

ECONOMICS: COMPLETE  
REVISION & PRACTICE SSIP:  
NSC EXAM KIT 2020

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## THE CIRCULAR FLOW

### Definition

The circular flow is an economic model that shows the flow of money through the economy.

Three sector economy (Closed economy)

It consists of the following participants: *Households, firms and the state*. Money flow amongst these participants within the boundaries of a country.

Four sector economy (Open economy)

It consists of the following participants: *Households, firms, state and the foreign sector*. It involves transaction between a country and other countries around the world.

### PARTICIPANTS IN THE CIRCULAR FLOW

#### Households

Households are the biggest owners of the factors of production. They own all the labour, and entrepreneur as well as the capital and natural resources (land).

Households make these factors of production available to the economy, where they are used by firms to produce goods and services. In exchange for the use of factors of production, households receive an income from firms in the following forms:

- Salaries or wages in return for their labour services
- Interest on their capital
- Rent from the ownership of natural resources
- Profit from entrepreneurial activities

#### Firms

Firms combine and transform factors of production to produce goods and services. Firms do not only produce consumer goods and services that households demand. They also produce capital goods (factories, machines and tools) that are used in the production of consumer goods. This creation is known as *real investment*.

#### Government

The government provides public goods (such as roads, dams and street lighting) and services (such as education, protection, healthcare and social grants. To the production of these, governments requires factor services and good and services, which it buys in markets. Consumers and producers benefit from the goods and services that government produces, provides and purchases. Although they pay taxes (such as income tax, VAT and excise duties, they also gain by selling their factor services and products to the government. Government regularly borrows from the private sector and from abroad to balance its budgets.

#### Foreign sector

The foreign sector serves both as a source and destination for goods, services, savings and loans. Countries import and export to and from other countries. Most of these goods are produced by businesses and therefore enter the circular flow. The revenue earned from this

process is foreign exchange which is needed to pay for imports. The foreign exchange market is in the financial system.

## **DIFFERENT MARKETS IN THE CIRCULAR FLOW**

### **1. FACTOR MARKET**

The factor market is the market in which the factors of production are bought and sold. It is through this market that households supply businesses with the factors of production, in exchange for an income in the form of wages and salaries, interest, rent and profits.

### **2. GOODS MARKET**

It is in the goods market that households (consumers) buy their goods and services and the producers supply their goods and services.

### **3. FINANCIAL MARKET**

Financial institutions act as agents to facilitate the lending and borrowing of capital. The financial market is divided into the money market and the capital market. The money market is the market for short-term savings and loans. Short-term is defined as lasting less than a year. The South African Reserve Bank is a major institution in the money market. The capital market is the market for long-term savings and loans. Long-term investments and mortgage bonds are examples of capital market activities. The Johannesburg Securities Exchange is the major institution in the capital market.

### **4. FOREIGN EXCHANGE MARKET**

Foreign trade requires foreign currencies and these currencies can only be exchanged in the foreign exchange market. If you import goods from the United Kingdom you will have to pay for them in pounds and if you export goods to the USA you will be paid for them in dollars. The foreign exchange market determines the rate at which the foreign currencies are traded. This is called the exchange rate.

## **FLOWS IN THE CIRCULAR FLOW**

### **Real flows**

From households to firms, there is a [flow of factors of production](#) through the factor market.

Firms use the factors of production to produce goods and services that they make available to households through the goods market. This is the [real flow of goods and services](#) from firms to households,

### **Money flows**

From firms to households, there is an [income flow](#) through the factor market as firms pay households for the use of the factors of production.

Households use their income to pay for the goods and services they receive from firms. This payment for goods and services is a [monetary flow](#) from the households to firms

## **LEAKAGES**

Some money tends to leak out from the circular flow. For example savings and taxes. Payments for imports is also considered as a leakage.

**Savings (S)** is income that participants choose not to spend but put aside for future use. Savings will normally flow to the financial market. Savings flow from consumers and producers to the financial system.

**Taxes (T)**, when taxes are paid to the government sector, it represents a leakage.

**Import expenditure (M)** Not all goods are domestically produced. Participants spend some of their income on imported goods and services. Money flow out of the circular flow of a country to other countries.

### **INJECTIONS**

**Investments (I)**. This is money that enterprises spend, which they borrow from the financial markets.

**Government spending (G)**. when the government spends money on goods and services produced by businesses to produce social and economic services and to provide infrastructure. Examples of such government expenditure include spending on roads, hospitals, schools etc.

