpose of per capita real GDP is to indicate economic development / indicate living standards / compare living standards between countries. ✓✓

2. PRODUCTIVITY INDICATORS.

- Labour productivity.
- Watched most closely, particularly in relation to real wage increase. ✓✓
- In South Africa productivity increased less than labour remuneration.
- Labour productivity is measured by dividing the real GDP by the number of workers employed.
- Remuneration per worker.
- If productivity increases are lower than the real wage increases, inflationary pressures

will occur.

- The relationship between productivity and wages is crucial for employers survive in vigorous markets and workers to survive on their salaries.

(Accept analysis of other kind of productivity)

3. FOREIGN TRADE INDICATORS

- The terms of trade.
- Changes in terms of trade serve as indicator of changes that may spill over into the balance of payments and may lead to a deficit.
- Terms of trade will deteriorate, if a greater volume of exports must be produced to keep export earnings constant.
- The exchange rate.
- Changes in an exchange rate affect the prices for imports and prices of exports.
- A depreciation of the rand against the dollar will result in US goods and services becoming more expensive domestically and earnings from exports to the US increasing.

4. THE INFLATION RATE.

- Inflation can be described as an increase in the general level of prices in an economy that is sustained over a period of time.
- SARB aims to keep the inflation rate stable between 3 and 6%.

The following instruments measure inflation:

- Consumer prices/CPI.
- This is the weighted average of the prices of a general basket of goods and services likely to be bought by consumers.
- Production prices /PPI.
- Measures prices of locally produced goods when they leave the factory and imported goods when they enter the country.
- Serves as an indicator to predict consumer inflation (CPI).

5. EMPLOYMENT

- The economically active population (EAP / labour force).

The official employment ages in South Africa are between 15 and 65 who are willing to work and it includes workers in the formal sector, informal sector, employers, self-employed persons and unemployed persons.

- Employment rate.

The number of employed persons expressed as percentage of the EAP gives the employment rate. The South African employment rate was 70,9% during 2019 and is not accompanied by a similar growth in employment numbers.

- Unemployment rate

The unemployment rate is expressed as the percentage of unemployed persons out of the total number of people willing and able to work. In South Africa the official unemployment rate was 29,1 % in 2019 and is the most important cause of poverty.

6. MONEY SUPPLY

- Money supply is of critical importance to give early warning of likely changes in inflation.
- South African Reserve Bank defines money in different categories: M1 - coins and notes; M2 - equal to M1 plus all short- and medium-term deposits; M3 - equal to M2 plus all long-term deposits of domestic private sector with monetary institutions.

7. INTEREST RATES

- Repo rate.

Repo rate: the rate at which South African Reserve Bank lends money to commercial banks.
Interest rate is based on the repo rate; when repo rate changes interest rate also change. (Max 26)

ADDITIONAL PART
The COVID-19 pandemic negatively influenced the South African economy by:
- shutting down industrial and business sectors, resulted in the reduction of production of non-essential goods and service.
- slowing down economic growth that increased unemployment / loss of income.
- restricting global trade, reduced the demand for South African products.
- contributing to more balance of payments problems as exports decreased.
- reducing mining and manufacturing productivity due to operational restrictions or scale-down.
- restricting movement of people that reduced tourism activities domestically and internationally.
- reducing tax revenue for the government led to trade restrictions on non-essential products such as alcohol and tobacco.
- decreasing real GDP growth with a possible recession in the economy as a result of the negative impact on production of goods and services.

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

CONCLUSION
- The use of economic indicators is important, because analysts use the data to interpret current or future investment possibilities. (Max 2) [40]

SOCIAL INDICATORS
ACTIVITY 1
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 question number

1.1.1 All persons between the age of 15 and 65 who supply labour for productive activities
- A. Unemployment rate
- B. Employment rate
- C. Inflation rate
- D. Economic active population✓✓

1.1.2 The probable number of years that a person will live after birth is known as…
- A. Exchange rate
- B. Life expectancy✓✓
- C. Infant mortality
- D. Inflation

1.1.3 The percentage of the population living in poverty in a country is indicated by …
- A. Gin coefficient
- B. Life expectancy
- C. Per capita income
- D. Head count index ✓✓

1.1.4 The increase in the population of cities and towns through the movement of people from rural areas is known…
- A. Immigration
- B. Migration
- C. Urbanisation✓✓
- D. Emigration

(2×4) 8

1.2 Choose a description from Column B that matches an item in Column A. Write only the letter (A) next to the question number.

COLUMN A	COLUMNB	ANSWERS
1.2.1 Social Indicator	A. Used by United Nations to compare the standard of living among different countries	1.2.1 E✓
1.2.2 Life expectancy	B. The number of children who die before the age of five	1.2.2. D✓
1.2.3 Under five mortality	C. Changing data that is used to inform us of the changes in the economy	1.2.3 B✓
1.2.4 Human development index	D. The number of years the person is expected to live.	1.2.4. A✓
	E. Monitors identifiable and definable issues related to human well-being	

(4×1) 4

1.3 **Give one term for each of the following descriptions. Write only the letter next to the question number.**

1.3.1 Real GDP divided by the number of workers employed.
Labour productivity✓

1.3.2 The number of children who will die before the age of one.
Infant mortality ✓

1.3.3 The social indicator used to indicate the efficiency of the education system.
Education✓

1.3.4 The number of employed person expressed as a percentage of economically active population.
Employment rate✓

(4×1) 4

ACTIVITY 2

2.1 Answer the following questions

2.1.1 Name any TWO social indicators (2)

Demographics✓
Nutrition and health✓
Education✓
Services ✓
Housing and urbanisation✓

2.1.2 Name any TWO indicators related to services. (2)

- Electricity✓
- Water supply✓
- Sanitation ✓
- Refuse/garbage removal✓

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

Source: www.google.com

2.2.1 Identify the social indicator that relates to hungry people from the above picture. (1)

Nutrition and health ✓

2.2.2 Name the indicator that measures the number of years a new-born baby is expected to live. (1)

Life expectancy✓

2.2.3 Briefly describe the term *urbanisation*. (2)

- Urbanisation is the process of movement of people from rural areas to cities and towns. ✓✓

2.2.4. Explain the impact of malnutrition on child mortality (2)

- Malnutrition may increase child mortality rate due to increased health risks amongst the children. ✓✓

2.2.5. Why is the size of the population important in the economy? (2 x 2) (4)

- Because rapid population growth makes it more difficult for low-income and lower-middle-income countries to afford the increase in public expenditures on a per capita basis. ✓✓
- Enables the government to determine what is needed to eradicate poverty, end hunger and malnutrition✓✓.
- Enables the state to determine on how to allocate its budget efficiently in order for poor households to access health care, education and other essential services. ✓✓
- The size of the population will determine consumption levels, labour needed and whether demand will be met by supply. ✓✓
  (Accept any other correct relevant response)

ACTIVITY 3

3.1 Answer the following questions

3.1.1 Name TWO international organisations that require standardisation of indicators. (2)

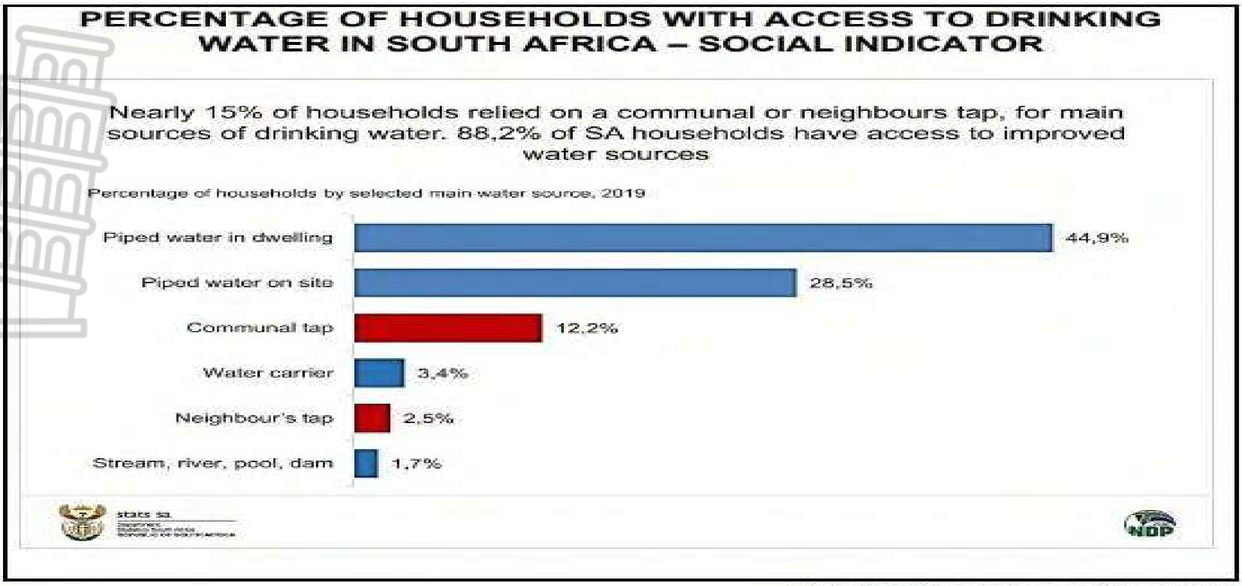
World Bank✓

International monetary fund ✓

3.1.2 How does secondary enrolment influence the productivity? (2)

An increase in secondary enrolment will increase labour force productivity hence productivity. ✓✓

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



[Adapted from stats.sa@gov.za]

3.2.1 Identify the percentage of households with access to water. (1)

88.2%✓

3.2.2 Name any other example of a basic service (1)

Electricity✓

Refuse removal✓

Sanitation✓

3.2.3 Briefly describe the term *social indicator.* (2)

Social indicator is the statistical data used to monitor the well-being of people in a society/they are used to describe and evaluate community well-being in terms of social, and psychological welfare. ✓✓

3.2.4 Explain the benefit of proper sanitation on life expectancy. (2)

Life expectancy may increase because people will be less exposed to illnesses and diseases. ✓✓

3.2.5 How can high population growth influence the standard of living? (4)

- When population growth rate is above real GDP growth rate the standard of living will decrease✓✓
- High population may result in shortages of goods and services, due to high demand✓✓

ACTIVITY 4

4.1 Answer the following questions

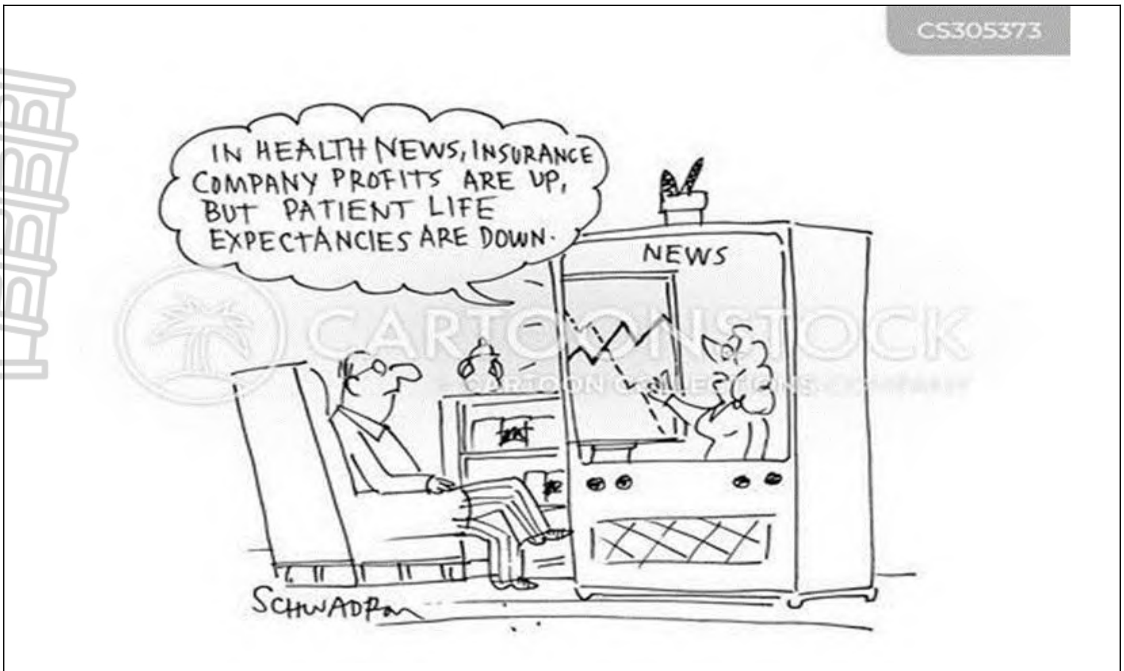
4.1.1. Name any TWO health indicators. (2)

- Infant mortality. ✓
- Under-five mortality. ✓
- Health expenditure✓

4.1.2. Why is it important for government to measure the size of the population? (2)

The government measure the size to know the population size of the country thus to provide social services to the citizens✓✓

4.2 **Study the cartoon below and answer the questions that follow.**



Source: www.google .com

4.2.1 Identify the indicator that relates to number of years a person expected to live from the cartoon above. (1)

Life expectancy ✓

4.2.2 Name any one institution responsible for international standardisation of indicators (1)

- International monetary fund✓
- World bank✓
- United nation✓

4.2.3 Briefly describe the term *infant mortality*. (2)

Infant mortality is the number of children that will die before one year of age. ✓✓

4.2.4 Explain the negative impact of urbanisation on service delivery. (2)

- Population increases in urban areas will put more pressure on the supply of services such as water and sanitation ✓✓
- Provision of housing will be unable to meet demand, resulting in informal settlements without proper infrastructure ✓✓

4.2.5 How can malnutrition impact the child mortality rate? (4)

- Malnutrition may increase child mortality rate due to increased health risks among the children. ✓✓
- Malnutrition can have the long lasting effect on child physical and cognitive development perpetuating the cycle of poverty. ✓✓
- Malnutrition can increase the rate of dwarfism and underweight. ✓✓

ACTIVITY 5

5.1 **Study the table below and answer the questions that follow.**

EDUCATION CHALLENGES IN SOUTH AFRICA	
PERFORMANCE INDICATOR	%
Population with at least some secondary education (% 25 years and above)	74,3
Public expenditure on education (% of GDP)	6,2
Gross enrolment at secondary institutions (%)	96,8
Gross enrolment at tertiary institutions (%)	19,7
Percentage dropout from secondary to tertiary institutions (%)	82,2

www.google.com

5.1.1 Identify the social indicator in the above information. (1)

Education. ✓

5.1.2 Name any one demographic social indicator (1)

- Population growth. ✓
- Life expectancy. ✓

5.1.3 Briefly describe the term *child mortality*. (2)

- Child mortality are children that die before they reach the age of one year. ✓✓

5.1.4 Explain the importance of educating the population for the economy. (2)

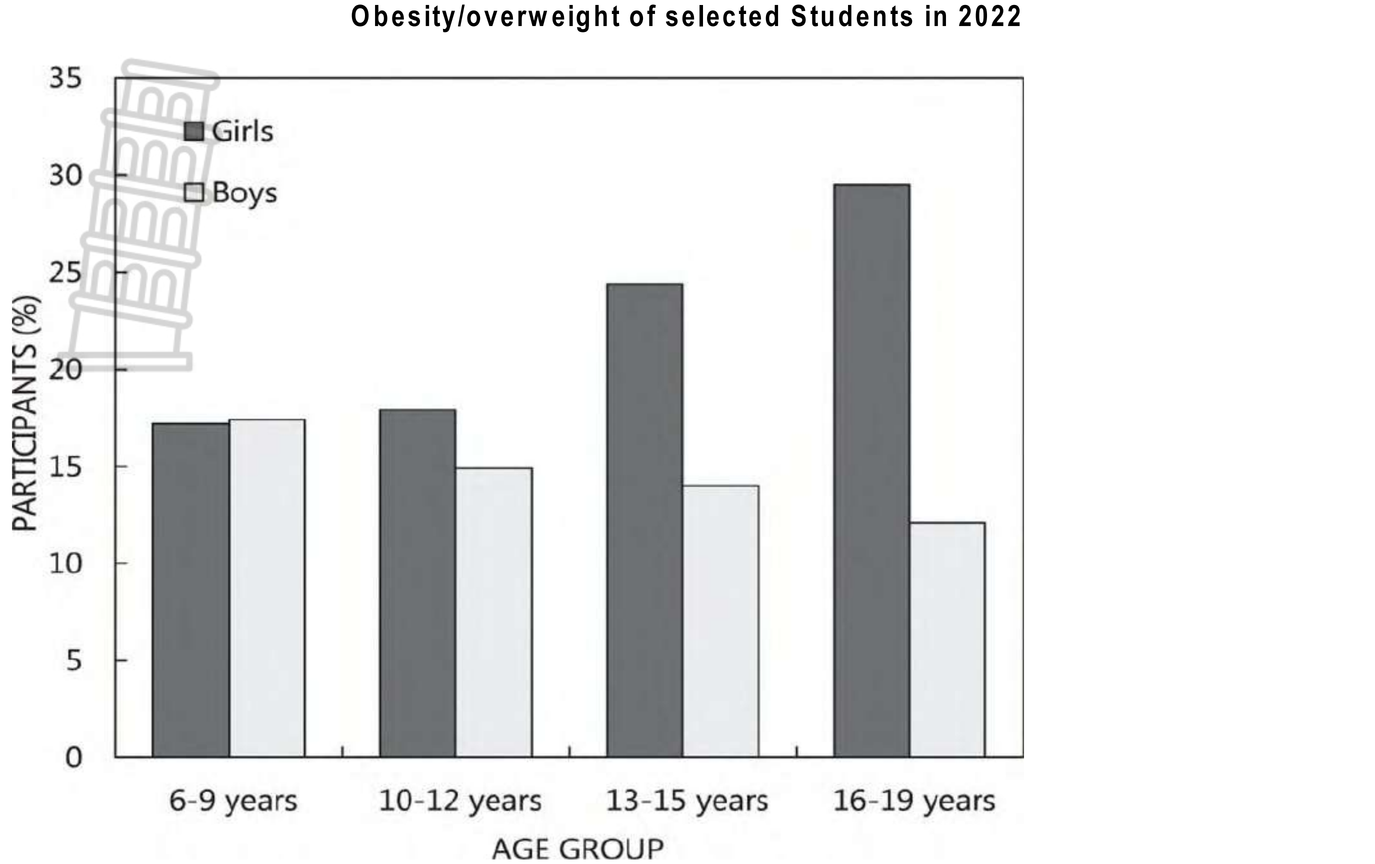
- Education enhances workforce skills, leading to higher productivity and efficiency, which contributes to economic growth. ✓✓
- Educated individuals are more likely to innovate, create new businesses, and foster entrepreneurship, driving economic development. ✓✓

5.1.5 How can human resources development be used to improve education? (2 x 2) (4)

- Provide comprehensive training for teachers to integrate technology into their teaching methods. ✓✓
- Encourage partnerships between schools and private sector organisation to support teacher development. ✓✓
- Develop targeted interventions to address poverty, inequality, and other socio-economic challenges that impact education. . ✓✓

ACTIVITY 6

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



[Source: Journals.co.za]

6.1.1 Identify the lowest participation rate for obesity boys from the graph above. (1)

10% - 15%✓

6.1.2 Name any one social indicator that relates to services. (1)

- Electricity✓
- Refuse/garbage removal✓
- Water supply✓
- Sanitation✓

6.1 3 Briefly describe the term under-five mortality. *(2)*

Under –five mortality is the number of children that will die before the age of five years. ✓✓

6.1.4 Explain the negative impact of obesity on the labour force. (2)

- Lesser percentages of the economically active population or the country's potential labour force. ✓✓
- Less involvement in sport, resulting in a lost opportunity to earn income for living. ✓✓

6.1.5 How do demographic indicators impact on the economy? (4)

- Different demographic indicators like age, gender, race and income levels are used to classify people in a population. ✓✓
- Government use these indicators to plan for the future and thereby achieve certain outcomes, like healthcare for the aged. ✓✓
- Businesses use the demographic indicators' information to learn more about their target markets. ✓✓

ACTIVITY 7

7.1. Briefly discuss *population growth* and *life expectancy* as characteristics of *demographics* as social indicator. (4X2) (8)

Population growth

Demographic information refers to information about the size and age structure of a population, and has important implications for public sector expenditure

- Census is done every few years in order to determine the population growth
- The population growth rate is an important indicator to the government in terms of the number of social services that are needed
- The size and the change in the population indicate the future labour force and the needed infrastructure

Life expectancy

- Life expectancy refers to the number of years that an individual is expected to live
- It reflects the average age at which people in the country die
- In South Africa life expectancy is low due to AIDS or other pandemics
- Other demographic indicators include migration rates, population density, mortality rates and birth rates
- Assurance companies are interested in life expectancy reductions because it has an impact on premiums and service delivery

7.2. Discuss education as the social indicators (8)

Education ✓

- People's standard of living is directly related to their level of formal education✓✓
- Five or six years of schooling is a critical threshold for the achievement of sustainable literacy and numeracy skills ✓✓

(a) Public expenditure ✓

- ➢ Public expenditure measures the percentage of the national budget that is directed towards education ✓✓

(b) Secondary enrolment ✓

- ➢ Secondary enrolment shows the percentage of an age group attending high school ✓✓
- ➢ Secondary school enrolment, in South Africa has been improving over the last decade ✓✓

(c) Primary completion ✓

- ➢ Primary completion refers to the percentage of an age group that has completed primary education ✓✓
- ➢ The percentage is an indicator of the efficiency of the education system ✓✓

(d) Youth literacy rate ✓

- ➢ Youth literacy rate is the percentage of people ages 15-24 who can both read and write ✓✓
- ➢ Literacy not only enriches an individual's life, but it creates opportunities for people to develop skills that will help them provide for themselves ✓✓
- ➢ Literacy improves the ability of individuals to access information ✓✓

ACTIVITY 8

- Discuss in detail the various social indicators (26)
- How can urbanisation influence the standard of living for the South African population? (10)

INTRODUCTION

Social indicators are measures that economists use to evaluate the performance of a country in terms of the social well-being of its citizens ✓✓ **(Max 2)**

MAIN PART

1. Demographics ✓

- This deals with the characteristics of the population, such as size, race, age, gender, income geographic distribution, language, education, occupation and religion ✓✓
- These are definable issues related to human well-being over a period of time ✓✓
- The size of the population is important for infrastructure and social programmes

(a) Population growth: ✓

Population growth is the increase in the number of people in a population or dispersed group ✓✓

Measuring population growth is important for delivering social services and for identifying the size of the tax base (the total number of people paying taxes) ✓✓

Understanding population growth is important for predicting, managing, monitoring, and eradicating pest and disease outbreaks ✓✓

Population growth usually has implications for indicators related to education, infrastructure and employment ✓✓

Human settlements and the use of natural resources are also related to population growth ✓✓

(b) Life expectancy ✓

The term 'life expectancy' refers to the number of years a person can expect to live ✓✓

Life expectancy is based on an estimate of the average age that members of a particular population group will be when they die ✓✓

It is a measure that is often used to determine the overall health of a community ✓✓

Changes in life expectancy are often used to describe trends in mortality ✓✓

Life expectancy for a particular population group depends on factors such as their lifestyle, access to healthcare, diet and economic status ✓✓

2. Nutrition and Health ✓

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

Nutrition

(a) Child malnutrition ✓

Malnutrition is expressed in two ways – weight for age (under-weight) and height for age (dwarfism) ✓✓

The proportion of underweight children is the most important indicator of malnutrition ✓✓

In South Africa malnutrition is one of the leading causes of child deaths, and the number of affected children is increasing ✓✓

The main causes of childhood malnutrition are household food insecurity, inadequate care and unhealthy household environment, and lack of health care services ✓✓

(b) Overweight children/Obesity ✓

There is an association between obesity of children and other diseases✓✓

Health

(a) Infant mortality/Child mortality ✓

Infant mortality refers to the number of children who die before the age of one year and it is one way of measuring the health of a population ✓✓

The infant mortality rate is the number of infant deaths for every 1 000 live births ✓✓

The main causes of infant mortality in South Africa are HIV and AIDS, pregnancy and childbirth complications, and malnutrition, which are all related to poverty ✓✓
Reducing infant mortality requires increased health sector spending and improved health systems functioning ✓✓

(b) Under-five mortality ✓
Under-five mortality is the number of children that will die before the age of 5 years ✓✓

(c) Health expenditure ✓
Health expenditure measures the amount of money spent on health as a percentage of GDP ✓✓

(d) Access to safe drinking water ✓
Access to safe drinking water measures the percentage of a population that has reasonable accessto safe drinking water ✓✓
In South Africa the most improved water source was piped water inside the house with about 44% of households having such access ✓✓
South Africa is expected to experience a water deficit of 17% by 2030, and climate change may worsen the situation ✓✓ **(e) Access to sanitation facilities** ✓
Access to sanitation facilities measures the percentage of a population with at least adequate sanitation facilities that can prevent human, animal and insect contact ✓✓
In South Africa about 80% of households use an improved sanitation facility✓✓
Approximately, 61% of households have flush toilets connected to the public sewer and about 12% of households have pit toilets with ventilation pipes ✓✓
Poor sanitation causes economic losses associated with the direct costs of treating illnesses and lost income through reduced productivity ✓✓

3. Education ✓

- People's standard of living is directly related to their level of formal education✓✓
- Five or six years of schooling is a critical threshold for the achievement of sustainable literacy and numeracy skills ✓✓

(a) Public expenditure ✓
Public expenditure measures the percentage of the national budget that is directed towards education ✓✓

(b) Secondary enrolment ✓
Secondary enrolment shows the percentage of an age group attending high school ✓✓
Secondary school enrolment, in South Africa has been improving over the last decade ✓✓

(c) Primary completion ✓

Primary completion refers to the percentage of an age group that has completed primary education✓✓
The percentage is an indicator of the efficiency of the education system ✓✓

(d) Youth literacy rate ✓
Youth literacy rate is the percentage of people ages 15-24 who can both read and write ✓✓

Literacy not only enriches an individual's life, but it creates opportunities for people to develop skills that will help them provide for themselves ✓✓ ➢ Literacy improves the ability of individuals to access information ✓✓

4. Services ✓

Services are vital to enhance people's lifestyle and level of economic and social development ✓✓ **(a) Electricity** ✓

The percentage of households connected to the country's main electricity supply increased ✓✓

(b) Refuse removal ✓

Approximate 66,4% of households in South Africa had access to refuse removal by the local authorities once a week ✓✓

(c) Water supply ✓

In South Africa about 89% of households had access to clean water ✓✓

(d) Sanitation ✓

Just over 83% of households in South Africa had access to functioning basic sanitation ✓✓
e.g. flush toilets/pit toilets with ventilation pipes/and chemical toilets ✓

5. Housing and urbanisation ✓

- The standard of living of the population is directly related to the quality of their housing and services ✓✓

Housing

- A further 14% was living in informal housing, which are mostly squatter settlements on the periphery of cities and towns and in the gardens of formal houses ✓✓
- The remaining 6% was living in traditional homes in rural villages ✓✓
- Many South African citizens are poor and cannot afford property ✓✓
- The government supplies housing subsidies and the private sector provides housing loans ✓✓
- The government built 2,7 million low-cost houses over the past 15 years, but there is still an estimated backlog of 2 million more ✓✓
- Adequate housing can also facilitate labour mobility within the economy and help the economy adjust to adverse shocks ✓✓

Urbanisation

- Urbanisation occurs because people move from rural areas (countryside) to urban areas (towns and cities) ✓✓
- Urbanisation is the process of increasing the proportion of people living in towns and cities✓✓
- South Africa is urbanising rapidly with 63% of households already living in urban areas ✓✓
- The statistics are expected rise to 71% by 2030 which will increase demand on basic infrastructure requirements ✓✓
- Urbanisation is measured/caused by natural growth of the urban population, rural-urban migration and the establishment of new towns ✓✓

(Allocate a max of 8 marks for headings/subheadings/examples) (Max 26)

ADDITIONAL PART

Urbanisation can influence the standard of living for the South African population as follows:

Positive influence

- More people will have access to employment in manufacturing industries which will increase income levels ✓✓
- Children will have access to better quality education because most schools in urban areas have better infrastructural facilities ✓✓
- Illnesses and diseases will decrease due to improved access to proper sanitation and clean water ✓✓
- South Africans will have access to a variety of goods and services thereby improving the quality of their lives ✓✓
- People may take advantage of the entrepreneurial opportunities available in towns to start small businesses, thereby creating sources of income ✓✓

Negative influence

- Movement of people from rural to urban areas may causes overpopulation of cities and towns which may result in more criminal activities ✓✓
- Excess demand for services may result in poor services delivery by the government ✓✓
- Overpopulation may also result in the development of informal settlements that are associated with poor water supply and sanitation ✓✓
- Illnesses and diseases may increase in overpopulated towns ✓✓
- Informal settlements may result in illegal connections of electricity putting human lives in danger ✓✓
- Traffic congestion in cities and towns may increase road accidents resulting in loss of lives ✓✓

(Max. 10)

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

CONCLUSION

Social indicators are the best yardsticks in checking the development and progression of communities as a result of government initiatives to improve the lives of the society at large ✓✓

(Max. 2)

[40]

PAPER 2: MICROECONOMICS
PERFECT MARKET
ACTIVITY 1

1.1. Various questions are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A. – D.) next to the question number (1.1.1 -1.1.5) in the answer book, for example 1.1.6 B.

1.1.1 Price determined by market forces of demand and supply is known as the...price.
- A. normal
- B. cost
- C. market✓✓
- D. Basic

1.1.2 An income that is earned per extra unit of output sold is referred to as …revenue.
- A. maximum
- B. average
- C. total
- D. marginal ✓✓

1.1.3 The cost that changes with the level of output produced is known as …cost.
- A. Fixed
- B. marginal
- C. variable✓✓
- D. average

1.1.4 A fresh-produce market is a good example of a/an … market structure.
- A. Perfect competition✓✓
- B. monopoly
- C. monopolistic competitive
- D. oligopoly

1.1.5 The supply curve for a firm in a perfectly competitive market has a … slope.
- A. positive✓✓
- B. horizontal
- C. negative
- D. vertical

1.1.6 The institution that investigates restrictive business practices in the competition…
- A. Commission✓✓
- B. Tribunal
- C. Appeal Court
- D. policy

1.1.7 The perfect competitor must be able to cover its … costs to prevent a shut down.
- A. Fixed
- B. Average variable
- C. Average✓✓
- D. Labour

1.1.8 Additional cost when producing an extra unit
- A. Marginal revenue

B. Average cost
C. Marginal cost✓✓
D. Total costs

(8 X 2 = 16)

1.2 Choose a description from Column B that matches an item in Column A. Write only the Letter (A. – G.) next to the question number (1.2.1 – 1.2.5) in the answer book.

COLUMN A		COLUMN B	
1.2.1 diseconomies of scale	A	The cost that are incurred by the business but cannot recovered	E✓
1.2.2 implicit cost	B	Actual expenditure of a business, such as wages and rent	D✓
1.2.3 sunk cost	C	different businesses that produce the same product	A✓
1.2.4 break-even-point	D	The value of inputs owned by the entrepreneur and used in a production process	F✓
1.2.5 perfect market	E	Occurs if inputs increase and output decrease by lesser percentage increase in input	G✓
1.2.6 industry	F	When the total revenue is equal to the total cost	C✓
1.2.7 Explicit cost	G	The larger number of buyers and sellers they sell homogenous product	B✓
1.2.8 Normal profit	H	When average revenue is less than average cost	I✓
	I	Minimum earning required to prevent an entrepreneur from leaving the business	

6 x 1 = 6)

1.1 Give ONE term for each of the following description. Write only the term next to the question number (1.2.1 – 1.2.4) in the ANSWER BOOK.