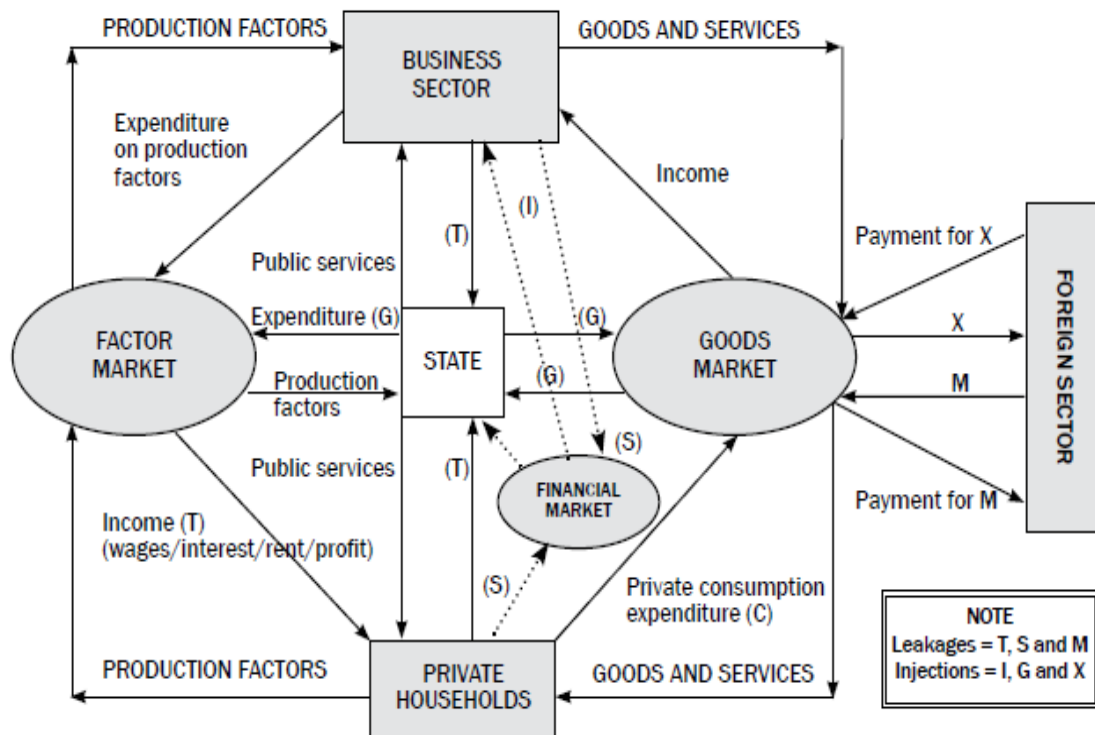
**Export income (X)**. Money flows into the circular flow from abroad when foreign residents buy exports of goods and services of another country

### **EQUATIONS**

When leakages = injections

$$L = J \text{ or } S + T + M = I + G + X$$

### **TYPICAL DIAGRAM OF THE CIRCULAR FLOW**



## 2. NATIONAL ACCOUNT AGGREGATES AND CONVERSIONS

National accounts are part of macroeconomics and consist of accounting records of the country's total production, income and expenditure. The national account aggregates are calculated by using the circular flow model. We can bring the circular flow to life by translating the illustrated flows into real amounts the amounts that we find in our national accounts.

The preparation of national accounts in South Africa is undertaken by the South African Reserve Bank (SARB). The official estimates are published in the SARB's website: <http://www.reservebank.co.za>. The estimates are generally presented in line with the classifications and definitions recommended by the United Nations Systems of National Accounts (SNA). It is also available from Stats SA: <http://www.statssa.gov.za>.

The three economic processes represent the three methods of calculating the GDP and the main national accounts, namely:

- Production method – Gross Domestic Product GDP (P)
- Income method – Gross Domestic Income GDP (I)
- Expenditure method – Gross Domestic Expenditure GDP (E)

The national accounts are useful for:

- Indicating the economic activity within a country
- Measuring economic growth from one year to the next
- Determining the standard of living in a country

- Comparing prosperity levels among the country

<b>Expenditure method</b>	<b>Production method</b>	<b>Income method</b>
Consumption expenditure by households (C)	Value added by the primary sector	Compensation to employees
Gross capital formation (I)	Value added by the secondary sector	Consumption of fixed capital
Consumption expenditure by general government (G)	Value added by the tertiary sector	Operating surpluses
<b>Gross Domestic Expenditure</b>	<b>GDP at basic prices</b>	<b>GDP at factor cost</b>
Plus: Exports (X)	Plus: Taxes on products	Plus: Taxes on production
Less: Imports (M)	Less: Subsidies on products	Less: Subsidies on production
<b>Expenditure on GDP at market prices</b>	<b>Gross Domestic Product at market prices</b>	<b>GDP at basic prices</b>
		Plus: Taxes on products
		Less: Subsidies on products
		<b>Gross Domestic Product at market</b>
		Plus: Primary income from the rest of the world
		Less: Primary income to the rest of the world
		<b>Gross National Income at market prices</b>

## THE MULTIPLIER



- This concept was developed by the British economist J.M. Keynes. His theory was that any increase in injections into the economy (investments, government expenditure or exports) would result in a proportionally larger increase in the national income.
- The economy is in equilibrium if LEAKAGES (WITHDRAWALS) = INJECTIONS
- $L = J$  or  $S + T + M = I + G + X$
- The multiplier is based on the principle that spending by one person becomes the income of another person, which then becomes that person's spending, which turns into the income of yet another person (re-spending effect).

### Example

- The Government decides to increase its spending by building new roads. This creates jobs and raises the level of employment. These newly employed people then use their income to purchase consumer goods. This stimulates the demand for goods and services and results in an increase in production, which will in turn increase the level of employment even further. This raises income and stimulates greater consumer demand and so on and so on.
- This implies that a multiplier process occurs in the economy when injections into the circular flow of spending, production and income take place.

- The multiplier refers to the ratio used to work out the difference between the initial investment and the eventual change in income. The size of the multiplier differs according to the extra income produced or created in each round of spending, but this depends on the marginal propensity to consume (mpc), that is, how many of every rand income earners are willing to spend.