1.1.1 When the average revenue is greater than the average cost of a firm
- Economic profit✓

1.1.2 A period of production where all cost could be change
- Long run✓

1.1.3 An institution that investigates restrictive business practices to achieve equity in the South African economy.
- Competition commission✓

1.1.4 Profit earned in the long run by businesses in the perfect market
- Normal profit✓

1.2.5 A point where a firm's average revenue(price) is equal to average variable cost.
- Shutdown point✓

1.2.6 A market structure where no single producer can influence the market price.
- Perfect competitive ✓ **(6 x 1 = 6)**

ACTIVITY 2

2.1 Answer the following questions.

2.1.1 Give any two example of perfect competitive market (2)
- Agricultural industry✓

- Johannesburg security exchange✓
- Street vendors✓

2.1.2 Why is the demand curve of a perfect market horizontal? (2)

- All business charge the same price as they are price takers, their price is determined through the interaction of demand and supply

2.2 Study the table below and answer the questions that follow

REVENUE FOR A FIRM

Total output	Price	Fixed cost	Variable cost	Total cost
0	0	30		-30
1	50	30	18	48
2	50	30	25	55
3	50	30	38	68
4	50	30	45	75

2.2.1 Identify the market structure represented in the table above. (1)

Perfect market✓

2.2.2 Name the cost that remains constant regardless of the amount of output.? (1)

Fixed cost✓

2.2.3 Briefly describe the term *variable cost.* (2)

Variable costs are cost that change directly with the level of production, the better produced the more cost will increase. ✓✓

2.2.4 Why are businesses in this market are price takers.? (2)

- All the business in this market structure have to use the price determined by the industry, their prices are determined through the interaction of demand and supply of the industry. ✓✓

2.2.5 Calculate the marginal cost for the 3rd output. Show ALL calculations. (4)

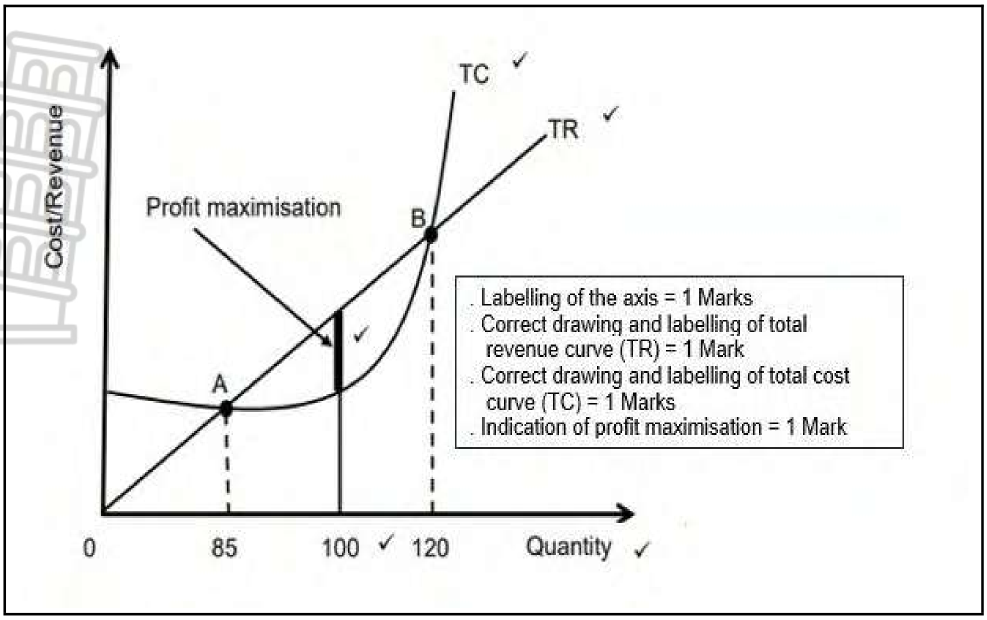
- $\Delta TC \div \Delta Q$ output✓

= (68 - 55) ÷ (3 - 2)

= 13 ÷ 1✓

= 13✓✓

2.3 With an aid of a well labelled graph explain profit maximisation in the perfect market using total cost and total revenue. (8)



- Profit is maximised where total cost curve intersects with total revenue curve.✓✓
- Between 3 units and 8 units the firm makes economic profit. ✓✓
- The firm maximizes profit where the difference between total revenue (TR) and total cost (TC) is the largest. ✓✓
- In the graph above, profit is maximised when the firm produces 100 units.✓✓
- When the quantities produced are less/below 100, the firm must increase the quantities produced in order to maximize profit.✓✓
- When the quantities produced are more/above 100, the firm must decrease the quantities produced in order to maximize profit.✓✓

  (Maximum of 4 for mere listing of facts and examples) (Max.4)

ACTIVITY 3

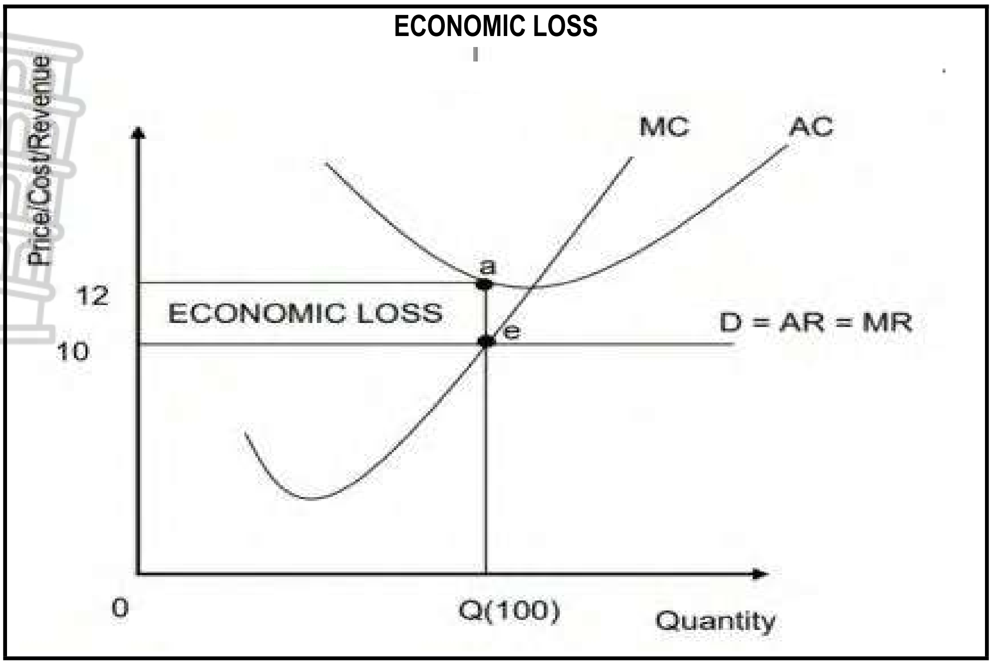
3.1.1 Give any two example of fixed cost (2)

- Rent✓
- insurance✓

3.1.2 Why is the marginal revenue (MR) curve in the perfect market the same as the demand? (2)

- Each additional unit will be sold at the same price which is the same as the demand curve.

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



3.2.1 Identify the market structure shown by the graph above. (1)

- Perfect market✓

3.2.2 Which curve (part of) represent the supply curve of the business? (1)

- Marginal cost(MC) ✓

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

- Average cost is the cost per unit of product sold / is the price of a single unit of product. ✓✓

3.2.4 Why is the equilibrium position above typical of the short run? (2)

- In the short run, a perfect competitor can earn losses✓✓

3.2.5 Determine the loss for this business. Show ALL calculations. (4)

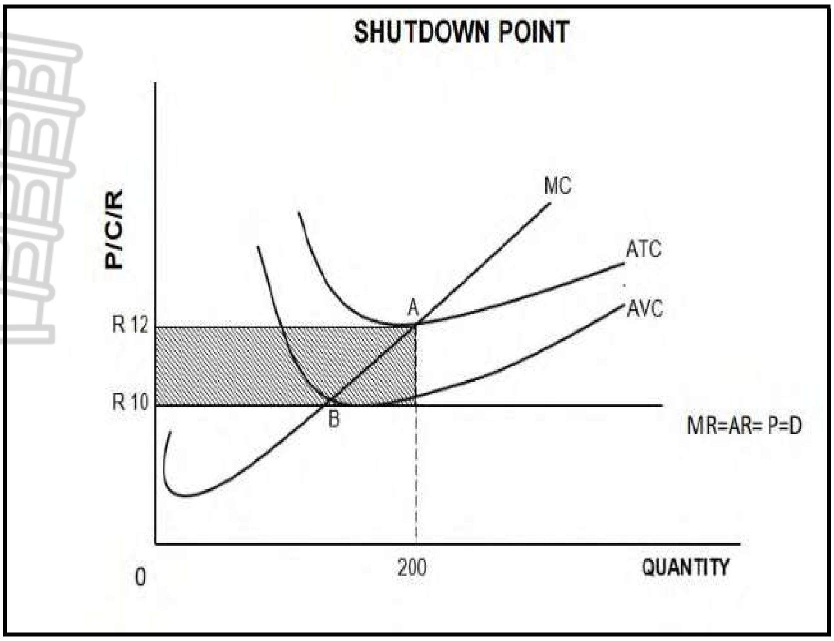
- Loss = TR – TC

  (10x100) ✓ – (12x100) ✓

  1000 – 1200

  -200✓✓

3.3 With an aid of a fully labelled graph explain the shutdown point using costs and revenue. (8)



Mark Allocation	
Correct drawing and labelling of cost curves	1 Mark
Correct drawing and labelling of revenue curves	1 Mark
Correct indication of SHUT DOWN point	1 Mark
Correct labelling of and on axis	1 Mark
	Max 4 Marks

Explanation

- It is important that a firm's revenue covers average variable costs to stay in business. ✓✓
- The lowest level of production is 200 units where AR=AVC=MC (shutdown point B). ✓✓
- A shut down is a point where the firm may decide to close or continue with its operations. ✓✓

ACTIVITY 4

4.1.1 Give any two example of sunk cost (2)

- advertising✓
- water and electricity✓

4.1.2 What is economic profit eliminated in the long run of a perfect competition market? (2)

- It is because of the new entries that would have been attracted by the economic profit and freely enter the industry as the are no barriers to entry✓✓

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

PERFECT COMPETITION

A perfect market is a market that is structured to have anomalies that would otherwise inteferes with the best pricebeing obtained. No firm can influence the price of product since product are can not differentiated. Due to the freedom of entry into the market, the level of competition is very high

Source: www.google.com

4.2.1 Identify a reason that leads many sellers enter into this market. (1)

- Freedom of entry✓

4.2.2 Give the nature of the product sold in a perfect market? (1)

- Homogenous product✓

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

- A group of businesses that produce homogenous product in the market ✓✓

4.2.4 Why is the demand curve for perfect market horizontal? (2)

- The demand curve is horizontal because the firm is a price taker and has no control over the price ✓✓

4.2.5 How will new entrants in the perfect competition market impact on the profit's level. (4)

- New entrants would increase level of competition, which would decrease the profit level✓✓
- The economic profit made would decrease due to increase in supply resulting in normal profit✓✓

4.3 How can exit of firms in a perfect market affect the economy? (8)

- There will be a decrease in competition due to limited number of firms in the market. ✓✓
- Prices of goods and services are likely to increase because of a decrease in supply. ✓✓
- Unemployment levels will increase as some businesses shut-down their operations. ✓✓
- The aggregate demand for goods and services will decrease due to a decrease in employment levels. ✓✓
- The remaining businesses may enjoy economic profit due to an increase in prices. ✓✓
- Government will collect less revenue due to reduced number of firms in the economy. ✓✓
- Consumers will have less access of goods and services to choose from. ✓✓

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

ACTIVITY 5

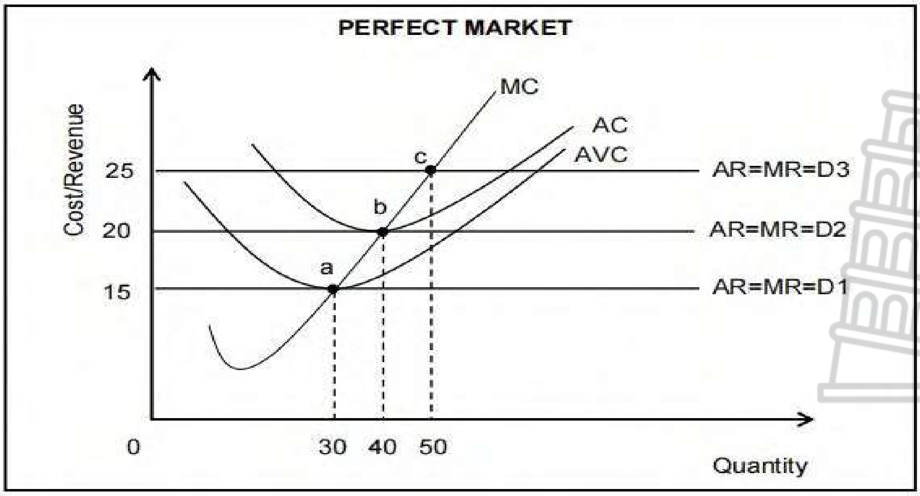
5.1.1 Give any two example of industries that are operating under condition of perfect market (2)

- Stock security exchange✓
- Agricultural industry✓
- foreign exchange market✓

5.1.2 When would it will be the best option for a business to shut down its operation (2)

- when the business cannot meet its average or total variable cost✓✓

5.2 Study the graph below and answer the questions that follow:



5.2.1 Identify the curve that represents the supply curve in the graph above. (1)

MC✓

5.2.2 Give quantity the firm produces in order to make a normal profit? (1)

40 quantities✓

5.2.3 Briefly describe the term *marginal revenue*. (2)

- The additional income earned when sales increase by one unit ✓✓/ The additional income received for selling one extra unit of a product✓✓ / Marginal revenue is calculated as the change in total revenue divided by the change in quantity. ✓✓

5.2.4 Why would the producer be reluctant to produce 30 units or less? (2)

- At quantity 30 or less the producer's total revenue will be unable to cover all its variable costs. ✓✓
- The average revenue (AR) is less than average variable cost (AVC).✓✓

5.2.5 Use the graph above to calculate the total revenue when the price is R25.Show ALL calculations, including the formula. (4)

TR = P x Q / AR x Q ✓
= R25 ✓ x 50 ✓
= **R1 250** ✓

5.3 Discuss the role of the *Competition Commission* and the *Competition Tribunal* as institutions that promote competition in South Africa. (8)

Competition Commission

- The Competition Commission investigates restrictive business practices and the abuse of market power by businesses. ✓✓
- It decides if mergers and acquisitions should go ahead or not. ✓✓
- The Competition Commission makes recommendations to the Competition Tribunal for approval. ✓✓

(Max 4)

Competition Tribunal

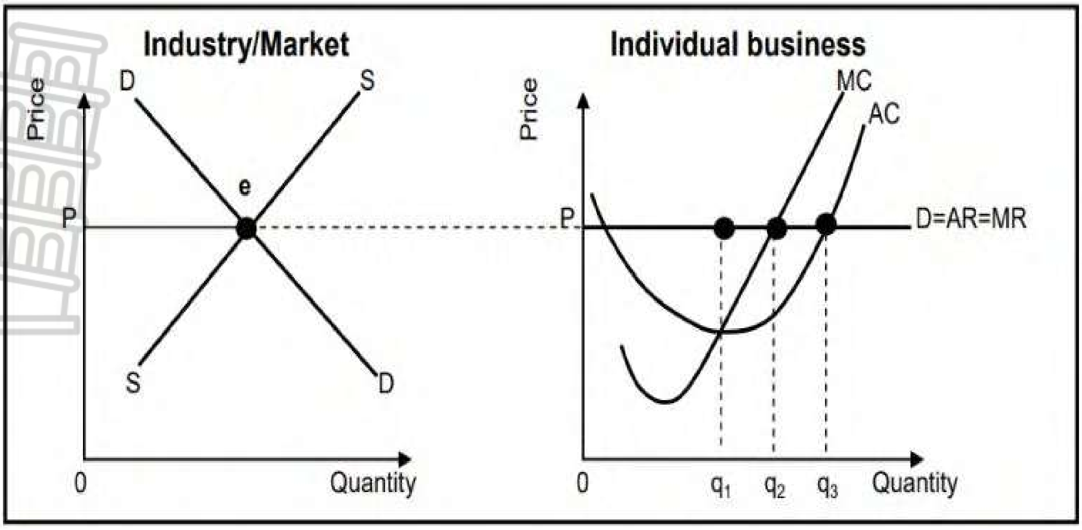
- The Competition Tribunal adjudicates on matters referred to it by the Competition Commission and issues any order for costs. ✓✓
- It can accept, reject or amend the recommendations of the Competition Commission. ✓✓
- The Competition Tribunal has jurisdiction throughout the Republic. ✓✓
- The Competition Tribunal grants exemptions, authorizes or prohibits large mergers. ✓✓

(Max 4)

Allocate a maximum of 4 marks for mere listing of facts

ACTIVITY 6

6.1 Study the graph below and answer the question that follow:



6.1.1 Identify the quantity where the individual business will maximise profit. (1)

Q2✓

6.1.2 Name the market structure illustrated above. (1)

Perfect competition✓

6.1.3 Briefly describe the term *economic profit.* (2)

Occurs when a firm's total revenue exceeds total costs / price (AR) is greater than average cost / the profit made by the business over and above normal profit ✓✓

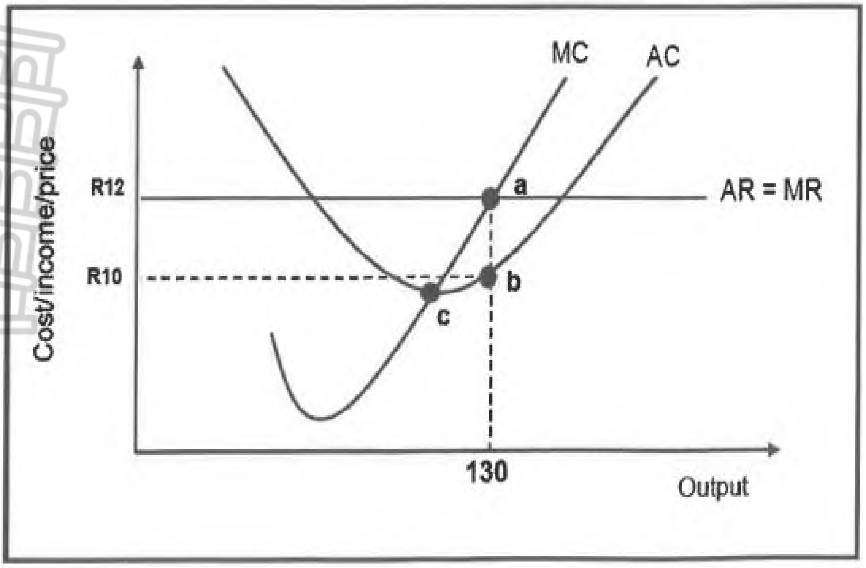
6.1.4 Why does the individual business take the price determined by the industry? (2)

- An individual firm is very small in relation to the industry and has no influence over the market price.
- If individual firms were to charge higher prices they may either lose customers or market share. ✓✓

6.1.5 How would the entry of new firms in the industry impact the individual business in the long run? (4)

- Competition will increase as the number of competitors in the market increase✓✓
- Supply of goods and services will increase leading to lower prices. ✓✓
- Lower prices will reduce economic profit and individual business will make normal profit in the long run. ✓✓

6.2 Use the graph below to explain the profit/loss made by businesses in the perfect market



(8)

- The perfect competitive firm maximises profit where the marginal revenue (MR) and marginal costs (MC) are (point e) ✓✓
- At point a, the firm will supply 130 units at market price of R12 ✓✓
- The average revenue is R12 and the average cost per unit is R10. ✓✓
- Total economic profit will be R260 (2 x 130) ✓✓
- Total revenue is R1 560 (R12 x 130) – Total cost R1 300 (R10 x 130) The firm makes an economic profit of R260. ✓✓
- Economic profit occurs in the short run. ✓✓ (4 x 2)

(Allocate a maximum of 4 marks for mere listing of facts and examples.)

ACTIVITY 7

7.1.1 Name TWO type of cost that are used to calculate the total cost of a firm (2)

- Variable cost✓
- Average cost✓

7.1.2 How is price determined in the long run? (2)

- In the industry the prices are determined by the intersection of demand and supply (market forces) ✓✓

7.2 Study the extract below and answer the question that follow:

INQUIRY INTO THE ONLINE MARKET IN SOUTH AFRICA

In response to the growing importance of the online economy and competition, the Competition Commission launched an investigation into competition and participation in the online economy in 2023.

In July 2024 the Competition Commission released a report that highlighted the lack of effective competition in the fees charged by app developers leading to high prices.

The commission recommended that certain considerations be taken into account regarding payment options for goods and services and how they are priced. The matter has since been referred to the Competition Tribunal

Source: www.google.com

7.3.1 Identify ONE reason for launching an enquiry into the online market in South Africa. (1)

- Lack of effective competition✓

7.2.2 Name the competition institution that has a similar status to that of a high court in South Africa (1)

- The competition Appeal court✓

7.2.3 Briefly describe the term *individual business*. (2)

- This is a single firm that produces and sell a homogeneous product✓✓

7.2.4 Explain the role of the Competition Tribunal. (2)

- It adjudicates on matters referred to it by the competition commission such as granting of exemption✓✓
- Issues an order foe matters presented to it by the competition commission✓✓

7.2.5 How has the Competition Act, 1998 (Act 89 of 1998) benefited (advantaged) South Africa? (4)

- The Act has improved the efficiency of businesses in the economy✓✓
- It has provided consumers with competitive prices and a variety of products. ✓✓
- It has encouraged all South Africans to participate in the economy through SMMEs. ✓✓
- The Act has promoted employment through the establishment of new businesses. ✓✓
- It has allowed previously disadvantaged groups to increase their ownership and control of businesses. ✓✓

7.3 Differentiate between an *industry* and an *individual business?* (8)

industry

- This is a group of individual firms that sell identical product. ✓✓
- The industry sets the market price through the market forces od demand and supply. ✓✓

Individual firm

- This is a single firm that produces and sell a homogeneous product✓✓
- The individual firm is a price taker and sell at the market price determined in the industry. ✓✓

ACTIVITY 8

- Discuss in detail the various equilibrium positions with the aid of graphs in a perfect market (26)
- Evaluate the success of Competition policy on the economy. (10)

INTRODUCTION

A perfect competitor is a market structure with a large number of buyers and sellers. ✓✓

BODY (MAIN PART)

ECONOMIC PROFIT✓

- It is the profit that is made in addition to the normal profit. ✓✓
- When average revenue is greater than average cost the firm makes economic profit. ✓

- is made by the perfect competitor in the short-run. ✓✓

Mark Allocation

Correct drawing and labelling of cost curves 1Mark
Correct drawing and labelling of revenue curves 1 Mark

Correct indication of profit maximisation point 1 Mark

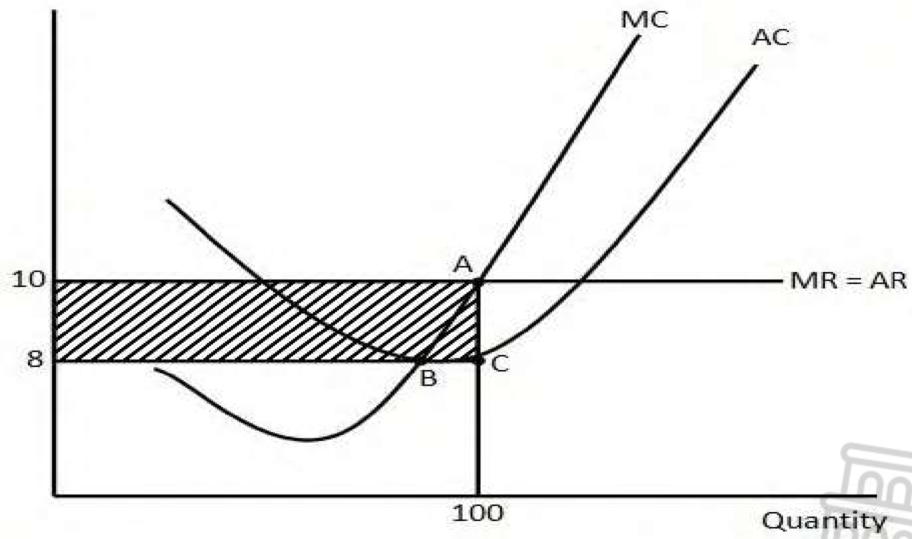
Correct indication of area (Economic profit) 1 Mark max 4 marks

EXPLANATION

- Given a market price of R10, profit is maximised at point? where MR=MC=R10. ✓✓
- This occurs at a quantity of one hundred units. ✓✓
- The firm's average revenue (AR) per unit of production is R10. ✓✓
- The firm's average cost (AC) per unit of production is R8, which is lesser that a price of R10. ✓✓
- Therefore, the firm is making an economic profit of R10-R8 = R2 per unit of production. ✓✓
- The economic profit is represented by the shaded area in the graph above. ✓✓

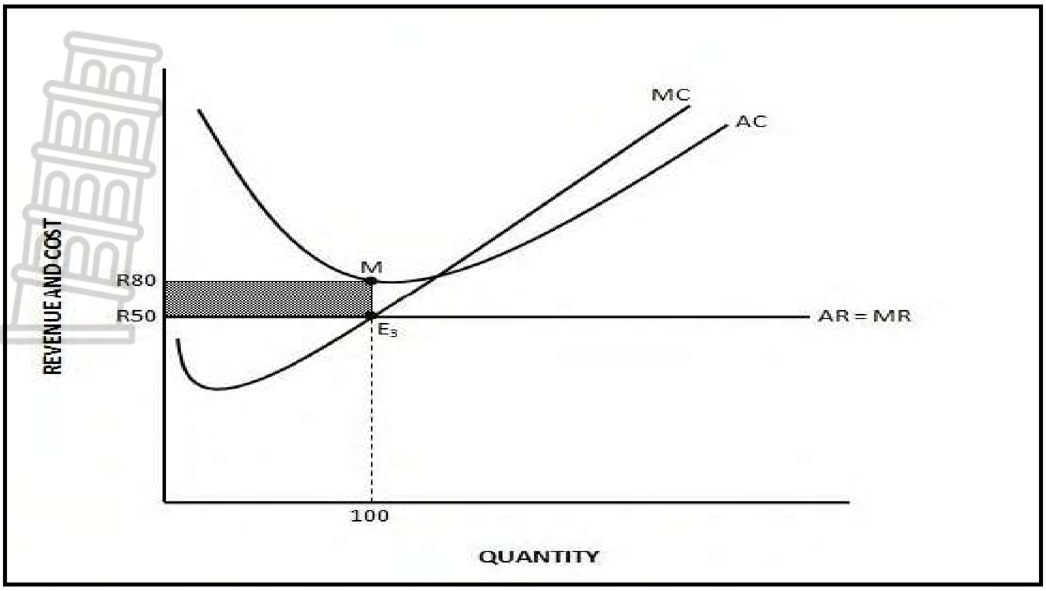
ECONOMIC LOSS ✓

- is



made when total costs are greater than the total revenue. ✓✓

- When average revenue is lower than average cost the firm makes an economic loss✓✓



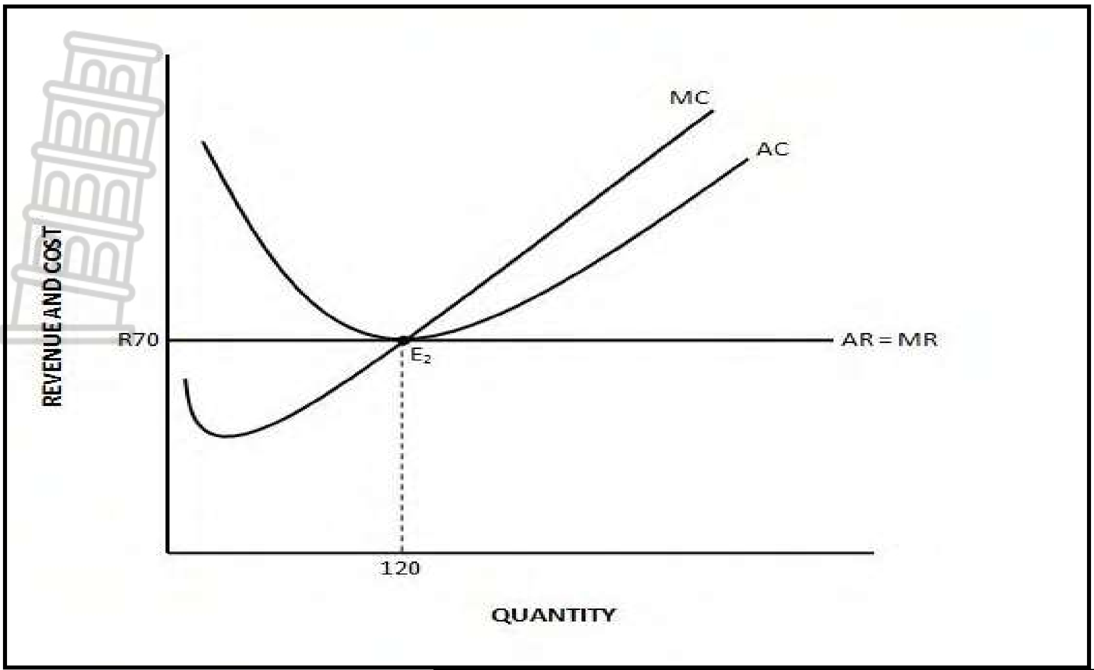
Mark Allocation		
Correct drawing and labelling of cost curves	1 Mark	
Correct drawing and labelling of revenue curves	1 Mark	
Correct indication of profit maximisation point	1 Mark	
Correct indication of area (Economic loss)	1 Mark	max 4 marks

EXPLANATION

- Given a market price of R50, profit is maximised at point E where MR=MC=P✓✓
- This occurs at a quantity of 100 units. ✓✓
- The average revenue (AR) per unit of production is R60. ✓✓
- The average cost (AC) per unit of production is R80, which is less than the price of R60. ✓✓
- Therefore, the firm is making an economic loss of R60-R80 =-R-20 per unit of production. ✓✓
- Economic loss is represented by shaded area on the graph above. ✓✓

NORMAL PROFIT✓

- is the minimum earnings required to prevent the entrepreneur from leaving the industry. When average revenue equals average cost the firm makes normal profit.✓✓
- is made by a firm in the long-run, if more firms enter the market. ✓✓



Mark Allocation		
Correct drawing and labelling of cost curves	1Mark	
Correct drawing and labelling of revenue curves	1 Mark	
Correct indication of profit maximisation point /point e	2 Mark	max 4 marks

EXPLANATION

- Given a market price of R70 profit is maximised where MR=MC=P. ✓✓
- This occurs at a quantity of 120 units. ✓✓
- At the quantity of 100 the firm's average revenue (AR) per unit of production is R70 ✓✓
- The firm average cost (AC) per unit of production is R70✓✓
- Since AR = AC, the firm earns a normal profit since all its costs are fully covered. ✓✓
- Point E is usually called a break-even point. ✓✓

ADDITIONAL PART

Evaluate the success of Competition policy on the economy. (10)

- Successfully investigating and prosecuting unfair competition on regular basis in the country which has disadvantaged other businesses and consumers. ✓✓
- Making recommendations about penalties for businesses found guilty of abuse and this has been endorsed and fines imposed. ✓✓
- Implementing Competition Tribunal which evaluate / analyse the investigations a recommendations of the Competition policy where necessary. ✓✓
- The Competition Amendment Bill has improved the competition policy by holding directors / owners accountable for uncompetitive behaviour. ✓✓
- Curbing the economic power of big conglomerates to arrive at a more equitable distribution of income and wealth to the benefit of the economy at large. ✓✓
- Regulate market power of mergers where conditions were imposed and charging them accordingly.✓✓
- Some unfair competitive behaviour has been unidentified making business get away with their mischievous activities. ✓✓

- Consumers in some instances become victims of high prices, colluded which are unfairly justified by businesses. ✓✓

CONCLUSION

Businesses under perfect competition can only realise normal profits in the long run due to the number of businesses entering in the market to share in the profits made in the short run. (Max. 2)

MONOPOLY

ACTIVITY 1

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 number (1.1.1–1.1.5) in the ANSWER BOOK, for example 1.1.6 D**

1.1.1 A market structure where one producer dominate the market…

A. monopoly ✓✓
B. oligopoly
C. perfect market
D. duopoly

1.1.2 The monopolist will shut down when the price is …

A. above AR
B. equal to AR
C. below AVC ✓✓
D. below AC

1.1.3 A monopolist maximise profit where marginal cost is equal to …

A. average revenue
B. marginal revenue ✓✓
C. average variable cost
D. total revenue

1.1.4 A type of monopoly that patents are used as a barrier to join the industry is called …

A. legal monopoly
B. natural monopoly
C. typical monopoly
D. artificial monopoly ✓✓

1.1.5 A situation where average cost(AC) is greater than average revenue(AR) in a monopoly business is called …

A. break even
B. economic loss ✓✓
C. economic profit
D. normal profit

(2X5) 10

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 1.2.4) in the ANSWER BOOK, e.g. 1.2.5**

COLOMN A	COLOMN B	Answers
1.2.1. Patent 1.2.2. Natural monopoly	A. A situation where barriers of entry are economic in nature	1.2.1. C ✓ 1.2.2. B ✓

1.2.3. Marginal evenue 1.2.4. Average cost	B. Refers to cost incurred for every unit sold C. An exclusive right to a firm to produce D. Additional cost incurred for producing one more unit E. Additional income earned for one extra unit sold	1.2.3. E ✓ 1.2.4. B ✓

(1X4) 4

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1 – 1.3.3)