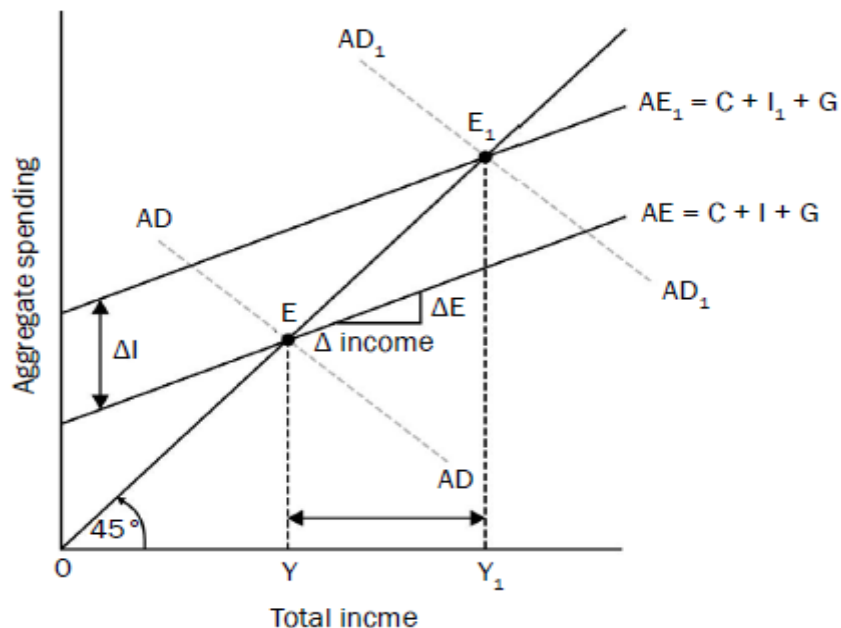
### Formula

$$\text{Multiplier} = \frac{1}{(1-mpc)} \text{ or } \frac{\Delta Y}{\Delta C}$$

### The multiplier in a two-sector model

- The size of the multiplier depends on the proportion of any increase in income that is spent.
- The larger the mpc the bigger the multiplier and the smaller the mpc the smaller the multiplier.
- It is the money that stays in the economy.
- For example:  
 $Y = R100\ 000$   
 $S = 40\ 000 = 40\% \quad 0.4$   
 $E = 60\ 000 = 60\% \quad 0.6$
- Marginal propensity to consume (mpc) = 0.6
- Marginal propensity to save (mps) = 0.4
- The total of mpc + mps is always = 1

### **The multiplier in a graph**





In the above graph:

- E = Original equilibrium.
- Y = Original income.
- Change in investment spending is added.
- The AE curve (Aggregate expenditure) shifts upwards to AE1.
- Total spending at each level of income (Y) increases to Y1.
- Planned spending determines aggregate expenditure. Aggregate Demand increases to AD1.
- The new equilibrium position is at E1.
- The multiplier effect shows that the increase in Y ( $\Delta Y$ ) is greater than the change in I ( $\Delta I$ ).
- National Income changes when:
  - Total spending  $\neq$  to Production
  - Total Demand  $\neq$  to Total supply
  - Planned leakages  $\neq$  to planned Injections

### THE MULTIPLIER EFFECT

- The multiplier relates to how much national income changes as a result of an injection or withdrawal.
- Assume an increase in injections into the economy which would lead to proportionate increase in national income.
- The extra spending would have a knock-on effect and create even more spending.
- Suppose the mpc is 0.6. Use the multiplier formula to calculate the eventual change in aggregate income, if there was an injection of R5 billion into the economy.
- The following steps should be followed to calculate determine the eventual change in aggregate income:
- $$K = \frac{1}{(1-mpc)}$$

$$= \frac{1}{(1-0.6)}$$

$$= \frac{1}{0.4}$$

**= 2.5 (The multiplier)**

= 2.5 x 5 billion
- = **12.5 billion** (the eventual change in aggregate income)

## TYPICAL EXAM QUESTIONS

(Adapted from ESSIP 2017 TERM 1)

### MULTIPLE CHOICE

**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 Which one of the following is TRUE in the product market in the circular flow model?

- A. Households sell goods and services to businesses
- B. Households sell resources to businesses
- C. Businesses sell resources to households
- D. Businesses sell goods and services to

1.1.2. In the circular flow model, which of the following is TRUE in a resource or factor market?

- A. Households buy resources from businesses
- B. Households sell resources to businesses
- C. Businesses sell goods and services to households
- D. Businesses sell resources to households

1.1.3 Savings flow back into the circular flow as ...

- A. government spending.
- B. investment.
- C. exports.
- D. imports.



1.1.4 Which of the following is a monetary flow in the factor market?

- A. The flow of factors of production from households to firms.
- B. The spending on goods and services from households to firms.
- C. The income from firms to households.
- D. The flow of goods and services from households to firms

1.1.5 Which of the following is a real flow in the goods market?

- A. The spending on goods and services from households to firms.
- B. The flow of the factors of production from firms to households.
- C. The flow of goods and services from households to firms.
- D. The flow of goods and services from firms to households.

1.1.6 South Africa uses a system of national accounts recommended by the ...

- A. South African Reserve Bank.
- B. World Bank.
- C. United Nations.
- D. International Monetary Fund.

1.1.7 Consumption of fixed capital is used to calculate GDP at ...

- A. basic prices.
- B. market prices.
- C. selling prices
- D. factor cost.

1.1.8 When  $I + G + X > S + T + M$ , the level of national income will ...

- A. rise.
- B. fall.
- C. remain the same.
- D. fluctuate.