1.3.1 The period of production where only the variable factors of production can change

- Short run ✓

1.3.2 A market structure that has full control over the price

- Monopoly ✓

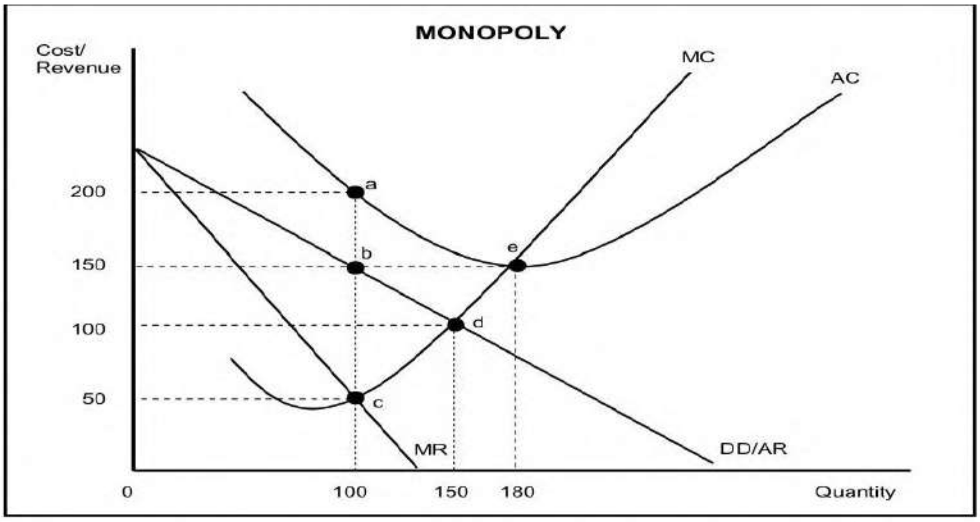
1.3.3 A mechenism where a potential buyer and a potential seller meet to determine the price

- Market ✓

(1X3) 3

ACTIVITY 2

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



2.1.1 Identify the market price in the graph above. (1)

- R150 ✓

2.1.2 What is the nature of the product in this market? (1)

- Unique ✓

2.1.3 Briefly describe the term *short run*. (2)

- Short run refers to a period of production where at least one factor input is fixed ✓✓

2.1.4 Why monopolies are regarded as inefficient? (2)

- They are inefficient because there is only one producer of goods and services ✓✓
- The output produced is relatively low as a results its lead to productive inefficient ✓✓

- They do not produce at a lowest possible cost in order to charge a relatively fair price ✓✓

2.1.5 Calculate the total revenue made by this firm. Show all calculations. (4)

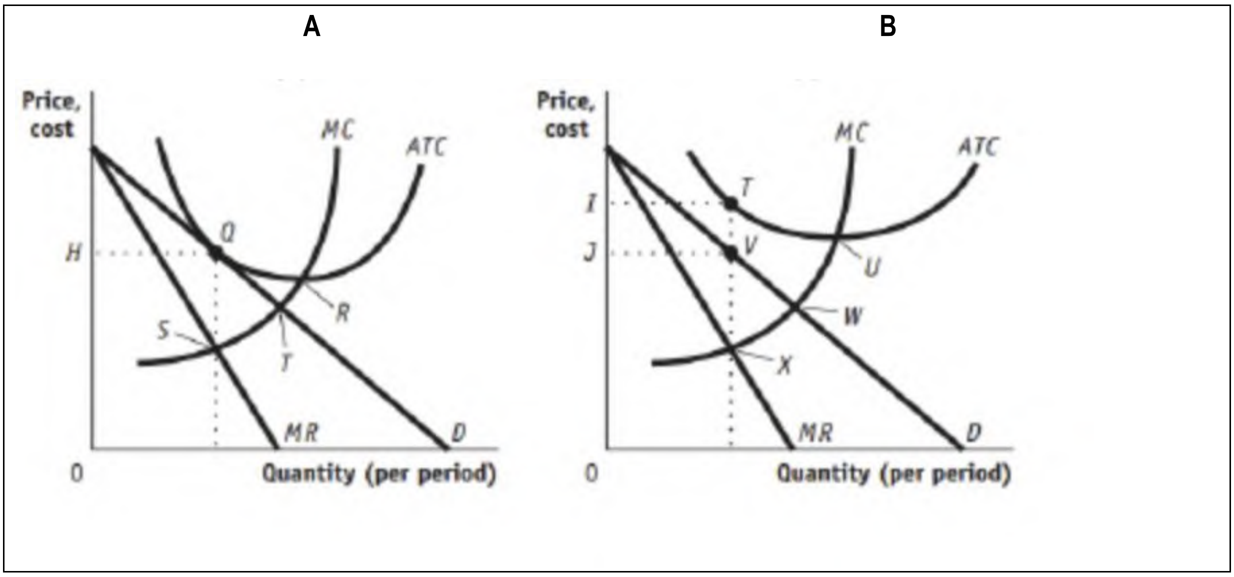
TR= (PRICE X QUANTITY) ✓

TR=R150✓X 100✓

TR=R15 000✓

ACTIVITY 3

3.1 Study the graph below and answer questions that follow



3.1.1 Identify loss minimisation point in the graph above (1)

- Point X ✓

3.1.2 Which graph represent normal profit? (1)

- Graph A ✓

3.1.3 Briefly describe the term *monopoly* (2)

- Monopoly is a market structure that consist of one producer selling unique product with no close substitute✓✓

3.1.4 Why monopolist only make supernormal profit in the long run? (2)

- Monopoly makes supernormal profit in the long run because they have full control over the price thus they are able to maximise their revenue by increasing the price in the long run ✓✓
- Non-existence of competition assist monopolies to enjoy maximum revenue which results to economic profit ✓✓

3.1.5 How could economic loss be eliminated in monopoly? (4)

- They can conduct efficiency audits to identify and eliminate wasteful practices, potentially translating to lower prices or improved services ✓✓
- Invest in innovative and technology to enhance productivity, reduce costs and ultimately lead to better offerings without necessitating high prices ✓✓
- Establishment of customer's platforms to voice out their concerns and preferences, holding monopolies accountable and promoting better service and prices ✓✓

ACTIVITY 4

4.1 Study the cartoon below and answer the questions that follow

4.1.1 Identify the market structure represented by the picture above (1)

- Monopoly ✓

4.1.2 Name one example of a monopoly in the cartoon (1)

- SANRAL ✓

4.1.3 Briefly describe the term *artificial monopoly* (2)

- Artificial Monopoly refers to a situation where barriers of entry are not economic in nature ✓✓

4.1.4 Why SANRAL is regarded as monopoly in South Africa? (2)

- SANRAL is the only firm that ensures the building of roads in South Africa ✓✓

4.1.5 How can the government reduce abuse of market power by Monopolies? (4)

- Government may establish independent regulatory bodies to oversee industries where monopolies are prevalent to ensure compliance with fair practice✓✓
- In case of natural monopoly, set rates and prices to protect consumers from exorbitant charges✓✓
- Create laws that protect consumers from unfair business practices and ensure they have access to accurate information ✓✓

ACTIVITY 5

5.1 Study the extract below and answer the questions that follow

Monopoly in the short run

There are natural and artificial monopoly. In the short-run, a monopolist firm cannot vary all its factors of production as its cost curves are similar to a firm operating in perfect competition. Also in the short-run a monopolist might incur loses

(adopted from www.toppr.com.guides)

5.1.1 Identify the monopoly caused by huge capital or start-up cost. (1)

Natural monopoly ✓

5.1.2 Give an appropriate term for costs that change with production. (1)

Variable costs ✓

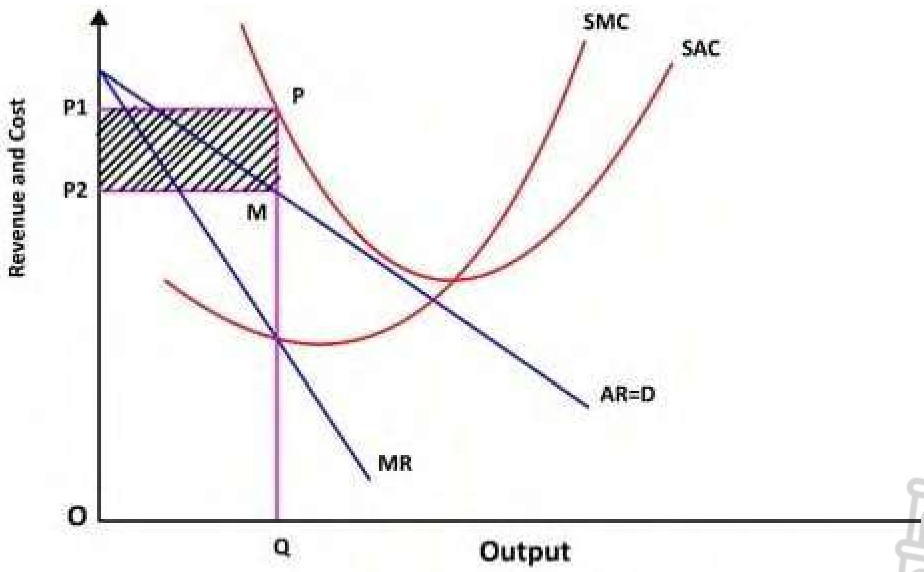
5.1.3 Briefly describe the term *market*. (2)

An institution or mechanism that brings together buyers and sellers of goods and services ✓✓

5.1.4 Why will it not benefit a monopolist to charge very high prices? (2)

- Consumers will buy alternative products due to budget constraints ✓✓
- Some customers may not afford goods and services as a results there will be less demand for goods and service thus the revenue decreases ✓✓

5.1.5 Draw a graph of economic loss in the monopoly (4)



A monopoly firm accruing loss

ACTIVITY 6

6.1 Name TWO types of monopolies (2)

- Artificial monopoly ✓
- Natural monopoly✓

6.2 Name any TWO types of profit made by a monopoly in the short run (2)

- Normal profit✓
- Economic profit ✓

6.3 Name any TWO examples of industry in monopoly (2)

- Eskom ✓

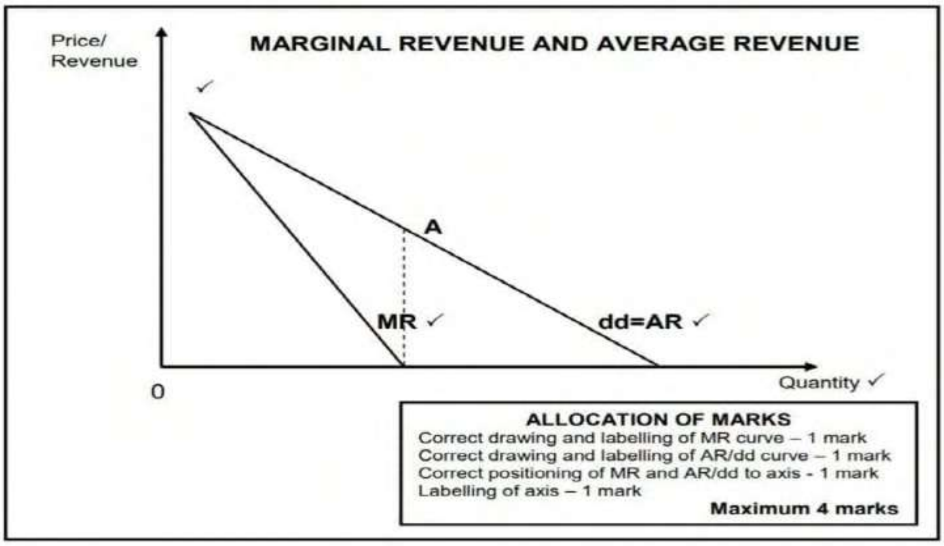
- Transnet ✓
- SANRAL ✓
- Telkom ✓

ACTIVITY 7

7.1 Discuss the demand curve of a monopoly without the use of a graph (8)

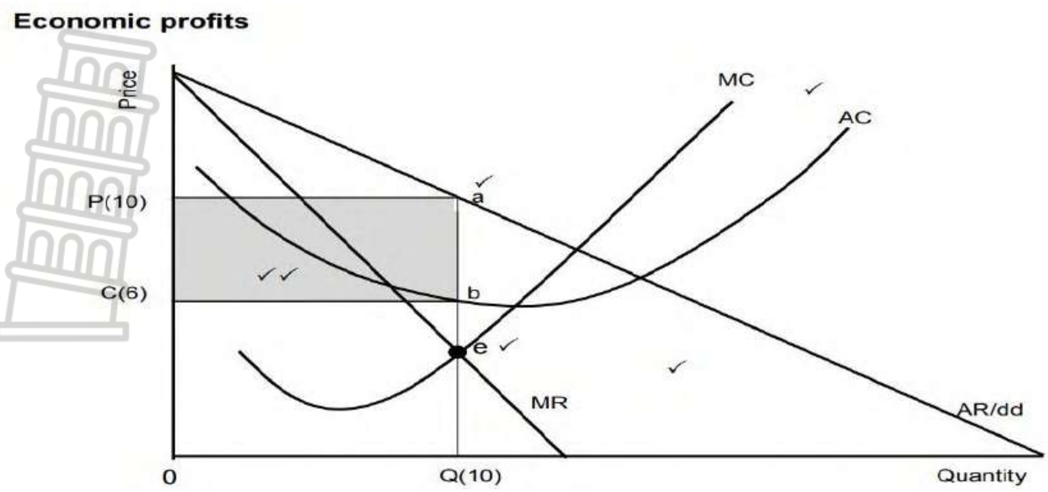
- The demand curve of a monopoly is downward sloping from left to right✓✓
- It is relatively inelastic because consumers have limited choice or no choice at all✓✓
- Monopoly is a price maker which result to market decision rely solely onto the producer and limit output in the long run due to existence of market power✓✓
- They may produce at any point along AR curve which will yield the maximum revenue✓✓
- The demand curve is steeper since they have full control over the price compared to that of monopolistic competition ✓✓

7.2 With an aid of a well labelled graph, explain the relationship between marginal revenue and the demand curve of a monopoly (8)



- The marginal revenue curve, with the exception of the first unit will lie below the dd/AR curve✓✓
- The demand curve (AR) is negatively sloping, which results in more goods being sold at a lower price, hence the additional revenue (MR) will decrease as well✓✓
- MR curve intersects the horizontal axis at a point halfway between the origin and the AR curve✓✓
- The monopolist will always set a price above point A on the AR curve because marginal revenue will be positive✓✓

  (Accept any other correct relevant response)



- Economic profit occurs when total revenue is greater than total cost. ✓✓
- The minimum point of the average cost curve (AC) is lower than the market price. ✓✓
- Business maximizes profit (equilibrium point) at point e, where MC=MR.✓✓
- Total revenue is equal to 10x10 (100) and total cost is equal to 6x10 (60).✓✓
- Economic profit area is represented by PabC ✓✓

7.3 Why does the performance of South African monopolies contradict the long run equilibrium position of a monopoly? (8)

- Many state-owned monopolies (e.g. Eskom, Transnet, SAA) suffer from poor management, lack of accountability, and operational inefficiencies. ✓✓
- Inefficiency leads to higher costs, delays, and unreliable services, making it hard to operate profitably✓✓
- Widespread corruption (e.g. during the state capture era) has drained resources from monopolies✓✓
- Funds meant for infrastructure, maintenance, and innovation are misused, creating debt and long-term financial problems✓✓
- Political agendas often override economic logic. Monopolies are pressured to provide services at below-cost prices or keep tariffs artificially low✓✓
- They are also forced to retain unproductive labour or award contracts politically rather than competitively✓✓
- Eskom has been unable to set electricity prices based purely on cost recovery due to government price controls✓✓

ACTIVITY 8

8.1 Study the cartoon below and answer the questions that follow

8.1.1 Identify the challenge that was faced by Eskom in previous years (1)

- Load shedding✓

8.1.2 Give the reason for the failure of Eskom according to the source? (1)

- Corruption✓
- Mismanagement✓

8.1.3 Briefly describe the term *marginal cost.* (2)

- Marginal cost refers to additional cost incurred by producing one more unit ✓✓

8.1.4 Explain the impact of load shedding on producers (2)

- Producers may fail to produce enough goods due to power failure where the firms may not be operating for certain period ✓✓
- Cost of production increases as firms will incur cost of buying back up energy thus producers may increase prices ✓✓

8.1.5 How can the government assist Eskom to improve power supply? (4)

- Through bailout that can help Eskom to cover other costs of fixing worn-out machineries that break down unexpectedly ✓✓
- The use of independent private power suppliers that can sell electricity to Eskom may reduce the burden to Eskom during peak season/ period ✓✓

ACTIVITY 9

9.1 Study the table below and answer questions that follow

Revenue table for a monopoly				
Quantity	**Price**	**Total revenue**	**Average revenue**	**Marginal revenue**
0	0	0	-	-
1	10	10	10	10
2	9	18	9	8
3	8	24	8	6
4	7	28	7	4
5	6	30	6	2

9.1.1 Identify the output that yields the highest revenue (1)

5 Quantities ✓

9.1.2 Give values in the table that represent change in revenue divided by change in output? (1)

Marginal revenue✓

9.1.3 Briefly describe the term *average revenue*. (2)

- Average revenue refers to the total revenue divided by number of units sold✓✓
- Average revenue may be defined as the amount of money a firm receives for each unit of its product or service✓✓

9.1.4 Explain the nature of the product sold by monopolies. (2)

- Monopoly sell unique products with no close substitute ✓✓

9.1.5 Why is it possible for monopolies to make economic loss in the short run? (4)

- In the short run the monopolist is unable to change all inputs then the cost of production is high✓✓
- The demand for a product may not be sufficient to yield a profit ✓✓

ACTIVITY 10

10.1.1 Discuss *number of producers* and *level of entry* as characteristics of monopoly (8)

- Monopoly is a market structure that has only one producer of goods and services✓✓
- In monopoly there is no competition due to that there is only one seller and consumers may find other substitutes goods✓✓
- Entrance is completely blocked; other producers find it difficult to join this industry✓✓

- Huge startup cost may be a barrier to some those who want to join which results to natural monopoly✓✓
- Other firms are blocked by government by not giving them permit/ license to operate which results to artificial monopoly ✓✓

10.1.2 How can monopolies ensure that they are more efficient? (8)

- Monopolies can take advantage of large-scale production, which can lead to lower average costs per unit produced ✓✓
- When a firm operates at a large scale, it can spread fixed costs over a larger number of goods, thus achieving economies of scale ✓✓
- The ability to invest in research and development can increase efficiency. A monopoly might have sufficient financial resources as a result of its market power, allowing for substantial investments that lead to more efficient production methods or new technologies ✓✓
- With little to no competition, monopolies may have strong incentives to innovate and improve efficiency, knowing that they can potentially capture the full benefits of their investments ✓✓
- A monopoly can offer price stability for consumers, as it is less likely to engage in price wars and fluctuations common in competitive markets ✓✓

ACTIVITY 11

11.1 Discuss the monopoly in detail without the use of graphs (26)

Analyse the challenges that the monopoly might face if excessively high prices are charged for the products (10)

INTRODUCTION

Monopoly is a market structure where there is only one seller of good or service that has no close substitutes e.g. Eskom✓✓

MAIN PART

Number of firms✓

- Monopolist consists out of a single seller. ✓✓
- Example: Eskom or De Beers – diamond selling✓✓

Nature of product✓

- The product is unique with no close substitute. ✓✓
- Example: electricity and rail transport. ✓

Market entry✓

- It is entirely/completely blocked ✓✓
- They are protected by barrier of entry. ✓
- The barriers can be divided into **TWO main groups**:

Natural monopoly✓

- It occurs because of high development costs. ✓✓
- To build a nuclear power station and transmission lines costs billions of rands.✓

Artificial monopoly or state –owned monopoly ✓

- Company given the sole right to provide certain product or service e.g. patent ✓✓
- Licensing is another way in which artificial monopoly is applied e.g. TV and radio licenses. ✓✓

Local monopoly✓

- There is only one supplier in certain geographical area local supermarket in rural area or a school tuck shop✓✓

Control over price✓
- Monopolist is regarded as a price maker. ✓✓
- Monopolist may choose price-quantity combination. ✓✓
- By reducing price monopolist may sell more units of products✓✓.
- By increasing price monopolist may sell less units of products. ✓✓

Market information✓
- All information about market conditions is available to both buyers and sellers✓✓.

They are faced with demand curve✓
- Monopolists also have demand curve like other businesses. ✓✓
- Its demand curve slopes downward from the left to the right. ✓✓

Profit✓
- Monopolist can earn economic profit in the short and the long run. ✓✓
- Because new entries are blocked (no competition) and short run economic profit cannot be reduced by new competing firms entering industry. ✓✓
- Monopolist thus continues to earn economic profit as long as the demand for its product remains intact. ✓✓

(Max: 26 marks)

ADDITIONAL PART

Analyse the challenges that the monopoly might face if excessively high prices are charged for the products

The monopolist would not charge very high prices because:
- Increase the price might reduce the demand for the product that will reduce revenue and might decrease profit✓✓
- Consumers with limited budgets might switch to substitutes even though substitutes might not be close to the product of the monopolist✓✓
- Their price increases are sometimes restricted by regulatory bodies such as NERSA, if electricity becomes too expensive, consumers can switch to gas or firewood✓✓
- A business might close down due to a persistent reduced and the loss of revenue✓✓
- Doing business could encourage other businesses to enter the market and provide cheaper alternatives but not of the same quality ✓✓

CONCLUSION
- Even though monopolist is a price taker but cannot set a price independently of output. A higher price will always result in less quantity. ✓✓ **(2 marks)**

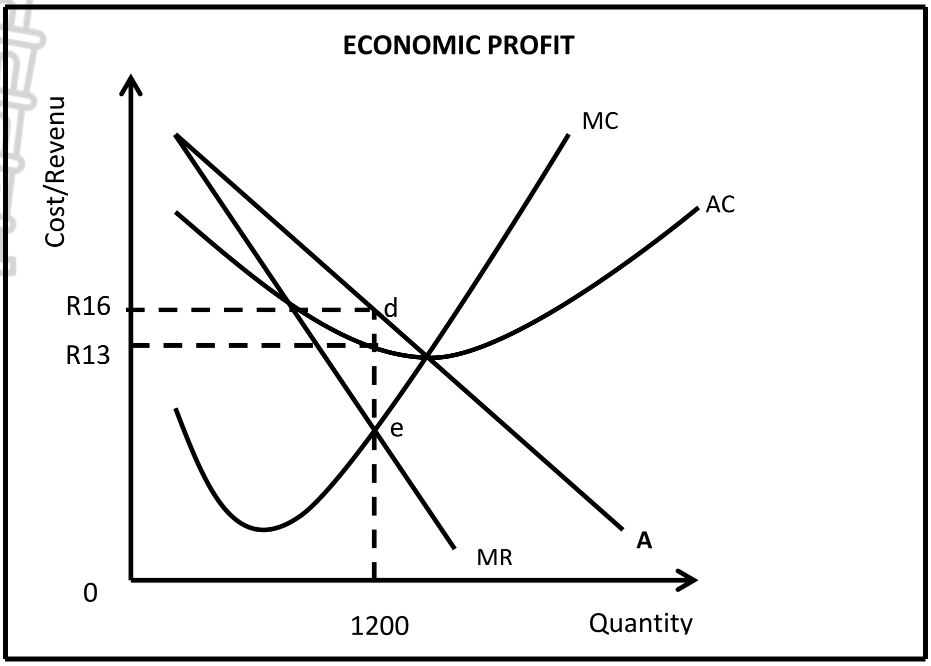
ACTIVITY 12

12.1 With the aid of graphs, discuss how economic profit and economic loss is determined in a monopoly market. (26)
- Evaluate the success of government in eliminating monopolies (10)

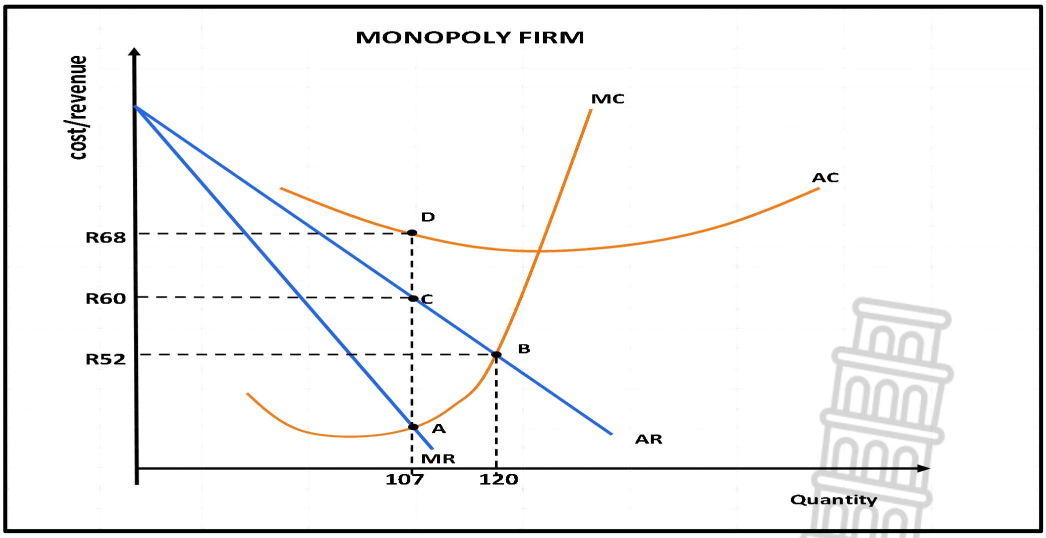
INTRODUCTION
- Monopoly is a market structure with a single seller of a product that has no close substitutes e.g. Eskom. ✓✓
- Perfect monopoly occurs when there is a room for only one business in the industry. ✓✓

(Max: 2 marks)

BODY



- Economic profit occurs when total revenue is greater than total cost. ✓✓
- The minimum point of the average cost curve (AC) is lower than the market price. ✓✓
- Business maximizes profit (equilibrium point) at point e, where MC=MR.✓✓
- Total revenue is equal to 16x1200 = R19 200 and total cost is equal to 13x1200 = R15 600✓✓
- The total economic profit is calculated as R19 200 – R15 600 = R3600 . ✓✓



- Economic loss occurs when total revenue is less than total cost. ✓✓
- The minimum point of the average cost curve (AC) is higher than the market price. ✓✓
- Business minimizes loss (equilibrium point) at point e, where MC=MR. ✓✓
- Total revenue is equal to 60x107 (6420) and total cost is equal to 68x107 (7276). ✓✓
- Total economic loss is calculated as 6420 – 7276= -856. ✓✓

(Max: 26 marks)

Additional Part

Evaluate the success of government in eliminating monopolies (10)

Government has been unsuccessful because

- Monopolies are using their market power to exploit consumers because they have no competition and if government intervene they reduce their output produced✓✓
- South African monopolies are mostly owned by government which makes it difficult for government to overcome that challenge due to mismanagement ✓✓
- Government has failed to attract other investors to join so that they pose competition to the existing firm and market power can be reduced✓✓
- There is information deficiency on how to get capital to start a business in order to introduce competition to an existing firm✓✓

Success

- Government has appointed competition commission to investigate all anti-competitive behavior which has led to some firms paying fines when misusing their market power✓✓
- Government has successfully bailed out businesses financially which has resulted to less prices charged on essential goods and services✓✓
- Very few monopolies exist in the country due to government policies that encourage competition and prevent monopolies✓✓
- The provision of infrastructure attracts investors which might eliminate monopoly and create competition ✓✓

CONCLUSION

- The monopoly can continue to earn economic profit for as long as the demand for its product continues and its production costs stays the same. ✓✓ **(2 marks)**

TOPIC: OLIGOPOLY

ACTIVITY 1

1.1 Various options are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A-D) next to the question number (1.1.1 –1.1.5) in the ANSWER BOOK, for example 1.1.6-D

1.1.1 An industry dominated by only two large firms is known as…

A. Duopoly✓✓
B. Monopoly
C. Oligopoly
D. Competition

1.1.2 An arrangement between oligopolists aiming to limit competition amongst themselves is known as…

A. interdependency
B. price leadership
C. marketing
D. collusion ✓✓

1.1.3 Market structure in which a small number of large sellers dominate the market. known as…

A. monopoly
B. oligopoly✓✓
C. monopolistic competition
D. perfect competition

1.1.4 An institution with the authority to approve mergers and takeovers is known as…

A. Competition Tribunal✓✓
B. Competition Appeal Court
C. Competition Commission
D. Competition Act.

1.1.5 An open and formal agreement between oligopolies to fix prices and limit supply is known as…

A. implicit collusion

B. price leadership
C. explicit collusion✓✓
D. tacit collusion.

(5x2)10

1.2 **Choose the description from COLUMN B that matches the term in COLUMN A. Write only the letter (A-I) next to question number (1.2.1.-1.2.4.) in the answer book.**

COLUMN A	COLUMN B	Answers
1.2.1 Differentiated product	A. Nature of product is homogenous.	E✓
1.2.2 Pure oligopoly	B. Dominant business in the industry makes price decision .	A✓
1.2.3 Price leadership	C. strategy to retain and maintain customer base.	B✓
1.2.4 Competition Commission	D. Responsible for investigation and evaluation of restrictive business practises	D✓
	E. Product that differ slightly in appearance	

(4X1) 4

1.3 Give ONE term for each of the following description. Write only the term next to the question number (1.3.1-1.3.4) in the answer book. ABBREVIATIONS, ACRONYMS AND EXAMPLES are not accepted

1.3.1 An exclusive right to a inventor allowing them to prevent others from producing a product.
patent right✓

1.3.2 A situation where any of the condition of perfect market do not exist.
Imperfect market✓

1.3.3 A creation of a distinct identity for a business in the market.
Branding✓

1.3.4 Marketing strategy where firms do not compete in terms of prices.
Non-price competition✓

(4X1) 4

ACTIVITY 2

2.1 **Read the extract below and answer the questions that follow.**

SOUTH AFRICAN DRUG COMPANIES FOUND GUILTY OF PRICE FIXING

Four South African drug manufacturers have been found guilty by the country's competition authorities to have colluded in fixing bids for the supply of products to the tender system through which the state buys drugs for its hospitals and health care service.

Source: www.iol.co.za

2.1.1 Identify the term that indicates collusion by manufacturers in the extract above. (1)
Price fixing ✓

2.1.2 Name the institution that investigates collusion among companies. (1)
Competition Commission ✓

2.1.3 Briefly describe the term *price leadership*. (2)
Price Leadership is a form of implicit collusion where one business in the industry makes price decision on behalf of the whole group. ✓✓
(accept any relevant and correct answer)

2.1.4 Briefly explain the impact of collusion on consumers. (2)

- Collusion may cause consumers who are low income earners to be unable to satisfy their needs due to unaffordability caused by an increase in prices. ✓✓
- Collusion limits choice for consumer due to limited goods and services supplied by the market resulting to a decline in standard of living✓✓

2.1.5 Why do companies practice collusion despite the laws that prevent it in South Africa? (4)

- Oligopoly firms disregard the laws because they want to limit completion within the industry and maintain their market share. ✓✓
- Their main aim is to increase or maintain high levels of profit over the long term. ✓✓
- Firms may practice collusion in order to reduce insecurities among themselves and uncertainty in the market. ✓✓

2.2 Briefly discuss overt collusion and tacit collusion. (8)

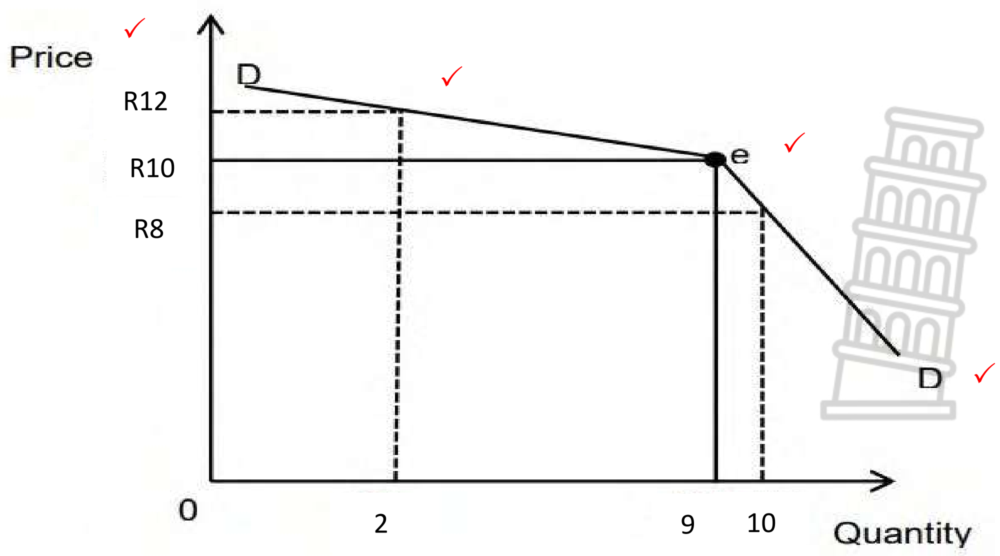
Overt collusion

- It is an organisation of oligopolistic business that comes into existence in an industry with the specific aim of forming a collective monopoly.
- It is when oligopolies collude openly and formally.
- Cartels control the production of goods and this influences the prices of products. e.g. OPEC (oil)

Tacit collusion

- The behaviour by firms is motivated by arrangement that is not formal.
- Price signals are frequently the key element to tacit collusion.
- One business increases its price in the hope that the rivals will increase their prices - a firm like this known as a price leader.
- When the other businesses follow with the increase, they are known as price followers.
- Price leaders are usually the strongest and most dominant business whose production cost is the lowest, e.g. steel industry, transport industry.
- The costs of production are lower as the firms produce at the lowest point of the average cost curve.