1.1.9 Taxes and subsidies on ... are considered when calculating GDP at basic prices.

- A. exports
- B. production
- C. commodities
- D. imports

1.1.10 The market for long-term financial instruments is called a ...market.

- A. free
- B. foreign exchange
- C. capital
- D. money



(10 x 2) (20)

**1.2 Choose a description from COLUMN B that matches the item in COLUMN. Write only the letter (A-E) next to the question number (1.2.1 – 1.2.4) in the ANSWER BOOK.**

Column A	Column B
1.2.1 Leakages	A. The portion of income that is not consumed
1.2.2 Foreign exchange	B. The ratio of one country's currency to another country's currency
1.2.3 Savings	C. Savings, taxes
1.2.4 Money market	D. Government spending, investments
1.2.5 Injections	E. Short term investments
	(5 x 1) (5)

**1.3 Give the economic term/concept for each of the following descriptions.  
Write only the term/concept next to the question number.**

- 1.3.1 An initial change in spending results in a much bigger change in national income.
- 1.3.2 The sector that needs to be included for the economy to be regarded as an open economy.
- 1.3.3 The inflow of money into the circular flow.
- 1.3.4 The market value of all final goods and services produced in the economy in a given year
- 1.3.5 Goods used as inputs to produce other goods and services. (5 x 1) (5)

**SECTION B**

**QUESTION 2**

**2.1 Lower cognitive (Easy questions)**

**(2 marks)**

HINT: When the question requires you to “List” or “Name”, you need not write a sentence. This MUST be done in bullet form.

This type of questions is found on the question paper: 2.1.1; 3.1.1; 4.1.1

- 2.1.1 Name TWO examples of injections.
- 2.1.2 Name TWO examples of leakages.
- 2.1.3 Name TWO types of markets in the circular flow.
- 2.1.4 Name any TWO participants in a closed economy.
- 2.1.5 Name any TWO methods used to calculate GDP

**2.2 Middle order (Moderate questions)**

**(2 marks)**

HINT: This type of question is typical deep-level thinking. You need to answer this question in a sentence that is comprehensive and it should answer the question.

This type of questions is found on the question paper: 2.1.2; 3.1.2; 4.1.2

- 2.2.1 Why are households regarded as the important participant in the circular flow? **Prelim 2019?** (2)
- 2.2.2 How will the scenario,  $I+G+X>S+T+M$ , effect the national income? (2)
- 2.2.3 What effect does taxes and subsidies have on the calculation of basic prices? (2)
- 2.2.4 Why does South Africa prescribe to the System of National Accounts as stipulated by the International Monetary Fund (IMF)? (2)
- 2.2.5 What is the effect of an increased marginal propensity to consume on the multiplier? (2)
- 2.2.6 How will the multiplier be influenced when foreign direct investments increase in the local economy (2)
- 2.2.7 How will national income be influenced by leakages in the economy? (2)

### **QUESTION 3: PARAGRAPH QUESTIONS**

#### **3.1 Middle order (easy to moderate questions)**

Hint: When a question requires to “explain”, “discuss”, “differentiate”, etc. You need to answer in full sentences. The answers are found in textbooks

This type of questions is found on the question paper: 2.4; 3.4 and 4.4

- 3.1.1 Describe the flows between firms and households through the factor market. (8)
- 3.1.2 Explain the flows between firms and households through the goods market. (8)
- 3.1.3 Describe the impact of increased consumer expenditure in the circular flow. (8)
- 3.1.4 Explain the role of the business sector (firms) in the circular flow. (8)
- 3.1.5 Link the role of the financial and foreign markets to the other participants in the circular flow. (8)
- 3.1.6 Differentiate between *taxes on production* and *taxes on products*. (8)
- 3.1.7 Differentiate between *subsidies on production* and *subsidies on products*. (8)

#### **3.2 Higher order (moderate to difficult questions)**

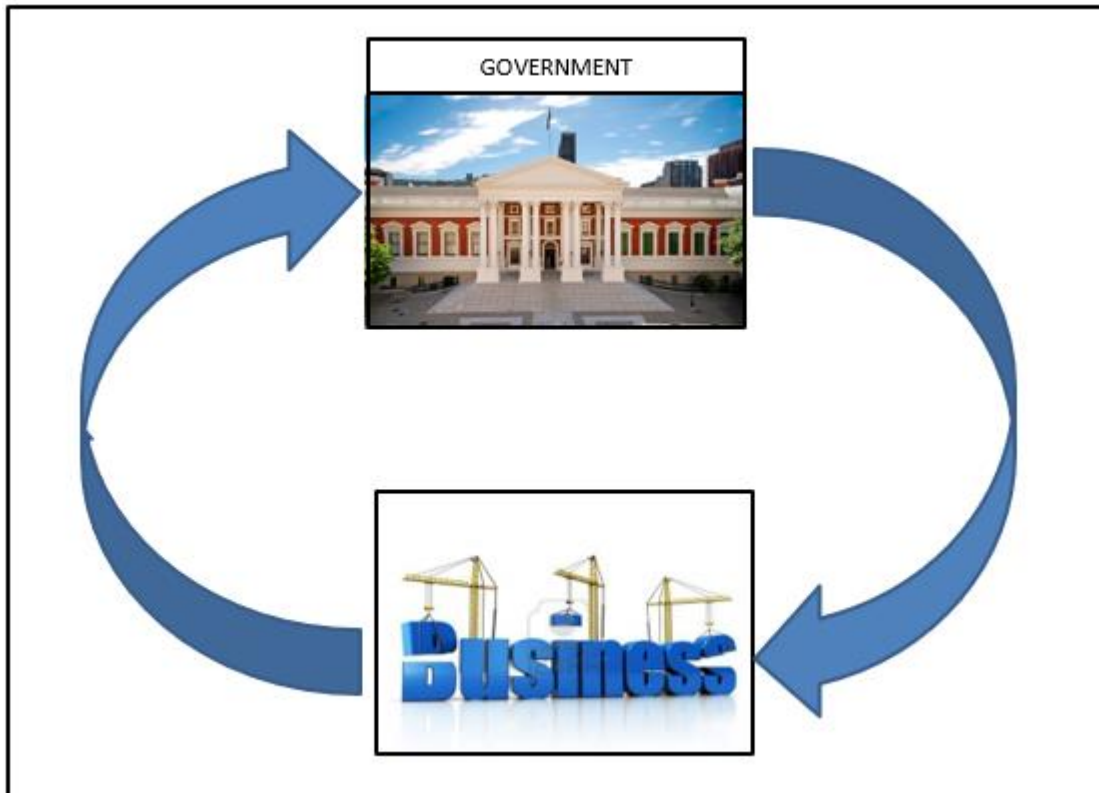
HINT: The answers to these questions are not usually found in textbooks. You must apply your content knowledge to answer them. You need to do some deep-level critical thinking. You need to answer in full sentences.