2.3 Using a correctly labelled graph, discuss why it is advisable for an oligopolist firm to charge the market price. (8)



Explanation

- A firm will make a maximum profit at market price of R10, which will give a revenue of R90 (R10 x 9).✓✓

- If the firm increases the price to R12, it will make a revenue of R24 (R12 x 2). xustomers would buy goods from competitors, decreasing demand drastically from 9 to 2 units. ✓✓
- Trying to attract more customers, a firm might decrease the price to R8, demand increases to only units, receiving revenue of R80 (R8 x10). This will still be below the revenue received at the market price. ✓✓

ACTIVITY 3

3.1 Study the picture below and answer the questions that follow.

Source:Googlepictures.com

3.1.1 Identify the market structure that is shown above. (1)

Oligopoly✓

3.1.2 Give any one type of oligopoly. (1)

Pure oligopoly✓

Differentiated oligopoly✓

3.1.3 Briefly describe the term *market structure*. (2)

Is the organisational features of the market including number of sellers, nature of the product sold and information availability. ✓✓

3.1.4 Why oligopolies make economic profit in the long run? (2)

High barriers to entry limits other firms to enter and compete with existing firms✓✓

Existence of collusion makes it hard for other firms to compete with existing firms✓✓

3.1.5 How does collusion by oligopolies affect consumers? (4)

Collusion reduces consumer welfare and social efficiency by creating a monopoly outcome✓✓

Collusion leads to higher prices for consumers which affect the standard of living negatively✓✓

Collusion discourages other firms to enter the market and consumers' choices becomes limited. ✓✓

3.2 How successful is the practise of collective decision making in the oligopoly market? (8)

Successful

- It can increase the market share of businesses which further increases their profits. ✓✓
- It limits the level of competition thus decreasing advertising costs. ✓✓

Unsuccessful

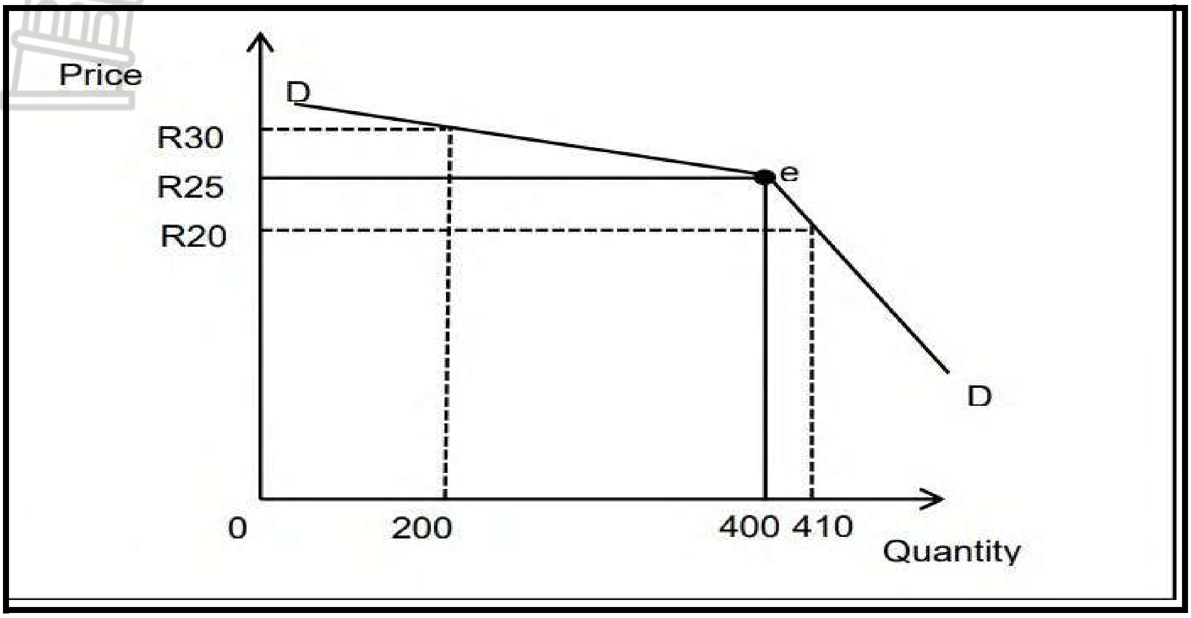
- Some firms may cheat on others since they are not obliged to comply to the agreements made. ✓✓
- Firms that are not cooperative firms would gain more profits than their respective

competitors. ✓✓

- Actions of different competitors may lead to price wars which would negatively affect consumers and other firms. ✓✓

ACTIVITY 4

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



4.1.1 Identify the market price on the above diagram. (1)

R 25 ✓

4.1.2. Name the demand curve shown by the above graph. (1)

Kinked demand curve ✓

4.1.3. Briefly describe the term *cartel*. (2)

Cartel is an explicit collusion where oligopolies agree on price fixing, market share, advertising strategies and product development. ✓✓

4.1.4. Explain the impact of increasing the price for the oligopoly. (4)

- At a higher price the oligopoly will experience a decrease in quantity demanded for the product it sells as seen through a relatively elastic demand curve. ✓✓
- Consumers choose to go and buy from other oligopoly firms and that leads to economic loss for the firm with a higher price. ✓✓

4.1.5. Use the figures given in the graph to calculate the change in total revenue if the price increased to R30. Show all calculations. (4)

TR = (P x Q)

(R25 x 400) ✓ – (R30 x 200) ✓

R10 000 - R6 000

R4 000✓✓

4.2 How can businesses increase their market share without causing price wars? (8)

- They can use non price competition strategies such as:
- Advertising their products in order to attract more customers. ✓✓
- They can also improve service rendered to their existing customers so that they will have a good word of mouth and attract new customers. ✓✓
- Extend working hours to allow those who work late to have time to buy. ✓✓

- After sale service keep customers' loyalty and increases sales. ✓✓

ACTIVITY 5

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

SA COMPETITION COMMISSION PROSECUTES BANKS FOR COLLUSION

The Competition Commission of South Africa has referred a case of collusion to the Tribunal for prosecution against Bank of America, Merlin Lynch International, Limited Invest Ltd, Standard Bank of South Africa Limited, ABSA Bank Limited and Barclays Bank. The commission has been investigating a case of price fixing and market allocation in the trading of foreign currency pairs involving the Rand since April 2015. It has now referred the case to the Tribunal for prosecution.

[Source: www.google.com. Accessed on 12 February 2023.]

5.1.1 Identify the competition institution that passes judgements. (1)

Competition Tribunal ✓

5.1.2 Name any ONE type of collusion. (1)

Overt collusion ✓

Tacit collusion ✓

5.1.3 Briefly describe the term *collusion*. (2)

Collusion is an agreement between businesses to fix prices and quantity with the aim of limiting competition between them. ✓✓

5.1.4 Explain the purpose of using non-price competition in an oligopoly. (2)

Oligopolies prefer to compete on the basis of product differentiation and efficient service and other non-price competition strategies because price competition can result in price wars. ✓✓

5.1.5 Why banks often collude although it is illegal in South Africa? (4)

- Collusion between banks occur because it is an effort to reduce uncertainty, that is, they agree on the prices they are going to demand and the quantities they are going to produce ✓✓
- They can enjoy the advantage of limiting competition and making it difficult for other businesses to enter the market. ✓✓
- Collusion between banks occur because they want to limit supply in order to raise prices and maximise profits. ✓✓

5.2 How does competition commission contribute positively to the economy? (8)

- Competition commission contribute by preventing mergers that can cause low production. ✓✓
- Prevents consumer exploitation that can lead to higher prices and inflation. ✓✓
- Creates job opportunities that lead to high revenue for the state due to VAT and PAYE. ✓✓
- More businesses may be created because no collusive behaviour is done that prohibit others to join the industry. ✓✓
- Ensures fairness when businesses trade of which prices may be low but with high quality✓✓
- Encourages businesses to operate efficiently, innovate and optimize, this leads to improved productivity and resource allocation across industries. ✓✓
- Vibrant and competitive markets contribute to overall economic growth by stimulating business activity, job creation and investment. ✓✓

ACTIVITY 6

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

ANTI-MONOPOLY POLICY

Competition Act 89 of 1998: This is the cornerstone of South Africa's competition policy. It aims to promote and maintain competition in the economy, prevent anti-competitive practices, and protect consumers. The Act was introduced after a comprehensive review of previous legislation, particularly post-1994, to address the

inefficiencies in preventing oligopolies and monopolistic practices. Google.com

6.1.1 Identify the legislation that regulates competition in South Africa. (1)
The Competition Act 89 of 1998✓

6.1.2 Name the type of profit made in the long run by the oligopoly? (1)
Economic profit✓

6.1.3 Briefly describe the term *price fixing*. (2)
Price fixing refers to an agreement between market participants to collectively raise, lower, or stabilise prices to control supply and demand. ✓✓

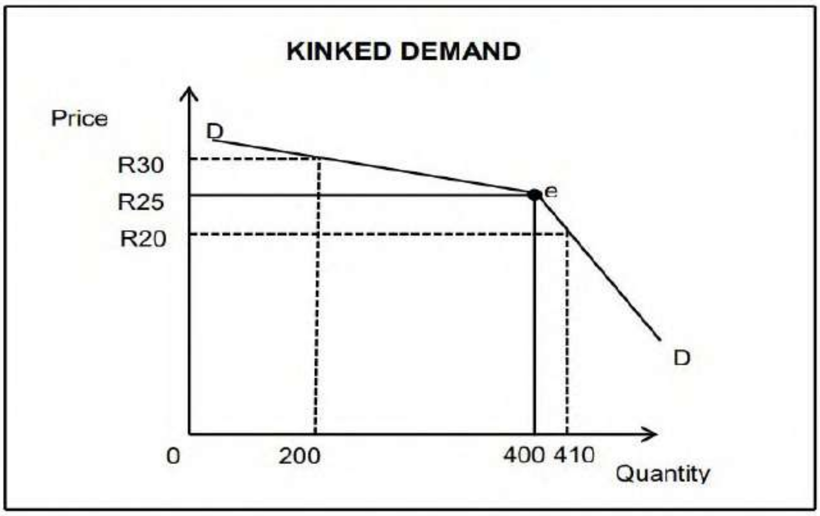
6.1.4 Why does mutual dependence affect the market share of the oligopolists? (2)

- The decisions of one firm will influence and will be influenced by decisions of other firms to increase its market share. ✓✓
- Compels other firms to come up with strategies to counteract the decisions of other competitors to maintain and improve its share of the market✓✓

6.1.5 How do restrictive practices prevent competition? (4)

- A dominant business may induce suppliers or customers not to deal with a competitor. ✓✓
- Major firms can refuse to supply scarce goods to a competitor. ✓✓
- The charging of prices that are below cost to exclude rivals from the market. ✓✓

6.2 With an aid of a fully labelled graph explain the segments of the kinked demand curve. (8)



MARK ALLOCATION
Correct labelling of and on axis = 1
Correct shape of the curve = 1
Showing and labelling of the kink = 1
Showing a change in price and quantity = 1
Maximum marks = 4

Explanation

De segment

When the price changes from the market price of R25 to R30, there was a drastic decrease in the quantity demanded from 400 to 200 units. ✓✓
Therefore, the De segment is elastic because it is sensitive to price change. ✓✓

eD segment

Decreasing the price from the market price of R25 to R20 led to on a slight increase in the quantity demanded from 400 to 410. ✓✓
This means that the bottom part is inelastic and not sensitive to price change. ✓✓

ACTIVITY 7

7.1 Study the picture below and answer the questions that follow.

7.1.1 Identify the industry represented by the above companies. (1)

Cement industry✓

7.1.2 Name the nature of product sold by pure oligopoly. (1)

Homogenous✓

7.1.3 Briefly describe the term *duopoly.* (2)

Is market structure dominated by only two large firms. ✓✓

7.1.4 Explain the aim of the Competion Act. (2)

- To prohibit the abuse of market power that unfairly limits competition✓✓
- Regulate mergers and takeovers to prevent excessive market concentration✓✓
- Prevent illegal business practices such as price fixing✓✓

7.1.5 How can advertising be used as a non-price competition strategy? (4)

- Advertising is used to provide information about the product and the enterprise. ✓✓
- The consumers are persuaded to buy the on offer. ✓✓
- Consumers are reminded about the benefits of buying a particular product. ✓✓

ACTIVITY 8

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

BLACK BUSINESS COUNCIL SLAM SPECTRUM

For a decade, the South African government has dragged its feet in bringing into force policy that reserves a share of the radio frequency spectrum.

The wireless Open Access Network (WOAN) was policy driven to create radio spectrum entity. Entrepreneurs would need to source huge capital amounts, upfront to build necessary infrastructure from scratch, causing this industry to be pure oligopoly market structure.

https://www.theafricareport.com

8.1.1 Identify the barrier to enter the market from the extract. (1)

Huge capital ✓

8.1.2 Name ONE example of an oligopoly market. (1)

- Banking industry ✓
- Insurance ✓
- Cellphone industry ✓

8.1.3 Briefly describe the term *pure oligopoly.* (2)

Pure oligopoly occurs when firms produce homogeneous products. ✓ ✓

8.1.4 Explain mutual dependence as a characteristic of an oligopoly as a market structure. (2)

- An action of one firm may influence the action of other firms. ✓ ✓
- Competing firms are forced to come up with strategies to counteract actions of the competitor. ✓ ✓

8.1.5 Why are cartels considered illegal in South Africa? (4)

Cartels are considered illegal because:

- Oligopolies use their market power to intentionally restrict output in order to increase prices.
- Consumers suffer from a loss of economic welfare, due to increased prices.
- It poses unfair competition to rival businesses

ACTIVITY 9

- Examine oligopoly as a market structure in detail. (26)
- How can the government discourage firms from engaging in anti-competitive behaviour? (10)

INTRODUCTION

An oligopoly exists when a small number of large firms are able to influence the supply of a product or service in a market. ✓✓

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

MAIN PART

Number of sellers ✓

There are few sellers dominating the market which limits competition. ✓ ✓

Nature of the product ✓

Products may be homogeneous or differentiated. ✓ ✓

If the products are homogenous, the market is regarded as pure oligopoly. ✓ ✓

When the products are differentiated, the market is regarded as differentiated oligopoly. ✓ ✓

Market entry ✓

Entry into an oligopolistic market is not easy due to the existence of barriers such as brand loyalty and economies of scale. ✓ ✓

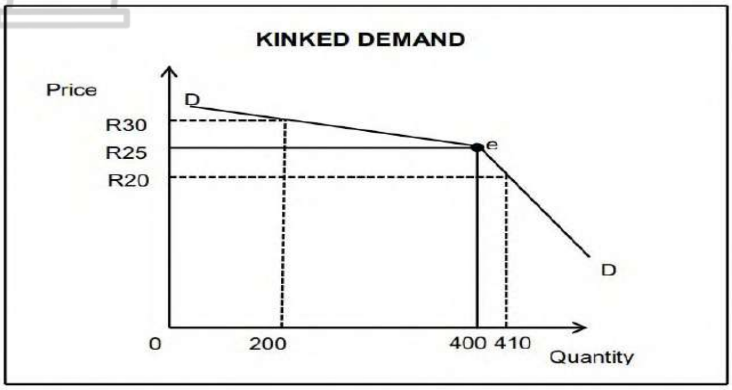
Many oligopolistic industries have high set-up costs which also block entry. ✓ ✓

Advertising is very expensive and firms that cannot afford to do so will lag behind the competition, this is itself is a barrier to entry**.** ✓ ✓

Market information ✓

Information is incomplete as consumers and producers do not have full information about prevailing market conditions. ✓ ✓

Lack of information may cause uncertainty and irrational decision making in the market. ✓ ✓
Control over the price ✓
Producers have a considerable control over the price of their product but not as much as in a monopoly. ✓ ✓
Sometimes oligopolies may collude to influence prices in the market. ✓ ✓
Demand curve ✓
An oligopolist faces a kinked demand curve, with two segments. ✓ ✓
The top segment is relatively elastic, and the bottom segment is relatively inelastic✓ ✓
(Allocate a maximum of 4 marks for a correctly drawn kinked demand curve)



MARK ALLOCATION
Correct labelling of and on axis = 1
Correct shape of the curve = 1
Showing and labelling of the kink = 1
Showing a change in price and quantity = 1
Maximum marks = 4

Economic profit/loss ✓
Oligopolistic firms can make economic profit in both short run and long-run. ✓ ✓
Barriers to entry make it possible for oligopolies to enjoy high profits. ✓ ✓
Decision making /Mutual dependence✓
The oligopolist market is characterized by mutual dependency where the actions of one firm will influence others ✓ ✓
Interdependence leads to complex policy decision making as compared to other market structures ✓ ✓
Collusion ✓
There is high possibility of collusive practices in an oligopoly since there are few businesses✓ ✓
Oligopoly businesses collude to reduce competition, earn higher, reduce uncertainty in the market. ✓ ✓
Collusion may be formal (cartels) or informal (price leadership). ✓ ✓
A cartel is an organisation of oligopolistic businesses that come into existence with a specific aim of forming a collective monopoly. ✓ ✓
Price leadership is the situation where the dominant firm fixes the price and the other firms accept it as a market price. ✓ ✓
Non-price competition ✓
Oligopolistic firms are reluctant to change prices because a price war will drive their prices down, eliminating profits. ✓ ✓
They make use of non-price measures to attract customers and increase their market share. ✓ ✓
An important aspect of non-price competition is to build brand loyalty, product recognition and product differentiation. ✓ ✓
(Accept any other correct relevant response)
Allocate a maximum of 8 marks for mere listing of headings and examples) (max. 26)

ADDITIONAL PART

The government discourage firms / oligopolist firms from engaging in anti-competitive behaviour by:

- Granting licenses to other businesses to compete against existing oligopolies. ✓ ✓
- Imposing heavy fines on firms found guilty of anti-competitive practices/behaviour. ✓ ✓
- Speeding up investigations on firms/businesses suspected of collusion/price fixing. ✓ ✓
- Prohibiting mergers and takeovers by oligopoly businesses with the aim of reducing competition. ✓ ✓
- Implementing/introducing maximum prices on markets where there are possibilities of price fixing. ✓ ✓
- Regulating unfair business practices, such as acquiring exclusive rights to resources, which may prevent new firms from entering the market. ✓ ✓

  (Accept any other correct relevant response)

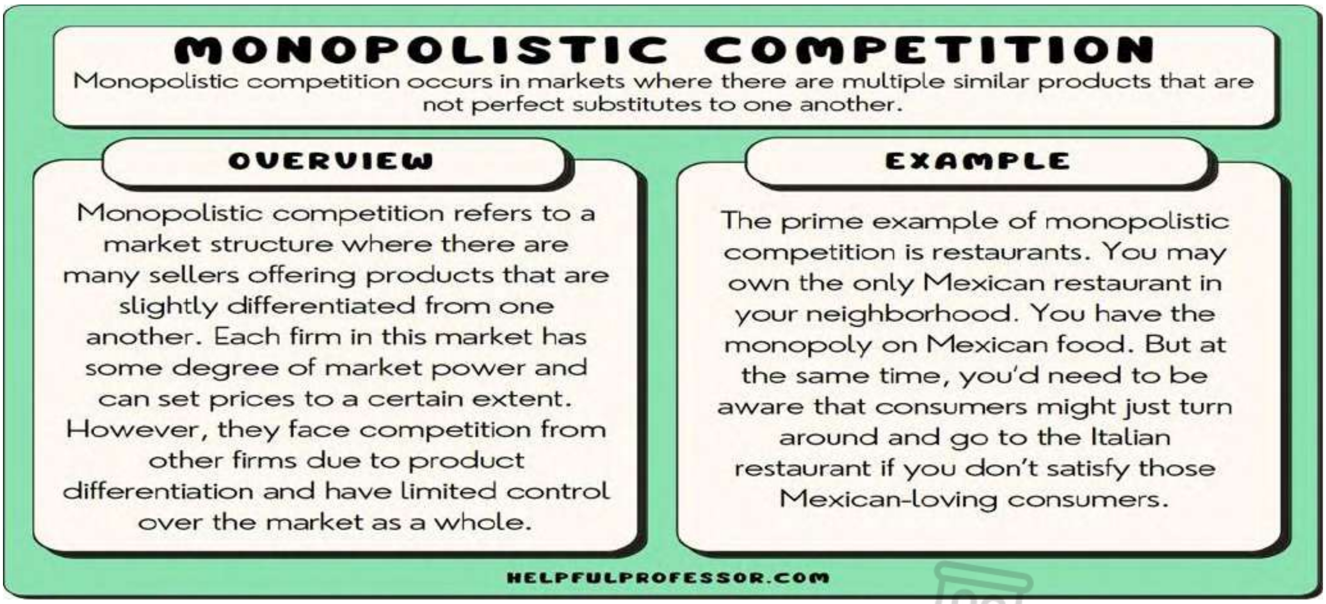
  (Allocate a maximum of 2 marks for mere listing of facts) (max. 10)

CONCLUSION

Unlike perfect competitors, oligopoly businesses fail to achieve both productive and allocative efficiency as they do not produce at the lowest possible average cost and do not produce at optimum output level. ✓ ✓

(Accept any other correct relevant conclusion) (max. 2)

MONOPOLISTIC COMPETITION



Characteristics of Monopolistic Competition

There are six main characteristics of monopolistic competition:

Imperfect Information: Under monopolistic competition, no seller or buyer has complete information about demand and supply (Goodwin et al., 2009).

Freedom of Entry and Exit: Companies can freely enter or exit monopolistically competitive markets. If existing companies are making super-normal profits, other companies will enter. This increases the supply which, in turn, reduces prices and leaves the existing companies with normal profits. Conversely, if existing companies are experiencing losses, some firms will exit. This will reduce the supply and thereby raise prices and leave the existing companies with normal profits.

Independent Decision-Making: Each company can independently set the terms of exchange for its product under monopolistic competition (Colander, 2008, p. 283). Such actions have little to no effect on the overall market, so a company can do so without regard to how that will affect its competitors.

Many Businesses: There are many existing business for any product group in any monopolistically competitive market. Each business, therefore, has a small market share.

Product Differentiation: Businesses operating in monopolistically competitive markets sell products that have real or perceived non-price differences such as physical aspects of the product, packaging, branding, and so on.

Market Power: Companies under monopolistic competition have some degree of market power, meaning that they have control over the terms and conditions of exchange.

Examples of Monopolistic Competition

Restaurants: Restaurants typically offer the same types of foods with little to no difference in terms of quality, most of the time. Therefore, the competition between restaurant companies is monopolistic.

Clothing stores: Clothing stores generally offer very similar products that are differentiated mainly through branding.

Shoe stores: Shoes, like clothing, are mainly differentiated through branding and marketing rather than actual quality.

Bakeries: Like restaurants, rarely have drastic differences in terms of what they offer, but they do differentiate their products through special packaging and branding.

Grocery stores: Grocery stores operate within a monopolistically competitive market because competing firms mostly sell the same goods in terms of use-value, but differentiate their products through branding and marketing.

Hotels: Every hotel company offers a similar service with only slight variations (if we account for price) in terms of quality.

Coffee shops: Coffee shops are much like restaurants and bakeries in the sense that their products are rarely different if we don't account for branding.

Toothpaste: Kinds of toothpaste are all generally the same, but different companies try to make their product stand out through advertisements.

Soap: Soap is similar to toothpaste because there are little to no differences between how effective different soaps are. Nevertheless, competitors differentiate their products through special packaging, brand images, and so on.

Air conditioners: Air conditioners, accounting for price, generally have the same capabilities, but companies differentiate their products through branding and marketing.

ACTIVITY 1

1.1 Choose the correct answer from the given possibilities.

1.1.1 In a monopolistic competition firms use non-price competition strategies to gain market share such as …

A. advertising✓✓.

B. differentiation.

C. copyright.

D. patent.

1.1.2 Firms in a monopolistic market differentiate their products by using……

A. copyrite

B. pantent

C. branding✓✓

D. adverting

1.1.3 Firms under monopolistic competition enjoy economic profit in the …..run.

A. long

B. immediate

C. ultimate

D. short✓✓

1.1.4 The characteristic of monopolistic competition is that firms sell…..products.

A. homogenous

B. differentiated✓✓

C. good

D. cheap

1.1.5 The demand curve that is relatively elastic relates to……. market.

A. monopoly

B. perfect

C. monopolistic✓✓

D. oligopoly

1.1.6 Profit maximisation occurs where…….

A. MC=AC

B. MR=AR

C. MC=AR

D. MC=MR✓✓

(2X6) =12

1.2 **Match the concept in column A with a corresponding description in column B**

Column A	Answer	Column B
1.2.1 Non-price competition	E✓	A. A combination of elements of both monopoly and perfect market.
1.2.2 Customer loyalty	D✓	B. Firms can easily join or leave the market.
1.2.3 Free entry and exit	B✓	C. Protecting a brand from competitors.
1.2.4 Hybrid structure	A✓	D. consistantly choosing a particular brand over competitors.

1.2.5 Monopolistic competition	F✓	E. strategies that firms use to increase market share.
		F. Combines the characteristics of a perfect market and monopoly.

(5x1) 5

1.3 **Give the correct concept for each of the following descriptions.**

1.3.1 A legal right granted to an inventor, giving them exclusive control over the production of a particular product.

Patent.✓

1.3.2 A promotional activity where firms communicate information about their products.

Advertising.✓

1.3.3 A market structure where many firms sell similar but differentiated products.

Monopolistic competition.✓

1.3.4 The negative difference between a firm's total revenue and its total costs.

Economic loss.✓

1.3.5 Value of inputs owned by an entrepreneur and used in the total production.

Opportunity costs.✓

1.3.6 Similar products that satisfy the same consumer need and can be used interchangeably.

Substitute.✓

(6 X 1) = 6

ACTIVITY 2

2.1 Answer the following questions.

2.1.1 Give any Two example of monopolistic competitive firms. (2)

Nando's, clicks, Spar, PEP ✓✓

2.1.2 Why would firms under monopolistic competition rely on advertising to increase market share? (2)

- Firms under monopolistic competition use advertising to highlight the unique features of their products and build strong brand loyalty among consumers. ✓✓
- It helps them differentiate their products from competitors and attract more customers, thereby increasing their market share. ✓✓

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

Source: EDUCBA

2.2.1 Identify the barrier in the market above. (1)

Branding✓

2.2.2 Name the market structure that the above picture represents. (1)

Monopolistic competition✓

2.2.3 Briefly describe the term *market*. (2)

A **market** is a place or system where buyers and sellers meet to exchange goods, services, or resources. It can be a physical location, like a shop or marketplace, or a virtual space, like an online store. The main purpose of a market is to facilitate trade by allowing demand (buyers) and supply (sellers) to interact, which helps determine prices✓✓.

2.2.4 Explain non-price competition as a characteristic of monopolistic competition. (2)

Non-price competition in monopolistic competition refers to the ways firms compete to attract customers **without changing the price** of their products.✓✓

Since products are differentiated, firms try to increase sales by improving product quality, offering better service, unique packaging, advertising, branding, and creating a particular image or reputation.✓✓

This helps firms make their products appear more attractive or different from those of competitors, encouraging customer loyalty rather than simply competing by lowering prices.✓✓

2.2.5 Why would the firms leave the market in the long run? (4)

- Firms would leave the market in the long run if they consistently make economic losses, meaning total revenue doesn't cover total costs including opportunity costs.✓✓
- Persistent losses signal that resources could be better used elsewhere, so owners decide to exit.✓✓
- As some firms leave, market supply decreases, which may eventually help remaining firms return to normal profit.✓✓

- Firms may also exit if demand for their differentiated product falls or competition becomes too intense.✓✓
- Exit happens when staying in the market is no longer financially sustainable.✓✓

2.3 Discuss the benefits of consumers in the long-run under monopolistic competition. (8)

- In the long run under monopolistic competition, consumers benefit mainly from product variety, as firms keep offering differentiated products to meet different tastes and preferences.✓✓
- Competitive pressure also encourages firms to improve quality, service, and innovation to attract customers.✓✓
- Because economic profit falls to zero, prices remain fair, reflecting only normal profit rather than high monopoly-like markups.✓✓
- Consumers also enjoy frequent promotions, better packaging, and creative advertising aimed at winning their loyalty. Consumers enjoy more choice and better products over time.✓✓

2.4 Why is advertising important in a monopolistic competition? (8)

- Advertising is important in monopolistic competition because it helps firms differentiate their products from those of many competitors✓✓.
- Through advertising, firms build brand awareness and loyalty, making consumers see their products as unique.✓✓
- It also informs customers about new features, promotions, or improvements, which can boost demand.✓✓
- Since firms have some control over price, effective advertising can help maintain or even increase market share despite competition.✓✓
- Advertising supports non-price competition, which is a key feature of this market structure.✓✓

ACTIVITY 3

3.1.1 Name Two characteristics of monopolistic competition. (2)

Free entry and exit✓

Non-price competition✓

Ptoduct differentiation ✓

3.1.2 Why would firms under monopolistic market not extremely increase prices? (2)

- Firms in a monopolistic market avoid sharply increasing prices because consumers can easily switch to close substitutes offered by competitors. ✓✓
- Higher prices could lead to a significant loss of customers and reduced market share.✓✓

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

Credit: Investopedia / Joules Garcia

3.2.1 Identify the type of products offered by firms in the above market. (1)

Differentiated products ✓

3.2.2 Name one example of products the firms produce in this market. (1)

Burger, Bread, Sugar, cakes. ✓

3.2.3 Briefly describe the term *marginal revenue*. (2)

Marginal revenue is the extra income a firm earns from selling **one additional unit** of its product. ✓✓

3.2.4 Explain the impact of new entries in the market on profits. (2)

- New firms increase the number of competitors, which can reduce each firm's market share. ✓✓
- To attract customers, firms may lower prices, which reduces overall profit margins.
- New entries split the demand among more producers, leading to lower sales for existing businesses. ✓✓
- Existing firms may need to spend more on advertising, improve quality, or innovate, which increases costs and can reduce profits. ✓✓
- In markets like monopolistic competition, new entries continue until economic profits fall to zero (normal profit) in the long run. ✓✓

3.2.5 How do firms maximise their profit? (4)

- Firms maximize their profit by producing the quantity where **marginal cost (MC) equals marginal revenue (MR)**. ✓✓
- They carefully control costs and set prices that match demand to maximize the difference between total revenue and total cost. ✓✓
- In the long run, firms adjust their production capacity and market strategy to stay at the profit-maximizing output. ✓✓

3.3 Briefly discuss *free entry and exit*, and *product differentiation* as characteristics of monopolistic competition. (8)

Free entry and exit

- In monopolistic competition, **free entry and exit** means that firms can easily enter or leave the market without major legal, financial, or technical barriers. ✓✓

- If firms are making economic profits, new firms will be attracted to the market, increasing competition, and lowering profits. ✓✓
- If firms face losses, some will exit the market, reducing competition and allowing remaining firms to regain normal profits. ✓✓

Product differentiation

- In monopolistic competition, product differentiation means each firm offers a product that is slightly different from its competitors'. ✓✓
- These differences can be real (like quality, design, or features) or perceived (created through branding and advertising). ✓✓
- This allows firms to have some control over their prices, as consumers may prefer one brand over another. ✓✓
- Product differentiation also creates customer loyalty, reducing the direct impact of competitors' price changes. ✓✓

3.4 Why would firms exit the market under monopolistic competition? (8)

- Firms may exit the market when they consistently make **economic losses**, meaning their total revenue is less than their total costs (including opportunity costs). ✓✓
- Strong competition can reduce prices and profits, making it hard to cover costs.
- Falling demand for their products might also make continued operation unsustainable. ✓✓
- High operating costs, outdated technology, or inability to keep up with innovation can also force firms out. ✓✓
- Firms exit to avoid further financial losses and to use their resources more profitably elsewhere. ✓✓

ACTIVITY 4

4.1 Study the extract below and answer the questions.

> Monopolistic competition is considered inefficient because firms do not produce at the lowest possible cost or at the most efficient scale. Since each firm sells a differentiated product, they have some market power and set prices above marginal cost, leading to allocative inefficiency where resources are not perfectly allocated. Firms often spend extra on advertising and product differentiation, which increases costs without necessarily adding value, causing productive inefficiency. In the long run, the result is higher prices and less output compared to a perfectly competitive market, meaning consumers pay more for less efficient production.
>
> Daily News, 25 March 2025

4.1.1 Identify in the extract the inefficiency that is caused by underutilisation of resources. (1)

Productive inefficiency. ✓✓

4.1.2 Name any one firm operating under monopolistic competition. (1)

- Nandos ✓

- KFC ✓
- Spurs ✓
- Checkers ✓
- Pick n Pay ✓
- Shoprite ✓

4.1.3 Briefly describe the term *inefficiency*. (2)

Inefficiency refers to a situation where resources (like time, money, or materials) are not used in the best possible way, resulting in waste or less output than could have been achieved. ✓✓

4.1.4 Explain the reasons for firms exiting the market in the long-run. (4)

- Firms exit the market in the long run mainly when they continue to make economic losses that they cannot recover from. ✓✓
- Persistent low demand or high costs reduce profitability, making it unsustainable to operate. ✓✓
- Increased competition can also push weaker firms out ifthey cannot keep up with price or quality standards. ✓✓
- Changes in consumer preferences or technology may render a firm's products obsolete, forcing them to leave the market. ✓✓

4.1.5 How do firms calculate their economic profit? (4)

- Firms calculate their economic profit by first determining their total revenue, which is the money earned from selling goods or services. ✓✓
- Then, they subtract their total explicit costs, like wages, rent, and raw materials. ✓✓
- Next, they also subtract total implicit costs, which include the opportunity costs of using their own resources, such as the owner's time or invested capital. ✓✓
- The formula becomes: **Economic Profit = Total Revenue – (Explicit Costs + Implicit Costs)**. ✓✓

4.2 Briefly discuss allocative and productive inefficiency. (2 X 4 (8)

Allocative inefficiency

- Allocative inefficiency occurs when resources in an economy are not distributed in a way that maximizes overall consumer and producer satisfaction. ✓✓
- It means that the mix of goods and services produced does not match what consumers most want or value. ✓✓
- In this situation, the price of a product does not reflect its true marginal benefit to society. ✓✓
- As a result, too much or too little of certain goods is produced, leading to welfare loss. ✓✓

Productive inefficiency

- Productive inefficiency happens when a firm or an economy is not producing goods and services at the lowest possible cost. ✓✓
- This means resources are not being fully or efficiently used, leading to higher average costs than necessary. ✓✓
- It often occurs when firms operate with excess capacity or fail to adopt the best available production technology. ✓✓
- As a result, fewer goods are produced from the same amount of resources, which reduces overall economic welfare. ✓✓

4.3 Analyse the impact of inefficiency in the monopolistic competition. (8)

- In monopolistic competition, inefficiency often leads to higher prices for consumers because firms do not produce at the lowest average cost. ✓✓
- Resources are wasted on non-price competition like advertising and packaging instead of lowering production costs. ✓✓
- Firms also tend to operate with excess capacity, meaning they don't fully utilize their resources.✓✓
- This results in less output than what would be socially optimal, reducing overall welfare. ✓✓
- Consumers face limited choices at higher prices compared to perfectly competitive markets, and society loses potential gains from more efficient production. ✓✓

ACTIVITY 5

5.1 Read the extract below and answer the questions that follow.

FAST-FOOD RESTAURANTS IN THE MONOPOLISTIC COMPETITIVE MARKET

Fast-food restaurants operate in a **monopolistic competitive market**, where many firms sell similar but slightly differentiated products. Each restaurant offers unique menu items, recipes, or branding to attract specific customer preferences. Despite selling similar products like burgers and fries, they use advertising, quality, and location to create brand loyalty. In this market, there is **free entry and exit**, allowing new fast-food businesses to open if they see profit opportunities. However, the presence of many competitors limits their ability to set high prices. As a result, fast-food restaurants often compete through non-price strategies, such as promotions, better service, or healthier menu options, rather than just lowering prices.

[Adapted from City Press, February 2025]

5.1.1 Identify one non-price competition strategy in the above extract. (1)

Promotion, better service, healthier menu options.✓

5.1.2 Give one example of monopolistic competitor that sells burgers. (1)

Burger King, McDonald's, Wimpy, Steers.✓

5.1.3 Briefly describe the term *normal profit*. (2)

- Normal profit is the minimum level of profit needed for a business to remain in the market in the long run. It occurs when total revenue is equal to total costs, including both explicit costs and implicit (opportunity) costs. In this situation, the firm covers all its costs and earns just enough to keep resources employed in their current use. Normal profit is not considered an economic profit because it doesn't include any extra earnings above opportunity costs. It is seen as part of the business's necessary operating expenses. ✓✓

5.1.4 Explain the importance of branding in a monopolistic competition. (2)

- Branding is very important in monopolistic competition because it helps firms differentiate their products from those of competitors. ✓✓
- Through branding, businesses create a unique identity that can attract and keep loyal customers.
- Strong brands allow firms to charge slightly higher prices because consumers perceive their products as special or higher quality. ✓✓
- Branding also makes advertising more effective by giving consumers something memorable to associate with the product. ✓✓
- It reduces the impact of direct price competition, as customers may choose branded products even if cheaper alternatives exist. ✓✓
- Branding helps firms survive and remain profitable in a market with many similar products. ✓ ✓

5.1.5 Why would the economic profit made by a monopolistic competitor disappear in the long run? (4)

- In the long run, economic profit made by a monopolistic competitor disappears because of free entry and exit in the market. ✓✓
- When firms earn economic profit, it attracts new competitors to enter the market, increasing the number of similar products available. ✓✓
- This greater competition reduces each firm's share of customers and lowers their demand curve. As a result, prices and revenues fall until firms only cover their costs, including normal profit. At this point, firms earn zero economic profit, meaning no extra profit above opportunity costs. ✓✓
- This process keeps the market balanced and prevents firms from sustaining long-term economic profit.✓✓

5.2 Discuss the hybrid structure of the monopolistic market. (8)

- The monopolistic competition market has a hybrid structure because it combines features of both monopoly and perfect competition. ✓✓
- Like in perfect competition, there are many firms, and there is free entry and exit, which keeps long-run economic profits at zero. ✓✓
- However, like a monopoly, each firm sells a slightly differentiated product, giving it some control over its prices. ✓✓
- This differentiation creates brand loyalty and means firms face a downward-sloping demand curve.✓✓
- As a result, monopolistic competition blends competitive pressure with individual market power from product uniqueness.✓✓

5.3 How do firms increase market share in a monopolistic competition? (8)

- In monopolistic competition, firms increase market share mainly by differentiating their products to stand out from competitors. ✓✓

- They often invest in branding and advertising to build customer loyalty and attract new buyers.✓✓
- Improving product quality, design, or adding new features also helps appeal to consumer preferences.✓✓
- Some firms enhance customer experience through better service or convenient locations.✓✓
- Firms use promotional strategies like discounts or special offers to draw more customers and boost market share.✓✓

ACTIVITY 6

6.1 Read the extract below and answer the questions that follow.

Real World Price Wars

*In South Africa' s **fast-food and retail sectors**, price wars are a common feature of monopolistic competition, where firms sell similar but slightly differentiated products. For example, major fast-food chains like **Chicken Licken, KFC, and Nando' s** often introduce limited-time discounts and value meals to attract price-sensitive customers, leading competitors to respond with their own promotions.*

Source: Sunday World 13 March 2025

6.1.1 Identify one strategy that is used to attract customers in the extract. (1)

Promotions, discounts. ✓

6.1.2 Name one characteristic of monopolistic competition. (1)

Many buyers and sellers, nom-price competition, free entry and exit, product differentiation. ✓

6.1.3 Briefly describe the term *imperfect market*. (2)

An imperfect market is a market structure where buyers and sellers do not have full and equal information, and products may be differentiated, leading to limited competition and price-setting power.✓✓

6.1.4 Explain the causes of price wars in a monopolistic competition. (2)

- Price wars in monopolistic competition often occur when firms aggressively cut prices to attract more customers and increase market share. ✓✓
- They may also start because firms react to competitors' price cuts out of fear of losing sales.✓✓
- Another cause is excess capacity, where firms produce more than the market can absorb, pushing them to lower prices to sell surplus goods.✓✓
- A lack of strong product differentiation can intensify price competition, as consumers switch easily between similar products.✓✓

6.1.5 Why would the government introduce competition policy? (4)

- The government introduces competition policy to prevent firms from engaging in anti-competitive practices like collusion or price fixing.✓✓

- It aims to promote fair competition, which benefits consumers through lower prices, better quality, and more choice.✓✓
- Competition policy also encourages innovation and efficiency among businesses.✓✓
- It helps create a balanced and dynamic economy where no single firm can dominate the market unfairly.✓✓

6.2 Discuss the impact of barriers to entry in the market. (8)

- Barriers to entry make it difficult or costly for new firms to enter a market, reducing overall competition.✓✓
- Existing firms can maintain higher prices and earn economic profits for longer periods.✓✓
- Consumers may face fewer choices and pay more for goods and services because of limited competition.✓✓
- High barriers can also slow down innovation, as dominant firms feel less pressure to improve.✓✓
- Barriers protect existing firms' investments in research, quality, and infrastructure.✓✓
- Barriers to entry often lead to market inefficiency and reduced consumer welfare.✓✓

6.3 Analyse the impact of price wars on the market. (8)

- Price wars can lead to significantly lower prices for consumers in the short term, which increases affordability and boosts demand.✓✓
- They often reduce firms' profit margins, making it harder to cover costs and invest in quality improvements or innovation.✓✓
- Smaller firms may struggle to survive prolonged price wars and could be forced to exit the market, reducing competition in the long run.✓✓
- Price wars can also damage brand value, as consumers may come to see products as cheap rather than differentiated.✓✓
- Price wars can harm the market's long-term health and competitiveness.✓✓

ACTIVITY 7

7.1 Study the picture below and answer the questions that follow.

Google images

7.1.1 Identify the market structure that is represented above. (1)

Monopolistic competition.✓

7.1.2 Name the nature of a product sold in the market above. (1)

Differentiated product.✓

7.1.3 Describe the term *economic loss*. (2)

Economic loss is when a firm's total costs (including both explicit costs like wages and rent, and implicit costs like the opportunity cost of the owner's time and capital) are greater than its total revenue.✓✓

7.1.4 Explain the impact of new entries in the market on the monopolistic market. (2)

- When new firms enter a monopolistic market, the level of competition increases. ✓✓
- As new firms enter, the existing firms loose some of their market share as consumers now have more choices. ✓✓
- As a result, the demand curve faced by each firm becomes more elastic and shifts to the left, reducing their ability to charge higher prices. ✓✓
- Over time, this entry of new firms drives economic profit towards zero, leading to only normal profit in the long run.✓✓

7.1.5 Why would new firms be attracted to enter the market? (4)

- New firms are attracted to enter the market when they see that existing firms are earning economic profits. ✓✓
- The opportunity to make extra profit above normal profit acts as an incentive for new businesses to join. ✓✓
- Often, the market has low barriers to entry, making it easier for new firms to compete. ✓✓
- The possibility to differentiate products and build a brand motivates entrepreneurs to enter and capture a share of the market.✓✓

7.2 Discuss the market power under monopolistic competition. (8)

- Firms in monopolistic competition have some market power because they sell differentiated products that consumers see as unique. ✓✓
- Each firm can set its own prices above marginal cost without losing all its customers. ✓✓
- The market power is limited because there are many close substitutes available from rival firms.✓✓
- The presence of free entry and exit in the market further restricts long-term market power, as new firms can enter if profits are high.✓✓
- Firms enjoy only short-term economic profits, and in the long run, their market power is reduced to the extent that they can only earn normal profits✓✓.

7.3 Why would branding be used in the monopolistic market? (8)

- Firms use branding in a monopolistic market to differentiate their products from those of competitors.✓✓

- Strong branding creates a unique identity that makes consumers perceive the product as special or superior.✓✓
- This perception allows firms to gain customer loyalty, making demand for their product less sensitive to price changes.✓✓
- With successful branding, firms can often charge higher prices than rivals without losing too many customers.✓✓
- Ultimately, branding helps firms maintain market power and stable market share in a competitive environment.✓✓

ACTIVITY 8

8.1 Compare and contrast the market structures of monopolistic competition with an oligopoly in detail. (26)

INTRODUCTION

A market is a mechanism that brings together the buyers and the sellers of goods and services / Market structure refers to how the market is organized. ✓✓

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

BODY

MAIN PART

Number of businesses✓

Monopolistic competition has a large number of sellers whereas a few large numbers of sellers dominate an oligopoly market.✓✓ There is high degree of competition in monopolistic competition whereas competition is limited in an oligopoly. ✓✓

Nature of the product ✓

Goods produced by businesses in a monopolistic competitive market are heterogeneous while products manufactured in an oligopoly market may be either homogenous or differentiated.✓✓ In both market structures products are slightly different in appearance, shape, size and taste, differences may be imaginary.✓✓

Market entry ✓

There is freedom to enter into and exit from a monopolistic competition whereas entry in to an oligopoly market is difficult.✓✓ In monopolistic competition there are no barriers to entry whereas in an oligopoly there are various barriers to entry such as large amount of capital outlay often needed.✓✓

Control over the price ✓

An individual business in a monopolistic competitive market has little control over price while oligopoly business has considerable control over the price.✓✓ A monopolistic competitor may influence the price of its brand while oligopolies may collude to control the market price.✓✓

Market Information✓

Information in both oligopoly and monopolistic competition is incomplete.✓✓ For instance, variety of products or marginal difference causes a lack of information for sellers and buyers for monopolistic competition whereas oligopolists often do not know how competitors will react to their actions.✓✓

Examples✓

Examples of industries found in monopolistic competition include, among others, fast-food outlets/restaurants, clothing shops whereas in an oligopoly they may include petrol and oil industries, cell phone network, banks.✓✓

Demand curve ✓

In both oligopoly and monopolistic competitive market structures the demand curve is sloping downwards from left to right.✓✓ The demand curve for the firm in the monopolistic competitive market structure is relatively elastic whereas the demand curve for an oligopolistic firm is kinked.✓✓ The MR curve in both oligopoly and monopolistic competition is lying below the demand curve. In both market structures the AR curve is also the demand curve.✓✓

Economic profit/loss ✓

In the short run firms in both monopolistic competition and oligopoly can make either economic profit or loss.✓✓ In the long run businesses in monopolistic competition make normal profit while oligopolies earn economic profit.✓✓

Decision-making ✓

In a monopolistic competitive market structure, each firm makes independent decisions whereas in an oligopolistic market, due to mutual interdependence, firms influence one another's decision making.✓✓

Collusion ✓

In the monopolistic competitive market structure collusion is impossible whereas in an oligopoly market it is possible for businesses to collude.✓✓ Oligopoly businesses often collude as they are few in the market while in monopolistic competition it is difficult for many businesses to have an agreement to reduce competition.✓✓

Non-price competition✓

Businesses in both monopolistic competition and oligopoly use non-price strategies such as advertising and branding to increase their market shares.✓✓ Whereas oligopoly businesses avoid price wars monopolistic competitor may compete on prices. ✓✓

Productive/Technical efficiency✓

Businesses in both market structures do not achieve productive efficiency as they do not produce at the lowest possible average cost.✓✓

Allocative efficiency✓

Businesses in both market structures do not achieve allocative efficiency as the quantities produced do not correspond with quantities demanded by consumers.✓✓

(Max. 26)

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

8.2 How can branding positively affect the market share? (10)

- Branding can positively affect market share by creating a strong, recognizable identity that attracts and retains customers.✓✓
- A well-established brand builds trust and perceived quality, making consumers more likely to choose its products over competitors.✓✓

- Through consistent messaging and visual elements, branding helps differentiate a firm's products in a crowded market.✓✓
- It can also foster emotional connections, leading to customer loyalty and repeat purchases.✓✓
- Effective branding supports premium pricing, which can increase profitability and allow further investment in innovation and marketing.✓✓

CONCLUSION

By controlling the price/supply of the product or service in the market, the firm aims to keep prices and profits high.✓✓

ACTIVITY 9

9.1 Compare and contrast the market structures of monopolistic competition with perfect market in detail. **(26)**

INTRODUCTION

Market structure refers to the way a market is organized based on the number of firms, the type of products they sell, and the ease of entering or exiting the market. It helps explain how firms behave, set prices, and compete with each other. Each structure has unique characteristics such as the level of competition, product differentiation, and pricing power. ✓✓

BODY

MAIN PART

Number of firms✓

Similarities: Both market structures have many sellers, so no single firm can completely dominate the market.✓✓

Differences: In perfect competition, firms are usually larger in number and compete more intensely, while in monopolistic competition, there are still many firms but usually fewer than in perfect competition.✓✓

Product nature✓

Perfect market: Products are homogeneous, meaning they are identical and perfect substitutes (e.g., wheat, gold).✓✓

Monopolistic competition:Products are differentiated, either by brand, quality, design, or features, making them imperfect substitutes.✓✓

Entry and exit✓

Similarities: Both have free entry and exit, meaning firms can enter when there is profit and exit when there is loss.✓✓

Differences: In practice, monopolistic competition may have slight barriers due to branding or customer loyalty, while perfect competition has truly free and costless entry and exit.✓✓

Control over price✓

Perfect market: Firms are price takers; they must accept the market price determined by supply and demand because products are identical.✓✓

Monopolistic competition: Firms are price makers to some extent; due to product differentiation, they have some control to set prices higher or lower.✓✓

Information✓

Perfect market: There is perfect knowledge, meaning consumers and producers know everything about prices, quality, and availability.✓✓

Monopolistic competition: There is imperfect knowledge, as consumers may not be fully aware of all alternatives due to advertising or product variety.✓✓

Non-price competition✓

Perfect market: Non-price competition does not exist because products are identical; there's no point in advertising.✓✓

Monopolistic competition: Non-price competition is significant; firms invest in advertising, branding, packaging, and quality improvements to attract customers.✓✓

9.2 How has competition policy helped to reduce anti-competition behavior in South Africa? (10)

- Competition policy in South Africa, enforced mainly by the Competition Commission, has actively investigated and penalized firms involved in practices like price fixing and market allocation, which discourages collusion.✓✓
- Through large fines and legal action against cartels, it has sent a strong message that anti-competitive behavior will not be tolerated.✓✓
- The policy has also blocked or placed conditions on mergers that could lead to market dominance and harm consumer welfare.✓✓
- By promoting fair competition, it has encouraged new firms to enter markets, increasing choice and innovation for consumers.✓✓
- The policy includes public awareness campaigns and compliance programs to educate businesses about acceptable practices. ✓✓
- It has helped create a more dynamic and competitive economy, protecting both consumers and smaller businesses from abusive conduct by powerful firms.✓✓

Conclusion

Both market structures have many firms and relatively easy entry and exit, but they differ sharply in product differentiation, control over price, and reliance on branding and advertising, which shapes their competitive strategies and consumer experiences.✓✓

ACTIVITY 10

10.1 Compare and contrast the market structures of monopolistic competition with monopoly in detail. (26)

INTRODUCTION

An imperfect market is a market structure where individual sellers or buyers have some control over prices due to factors like product differentiation, limited competition, or barriers to entry.✓✓

Body

Main Part

Number of firms and competition✓

Monopolistic competition:
Has **many firms** in the market, each producing slightly differentiated products. There is active competition among them because consumers can switch between close substitutes.✓✓

Monopoly:
Exists when there is **only one firm** that is the sole producer of a product with **no close substitutes**, so there is no direct competition.✓✓

Product characteristics✓

Monopolistic competition:
Firms offer products that are **differentiated** by brand, quality, design, or features. This differentiation creates some brand loyalty.✓✓

Monopoly:
Offers a **unique product** without any close substitutes. Consumers have no alternative options if they need that product.

Price setting power✓

Monopolistic competition:
Firms are **price makers** to a limited extent. Product differentiation gives them some control over price, but competition from similar products keeps this power in check.✓✓

Monopoly:
The monopolist is a **significant price maker**. It can choose the price or the quantity to supply, constrained mainly by the market demand curve.✓✓

Barriers to entry✓

Monopolistic competition:
Barriers to entry are **low**. New firms can easily enter when they see economic profits being made.✓✓

Monopoly:
High barriers to entry protect the monopolist. These could be legal (patents, licenses), natural (control of a resource), or created through economies of scale.✓✓

Long-run economic profits✓

Monopolistic competition:
In the long run, **new entrants erode economic profits**, so firms earn only normal profits.✓✓

Monopoly:
Can sustain **long-run economic (abnormal) profits** because barriers prevent new competitors.✓✓

Efficiency

Monopolistic competition:
Often **allocatively and productively inefficient**. Firms price above marginal cost and operate below minimum average cost (excess capacity).✓✓

Monopoly:
Also **allocatively and productively inefficient**. The monopolist restricts output to maximize profit, leading to a price above marginal cost and potential deadweight loss.✓✓

Consumer choice and variety✓

Monopolistic competition:
Consumers enjoy **variety** because of differentiated products. Each firm targets a niche or preference.✓✓

Monopoly:
Consumers face **no choice** as there is only one product offered by one firm.✓✓

Advertising✓

Monopolistic competition:
Firms use advertising heavily to emphasize product differences and build brand loyalty.✓✓

Monopoly:
Advertising may be limited or aimed at informing rather than competing, since there are no rivals.✓✓

Elasticity of demand✓

Monopolistic competition:
The demand curve facing each firm is **more elastic** (flatter) because of the availability of close substitutes.✓✓

Monopoly:
The monopolist faces the **market demand curve**, which is generally **less elastic**, as there are no substitutes.✓✓

10.2 How does profit maximising rule help firms determine prices under imperfect market. (10)

Additional Part

- The profit-maximizing rule states that firms maximize profit by producing the quantity where marginal cost (MC) equals marginal revenue (MR).✓✓
- Under imperfect markets, firms face downward-sloping demand curves, meaning they must lower prices to sell additional units.✓✓
- By comparing MC and MR, firms find the output level where producing one more unit would not add to profit.✓✓

- Once this optimal quantity is determined, firms use the demand curve to set the highest price consumers are willing to pay for that quantity.✓✓
- This helps firms avoid overproduction, which would reduce profits, or underproduction, which would leave potential profits unearned.✓✓
- This rule guides firms in balancing production costs and consumer demand to set prices that maximize their economic profit.✓✓

Conclusion

Both monopolistic competition and monopoly are **imperfect markets** where firms have some control over price.✓✓

MARKET FAILURE ACTIVITIES

ACTIVITY 1

1.1 Various questions are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A. – D.) next to the question number (1.1.1 -1.1.5) in the answer book, for example 1.1.6 B.

1.1.1 Reduction in economic welfare caused by a reduction in both consumer and producer surplus.

A. dead weight loss ✓✓

B. spillover effect

C. allocative inefficiency

D. productive inefficiency

1.1.2 Price set by the government above market price to benefit businesses is the price….

A. floors✓✓

B. ceiling

C. wars

D. Administration.

1.1.3. Cost or benefits to third parties not included in the market price are called…

A. efficiencies.

B. externalities. ✓✓

C. excludabilities.

D. information

1.1.4 Social cost consists of the sum of private and …. cost

A. internal

B. public

C. external✓✓

D. variable

1.1.5 The effect of a minimum price will increase the…. Good

A. demand for

B. supply✓✓

C. consumption of

D. spending on

(5x2) (10)

1.1 Choose a description from COLUMN B that matches the item in COLUMN A

COLUMN A	COLUMN B	
1.2.1 Progressive taxation	A. A market that sells illegal goods.	C✓
1.2.2 Free riders	B. Goods that are harmful to society.	H✓
1.2.3 Pareto efficiency	C. The system of taxation used in South Africa.	F✓
1.2.4 Black market	D. Prices that a set by the government above the market price.	A✓
1.2.5 Demerit goods	E. When the cost of production is high and incorrect quantity of goods are produced.	B✓
1.2.6 Transfer payment	F. A situation where it is impossible to make someone better off without making someone else worse off.	J✓
1.2.7 Inefficiency	G. The loss of potential gain from other alternatives when one alternative is chosen.	E✓
1.2.8 Price floor	H. People who benefit from consuming the product/service without paying for it.	D✓
1.2.9 Discounting	I. The wages that are set by the government above market Prices	K✓
1.2.10 Opportunity cost	J. Money received without any service rendered	G✓
	K. Reducing all future costs and benefit to express them as present value.	

(1X10) (10)

1.3 Provide the economic term or concept for the descriptions below. Write only the term or concept.

1.3.1 The best estimate of a price is something that is not part of a normal market. (1)

- Shadow price✓

1.3.2 Consumption of goods by one person does not reduce consumption by others. (1)

- Non-rival✓

1.3.3. A method of evaluating and comparing the social cost and social benefit of a project (1)

- Cost benefit analysis✓

1.3.4. Financial support by the government to assist the production of goods and services (1)

- subsidies✓

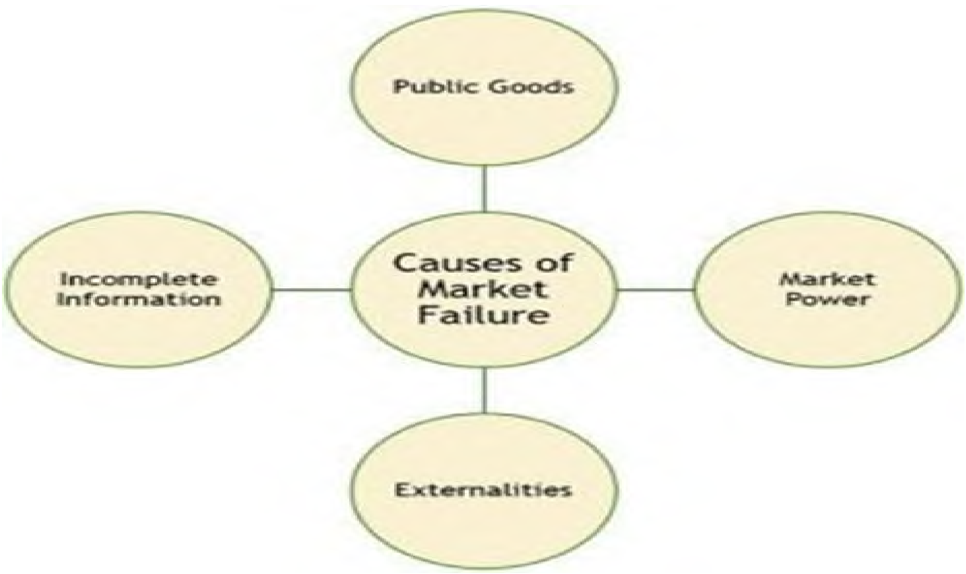
1.3.5 The additional costs to society of external factors (1)

- Social cost✓

ACTIVITY 2

2.1 Study the data and answer the questions that follow:

CAUSES OF MARKET FAILURE



www.bingo.co.za

2.1.1 Identify the cause of market failure that is mostly associated with monopolies. (1)

- Market power ✓

2.1.2 Name any example of demerit goods (1)

- Alcohol✓
- Drugs ✓
- Cigarette ✓

2.1.3 briefly describe the term *market failure*. (2)

- Market failure is a situation where the free market fails to allocate resources efficiently. ✓✓

2.1.4 Explain the limitations of government intervention in correcting market failure? (2)

- Government agencies may struggle to accurately determine the optimal level of public goods to provide, leading to potential overprovision (higher costs than necessary) or under-provision (inadequate coverage) of these goods. ✓✓

2.1.5 How can the government intervene to discourage the production of demerit goods (4)

- Government can ban their production or reduce it by means of taxation such as excise duties and by providing information about their harmful side effects. ✓✓
- The government uses various forms of regulations (laws) to prohibit or control the use of undesirable goods. This may include an age limit is legislation to persons to whom such goods can be sold e.g. 18 years to purchase alcohol or cigarettes and Legislations that prohibits people from smoking in public areas✓✓

2.2 Briefly discuss *productive inefficiency* and *allocative inefficiency* in terms of market failure. (8)

PRODUCTIVE INEFFICIENCY:

- When businesses do not maximise output from given inputs✓✓
- There is room to reduce costs without producing fewer goods or without producing a lower quality good✓✓

ALLOCATIVE INEFFICIENCY:

- The product mix does not reflect consumers' tastes✓✓
- Businesses are allocated resources inefficiently and produce goods and services that consumers do not want. ✓✓
- The quantities required by the consumers are not available✓✓

ACTIVITY 3

3.1 **Study the cartoon below and answer the questions that follow:**

NEGETIVE IMPACT OF POLLUTION

www.bingo.com

3.1.1 Identify one example of pollution in the cartoon above. (1)

- Air pollution✓
- Noise pollution ✓

3.1.2 Name the department responsible for implementing minimum wage? (1)

- Department of labour✓

3.1.3 briefly describe the term *pollution*. (2)

- Pollution is the introduction of contaminants into the natural environment that cause harm. ✓✓

3.1.4 Why would the government intervene in the operation of markets? (2)

- Markets may inefficiently allocate resources which may lead to inequities in the economy✓✓
- The government would intervene to promote social welfare, by breaking up monopolies and regulating negative externalities✓✓

3.1.5 How can government reduce the level of pollution in the economy. (4)

- The government must impose a higher tax rate on all producers that pollute the environment. ✓✓
- The government must subsidies the production of environmentally friendly substitutes ✓✓
- The government must educate people about the dangers of pollution and the importance of protecting the environment. ✓✓

3.1.6 Evaluate the success of the South African government intervention to discourage the consumption demerit goods. (8)

Successes:

- The government uses various forms of regulations (laws) to prohibit or control the use of undesirable goods. ✓✓

- An age limit is legislation for people to whom such goods can be sold e.g. 18 years to purchase alcohol or cigarettes✓✓
- Legislation prohibits people from smoking in public areas✓✓

Failures

- A ban on demerit goods usually results in black markets supplying the products illegally. ✓✓
- The will to maximise profits results in some suppliers of cigarettes and alcohol not adhering to the age limit. ✓✓
- Many people are ignoring the negative publicity on demerit goods, large quantities of demerit goods are still consumed. ✓✓

ACTIVITY 4

4.1 Study the picture below and answer the questions that follow.

POLLUTION DANGEROUS FOR THE ENVIROMENT

www.pollution.com

4.1.1 Identify the type of pollution in the pricture above. (1)

- Radioactive pollution ✓

4.1.2 Name any other example of pollution. (1)

- Water pollution✓
- Air pollution✓
- Land pollution ✓

4.1.3 briefly describe the term *demerit goods*. (2)

- Demrit goods is a good or service whose consumption is considered unhealthy, degrading, or otherwise socially undesirable. ✓✓

4.1.4 Why is it important for the government to deal with imperfect competition? (2)

- Imperfect competition may result in monopolies abusing economic power which will negetively impact the consumers. ✓✓

4.1.5 How can the goverment encourage the consumption of merit goods? (4)

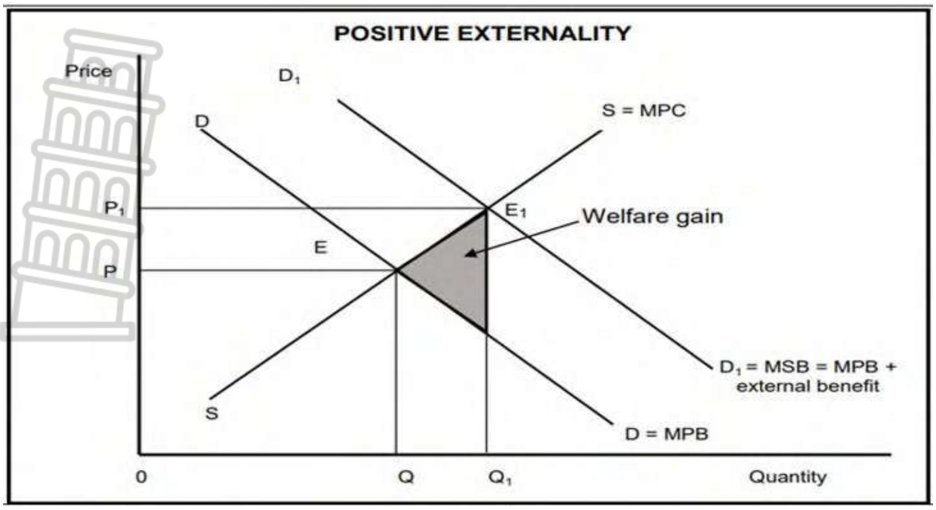
- The government can address the issue of merit goods directly by providing these goods such as healthcare This ensures that everyone, regardless of their income, has access to these essential services. ✓✓
- The government can provide subsidies to producers or consumers of merit goods. Subsidies lower the cost of production or consumption, encouraging more of it✓✓
- The government can regulate the provision of merit goods. This can involve setting minimum standards of provision, requiring private providers to offer a certain level of service, or regulating prices to keep them affordable. ✓✓

4.2 Why governments sometimes proceed with a project even if the private costs exceed the private benefits in a cost-benefit analysis? (8)

- The primary objective is to provide public goods and services. ✓✓
- Social costs and social benefits are also considered when deciding on a project.
- Service is vital to the existence of the community. ✓✓
- When a need for infrastructure is necessary but might not have any benefits in terms of profit, e.g. building a community centre or a bridge✓✓
- restructuring adds to the welfare of the community at large and is non-excludable to anyone using it. ✓✓

ACTIVITY 5

5.1 Study the graph below and answer the questions that follow:



5.1.1 Identify the socially optimum quantity produced (1)

- Q1✓

5.1.2 Name one example of a product with a positive externality (1)

- Water, education, vaccination ✓

5.1.3 Briefly describe the concept *productive inefficiency*. (2)

- Productive inefficiency is when a business does not produce at the lowest cost. ✓✓