This type of questions is found on the question paper: 2.5; 3.5 and 4.5

- 3.2.1 Why is savings regarded as a leakage in the circular flow model? (8)
- 3.2.2 How can households, as an important participant in the circular flow model, contribute in building the economy? (8)
- 3.2.3 Justify the equation  $L = J$  and illustrate its component elements. (8)
- 3.2.4 How is expenditure related to income and production? (8)
- 3.2.5 How is Gross Domestic Product - GDP(P) derived by using the expenditure method - GDP€ (8)
- 3.2.6 Government inject R20 million in the economy as an investment to improve infrastructure. Calculate the multiplier effect of this investment on the economy if the marginal propensity to save (*mps*) is 0,2. Show ALL calculations. ES June 2019 (8)

### **QUESTION 4 -DATA RESPONSE QUESTIONS**

- 4.1 the diagram below and answer the questions that follow.



- 4.1.1 Which other participant, in a closed economy, is not included in the diagram above? (1)
- 4.1.2 Name the other participant that cause the economy to become open. (1)
- 4.1.3 Briefly describe the term *circular flow*. (2)
- 4.1.4 What real flow is taking place from the business sector to the public sector? (2)
- 4.1.5 How will taxation influence the circular flow model? (4)

4.2 Study the information below answer the following questions. (Developers own )

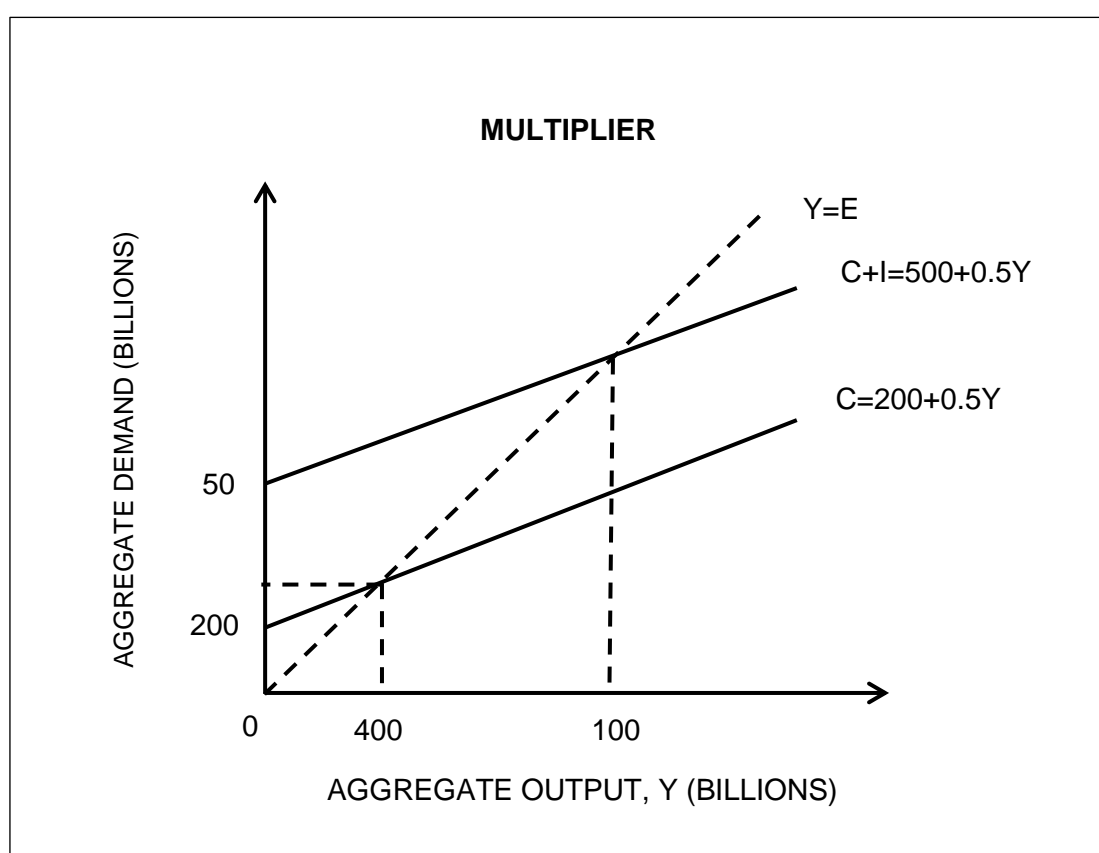
NATIONAL INCOME ACCOUNTS OF SOUTH AFRICA (Market prices)		
	R millions	
	2018	2019
Compensation of employees	2 320 179	2 418 544
Net operating surplus	1 249 182	1 296 696
Consumption of fixed capital	676 486	713 079
Gross value added at factor cost	4 245 848	4 428 317
Other taxes on production	101 936	105 061
Less subsidies on production	6 492	9 796
(A)	4 341 292	4 523 580
Taxes on products	545 558	564 866
Less subsidies on products	12 951	10 821
Gross Domestic Product at market prices	4 873 899	5 077 625

Adapted source: SARB Quarterly Bulletin, March, 2020

- 4.2.1 What method of calculation was used in the table above to calculate the Gross Domestic Product? (1)
- 4.2.2 Name the missing item labelled (A) (1)
- 4.2.3 Briefly describe the item 'net operating surplus'. (2)
- 4.2.4 Why was the subsidies on products in 2019 less than the subsidies on products in 2018? (2)
- 4.2.5 Calculate the compensations of employees as a percentage of GDP at market prices in 2019. Show ALL calculations. (4)

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

(Source: eSSIP, 2020, Term 1)



- 4.3.1 Identify the original consumption function on the graph above. (1)
- 4.3.2 What is the marginal propensity to consume ( $mpc$ ) on the graph? (1)
- 4.3.3 Briefly describe the term *induced consumption*. (2)
- 4.3.4 How will an increase in government spending affect the multiplier? (2)
- 4.3.5 Use the formula  $K = \Delta Y / \Delta I$  to calculate the multiplier from the scenario. Show ALL calculations. (4)

## QUESTION 5 -ESSAYS

### Essay Type Questions

- When answering the main part of an essay, learners should write headings, sub-headings and provide examples for a maximum of 8 marks
- Explanations and discussions should be written in a point/bullet form in full sentences.
- Graphs should have a heading and be labelled and plotted correctly.
- The additional part of an essay should be of a higher cognitive level e.g. how can ..., why does..., evaluate, analyse, how successful is ..., propose or suggest ... etc.
- Learners should indicate the following when responding to an essay: introduction, main part, additional part and the conclusion.
- Essay-type questions should be **TWO-FOLDED** with the main part (26 marks) and the additional part (10 marks) as outlined in the table below:

STRUCTURE OF ESSAY	MARK ALLOCATION
<b>Introduction</b> <ul style="list-style-type: none"><li>• A good starting point would be to define a concept or key word that appears in the question.</li><li>• Include other sentences to support the topic.</li><li>• Do not include in your introduction any part of the question.</li><li>• Do not repeat any part of the introduction in the body.</li><li>• Avoid saying in the introduction what you are going to discuss in the body.</li></ul>	Max.2
<b>Body:</b> <b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate <b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/ Calculate/Deduce/Compare/Analyse/Distinguish/Interpret/Briefly debate/How/ Suggest	Max.26  Max.10
<b>Conclusion</b> <b>Any higher Order conclusion should include:</b> <ul style="list-style-type: none"><li>• A brief summary of what was discussed without repeating facts already mentioned</li><li>• Any opinion or value judgement on the facts already discussed</li><li>• Additional support information to strengthen the discussion/analysis</li><li>• A contradictory viewpoint with motivation, if required</li><li>• Recommendations</li></ul>	Max.2
TOTAL	40



ESSAY (GP - Prelim 2019)

- Discuss the role of markets in a circular flow model. (26 marks)
- Evaluate of the multiplier formula of a 2-sector market below on the economy. (10 marks)

$$\frac{1}{1-mpc} \text{ or } \frac{1}{mps}$$

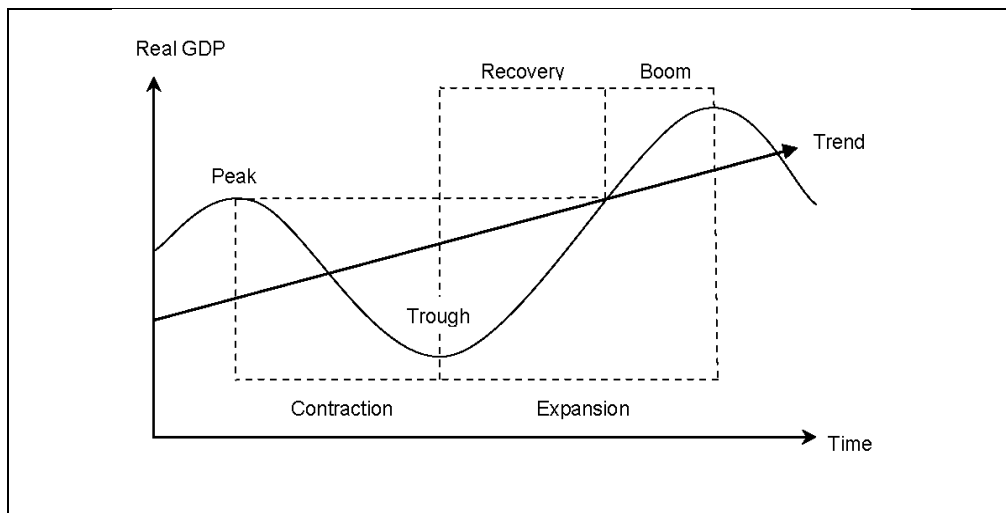


## BUSINESS CYCLE

### Definition

Business cycles are described as the successive periods of increasing or decreasing economic activity.  
(Source; Enjoy Economics)

### Phases of the Business Cycle



### The expansion phase (consists of 2 phases – recovery & prosperity)

- The expansion phase occurs when economic activity rises.
- This is reflected in:
  - An increase in spending
  - Increase in GDP
  - Increase in employment
  - Inflation increases
  - Deficit on current account of BoP
  - High demand for credit
  - Property prices rise
  - Interest rates increase

### Peak

- Peak is the point where the economic expansion is at its highest. It is followed by a contraction.

### The contraction phase (consists of 2 phases – recession & depression)

- The contraction phase is the downward phase of the business cycle.
- During this phase:
  - spending declines
  - GDP falls
  - employment decrease

- business confidence declines
- income falls
- low demand for credit
- interest rates are low
- surplus on current account of the BoP

**Trough**

- Trough is the point where the economic contraction is at its lowest. It is followed by an expansion.