5.1.4 Why are markets reluctant to produce public goods such as building of roads? (2)

- It's because public goods need huge capital outlay and are not profitable as they are no rival and non excludable ✓✓

5.1.5 With an aid of the graph explain the impact of a subsidy on the market of goods with positive externalities (4)

- When government provide subsidies, it ensures that the cost of goods with positive externalities is as affordable as possible ✓✓
- The subsidies encourages producers to increase production from Q to Q1✓✓
- Consumers will consume more of the product which increases demand and shift the demand curve to the right from D to D1✓✓

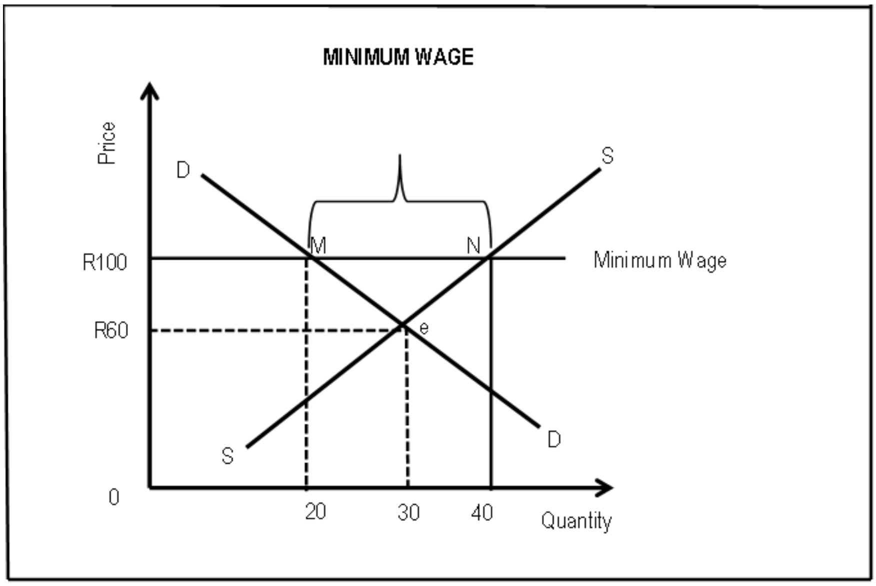
5.2 Distinguish between Merit goods and Demerit goods (8)

Merit Goods	**Demerit Goods**
• Merit goods are goods that are beneficial to the society ✓✓ • Provision of these goods by government help to stimulate standard of living of the people✓✓ • These goods are under supplied by the	• Demerit goods are goods that are harmful to the society✓✓ • As these goods are harmful to the society government discourages the provision of these goods by imposing tax on them ✓✓ • These goods are over-supplied by the

market and government take the initiative to provide them e.g. education, health services ✓✓	market while government discouraged consumption of these goods by charging higher prices ✓✓

ACTIVITY 6

6.1 Study the graph below and answer the questions that follow:



6.1.1 Identify the original wage rate in the graph above (1)

- R60✓

6.1.2 Name the area denoted as M-N in the graph above (1)

- Surplus ✓

6.1.3 Briefly describe the term *minimum wage*. (2)

- Minimum wage is the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period. ✓✓

6.1.4 Explain the negative impact of minimum wage on the wage market. (2)

- The minimum wage policy may result in retrenchments as employees may find the cost of labour to expensive. ✓✓
- The minimum wage policy may also lead to inflation as producers will pass the increase in cost of the labour in the final market price. ✓✓

6.1.5 How can the minimum wage benefit the labour force? (4)

- The minimum wage increases the standard of living of those that remain employed as they can buy more goods and services. ✓✓

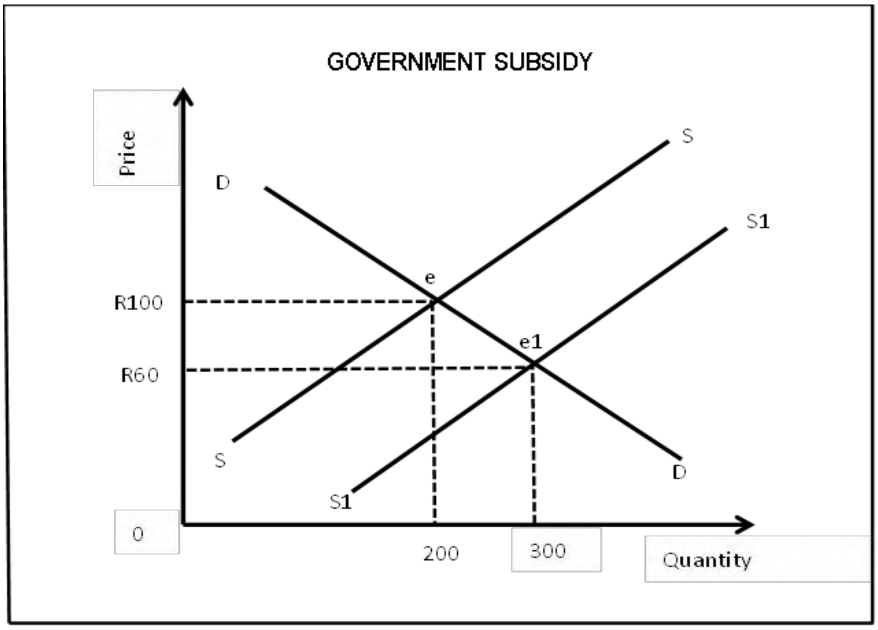
- The minimum wage is seen by politicians and unions as a method of redistributing income and worth. ✓✓
- The policy protects unskilled labour against unfair wage negotiations. ✓✓

6.2 Analyse the impact of minimum wage on the economy (8)

- Setting of minimum wage above the market wage helps to uplift the standard of living of the people as their level of income increases. ✓✓
- The supply of labour may also increase as people will be willing to supply their skills at a higher price. ✓✓
- Aggregate demand of goods and services increase due to more people who are earning higher income. ✓✓
- Employers may not afford to pay their employees minimum wage as a result it may lead to retrenchments. ✓✓

ACTIVITY 7

7.1 Study the graph below and answer the questions that follow:



7.1.1 Identify the new market price from the graph above. (1)

- R60✓

7.1.2 Give the supply curve that represents the effect of subsidies in the graph above? (1)

- S1S1✓

7.1.3 Briefly describe the term *subsidies* (2)

- Subsidies are financial assistance provided by the government to support specific sectors in reducing the cost of production and final market price. ✓✓

7.1.4 Explain the importance of taxes on product on the final market price of goods? (2)

- Taxes on products decrease the final market price making goods more affordable to even the poor. ✓✓

7.1.5 How do subsidies of production impact the economy? (4)

- Subsidies can play a pivotal role in supporting industries that are crucial for national security, economic stability, or technological leadership✓✓
- Subsidies can impact international trade by making exported goods and services more competitive in the global market✓✓
- Subsidies can lower the cost of goods and services, making them more affordable for consumers✓✓
- Financial support to specific companies or industries may distort competition, making it difficult for new entrants to compete✓✓

7.2 Examine taxes and subsidies as ways of government intervention to counter market failures. (8)

Taxes

- Governments intervene in the market by levying taxes to recover the external cost. ✓✓
- These taxes will increase the price and will result in a decrease in production. This could help to reduce negative externality such as pollution. ✓✓

Providing Producer Subsidies

- The government provides subsidies to producers to encourage them to increase the production of goods therefore supply increases. ✓✓
- Producer subsidies are often given to suppliers of agricultural products such as milk, wheat and maize. ✓✓
- Subsidies lower the cost of producing goods and thus the market price of these goods is lowered. ✓✓

Activity 8

Study the cartoon below and answer the questions that follows:

WHICH PROJECT TO IMPLEMENT NEXT?

www.google.com

8.1.1 identify the economic concept represented in the cartoon above. (1)

- Cost benefit analysis ✓

8.1.2 Name the action taken by the private sector to determine whether to implement a product or not. (1)

- Feasibility study ✓

8.1.3 Briefly describe the term *Pereto inefficiency* (2)

- Pereto inefficiency occurs when the resources are allocated in the manner that some people are made better off while others are worse off✓✓

8.1.4 Why is it important for the government to implement cost benefits analysis? (2)

- Cost benefits analysis brings objectivity to decision making ensuring that the government implements projects that will benefit the community ✓✓
- It ensures that the government uses all scare resources efficiently and ensures that the project adds to the welfare of the community at large and is non-excludable to anyone using it. ✓✓

8.1.5 Why do governments sometimes proceed with a project even if the private costs exceed the private benefits in a cost-benefit analysis (4)

- The primary objective is to provide public goods and services while social costs and social benefits are also considered when deciding on a project. ✓✓
- When a need for infrastructure is necessary but might not have any benefits in terms of profit, e.g. building a community centre or a bridge✓✓
- The government must be driven by the needs of the community other than any cost associated with the project✓✓

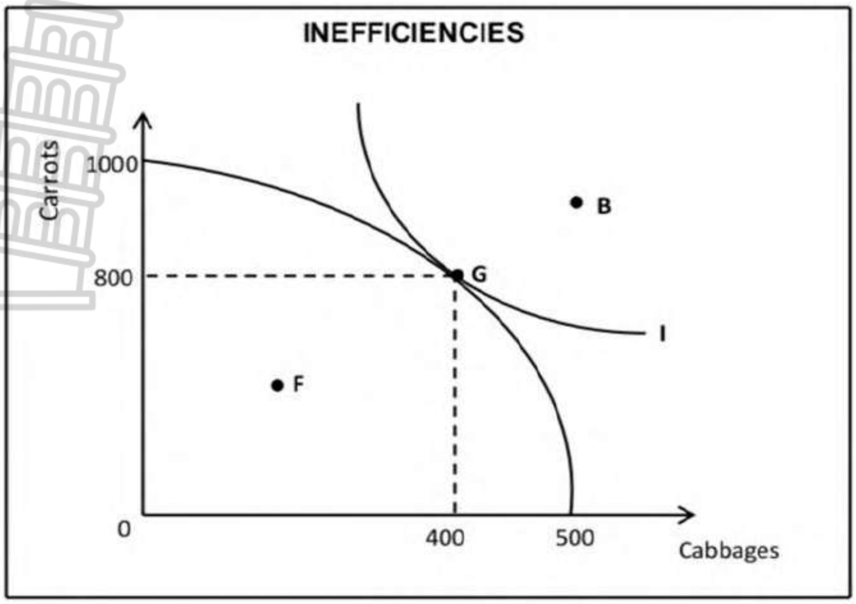
8.1.6 How can Cost Benefit Analysis reduce inefficiencies in the public sector? (8)

It can reduce inefficiencies by:

- Ensuring that costs and benefits are taken into account before the government embarks✓✓
- on a big project for example roads, bridges,dams etc. ✓✓
- Ascetaining that the new project will be feasible and provide more social benefits than social costs. ✓✓
- Making objective decisions as it removes subjectivity in decision-making because all decisions
- are based on practical facts. ✓✓
- Ensuring economic efficiency in resource allocation and eliminating unfruitful expenditure✓✓. (8)

ACTIVITY 9

9.1 Study the graph below and study the question that follows



9.1.1 Identify the productive and allocative efficient point in the graph above (1)

- Point G✓

9.1.2 Name the point in the PPC is impossible to achieve (1)

- Point B✓

9.1.3 Briefly describe the term *Pareto inefficiency* (2)

- Pereto inefficiency occurs when the resources are allocated in the manner that some people are made better off while others are worse off✓✓

9.1.4 Why is consumption of demerit goods discouraged by the government? (2)

- It is because demerit goods are not good for the welfare of society, which therefore burdens government with health care responsibility ✓✓

9.1.5 How could producing in point F negatively impact the firm? (4)

- Point F represents productive inefficiency as the firm is not producing at the lowest possible point ✓✓
- Point F also represents allocative inefficiency as the firm does not produce the quantities required by society ✓✓
- This may result in the product mix not representing the needs and preference of society✓✓

ACTIVITY 10

10.1 Discuss in detail factors that influence the misallocation of resources of market failure (26)

10.2 Evaluate the use of indirect taxation to solve market failure (10)

INTRODUCTION

Market failure occurs when market forces of demand and supply do not ensure the correct quantity of goods and services are produced to meet demand at the right price. (Accept any other relevant low-order introduction.) ✓✓ (2)

Externalities✓

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

Negative externalities✓

- Negative externalities are costs to third parties that are not included in the market price ✓✓e.g. pollution. ✓✓
- The costs of negative externalities such as ill health are not paid by the producers. ✓✓
- Harmful, these goods are often overproduced in the economy which is not socially desirable. ✓✓

Positive Externalities

- A positive externality occurs when there is a benefit to a third party from the action or decision of another party. ✓✓e.g., education ✓
- These goods are often underproduced by the market and government steps in to provide for the shortfall. ✓✓

Public goods/Missing markets

- Can only form under certain conditions and when these conditions are absent markets struggle to exist. ✓✓
- Public goods are not provided by market mechanisms because producers cannot withhold the goods for non-payment and since there is often no way of measuring how much a person consumes, there is no basis to establish a market price. ✓✓
- Markets measuring how much a person consumes, there is no basis for establishing a market price for lightning, flood control, storm water drainage and lighthouses. ✓✓
- **Collective goods:** these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals. ✓✓
- **Community goods:** these are goods such as defence, police services, prison services, streetlights: these are goods and services such as parks, beaches and beach facilities, streets, pavements, roads, bridges, public transport, sewerages systems, waste removals, water reticulation and refuse removals. ✓✓

Merit goods and demerit goods:

- **Merit goods:** Some goods are highly desirable for the general welfare of the people of the country and are often not highly rated by the market. ✓✓
- If people must pay market prices for them, relatively little would be consumed. ✓✓
- **Demerit goods:** Items such as cigarettes, alcohol and non-prescriptive drugs are examples of demerit goods. ✓✓
- In a free market economy, these goods are over-consumed. ✓✓
- Governments can ban their consumption or reduce it by means of taxation such as excise duties and by providing information about their harmful side effects. ✓

Imperfect competition

- In market economies, competition is often impaired by power. ✓✓
- Power often lies to a greater extent with producers than with consumers. ✓✓
- Most businesses operate under conditions of imperfect competition that allow producers to restrict output, increase prices and produce where price exceeds marginal cost. ✓✓

Lack of information

- Consumers, workers and entrepreneurs do not always have the necessary information at their disposal to make rational decisions.
- Consumers: Although advances in technology increase the amount of information to which people have access, they obviously do not have perfect information. ✓✓
- Workers: They may be unaware of job opportunities outside their current employment. ✓✓
- Entrepreneurs: They may lack information about the costs, availability and productivity of some factors of production, and may be operating because of incorrect information. ✓✓

Immobility of the factors of production

- Most markets do not adjust rapidly to changes in supply and demand. ✓✓
- Labour: it may take time to move into new occupations and geographically to meet the changes in consumer demand. ✓✓
- Physical capital: Factory buildings and infrastructure such as telephone lines, bridges, rail links and airports are not moveable at will. ✓✓
- This capital last for many years but cannot be moved to fit change in demand. ✓✓
- Technological applications change production methods: Technology used in production may change such as the use of robots rather than labour in mines. ✓✓
- It takes time for most industries to adapt – with greater technological changes ✓✓
- Workers need to be flexible, upskilled and be able to change employment, as well as work patterns. ✓✓

Imperfect distribution of income and wealth:

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

(Max. 26) (26)

ADDITIONAL PART

Indirect taxation is the imposition of a tax on goods and services rather than on income or profits (i.e., direct taxation). Indirect taxes are associated with market failure to 'internalise the externalities of consumption or production.

Positive

- They are used to raise revenue for government to provide public and merit goods and to redistribute income. ✓✓
- Governments use indirect taxes to reduce sales of goods that are harmful and have consumption externalities such as tobacco and alcohol, that are demerit goods. ✓✓
- Revenue raised can be used to redistribute income through the welfare state, or provide infrastructure ✓✓

Negative

- Indirect taxes can also lead to unintended consequences that produce more inefficient outcomes, ✓✓ for example, a tax on cigarettes may see consumers switch to smoking illegal and more harmful substitute ✓
- Consumers may also try to avoid taxes, which results in a rise in black markets that require extra policing ✓✓ (e.g., cigarette smuggling). ✓

CONCLUSION

The government is trying to safeguard the interests of the community and improve the efficiency in markets but there is still more to be done ✓✓

Activity 11

11.1 Discuss in detail the state intervention because of market failures with the use of graphs. (26)

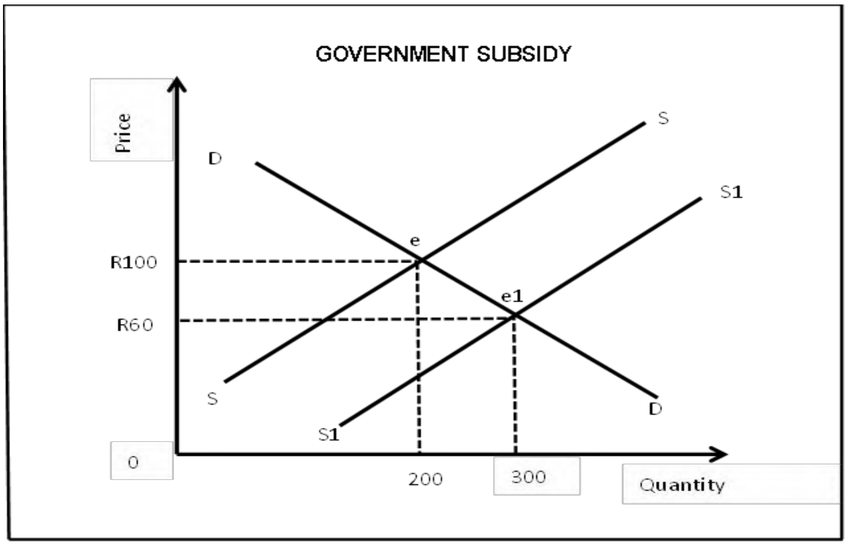
11.2 How can the government deal with lack of information because of market failure? (10)

INTRODUCTION

Market failure occurs when the market forces of demand and supply fail to allocate the resources efficiently✓✓

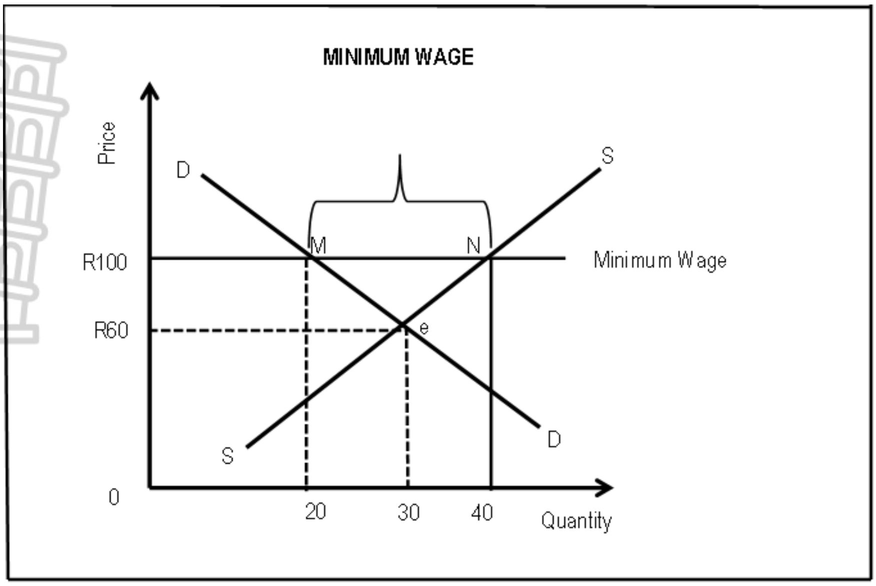
BODY/ MAIN PART

Providing producer subsidies



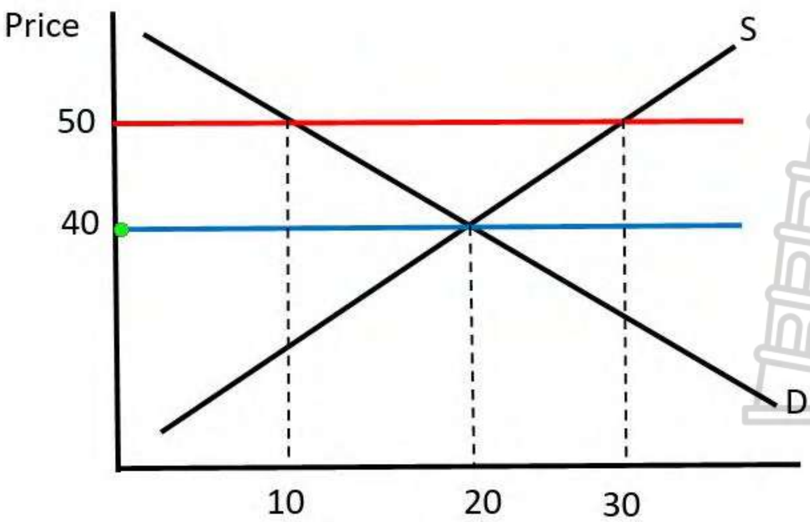
- The government provides subsidies to producers to encourage them to produce more goods and services. ✓✓
- Subsidies protect the countries food security and ensure that critical basic goods are adequality provided ✓✓
- Subsidies on production will shift the supply curve from SS to S1S1, increasing quantity produced from 200 to 300✓✓
- Subsidies will lower the cost of producing goods from a R100 to R60 and thus the market price of these goods is lowered, increasing consumption. ✓✓

Minimum wages



- A minimum wage is the lowest remuneration that employers are required by law to pay their workers. ✓✓
- Income for the workers will increase from R60 to R100 and as a result their standard of living will improve (improve welfare and ensure basic needs are met). ✓✓
- The minimum wage is set above the equilibrium market wage; supply of labour will increase from 30 to 40 while the demand for labour will decrease from 30 to 20 ✓✓
- The increase in the cost of labour will result in a surplus in the labour market M-N, ✓✓

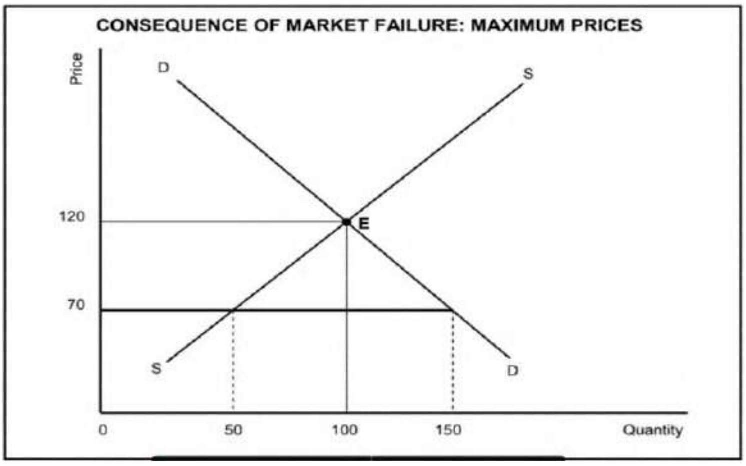
Minimum prices



- The government intervenes and passes the minimum price to ensure sufficient supplies of staple food in the market. ✓✓

- The approach of setting minimum prices or price floors will be used so that it will be worthwhile for producers (to make a comfortable profit) to produce essential goods in desired quantities. ✓✓
- These are prices that are set above the market price from R40 to R50✓✓
- Minimum prices however have unwanted side-effects as they cause a surplus in the market.as supply increase from 20 to 30 while demand decreases from 20 to 10 ✓✓
- Surplus products become a challenge to dispose as they should rather be sold at lower costs, dumped to other countries which is prohibited by the WTO or be destroyed. ✓✓

Maximum prices



- The government will set a maximum price if the price is deemed to be too high for essential goods (basic goods). ✓✓
- The maximum price that is set by the government below the market price from R100 to R70 is known as a price ceiling or maximum price. ✓✓
- The immediate effect of maximum prices in the market is that the quantity supplied from 100 to 50 while quantity demanded increase from 100 to 150 thus causing shortages. ✓✓
- Shortages in supply for certain goods in the market will result to the establishment of the 'black markets'. ✓✓

Additional part

How can the government deal with programme of Imperfect markets as a cause of market failure?

- . Formulating or implementing a competition policy to increase the level of competition. ✓✓
- Using laws on competition to prevent exorbitant prices charged by firms, to ensure that entry to the market is free✓✓
- prevent harmful collusion and encourage foreign competition which helps to keep prices low. ✓✓
- Granting licences to more business in the case of state monopolies to increase competition ✓✓
- Prevent monopolies from abusing economic power by Imposing price controls to decrease prices of goods and services✓✓

- Provide subsidies and incentives to new entrepreneurs that enter the market✓✓

CONCLUSION

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

CONTEMPORARY ECONOMIC ISSUES
INFLATION

ACTIVITY 1

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 number (1.1.1-1.1.4) in the ANSWER BOOK

1.1.1 A continuous fall in the general price levels over a prolonged period, is known as…
- A. Hyperinflation
- B. Stagflation
- C. Deflation √√
- D. inflation

1.1.2 An increase in prices that lead to people losing confidence in the value of money, is called…
- A all-inclusive inflation
- B consumer inflation
- C producer inflation
- D hyperinflation√√

1.1.3 The statement "too much money chasing away too few goods" is known as …
- A cost-push inflation
- B core inflation
- C. demand-pull inflation√√
- D. headline inflation

1.1.4 An index that measures prices of imported goods as they enter the country is known as … price index
- A. consumer
- B. basket
- C. market
- D. producer√√

(5 x 2) (10)

1.2 Give ONE term for each of the following descriptions. Write only the term next to the question numbers (1.2.1-1.2.8) in the ANSWER BOOK. Abbreviations, acronyms and examples will NOT be accepted.

1.2.1 A type of inflation that is caused by an increase in the prices of factors of production.
Cost-push inflation√

1.2.2 Inflation that excludes items from the CPI basket that show high volatility.
Core inflation√

1.2.3 The policy used by SARB to stabilize prices by combating inflation.
Monetary policy√

1.2.4 When an economy experiences high inflation, high unemployment and low growth simultaneously.
Stagflation√

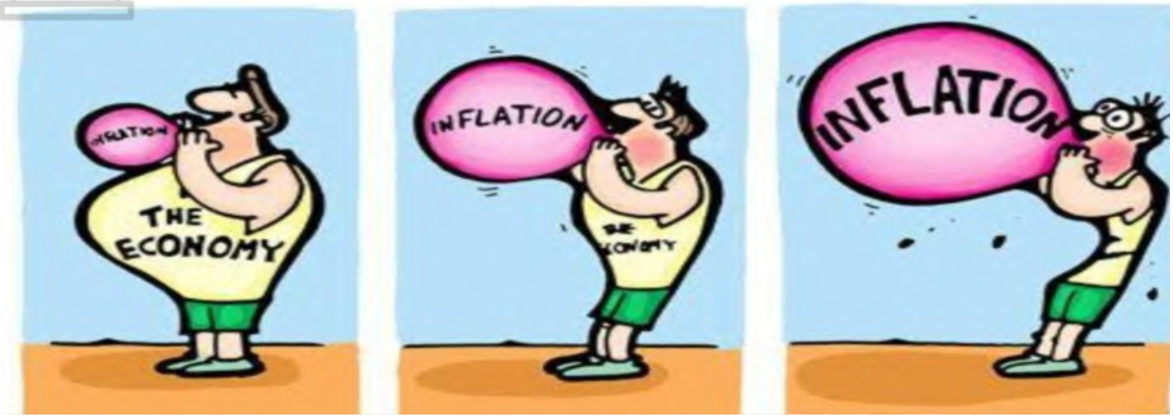
1.2.5 Prices at the level of the first significant commercial transaction.
Producer price index√

1.2.6 Prices set or controlled by government appointed authorities.

Administered prices√ (6 x 1) (6)

ACTIVITY 2

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



Source: cartoon stock

2.1.1 Identify the trend of inflation in the cartoon above. (1)
Increasing√

2.1.2 State the inflation target set by the South African Reserve Bank. (1)
3-6%√

2.1.3 Briefly describe the term *inflation.* (2)
Inflation is a sustained and a significant increase in the general price level over a period of time. √√

2.1.4 Explain the impact of an increased inflation on the economy? (2)

- Inflation erodes the purchasing power of money which result in consumers spending less. √√
- High inflation can discourage investment and spending as businesses and consumers become uncertain about the future√√
- High inflation can lead to a decline in the values of a country's currency, making imports more expensive and potentially impacting international trade. √√

2.1.5 How will a higher inflation rate disadvantage low-income earner? (4)

- Low-income earners spend less on essential goods and services because inflation decreases the purchasing power of money√√
- People with lower income often have limited savings and may not have access to credit or may face higher interest rates when borrowing, this makes it harder to cushion the impact of rising prices. √√
- The real value of their income decreases as prices rise faster than wages, meaning the same amount of money, lower income individuals can afford to buy less√√

2.2 Differentiate between *consumer price index* and *producer price index*. (8)

CONSUMER PRICE INDEX	PRODUCER PRICE INDEX
• Pertains the cost of living√ • Basket consists of consumer	• Pertains to cost of production√ • Basket consists of goods only√

goods and services. √ • Capital and intermediate goods are excluded√ • Prices include VAT√	• Capital and intermediate goods are included√ • Prices exclude VAT√

2.3 How would low inflation expectations by the consumer keep inflation within the target range? (8)

Low inflation expectations

- Allow consumers to postpone consumption expenditure thereby reducing on price increases. √√
- Give households confidence that inflation rate will be low in future and encourage them to save from the income thereby controlling excess demand. √√
- Reduce panic buying by consumers when they expect that prices will be stable in the future. √√
- Boost real interest rates which will encourage savings. √√
- Limit excessive wage demands by different labour unions because workers do not expect increases in the cost of living in the future. √√

ACTIVITY 3

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

INFLATION IN SOUTH AFRICA

In South African the annual consumer price inflation rate was 2.8% in April 2025, according to Statistics South Africa. This slightly up from 2.7% in March. The main contributors to the 2.8% annual inflation rate were housing and utilities, food and non-alcohol beverages, alcohol and beverages and tobacco, and restaurants and accommodation services

Source: Statistics South Africa

3.1.1 Identify the lowest inflation rate in the extract. (1)

2,7%√

3.1.2 Name any policy used in South Africa to curb inflation. (1)

Monetary policy

Fiscal policy

3.1.3 Briefly describe the term *consumer price index.* (2)

Consumer price index is an index that measures the price of a fixed basket of consumer goods and services. √√

3.1.4 Explain the psychological influence of inflation to the various participants in the economy. (2)

- Consumers' confidence may decrease thereby reducing consumer spending and increasing savings in instruments that are inflation-linked√√
- Consumers start to buy more goods and services, since they expect prices to rise even further. √√
- During times of inflation labour unions wish to protect their members' real income by demanding higher wage. √√
- Businesses may increase the price of goods and services in advance to protect their profit margin √√

(Accept any other correct relevant response)

3.1.5 How do businesses benefits from inflation? (4)

- Businesses benefit from increased sales and revenue due to increase in consumer spending. √√
- Businesses are able to maintain their profit margins, even during inflation since they are able to effectively manage their costs. √√
- Business pas their part of the cost to consumers through higher prices. √√

(Any other correct relevant response)

3.2 Briefly discuss *Government expenditure* and *investment expenditure* as causes of the demand-pull inflation. (8)

- ***Government expenditure***

  An increase in a government spending without a corresponding rise in aggregate supply leads to an increase in prices. √√
  If increases in government spending are financed by borrowing from banking system, large sums of money are placed into circulation and the money multiplier comes into operations. √√

  (2 x 2)(4)

- ***Investment expenditure***

  Lower interest rate may result in an improvement in the sentiment and profit expectations of businesses. √√
  Businesses invest more and this may lead to an increase in the demand for the goods and services that are part of the investment, e.g. new building requires cement, bricks and labour. √√
  If aggregate demand increases at a faster rate than aggregate supply, price increase will follow. √√

  Any (2 x 2)(4)

3.3 Differentiate between *demand-pull inflation* and *cost-such inflation*. (8)

Demand-pull inflation

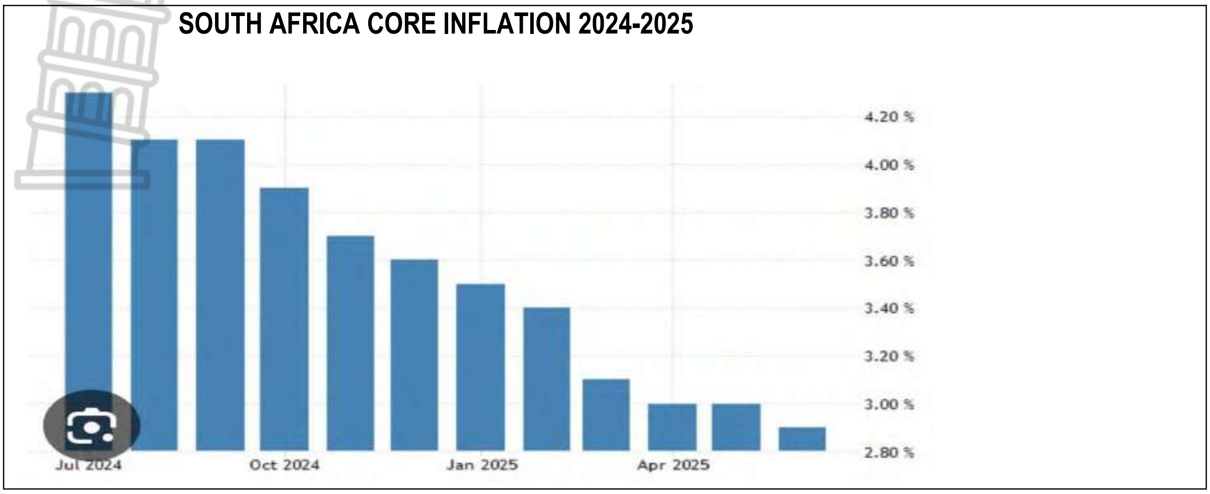
- Demand-pull inflation occurs when aggregate demand in the economy outpaces aggregate supply. √√
- Demand-pull inflation is when too much money is spent on too few goods. √√
- Demand-pull inflation happens when it is easy to obtain loans or when people are employed and earn income, and these people overspend. √√ Max 4

Cost-push inflation

- Cost-push inflation occurs when there is a general rise in the price level due to increases in the costs of factors production. √√
- An example, can be spikes in the oil due to war. √
- Businesses normally also react to the rise in the price of their costs of production by increasing prices to maintain their profit margin. √√ Max 4

ACTIVITY 4

4.1 Study the graph below and answer the questions that follow:



Source: Statistics South Africa

4.1.1 identify the month that shows the highest inflation? (1)

July√

4.1.2 Name ONE item that is excluded from CPI basket. (1)

Petrol√

Electricity√

Fresh produce√

4.1.3 Briefly describe the term *stagflation.* (2)

Stagflation is a condition of low growth, high unemployment and high-rates of inflation. √√

4.1.4 Why do policymakers exclude some items when calculating core inflation? (2)

- Policy makers take out volatile goods to find the underlying change in the CPI. √√
- Policy makers think consumers value the items included in core inflation more than those that are excluded. √√

4.1.5 How can inflation affect people who are debtors? (4)

- Borrowers (debtors) benefits from price increase, this is because borrowers receive money with a relatively high purchasing power of and they repay their loans with low purchasing power. √√
- High, or unexpected inflation can be particularly beneficial for debtors, as it can catch lenders off guard and lead to greater erosion of the real value of the debt

4.2 Discuss *higher wages* and *exchange rates depreciation* as causes of cost push inflation (8)

Higher wages

- Wages is the most important single-cost item in any economy. √√
- In South Africa the remuneration of labour constitutes almost 50% of gross value added at basic price. √√
- Increase in salaries and wages are therefore an important source of cost-push inflation. √ √

Max 4

Exchange rates depreciation

- Exchange rate depreciation may be the cause of price increases. √√
- If the depreciates in terms of US dollar, all; imported goods and services become more expensive. √√

- Producers have to pay more money for the same quantity than before, therefore they often would increase their prices. √√ Max 4

ACTIVITY 5

5.1 Study the extract below and answer the questions that follow:

> **MONETARY POLICY IN ACTION**
>
> The SARB changes interest rate to influence money supply. To protect the value of the rand, the institution uses inflation targeting, which aims to maintain consumer price inflation between 3% and 6%. The value of the currency is therefore protected relative to domestic consumer prices.
>
> According to CPI data, the cost of milk per litre rose from R8.50 to R8.80 0ner the past year.
>
> Adapted: www.resbank.co.za

5.1.1 Identify the instrument of monetary policy from the extract. (1)

Interest rate√

5.1.2 Name the institution that sets the inflation target. (1)

South African Reserve Bank (SARB) √

5.1.3 Briefly describe the term *administered price inflation*. (2)

Administered price inflation is an increase in prices of goods and services that are set by the government or controlled by government appointed authorities.