[Solutions for all & Oxford Successful Economics]

**Explanation of the Cyclical patterns as shown in the above curve.**

Phase			
Recovery	Prosperity	Recession	Depression
<ul style="list-style-type: none"> <li>• The recovery of a recession or depression - relevant business builds up stock.</li> <li>• Investments in capital goods increases.</li> <li>• More workers are employed.</li> <li>• Employment, total income and consumer spending increases - in increased production, sales and profits.</li> </ul>	<ul style="list-style-type: none"> <li>• Upswing or recovery builds momentum, there is a presence of optimism in the economy.</li> <li>• Obstacles appear in the economy: skilled labour and raw material deficits, it hampers the provision in the request for goods and services.</li> <li>• Production costs increases.</li> <li>• Increased import of goods.</li> <li>• Surpluses in the current account decreases.</li> <li>• Investment and consumer spending stay high.</li> <li>• Interest rates increases.</li> </ul>	<ul style="list-style-type: none"> <li>• The prosperity becomes a recession.</li> <li>• Consumer spending, especially on durable goods, begins to decrease.</li> <li>• Downwards tendency in investments.</li> <li>• High interest rates and a diminution in price increases.</li> <li>• More businesses are liquidated.</li> <li>• Production levels, life standards and employment decreases.</li> <li>• Decreasing income and spending leads to shrinking requests - fewer goods are produced.</li> <li>• Request of imported goods increases and the current account improves.</li> </ul>	<ul style="list-style-type: none"> <li>• Sometimes a recession can become so severe that it can change into a depression.</li> <li>• Unemployment increases dramatically and consumer request for goods decline sharply.</li> <li>• Prices flats down and may even decline.</li> <li>• Businesses' profits decrease and, in many cases, becomes a loss.</li> </ul>

**Causes of business cycles**

**Exogenous explanations -The Monetarist approach** – the view that markets are inherently stable

- The monetarist school of thought was started in 1960 by Professor Milton Friedman
- The classical economists believed that the markets were inherently (naturally) stable
- Also called the sunspot theory

- They presented exogenous explanations (conditions that originate outside the market system) for periodic recessions and revivals
  - They saw these fluctuations in economic activity as temporary due to external factors
  - These fluctuations can also occur because of ineffective government policy
  - Supporters say that government should leave the market forces to their own devices
  - This results in fluctuations in the rate of increase in the money supply, which causes changes in the rate of increase in prices, production and employment
  - These factors all distort the stability of the markets
  - If in disequilibrium the market forces kick in to restore equilibrium
- (i) **Weather conditions** - Changes in weather patterns affect agricultural production and therefore also the total level of economic activity.
- (ii) **Structural Changes** - It occurs when there is a long-term change in the makeup of a country's economy. The major structural changes that took place in the South African economy was the move of emphasis from the primary to the secondary sectors and then later to the tertiary sector.
- (iii) **Disasters** - Sometimes, events occur that affect the economies of all countries, including South Africa. For example, the September 11, 2001 terrorist attacks on the World Trade Centre in New York; and the Tsunami in 2004 and 2013 in Japan.
- (iv) **Inappropriate government policy or intervention** - the government must rather not intervene in the economy, because the external factors cause deviations.
- (v) **Changes in the money supply** - cause changes in price levels, production and employment. An increase in money supply causes an expansion of economic activities. A decrease in money supply causes a contraction of economic activity.
- (vi) **Random shocks** - examples of these are wars, a new ruling political party or a drastic increase in the price of oil. Shocks such as these affect the confidence of business and households.
- (vii) **Technological innovations** - these lead to large investments in producing and selling new products. They cause an expansion of economic activity.
- (viii) **Psychological Reasons** - The way people think largely impacts the business cycle. When people expect an upswing, they spend more and borrow more. This causes producers to expect an increase in demand; they employ more people and produce more. In fear of unfavourable conditions, they start spending less and pay back their loans.

**Endogenous explanations** - *The Keynesian approach* holds the view that markets are inherently unstable.

- The Keynesians view is that markets are inherently unstable
- The level of economic activities constant and erratically overshoots and undershoots the economy's potential
- The price mechanism fails to coordinate demand and supply of goods and services
- Prices are simply not flexible enough to be adjusted downwards
- These mismatches cause business cycles
- The government should intervene to smooth peaks and troughs as they occur

- (i) **Monetary Causes** - Commercial Banks and the South African Reserve Bank play an important role in business cycles as far as the amount of money available is concerned. Banks make profits by lending out money. When banks make money available at a low interest rate, they encourage people to borrow money and consumption increases. This stimulates production, new businesses start and an upswing occurs. After a time, people cannot pay the borrowed money back due to an increase in prices. Banks increase the interest rates and people borrow less.
- (ii) **Real Reason** - Entrepreneurs are continually looking for new, more cost-effective methods to produce goods and services to be more profitable. Therefore, new technology is often introduced when such a method is found, competitors will be eager to get involved. This causes a chain reaction which stimulates demand, higher prices and even more competitors coming into the market.
- (iii) **Change in investment** - an increase in investment causes an increase in real GDP. This puts the economy into an expansion phase. A decrease in investment reduces output and puts the economy into a contraction phase.
- (iv) **Change in aggregate demand** - a big decrease in any of the components of aggregate demand forces firms to reduce output. This causes a contraction phase. Likewise, an increase in aggregate demand increases economic activity in the country and puts the economy on the upswing.
- (v) **Changes in aggregate supply** - a big increase in supply puts the economy into an expansion phase. Example – the discovery of new mineral deposits stimulates all other sectors of the economy. This increases aggregate demand and causes an increase in economic activity.
- (vi) **Technological change & innovation** - the introduction of new technology & innovation increases economic activity and puts the economy into an expansion phase.