5.1.4 How can the South African Reserve Bank use monetary policy to curb cost push inflation. (2)

SARB can reduce the supply of money in the economy by increasing the repo rate, thereby encouraging savings. √√

SARB can use the moral suasion where they can convince banks to restrict/ reduce the granting of credit to producers as that will reduce their spending power. √√

5.1.5 Use the above data to calculate the inflation rate of milk. Show all calculations. (4)

$$\frac{\text{Current Price – Base Price}}{\text{Base price}} \times 100√$$

$$\frac{R8,80 – R8,50}{R8,50} \times 100√$$

$$\frac{0,30}{8,50} \times 100√$$

$=3,53\%$√

5.2 Briefly discuss m*onetary* and *fiscal policy* measures to combat inflation. (8)

Monetary policy

Monetary policy is the use of monetary measures by SARB to combat inflation. √√

Increasing interest rate can lead to commercial bank increasing the prime interest rate. √√

The SARB can decrease money supply by selling government bonds. √√

Fiscal policy

These are steps taken by the minister of finance to control inflation through application of tax and government spending√√
Restrictive fiscal policy involves a reduction in government spending and increased taxation. √√
Direct taxation means increasing personal income tax and business tax. √√

5.3 Evaluate the success of inflation targeting in keeping inflation within the range. (8)

Inflation targeting has been successful because:

- **Anchored Inflation Expectations:**

  Inflation targeting has helped to anchor inflation expectations, making it easier for businesses and households to plan and invest. √√

- **Macroeconomic Stability:**

  The framework has contributed to overall macroeconomic stability by providing a clear monetary policy anchor. √√

- **Transparency and Accountability:**

  It has enhanced transparency and accountability of the central bank, as its performance is assessed against the inflation target. √√

- **Improved Policy Response:**

  The framework allows policymakers to respond more effectively to cyclical fluctuations in the economy. √√

- **Avoidance of Previous Policy Failures:**
  Inflation targeting replaced previous frameworks, like exchange rate and money supply targeting, that were less successful in controlling inflation. √√

Inflation targeting has not been successful because:

- **Outlier Target:**

  South Africa's 3-6% target band is considered high compared to many other emerging markets that have adopted lower, point-based targets. √√

- **Persistent High Expectations:**

  Inflation expectations have often been anchored at the higher end of the target range, potentially hindering further disinflation. √√

- **Impact on Competitiveness:**

  Higher inflation relative to trading partners can negatively impact South Africa's competitiveness. √√

- **Potential for Lower Target:**

  Some argue that a lower, point-based target could lead to lower inflation, reduced borrowing costs, and improved macroeconomic stability. √√

- **Short-Term Costs:**
  While a lower target could bring long-term benefits, there are concerns about potential short-term costs associated with disinflation. √√

ACTIVITY 6

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

YEAR	CPI	INFLATION RATE
2022	100	-
2023	103	3,29
2024	108	A

Adapted: www.resbank.co.za

6.1.1 Identify the base year from the above table. (1)

2022√

6.1.2 Name the institution that sets inflation target. (1)

- SARB√

6.1.3 Briefly describe the term *all-inclusive Inflation*. (2)

- All-inclusive inflation measures the change in prices for all final goods and services√√

6.1.4 Explain the impact of high inflation on income. (2)

Inflation reduces the purchasing power of money; hence consumers afford lesser goods with their income. √√

6.1.5 Calculate the inflation rate represented by letter A. Show all calculations. (4)

$$\frac{\text{Current Price – Base Price}}{\text{Base price}} \times 100\surd$$

$$\frac{108-103}{103}\surd \times 100\surd$$

=4,6%√

6.2 Briefly discuss *debtors /creditors* and *balance of payment* problems as a consequence of inflation. (2x4)(8)

Debtors/creditors

Borrowers benefits from prices increases while lenders suffer due to price increases. √√

Borrowers receive money with high purchasing power and creditors receive repayment with low purchasing power. √√

Balance of payment problems

Countries that experience high inflation rate find foreign goods and service cheaper than domestic goods and that increase imports. √√

Local goods become less competitive in the global market and that lead to exports reduction. √√

Balance of payment deficit arise as imports exceeds exports. √√

6.3 How can lower inflation target influence the South African economy? (8)

Lower inflation targeting can reduce borrowing costs, making it cheaper for businesses and consumers to borrow money potentially stimulating spending and economic growth.

Lower inflation expectations will improve price stability and that will reduce uncertainty for businesses, consumers and investors.

Predictable low inflation targeting can encourage long-term investments as businesses become pessimistic about future economy of the economy.

Lower inflation targeting will improve the value of wages and salaries especially for lower income group as they afford more goods.

ACTIVITY 7

7.1 Discuss in detail the consequences of inflation. (26)

7.2 Evaluate the success of the Monetary Policy Committee in keeping inflation within the target range. (10)

INTRODUCTION

This is a constant and significant increase in the general price level of goods and services in the country over a certain period of time, e.g. a year. ✓✓ (Max 2)

BODY: MAIN PART

1. **Salary and wage earners** ✓

- Price increases affect people whose incomes are relatively fixed (in other words, people whose incomes remain constant or do not increase at the same rate as prices do). ✓✓
- This group includes retired people, pensioners and the poor. ✓✓
- As prices increase, their almost fixed incomes purchase less and less✓✓
- However, there are individuals and entrepreneurs whose incomes often increase at a rate that is higher than the inflation rate and they do not suffer but gain from inflation. ✓✓
- Globalization results in increased employment opportunities in the economy due to increased productivity; the need to produce more goods both for local and international markets rises in globalised economies. ✓✓
- The demand for increased skilled labour becomes a need as a result, this demand for labour benefits the local labour market in increased employment opportunities and growth. ✓✓

2. **Investors and savers** ✓

- Different types of investments are affected by inflation: Assets with fixed nominal values. ✓✓
- These assets have a fixed nominal value and give a return if they are held until maturity. ✓✓
- When they are paid, because their nominal values remain constant, the purchasing power of the nominal values decreases as prices increase
(that is, their real value decreases). ✓✓

3. **Assets with flexible market values** ✓

- The holders of shares and fixed property usually gain by price increases because the nominal values of these assets tend to increase at least proportionately to the rate of inflation (that is, their market values are flexible). ✓✓
- Often, the prices of these assets increase more rapidly than increases in the general price level. ✓✓
- In this case, inflation creates wealth to the advantage of those holding such assets. ✓✓

4. **Taxpayers** ✓

- South Africa has a progressive personal income tax system. ✓✓
- This means that marginal and average tax rates increase in harmony with the income level. ✓✓
- The higher an individual's income, the greater the percentage of income he or she has to pay in tax. ✓✓
- With inflation, taxpayers' nominal income (wages and salaries) rises even when their real income remains unchanged. ✓✓
- Taxes are levied on nominal income and not on real income. ✓✓
- Therefore, if the income tax schedule remains unchanged, inflation increases the average rate of personal income tax. ✓✓
- Individuals will have to pay higher taxes even if they are actually no better off than before. ✓✓
- This phenomenon, known as bracket creep, leads to a redistribution of income from taxpayers to the government. ✓✓
- Bracket creep results from a combination of inflation and progressive income tax. ✓✓
- It has the same effect as an increase in the tax rate. ✓✓

5. **Industrial peace** ✓

Wage bargaining is often accompanied by strikes and mass action. ✓✓

- These actions can sometimes spill over into violence, which affects society at large. ✓✓
- In extreme situations, in the presence of exceptionally high inflation together with a government that is determined not to yield to wage increase demands (which can push inflation to even higher levels), widespread civil unrest follows. ✓✓

6. **Inflation has a negative effect on economic growth** ✓

- Inflation leads to increased uncertainty in the economy. ✓✓

- This uncertainty discourages savings and investments especially in the long term. ✓✓
- Which are necessary for economic growth – result: reduced economic growth. ✓✓
- Inflation affects the real money value and savings. ✓✓
- Because inflation reduces the real value of money, it affects the real value of money saved in particular. ✓✓
- This means that because of inflation, the rand buys fewer goods and services than before. ✓✓
- It also means that the real money value saved is worth less at the end of the savings period than when the money was saved. ✓✓
- E.g. if a consumer receives 5% interest on his/her savings account while the inflation rate is 8%, then the real rate of interest on the consumer's savings is –3%. ✓✓

7. **Inflation has an adverse effect on a country's balance of payments (BOP)**✓

- If a country's rate of inflation is higher than that of its trading partners, the prices of exported goods increase while the prices of imported goods decrease. ✓✓
- This leads to a loss of competitiveness in the export market, which in turn, leads to decreased exports. ✓✓
- This has a negative effect on the country's balance of payments (BOP). ✓✓
- The loss of export competitiveness can also increase unemployment. ✓✓
- Inflation affects the redistribution of income in a country. ✓✓
- The effects of inflation are uneven. ✓✓
- While it does not clearly benefit anyone and certainly harms most, it also harms some less than others. ✓✓
- Inflation also tends to redistribute income from low-income groups to higher income groups. ✓✓
- This is because people in the low income groups do not have assets that can rise in value faster than the rate of inflation to help them overcome the effects of inflation. ✓✓
- Powerful groups such as trade unions, large companies and the wealthy, can increase their share of national income at the expense of disadvantaged people such as pensioners, the unemployed and welfare recipients. ✓✓

(Allocate a maximum of 8 marks for headings/sub-headings) (Max. 26)

Evaluate the success of the Monetary Policy Committee in keeping inflation within the target range. (10) The SARB has been successful in maintaining the level of inflation between 3% to 6%.

- If inflation target range is exceeded the monetary authorities (SARB) acts to reduce the demand for money, such as increasing interest rates.
- If the inflation levels increase beyond the inflation target it leads to wage –push inflation and possible strike action.
- Employers will give in to worker's demands but put their prices up to compensate for increased labour cost / increased cost of living.
- If targets are exceeded the country's credit rating can be negatively affected.

• The control of inflation levels prevents South African citizens from living on too much credit from commercial banks.

Failure of monetary policy committee in curbing inflation

• Inflation targeting negatively affects people on a fixed income, because they are reliant on an income that does not increase at a rate which inflation increases.

• Headline inflation includes all the volatile products such as fuel and electricity, which are not considered as part of the inflation targeting policy.

CONCLUSION

South Africa has seen stable prices since the implementation of inflation targeting in 2 000 and has been applying all monetary and fiscal measures to combat inflation. A high rate of inflation will always cause instability in the economy. ✓✓ (Max. 2)**[40]**

ACTIVITY 8

8.1 Discuss in detail the measures to combat demand-pull inflation. (26)

8.2 How can inflationary expectations influence the behavior of various participants in the economy? (10)

INTRODUCTION

Inflation refers to a sustained and significant increase in the general price level over a period of time; and a simultaneous decline in the buying power of money.

BODY

MONETARY POLICY MEASURES

Monetary policy measures to combat inflation are taken by the South African Reserve Bank (SARB) and government through the implementation of one or more of the following instruments:

Interest rates

The SARB curbs inflation by increasing the repo rate which makes it expensive to borrow money.
Banks pass on the increased cost of borrowing (repo rate) to their clients by increasing the interest rate.
High interest rate discourages consumers from taking unnecessary credit, discouraging consumer spending.
A decrease in credit creation results to a reduction of money supply thereby reducing demand-pull inflation.
The increase in interest rates stabilises the value of the currency which helps to reduce cost-push inflation through lower import cost.

Open market transactions

The SARB can directly decrease the supply of money by selling government securities in the open market.
When banks buy these securities money flows from banks to the SARB which reduces money supply.
Reduction in money supply will reduce aggregate demand controlling demand-pull inflation.

Cash Reserve Requirements

Commercial banks are required to hold a certain minimum cash reserve with the central bank.
An increase in the cash reserve requirement limits the amount of money that banks can give out as credit and helps to curb inflation.

Moral suasion

The SARB can persuade commercial banks to act in a responsible manner when granting credit under inflationary conditions.
Moral suasion helps to reduce inflation because credit will be granted to fewer consumers.

FISCAL POLICY MEASURES

Inflation can be combated through fiscal changes in taxation and government expenditure. The following are actions that can be taken:

Government expenditure

The state can reduce expenditure by postponing some government projects such as roads, hospitals and schools.
Aggregate demand will decrease thereby reducing demand-pull inflation.
The government may finance a budget deficit from the non-banking sector to limit inflation.

Taxation

Government can increase direct taxation such as personal income tax to decrease demand.
An increase in indirect taxation (VAT) causes spending to decrease because goods become more expensive.
The state can impose surcharges on imported goods which will increase their prices, discouraging consumer spending.
A loan levy can be used to reduce disposable income of consumers.
The government may reduce taxes on savings or introduce tax-free savings accounts to encourage saving and reduce spending.

OTHER MEASURES

Additional measures that can be used to combat inflation include:
Increase productivity.
Improved education and training allow for more people to be employed and ensure that they are more productive.

Price Control:
The government ensures that certain essential goods remain affordable by fixing their price.

Wage Policy:
A wage policy should keep wage increases in line with inflation rate.

Stricter conditions for consumer credit:

The National Credit Regulator may impose strict requirement on consumer credit which will reduce aggregate demand.

Import controls are relaxed:
More imports may help to supplement local supply of goods and services, reducing inflation caused by product shortages.

Floating exchange rate:
Prices are automatically adjusted to international conditions which allow free operation of the price mechanism (real prices).

Indexation:
Refers to a policy of linking prices of items such as wages, pensions and mortgage bond interest rates to price indices to eliminate the effects of inflation.
(Accept any other correct relevant response)

How can inflationary expectations influence the behavior of various participants in the economy? (10)

ADDITIONAL PART
Various role players are affected by high inflation expectations in the following ways:
Inflation expectations play a major role in the process that transmits expectations of price increases through to the actual increase in prices.
Consumer spending may increase when consumers expect prices to increase in the near future, without market signals.
More consumer goods and capital good are bought before the price increase thus increasing aggregate demand.
Labour unions demand higher wages to protect purchasing power for their members when they anticipate rise in inflation.
When wages increase, businesses raise their prices to compensate the increase in labour costs thereby fuelling inflation.
When businesses expect inflation to rise, they tend to increase their prices in advance which increase their profit margins.
The SARB uses inflation expectations to adjust monetary policy instruments that control money supply.
(Accept any other correct relevant response)
(Allocate a maximum of 2 marks for mere listing of facts) (Max. 10)

CONCLUSION
A high rate of inflation will always cause instability in the economy hence various measures are applied to combat it. / Inflation expectations are self- fulfilling because higher expectations lead to higher inflation and the vice versa is true.
(Accept any other correct relevant conclusion) (Max.2)

TOURISM

ACTIVITY 1

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 (1.1.1–1.1.5), the ANSWER BOOK, e.g. 1.1.6 D.

1.1.1 People who travel within the borders of their own country are known as … tourists. (2)
A. domestic ✓✓
B. international
C. local
D. travel

1.1.2 Travellers who enter a foreign country and stay for more than one day are called to as … tourists. (2)
A. outbound
B. inbound ✓✓
C. cultural
D. transit

1.1.3 The citizens of a particular country travelling abroad are referred to as … tourists. (2)
A. foreign
B. rural
C. adventure
D. outbound ✓✓

1.1.4 Activities of people travelling to and staying in places outside their usual environment for no more than one year for leisure, business and other purposes is called … (2)
A. travels.
B. Trade.
C. tourism. ✓✓
D. exploration.

1.1.5 Travelling for the purpose of taking a holiday, to play sport, to visit friends, and to see the tourist attractions is known as … tourism. (2)
A. business
B. cultural
C. domestic
D. leisure ✓✓

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

1.2.1 Tourists come to visit museums and art galleries, e.g. Robben Island and the Apartheid Museum.
Cultural tourism ✓

1.2.2 Tourists visit undisturbed natural areas, e.g. the Richtersveld Cultural and Botanical Landscape, the Cape Floral, Region Protected Areas and the Kruger National Park.
Ecotourism ✓

1.2.3 Tourists visit for business meetings and conferences.
Business tourism ✓

1.2.4 The culture, history and environment that is unique to the local people.
Indigenous knowledge system ✓

1.2.5 The combination of recreational travel with educational experience to explore ancient history by visiting sites of archaeological significance.
Paleo tourism ✓

1.2.6 Tourists travelling through South Africa using air, road, rail and sea transport to get to another destination.
Transit tourists

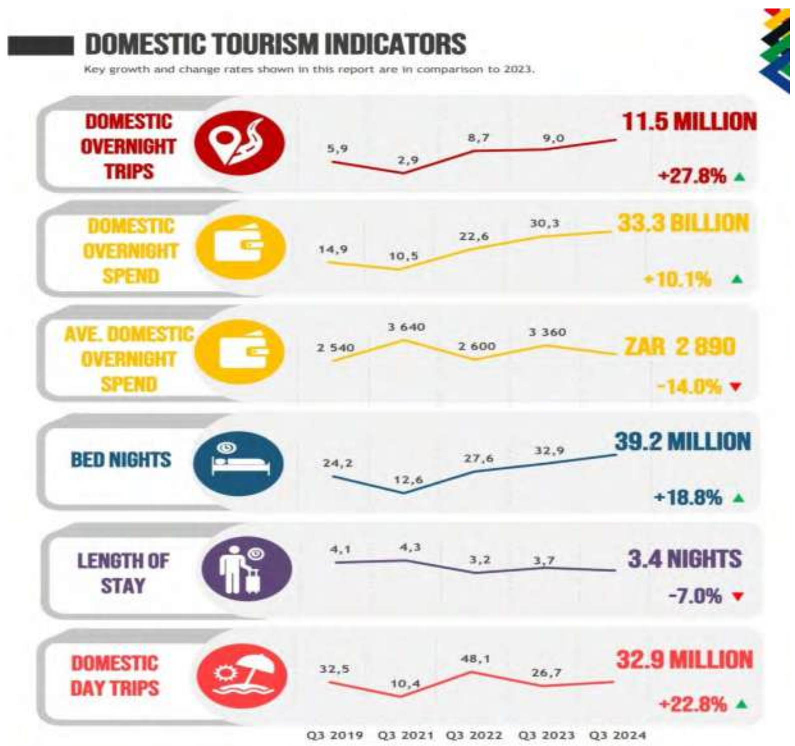
1.2.7 landmark or area which is selected by the United Nations as having cultural, historical or another form of Significance.
World Heritage site✓

ACTIVITY 2

2.1 Name any TWO World Heritage Sites of historical and cultural importance in South Africa. (2)

- The Cradle of Humankind ✓✓
- Robben Island ✓
- The Mapungubwe Cultural Landscape ✓

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



Source: Department of Tourism

2.2.1 Identify the tourism indicator that shows the most decline from the graph above. (1)
Average domestic overnight spend ✓

2.2.2 Name the minimum length of stay that is used to measure tourism. (1)
One night ✓

2.2.3 Briefly describe the term *leisure tourism*. (2)
Leisure tourism occurs when people take a holiday to play sport, visit friends, and to see the tourist attractions. ✓✓

2.2.4 Explain the importance of heritage sites in the tourism sector. (2)

- Heritage sites serve as tourist attractions that can be used to grow tourism in the country. ✓✓
- Most heritage sites create positive ripple effect through income that is earned by entrepreneurs and job opportunities found by households. ✓✓

(Accept any other correct relevant response)

2.2.5 Why should domestic tourism be promoted in the country? (4)

- Domestic tourism contributes to an increase of the multiplier effect as money circulates within the boarders of a country. ✓✓

- Businesses in the tourism related industry benefit largely from domestic tourism which can help them to invest further in the sector. ✓✓
- The country can develop self-sufficiency through the development of domestic tourism instead of relying on foreign tourists. ✓✓

ACTIVITY 3

3.1 **Study the extract below and answer the questions that follow.**

KZN TOURISM SET FOR REVIVAL DESPITE COVID-19 SETBACK

The recovery strategy centres on repositioning KwaZulu-Natal as a standalone destination rather than an afterthought to Cape Town or Kruger National Park itineraries. The KZN government in partnership with the Federated Hospitality Association of South Africa aims to put KZN's beaches, the mountains, the battlefields, the Midlands, and game parks out into the public domain to position the province as a one-stop tourism destination.

Adapted from: www.fedhasa.co.za

3.1.1 Identify an example of cultural tourism from the above extract. (1)

Battlefields ✓

3.1.2 Give the minimum travelling distance that is used to measure tourism. (1)

160 KM ✓

3.1.3 Briefly describe the term *tourism*. (2)

Activities of people travelling to and staying in places outside their usual environment for no more than one year. ✓✓

(Accept any other correct relevant response)

3.1.4 Explain the importance of marketing in the tourism industry. (2)

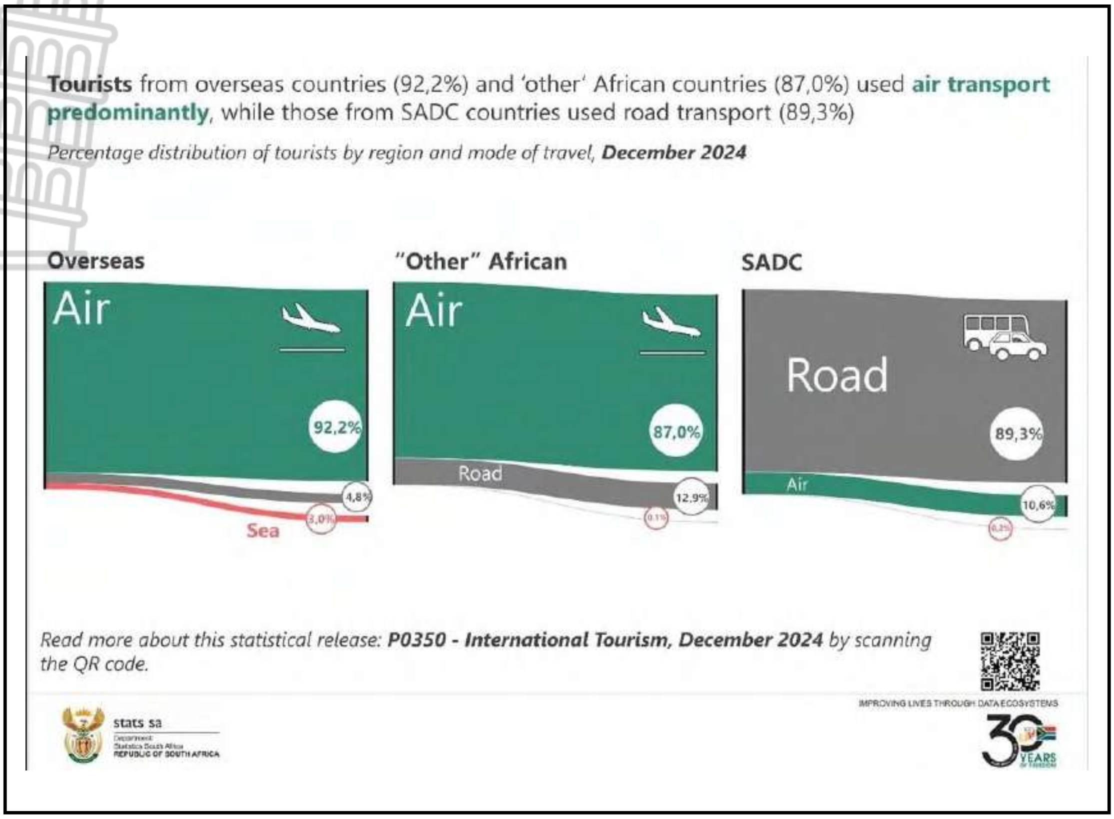
Marketing plays a major role in informing the public and tourists about the country and its tourist attraction sites that can be visited. ✓✓

3.1.5 How does tourism assist in reducing unemployment? (4)

- The tourism sector creates job opportunities for all kinds of labour from unskilled to skilled labour. ✓✓
- The industry can provide immediate employment as it can employ workers without having to train them. ✓✓
- Seasonal jobs opportunities created during the summer holidays further help to reduce unemployment. ✓✓

ACTIVITY 4

4.1 **Study the information below and answer the questions that follow.**



4.1.1 Identify the main mode of transport used by tourists to visit South Africa. (1)

Air transport ✓

4.1.2 Name the annual event that aims to market South Africa and SADC's tourism. (1)

Africa Tourism Indaba✓

4.1.3 Briefly describe the term *inbound tourist.* (1)

Inbound tourist refers to people travelling from foreign countries to stay in another country for more than one day. ✓✓

4.1.4 Explain the importance of controlling visits to the various SANParks in South Africa? (2)

- Controlling visits to SANParks helps to prevent the loss of wildlife species through illegal activities such as poaching. ✓✓
- It assists in retaining the natural beauty of the environmental and ensure the safety of animals. ✓✓

4.1.5 How does tourism directly contribute to economic growth? (4)

- Travel and tourism investment spending by government and the private sector such as the purchase of new aircraft and construction of new hotels, resort area, water and sanitation services, etc. ✓✓
- Purchases from suppliers of goods and services by the sectors dealing directly with tourists – including purchases of cleaning services by hotels, or fuel and catering services by airlines and IT services by travel agents. ✓✓
- Spending by residents and non-residents for business and leisure purposes as well as industries' direct spending on accommodation, food, retail, transport and destination services contributes to economic growth. ✓✓

ACTIVITY 5

5.1 **Study the picture below and answer the questions that follow.**

Source: SA Tourism

5.1.1 Identify an example of ecotourism from the above picture. (1)

Table Mountain ✓

5.1.2 Give the programme that is aimed at promoting domestic tourism. (1)

Shot't Left campaign ✓

5.1.3 Briefly describe the term *transit tourist*. (2)

People who stop over in a country on their way to another country through air, road, rail, and sea transport. ✓✓

5.1.4 Explain the reason for growth in foreign arrivals in South Africa. (2)

- Tourists want to experience the South African diversity in terms of culture, race, etc. ✓✓
- The depreciation of the rand against major currencies makes South Africa to be regarded as a relatively cheap and good value for money destination. ✓✓

5.1.5 How does levying taxes on tourists assist in the economy? (4)

- Levying taxes helps to maintain the existing infrastructure and essential tourist facilities. ✓✓
- Local municipalities are able to cover the costs incurred for hosting of the tourists. ✓✓
- Tourism tax revenue is also used to develop tourism infrastructure. ✓✓

ACTIVITY 6

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

CAPE TOWN SHINES GLOBALLY AS A TOURISM DESTINATION

Cape Town is often lauded as one of the best, if not the best, city in Africa and even the world. It has consistently received accolades for its beauty, vibrant culture, and attractions. Numerous travel publications and readers have recognized Cape Town as a top destination, highlighting its iconic landmarks, diverse activities, and natural beauty.

Some must-visit places include Table Mountain, Robben Island, the V&A Waterfront, and Kirstenbosch National Botanical Garden.

Adapted from: Cape Town Tourism

6.1.1 Identify an example of cultural tourism from the above extract. (1)

Robben Island ✓

6.1.2 Name the maximum length of stay when measuring tourism. (1)

One year ✓

6.1.3 Briefly describe the term *paleo tourism.* (2)

The combination of recreational travel with educational experience to explore ancient history by visiting sites of archaeological significance. ✓✓

6.1.4 Why is tourism considered to be the largest earner of foreign exchange? (2)

- Host countries of tourists earn foreign exchange when tourists pay for goods and service. ✓✓
- Foreign tourists usually spend more than local tourists and that increases the supply of foreign exchange earned by the host country. ✓✓

6.1.5 How does media technology promote tourism? (4)

- Media technology makes it easy for businesses in the tourism industry to market their services. ✓✓
- It enables tourists to search for their destinations of interest globally with ease from their locations. ✓✓
- Mobile apps such as banking apps assist in the provision and paying for services such as. ✓✓

ACTIVITY 7

7.1 Study the picture below and answer the questions that follow.

7.1.1 Identify an industry that represents leisure tourism from the above picture. (1)
Entertainment and recreation ✓

7.1.2 Name the organisation that is responsible for marketing tourism in South Africa. (1)
South African Tourism ✓

7.1.3 Briefly describe the term *infrastructure.* (2)
Infrastructure refers to physical and organisational structures and facilities that are meant to support the function of the economy. ✓✓

7.1.4 Why is tourism considered to be labour intensive? (2)
Tourism creates a wide range of job opportunities that are performed using manual labour such as cleaning in hotels and driving tourists to their destinations. ✓✓

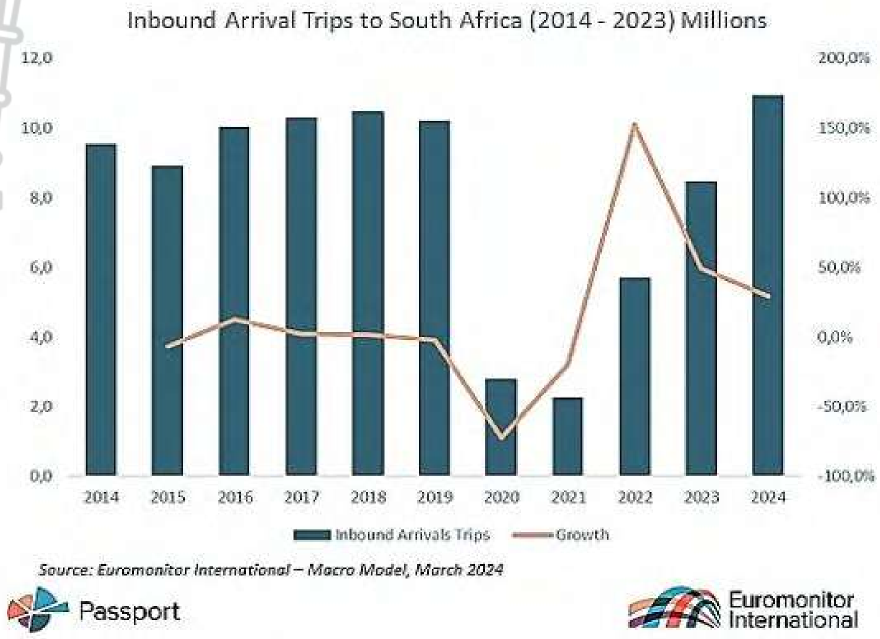
7.1.5 How can government ensure equal distribution of tourism activities in the country? (4)

To distribute tourism activities, three approaches can be followed:

- Creating representative bodies (with stakeholders from less familiar areas) to lobby the wider tourism industry to promote their areas. ✓✓
- Improving marketing to highlight benefits and attraction of areas that have low tourism activities. ✓✓
- Partnering with the private sector to improve and extend supporting services such as accommodation, services (e.g. retailing, safe parking, security, bank card payment, hairdressers etc.), access to the attractions destinations (efficient transport, dirt and gravel roads etc.) and ancillary services. ✓✓

ACTIVITY 8

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



Source: Euromonitor

8.1.1 Identify the year in which there was a highest number of inbound tourists from the above graph. (1)
2024 ✓

8.1.2 Name the inbound arrivals trend shown by the graph above. (1)
Upward trend ✓

8.1.3 Briefly describe the term *labour intensive*. (2)
Labour intensive refers to business activities that require a large amount of labour to produce goods and services. ✓✓

8.1.4 Explain the reason for the decline in tourism activity during 2020 to 2021. (2)
In 2020 to 2021 the tourism sector was destructed by Covid-19 pandemic which made it impossible for tourists to travel the world. ✓✓

8.1.5 How can households in rural areas benefit from tourism? (4)

- Cultural tourism can benefit households in rural areas through entrepreneurial opportunities that can be generated from cultural practices. ✓✓
- Households can benefit from immediate job opportunities such as being tour guides. ✓✓
- Serving tourists may assist households in gaining a variety of skills.

ACTIVITY 9

9.1 Answer the following questions.

9.1.1 How does the availability of adequate infrastructure promote tourism? (8)

- Improved infrastructure enhances the traveling experience of tourists. ✓✓
- Upgrading existing accommodation, transport and communication infrastructure attracts tourists to visit a country thereby sustaining tourism growth. ✓✓
- The availability of world class airports creates convenience for tourists by saving travelling time. ✓✓
- It makes communication between travel agents and tourists efficient.

9.1.2 Analyse the challenges faced by the tourism industry in South Africa. (8)

- Tourism activities are concentrated mainly in the coastal cities and big cities whist most inland areas are neglected. ✓✓
- There is lack of infrastructure like roads to access and grow community tourism. ✓✓
- A large section of the population in SA is not aware of the concept of tourism. ✓✓
- Poverty also limits some people to the extent that they cannot take part in tourism activities. ✓✓
- Tourism is not marketed enough in rural communities for people to be aware of places to visit. ✓✓
- Cost of travelling is still high in South Africa since there are very few low-cost airlines offering affordable service. ✓✓
- High level of crime and social unrests may discourage foreign tourists to visit the country. ✓✓

9.1.3 Discuss the reasons for growth in the tourism industry. (8)

- The range of tourist attractions in the country has increased. ✓✓
- Economic growth and development have resulted in improved levels of income. ✓✓
- Improved infrastructure such as competitive low-fare airlines, improved bus and minibus services and road networks. ✓✓
- A large group of citizens cannot afford to travel abroad, which then boosts local tourism. ✓✓
- Marketing factors such as discounted rates for local residents compared to traveling abroad. ✓✓
- Socio-economic factors that cause migrant workers in urban areas to travel to their homes in various provinces. ✓✓

9.1.4 How does tourism negatively affect the environment? (8)

- Permanent environmental restructuring (highways, airports, resorts) ✓✓
- Waste product generation such as biological and non-biological waste that damages fish production, creates health hazards, and detracts from the attractiveness of the destination. ✓✓
- Direct environmental stress caused by tourist activities: for example the destruction of coral reefs, vegetation and dunes. ✓✓
- Effects on population dynamics such as migration and increased urban densities accompanied by declining populations in other rural areas. ✓✓

ACTIVITY 10

10.1 Examine in detail the benefits of tourism. (26 marks)

10.2How can South Africa promote the tourism industry to attract inbound tourists? (10 marks)

INTRODUCTION

Tourism refers to activities of people travelling to and staying in places outside their usual environment for not more than one consecutive year and for different reasons.
(Accept any other correct relevant introduction)
(Max. 2)

BODY: MAIN PART

Households

- Households may benefit from an increase in income and opportunities for employment and entrepreneurship.
- Individuals receive training through programmes established to promote tourism.
- Households are indirectly involved in tourism as employees in hotel industry, financial institutions etc.
- They benefit from improved infrastructure created for tourists though local people can use.
- They acquire skills from that are required by the tourism industry.
- Income earned is spent in their communities and they can contribute to the local economy.
- Entrepreneurs from households operate as tour guides

Businesses
- Formal sector activities are promoted through tourism e.g. companies are tasked with building infrastructure such as hotels or roads
- Tourism benefits local businesses and companies through an increase in expenditure on the goods and services offered by local businesses
- The informal sector benefits because of trading in traditional products such as crafts and arts
- Banks employ more tellers, and this leads to higher employment
- The business environment is stimulated in rural and urban areas promoting entrepreneurial opportunities and assisting with BEE
- Tourist destinations are developed through the public and private partnerships (PPPs)

Government
- Government benefits because of income it receives from tourists
- Tourism enables the government to advertise a country tourism potential
- Direct and indirect contributions to the government revenue is made through levies on tourists —these are made for two purposes
- To recover external costs – this assists the host community for providing infrastructure
- To raise revenue –with the growth of tourism many countries levy tourist tax which are used as a source of revenue
- income earned can be used to promote tourism in the country
- Through this the government is enabled to achieve its socio-economic objectives, informal sector growth, BEE and SMME development.

Infrastructure development
- For any country to be regarded as a tourist destination, physical infrastructure has to be adequate and well maintained.
- The needs of a large number of tourists in any country for accommodation and infrastructure leads to the construction of hotels en improvement in the existing infrastructure
- Together with the private sector the government has to develop and upgrade infrastructure to meet the demands and expectations of tourists
- Locals and tourists benefit from the infrastructure
- Tourists require social infrastructure e.g. clinics and ambulances.
- The following positive effects of tourism should also be considered:

Gross Domestic Product (GDP)
- Travel and Tourism contributes both directly and indirectly to the GDP.
- The direct contribution of travel and tourism reflects the internal spending of travel and tourism by residents and non-residents for business and leisure purposes , e.g. spending on accommodation, food, retail, transport and destination services, and the public sector's spending directly linked to visitors.
- The indirect contribution includes purchases from suppliers of goods and services by the sectors dealing directly with tourists – including purchases of cleaning services by hotels, or fuel and catering services by airlines and IT services by travel agents.

Employment
Tourism sector is a large generator of jobs for the following reasons:
- Tourism is labour intensive. It has the lowest rate of investment to employment creation.
- Tourism employs many skills. There is room for almost any skill in the tourist industries such as accountants, hairdressers, tour guides etc.
- Tourism can provide immediate employment. If it is properly organised and focused the tourism sector can create many jobs within a short period of time.

- Tourism provides entrepreneurial opportunities. The tourism industry accommodates informal sector enterprises, form craft and fruit vendors to pavement vendors, chair rentals and others.

Poverty Alleviation
- Tourism brings development to the poor in rural areas.
- Tourism offers opportunities to diversify sources of income for poor people:
- Allowing them a stake: for example, to start and operate small-scale tourism businesses around community assets and to establish SMMEs to provide services.
- Empowering them: for example, to exploit opportunities of on-the-job and other training.
- Creating partnerships: linking up with mainstream tourism businesses supplying goods and services.

ADDITIONAL PART:
- Promoting the tourism industry through increased marketing and advertising of tourism destinations. ✓ ✓For example, TV magazine programmes like Shot'left inform people about local places of interest. ✓
- Improving infrastructure used by tourists such as communication and transport
- Improving the quality of services given to the tourists so that they can return. ✓✓
- Developing new tourist attraction sites and properly maintain the existing ones. ✓✓
- Recognizing/rewarding businesses and individuals who improve the quality of tourist offerings. ✓✓
- When government effectively manages its tourist sites and other tourist attractions, tourism profile of the country improves. ✓✓ For example, maintenance, upgrading, security etcetera.✓
- Enhancing efficiency of tourist information outlets such as information outlets that supply pamphlets and information about a specific area. ✓✓
- Using tourism indaba to show case South Africa's best tourism products and attracts international visitors and media from across the world. ✓✓

(Accept any other correct relevant response) (Max. 10)
(Allocate a maximum of 2 marks for mere listing of facts)

CONCLUSION
Tourism was hit hard by COVID-19 pandemic and a large number of countries are still trying to recover from that setback.

ACTIVITY 11

11.1 Examine in detail the effects of tourism. (26)
11.2 How can indigenous knowledge systems impact in promoting tourism in South Africa. (10)

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

BODY
MAIN PART:
GDP
- Tourism impacts more on the service industry and contributes to the country's GDP directly and indirectly to the economy.
- The direct contribution of travel and tourism reflects internal spending on travel and tourism by residents and non-residents for business and leisure purposes on items such as food, accommodation, transport, etc.
- The indirect contribution includes purchases from suppliers of goods and services by the sectors dealing directly with tourists, including purchases of cleaning services by hotels, fuel and catering services by airlines, and services by travel agents.

Employment

- Tourism industry employs the majority of the South African workforce, and is potentially regarded as the largest provider of jobs and earner of foreign exchange.
- The industry is ideal for providing employment in areas that offer few employment opportunities.
- Tourism is labour intensive although it has the lowest ratio of investment to employment creation.
- The tourism industry can create many jobs within a short period of time.
- For instance, if one quarter of tourist accommodation establishments in South Africa starts to offer live entertainment to guests, thousands of entertainers could be employed within days.
- Tourism provides entrepreneurial opportunities and uses different skills, from accountants to hairdressers.

Poverty

- The income earned by the tourism industry contributes to the country's growth and development.
- The Department of Tourism is involved in poverty relief projects that promote community owned tourism products and services.
- The industry allows rural people to share in the benefits of tourism development, thereby promoting more balanced and sustainable forms of development.
- Tourism provides an alternative to urbanisation, permitting people to continue a rural family lifestyle and enfranchising both women and the youth.
- Tourism offers opportunities to diversify sources of income for poor people by creating partnerships which link up with mainstream tourism businesses supplying goods or services.
- Poverty relief programme manages and administers poverty relief proposals and spin-off projects in the tourism and environment sectors.
- Their focus is on infrastructure investment (e.g. information centres, tourist ablution facilities, walkways) and product development (for example, heritage sites, rock art and conservation).
- Tourism is an effective mechanism for distributing resources to rural areas to develop them as tourist sites.

Tourism externalities

- Tourism activities may result in benefits or costs to third parties who are not part of the buyer-seller market.
- Negative externalities: While tourism attracts large amounts of revenue, it can cause undue environmental damage that can harm the very foundation on which it depends.
- Other examples/costs: Traffic and congestion, extra policing due to crime, increased health services and sanitation, destruction of flora and fauna, spoiling views of the landscape, increased maintenance of infrastructure.
- Positive Externalities: Gautrain provides links to different areas speedily especially to the airport.
- Other benefits are new recreational amenities, increased direct and indirect tax revenue.
- Tourism can cause inflation, which makes some goods unaffordable to locals.

The environment

- The influx of tourists and vehicles into conservation areas damages grass cover affecting plant and animal species.
- Tourism involves transport and transport is a major source of pollution.
- Policy should be in place to ensure tourists are transported in the most environmentally friendly way. for example, Rickshaw at the beachfront, horse-riding, cycling.
- The challenges faced by the environment are divided into four main categories:
- permanent environmental restructuring like airports direct environmental stress caused by tourist activities.

- waste product generation, such as biological and non-biological waste that damages fish production, creates health hazards and detracts from the attractiveness of a destination.
- direct environmental stress caused by tourist activities, for example, the destruction of coral reefs, vegetation, and dunes.
- effects on population dynamics, such as migration and increased urban densities accompanied by declining populations in other rural areas.

Investment/infrastructure

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

(Accept any other correct relevant response)
(Max. 26)
(Allocate a maximum of 8 marks for mere listing of facts/examples)

ADDITIONAL PART

- More cultural villages can be improved to facilitate and promote tourism e.g. Shangana in Mpumalanga, Basotho in the Free State and Simunye Zulu Lodge in Kwazulu-Natal where guides explain and demonstrate storytelling and indigenous knowledge practices.
- Advertising campaigns domestically and internationally by travel agencies, hotels and B & B, lodges
- SA Tourism can focus on promoting these heritage sites in brochures and fliers, social media. These actions will make tourists more aware of these attractions.
- Encourage tourists to experience different cultures and townships - experience life at home with a household and eat at a shebeen or township restaurant.
- World Heritage Sites of South Africa can be promoted for their cultural significance e.g. the Fossil Hominid Sites of Sterkfontein, Mapungubwe Cultural Landscape, Richtersveld Cultural and Botanical Landscape, Vredefort Dome and Robben Island.
- Environmental World Heritage Sites of South Africa selected for their natural importance namely the Cape Floral Region Protected Areas, Isimangaliso Wetlands Park as well as uKhahlamba / Drakensberg Park which has been selected for its mixed significance

CONCLUSION

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

ENVIRONMENTAL SUSTAINABILITY

ACTIVITY 1

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 number, for example 1.1.6 D.

1.1.1 A tax levied on the output or consumption where environmental costs were generated is known as…
A. value added tax.
B. sin tax.
C. customs tax.
D. green tax.✓✓

1.1.2 The contamination of the environment by adding harmful substances to it is called …
A. externality.
B. pollution.✓✓
C. waste.
D. extinction.

1.1.3 The process whereby grasslands are converted into dry lands is called…
A. desertification✓✓
B. erosion
C. land pollution
D. dumping

1.1.4 A cash incentive provided by the state to businesses and private individuals that apply practices to promote environmental sustainability is known as an environmental…
A. permits.
B. tax.
C. subsidy. ✓✓
D. grant.

(4X2)8

1.2 Choose a description from COLUMN B that matches an item in COLUMN A. Write only the letter (A–E) next to the question numbers, e.g. 1.2.6 G.

COLUMN A	Answers	COLUMN B
1.2.1 Food security 1.2.2 Property rights 1.2.3 Flora and fauna 1.2.4 Air pollution	C✓ A✓ D✓ E✓	A. laws which governs how individuals can control, use, benefit from and transfer resources. B. variety of plant and animal life in an ecosystem. C. exist when all people have access to sufficient, nutritious food to maintain a healthy and active life. D. the plants and animals of a specific region. E. an accumulation of toxic material introduced in the atmosphere.

(4X1)4

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question numbers (1.3.1 to 1.3.4). Abbreviations, acronyms and examples will be NOT be accepted.

1.3.1 The process where tree and forests are removed from the land and are not replaced.

Deforestation ✓

1.3.2 A significant and sustained change in the normal weather pattern.

Climate change✓

1.3.3 An introduction of chemical and biological waste into fresh or ocean water.

Water pollution✓

1.3.4 The process of converting waste materials into new products to prevent unnecessary landfill and reduce pollution.

Recycle/ Recycling✓

(4X1)4

ACTIVITY 2

2.1 Answer the following questions.

2.1.1 Name any TWO major international problems. (2 x 1) (2)

Loss of Biodiversity ✓
Chemical waste ✓
Hazardous waste ✓
Climate change✓
Loss of indigenous knowledge ✓

2.1.2 Why it is important to control emission of greenhouse gases on the environment? (1 x 2) (2)

Greenhouse gases trap heat in the atmosphere that cause global warming. ✓✓

Too much greenhouse gases emission depletes ozone layer which is a cause of climate change. ✓✓

2.2 Study the picture below and answer the questions that follow:

Source: google images

2.2.1 Identify the type of pollution depicted by the picture above. (1)

Water pollution✓

2.2.2 Name the tax used in South Africa to reduce the negative impact of pollution on the environment. (1)

Green tax / Environmental tax✓

2.2.3 Briefly describe the term *renewable resources.* (2)

Renewable resources refer to resources are natural elements that can be replenished over time. ✓✓

2.2.4 Explain the role of education on the environmental sustainability. (2)

Through education, individuals become more aware of the significance of the environment in maintaining the well-being of all life forms and physical surroundings. ✓✓

2.2.5 How does industrial growth impact the environment? (2 x 2) (4)

Business growth often drives greater consumption and extraction of natural resources, which can result in their gradual exhaustion if not managed sustainably.✓✓

Increase in the production by businesses will increase pollution on the environment. ✓✓

Factories release greenhouse gases that contribute to global warming. ✓✓

2.4 Briefly discuss conservation and preservation to sustain the environment. (8)

Conservation

Conservation is the sustainable use and management of natural resources. ✓✓

Conservation aims to sustain the environment through innovative approaches, ensuring that changes in nature support the well-being of both current and future generations. ✓✓

Conservation strategies are employed to ensure the economical use of renewable and non-renewable resources. ✓✓

Preservation

Preservation are any strategies undertaken to safe guide the environment and maintain its current condition.✓✓

The preservation is employed to keep resources that are non-renewable intact, e.g. ecological systems, heritage sites. ✓✓

Preservation put emphasis on the protection of biodiversity in particular endangered species. ✓✓

2.5 Analyse the impact of an increase in population on the environment. (8)

- An increase in population will result in demand for food to increase thereby putting more pressure on the environment. ✓✓
- High population growth cause deforestation due to increased demand for infrastructure development. ✓✓
- People cause a need for an increased human settlement causing soil erosion and loss of biodiversity. ✓✓
- Crowded places due to increase population will increase land and water pollution as more biological and non-biological waste will be introduced to the environment. ✓✓
- Increased population will cause depletion of raw materials due to increased production of goods and services. ✓✓

(A maximum of 2 marks may be allocated for mere listing of facts/examples)

ACTIVITY 3

3.1 Answer the following questions.

3.1.1 Name any TWO causes of soil erosion. (2 x 1) (2)

Heavy Rains✓

Heavy winds✓

Agricultural activity✓

Deforestation✓

3.1.2 How can the granting of property rights help to conserve the environment? (1 x 2) (2)

Granting of property rights ensure that people sustain the environment they own. ✓✓

Property rights motivate individuals to manage environmental resources sustainably and profitably, ensuring the availability for future generations. ✓✓

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

3.2.1


ENVIRONMENT DEGRADATION

PICTURE 1 | PICTURE 2 | PICTURE 3 | PICTURE 4

ADAPTED FROM GOOGLE IMAGES

Identify a picture that shows soil erosion from the pictures above. (1)

Picture 3 ✓

3.2.2 Name any ONE type of pollution. (1)

Air Pollution✓

Land Pollution✓

Noise Pollution✓

3.2.3 Briefly describe the term *biodiversity.* (2)

Biodiversity is the variety of species of plants and animals in a particular area. ✓

3.2.4 Explain the impact of floods on the agricultural activities. (2)

Floods can wash away top soil (soil erosion) which hinder the agricultural activities such as planting. ✓✓

Heavy rains can damage or destroy agricultural facilities and infrastructure and delay planting and harvesting cycle. ✓✓

3.2.5 How can environmental subsidy be used to ensure sustainable development in South Africa? (4)

Environmental subsidies can promote green economy by subsidising programs such as training workers on green farming methods. ✓✓

The government can provide subsidies to firms to encourage the use of environmentally friendly or green technology. ✓✓

Subsidies can be used to encourage the recycling and reuse program on material such as steel, and glass bottles. ✓✓

3.3 Why markets fail to ensure environmental sustainability. (4 x 2) (8)

- The environment is a common resource / Non-excludability of the environment✓

Many parts of the environment are not privately owned and do not have a price, so there is no economic incentive for markets to economise on their use. ✓✓

- Negative Externalities✓

When people pollute the environment, the costs are borne mainly by others. ✓✓

- Lack of knowledge✓

People may cause environmental damage without realising it, especially when the effects build up over a long time. ✓✓

- Carelessness / Negligence / Ignorance✓

Consumers and businesses are frequently prepared to continue with various harmful practices and leave future generations to worry about their environmental consequences due to self-interest. ✓✓
(Max 8)

(A maximum of 4 marks may be allocated for mere listing of facts/examples)

ACTIVITY 4

4.1 Answer the following questions.

4.1.1 Name any TWO non-renewable resources. (2 x 1) (2)

Coal✓

Gold✓

Oil✓

4.1.2 Why it is important of preserve the environment? (1 x 2) (2)

Preservation safeguards natural resources, maintaining their integrity for the benefit of future generations. ✓✓

Ecological system needs to be preserved in order to avoid extinction. ✓✓

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

CLIMATE CHANGE

ADAPTED FROM GOOGLE IMAGES

4.2.1 Identify the cause of climate change from the picture above. (1)

Air pollution from factories/ Smoke from factories ✓

4.2.2 State any One international protocol and agreement on sustainable development. (1)

Johannesburg Summit✓

United Nations Framework Convention on Climate Change (Cop 17) ✓

Rio De Janeiro✓

4.2.3 Briefly describe the term *global warming*. (2)

Global warming is the increase in the average temperature of the earth's surface and oceans as result of the greenhouse gases. ✓✓

4.2.4 Explain the impact of positive technology on the environmental sustainability. (2)

The newer technology uses environmentally friendly methods of production and provision of services which helps to recycle pollution. ✓✓

4.2.5 How can the loss of biodiversity be addressed? (2 x 2) (4)

The Convention on International Trade in Endangered Species (CITES) bans trade in endangered species on an agreed list of plants and animals. ✓✓

CITES control is executed through the issue of permits and quotas to regulate trade in certain species. ✓✓

Indigenous People and knowledge are recognized as key stewards of biodiversity and managing nearly half the world's land. ✓✓

4.3 How successful has South Africa been in using education to ensure environmental sustainability?

South Africa has been successful because:

- The national education framework integrated environmental themes into school subjects. ✓✓
- Private–public partnerships between schools and businesses help to empower young people by connecting them with projects related to the environment. ✓✓
- Municipalities have policies that makes people aware of the importance of protecting the environment such as water conservation. ✓✓
- Non-profit organisations such as National Recycling Forum promotes recycling and they have been successful for the past seven years to outperform European countries in recycling. ✓✓
- Environmental advisors have been employed and based at municipal offices. ✓✓

South Africa has not been successful because:

- Despite the national environmental education policy, environmental problems such as pollution in urban areas keep on increasing. ✓✓
- In the rural areas' deforestation keep on escalating as people use indigenous trees as firewood. ✓✓
- Land degradation persists especially due to poor farming methods and over-grazing in poor communities. ✓✓
- The environmental policies are often not implemented at the municipal level. ✓✓

(A maximum of 2 marks may be allocated for mere listing of facts / examples)

ACTIVITY 5

5.1 Answer the following questions

5.1.1 State TWO international agreements on disposal of chemical waste. (2 x 1) (2)

Stockholm protocol✓

Rotterdam convention✓

5.1.2 Why would lack of command and control policies lead to environmental degradation? (1 x 2) (2)

Inadequate enforcement of environmental policies renders current regulations ineffective, allowing polluters to continue without accountability or motivation to reduce pollution. ✓✓

Businesses may prioritize short-term profits over sustainability, especially when there's no legal pressure to reduce **emissions or waste.** ✓✓

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

GREEN ECONOMY

A green economy prioritizes environmental sustainability alongside economic growth, focusing on renewable energy, sustainable agriculture, waste management, and other eco-friendly practices. Examples include transitioning to renewable energy sources like solar and wind power, adopting sustainable agriculture methods like organic farming, implementing circular economy models (recycling, reusing), promoting green buildings, and developing sustainable transportation systems (electric vehicles, public transit).

Source: google.com/02/08/25

5.1.1 Identify any ONE method of generating energy through sustainable means, from the extract above. (1)

Solar Power/ Wind Power✓

5.1.2 State any ONE example of fossil fuel. (1)

Oil✓

Gas✓

Coal✓

5.1.3 Briefly describe the term *hazardous waste*. (2)

Hazardous waste refers to discarded materials that pose a significant threat to human health or the environment due to the toxic properties. ✓✓

5.1.4 Explain an importance of indigenous knowledge on the environment. (2)

Encourages eco-friendly methods that supports both human health and ecological balance. ✓✓

Builds resilience against climate shocks through sustainable land and plants management. ✓✓

5.1.5 How can environmental awareness programs promote the maintenance of a green economy? (4)

Educational campaigns workshops, school programs, and social media campaigns can teach people how recycling protects natural resources and cuts down on landfill waste. ✓✓

Behavioural change by sparking individual responsibility, awareness drives long-term habits like using reusable bags, composting, or buying second-hand, all of which reduce resource consumption. ✓✓

Youth involvement empowering young people with environmental knowledge encourages future innovation and leadership in green industries. ✓✓

ACTIVITY 6

6.1 Answer the following questions

6.1.1 Name any TWO issues that were on the agenda of Johannesburg summit in 2002. (2)

Water and sanitation✓

Energy✓

Health✓

Agriculture✓

Biodiversity✓

6.1.2 Why are global summits focusing on sustainability crucial for the environment? (2)

Environmental issues like climate change, deforestation, and ocean pollution cross borders—no single country can solve them alone. ✓✓

Summits foster dialogue between nations to set collective goals, such as carbon emission reductions or biodiversity protection. ✓✓

6.2 Study the picture below and answer the questions that follow

Source: google images

6.2.1 Identify any ONE type of pollution shown in the above picture. (1)

Air pollution/ Land pollution✓

6.2.2 Name the government measure that grant businesses to pollute up to a certain limit (1)

Marketable permits✓

6.2.3 Briefly describe the term *environmental sustainability*. (2)

The environmental sustainability refers to the maintenance of factors and practices that contribute to the quality of the environment on a long-term basis. ✓✓

6.2.4 How could greenhouse gasses lead to climate change? (2)

- The greenhouse gases destroy the ozone layer which allows more heat to penetrate to the earth. ✓✓
- Greenhouse gases creates a blanket effect which traps heat resulting in extreme temperatures. ✓✓

6.2.5 Explain the positive impact of carbon tax on the environment. (2 x 2) (4)

Carbon tax will impact positively on the environment by:

- requiring polluters to carry the external cost of their pollution. ✓✓
- businesses exploring renewable sources of energy which are environmentally friendly. ✓✓
- reducing the amount of damage to the ozone layer and eventually reducing global warming. ✓✓

ACTIVITY 7

7.1 Discuss in detail the problems and the international measures taken to ensure sustainable development. (26)

INTRODUCTION

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

BODY: MAIN PART

Loss of biodiversity ✓

- It relates to the number of genetic varieties among individual plant and animals within a community of organisms✓✓
- The depletion of natural resources can lead to extinction of some species and in so doing, decrease biodiversity ✓✓
- Extinction of species is an irreversible process, therefore a major threat to the process of gene transplant among species ✓✓
- Some modern techniques make it possible to transplant desirable genes from one species to another to create a new species, however, the genes used must be diverse✓✓
- Convention on International Trade in Endangered Species bans commercial international trade in an agreed list of endangered species that is reviewed from time to time✓✓

Chemical waste ✓

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

Climate change✓

- A build-up of greenhouse gases causes the heat from the sun to be trapped in the atmosphere✓✓
- The most common greenhouse gas produced in to the atmosphere is carbon dioxide which is released from burning of fossil fuels and wood✓✓
- The amount of carbon dioxide produced is not being able to be absorbed by available trees✓✓

- Increasingly natural forests are cut down for human use, therefore increasing greenhouse gases into the atmosphere✓✓
- Increased greenhouse gasses lead to the damage of the ozone layer and eventually the global warming✓✓
- Global warming has an effect on the world's weather patterns which include extreme temperatures and a change in rainfall patterns✓✓
- Voluntary deduction of carbon dioxide levels did not succeed – led to signing of Kyoto Protocol in 1997✓✓

Hazardous waste ✓

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

Loss of indigenous knowledge✓

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

(Accept any other correct relevant responses)
(Max. 26)

CONCLUSION

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

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

ACTIVITY 8

8.1 Discuss in detail how the government can ensure sustainable development. (26)

INTRODUCTION

Environmental sustainability refers to the ability of the environment to survive its use for economic activity / Environmental sustainability means meeting the needs of the present generation without compromising the needs of future generations. ✓✓

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

BODY: MAIN PART

Granting property rights✓

- Property rights are legal titles to the ownership, use and disposal of factors of production and goods and services. ✓✓
- Property rights have a conservationist effect whereby people will take care of resources that belong to them. ✓✓
- Property rights promote collective responsibility towards the environment while at the same time preventing overexploitation. ✓✓
- To prevent fauna and flora species from becoming extinct, people are granted property rights if they agree to preserve the flora and fauna. ✓✓
- Property rights can be expanded to common resources such as clean air. ✓✓

Charging for the use of the environment✓

- The government levies fees for waste produced and disposed of in the environment. ✓✓
- In South Africa, local authorities levy charges on rubbish collection and sewage disposal. ✓✓
- The best results are achieved when charges are proportional (related to) to waste produced. ✓✓
- Emission charges are used when the government sets a price per unit of pollution. ✓✓

Levying environmental taxes✓

- Environmental taxes are taxes imposed on the output of goods that generate external environmental costs (pollution). ✓✓
- When environmental taxes are levied it ensures that practices that are harmful to the environment are reduced. ✓✓
- The government can use the income generated through environmental taxes to plough back into environmental issues. ✓✓
- In South Africa, carbon tax is levied on carbon dioxide emissions from industrial process, fuel burning and vehicle tyres. ✓✓
- The rate of environmental tax should be equal to the marginal external cost. ✓✓

Paying environmental subsidies✓

- Environmental subsidies refer to the payment made by the government to businesses to reduce activities that negatively affect the environment. ✓✓
- Subsidies are granted to;
  - encourage businesses to develop new technologies or equipment such as LED light bulbs and solar geysers. ✓✓
  - promote production of environmentally-friendly substitutes such as reusable shopping bags and rechargeable batteries. ✓✓
  - encourage recycling waste material such as bottles and cans. ✓✓
  - encourage businesses to use environmentally-friendly sources of energy such as solar and wind. ✓✓
- Environmental subsidies can be recovered from the levying of taxation. ✓✓

Issuing marketable permits✓

- Marketable permits are licenses that are sold by the government to businesses which allow them to pollute to a certain degree. ✓✓
- The government decides on a maximum desired level of pollution in a particular area. ✓✓
- When businesses managed to reduce pollution below their maximum allocated quota, they can sell the remaining part to other businesses that pollute more than their allocated quotas. ✓✓
- In South Africa, marketable permits are granted by the Department of Mineral Resources and Energy. ✓✓

Command and Control (CAC) ✓

- CAC refers to regulations set by the government to enforce environmental limits and standards. ✓✓
- The government enforces policy by setting maximum levels of the emission of pollution. ✓✓
- The Department of Environmental Affairs assigns inspectors to monitor the environmental activities of businesses and impose fines if the legal limits are not adhered to. ✓✓
- Most developed countries have regulations that control air and water pollution. ✓✓
- There are 3 approaches in CAC systems:
  - Quantity standards: These focus on the amount of pollution emitted. ✓✓
  - Quality standards: These focus on the environmental impact of the pollution emitted. ✓✓
  - Social impact standards: These focus on the effect on people of the pollution emitted. ✓✓

Voluntary agreements✓

- Voluntary agreements refer to formal and informal arrangements, rather than imposing regulations, between the government and businesses to reduce pollution. ✓✓
- The government may conclude agreements with businesses on a voluntary basis to cut pollution. ✓✓
- These agreements often work well because businesses are empowered to negotiate arrangements that suit their own circumstances and create better platform for planning. ✓✓
- This ensures commitment by businesses as they uphold to agreements that they have negotiated since they are directly involved. ✓✓

Education✓

- This refers to methods used to create awareness and change people's attitudes towards the environment. ✓✓
- Education is used to try to change people's attitudes towards the environment. ✓✓
- When the society is made aware of environmental issues and how their actions impact on the environment, it will ensure that better decisions are made. ✓✓
- When children are educated to be conscious of the effects of their actions on the environment, they will become more environmentally aware and empowered adults. ✓✓
- Innovative approaches have been tried in the developing countries to educate people such as setting up community wildlife reserves. ✓✓

(Accept any other correct relevant response)

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

(Max. 26)