[Solutions for All Economics & Focus Economics]

### Types of business cycles

- **Kitchin cycles** – are business cycles that last between 3 and 5 years and are caused by business adapting their inventory levels.
- **Juglar cycles** – are business cycles that last between 7 and 11 years and are caused by the changes in net investments by business and government.
- **Kuznets cycles** - are business cycles that last between 15 and 20 years and are caused by the changes in the building and construction industry.
- **Kondratieff cycles** – are business cycles that last 50 years and longer and are caused by technological innovations, wars and discoveries of new deposits of resources.

[Focus Economics]

### Smoothing of the business cycle

Economic policy refers to specific measures used by the State to intervene in the economy in order to achieve certain

### Aims

- High and continuous Economic growth

- Complete employment
- Price stability
- Balance of payments equilibrium
- Fair and division of income

[Clever Economics]

### Government policy with regard to business cycles

- The authorities strive to level out the course of the economic cycle so that the top fulcrum (peak) is not too high and the bottom fulcrum (trough) is not too deep.
- There are two particular ways of accomplishing this:

#### (1) **Monetary policy**

Monetary policy refers to the decisions made by the authorities to influence the **interest rate** and the **amount of money in circulation**.

The SARB can then apply several measures to prevent this rise from becoming too high.

**Examples** of these measures include:

##### (i) **Discount rate**

This is the interest rate that the Reserve Bank imposes on loans to other banks. It is also called the bank rate. It withdraws money from circulation, which levels the business cycle.

##### (ii) **Open market transactions**



This means that the Reserve Bank buys or sells government stock in order to affect the amount of money in circulation.

##### (iii) **Management of national debt**

The authorities can borrow money for large projects locally or abroad, thereby either decreasing or increasing the amount of money in circulation.

##### (iv) **Reserve requirements**

As prescribed by law, depository institutions have to set aside a certain percentage of their reserves to meet their daily cash withdrawals by clients.

##### (v) **Moral persuasion**

Encouraging commercial banks to increase or decrease their granting of credit to their clients.

##### (vi) **Exchange rate policy**

The SARB can use a free-floating policy that implies that the forces of supply and demand determine the currency. Alternatively, it can implement a managed-floating policy where the SARB protects the value of the rand and intervenes to prevent short-term fluctuations of the country's currency.

[Clever Economic]

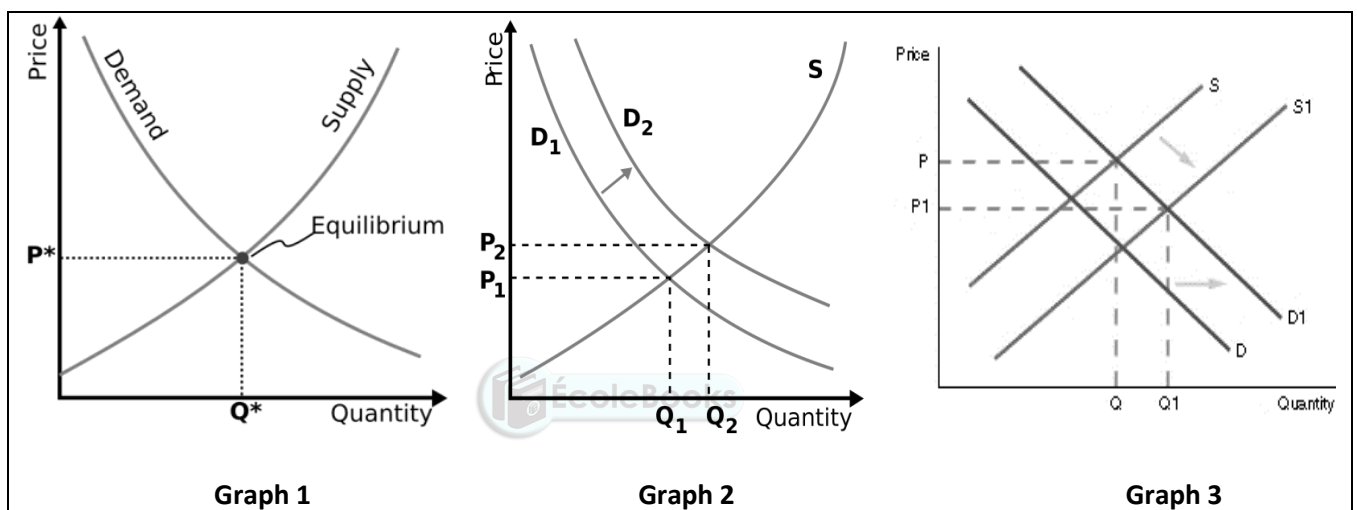
**Fiscal policy**

Fiscal policy is the deliberate action of the authorities to influence the economy by means of government expenditure, tax and Government loans.

- Private sector demand becomes too low- Raising government spending (G) employment is likely to increase and decrease tax.
- Private sector demand becomes too high – Cutting government spending (G) less demand and inflation decreases, increase taxes less spending by C.

[Enjoy Economics]

**THE NEW ECONOMIC PARADIGM**



**Graph 1**

- The economy is in equilibrium when supply and demand is equal.
- To grow the economy GDP must increase.
- For GDP to increase the demand must increase.

**Graph 2**

- When demand increase the quantity increase from Q1 to Q2.
- This is great, supply did not increase
- So, demand moved from D1 to D2 but so did price increase from P1 to P2. This is bad as this leads to inflation.

**Graph 3**

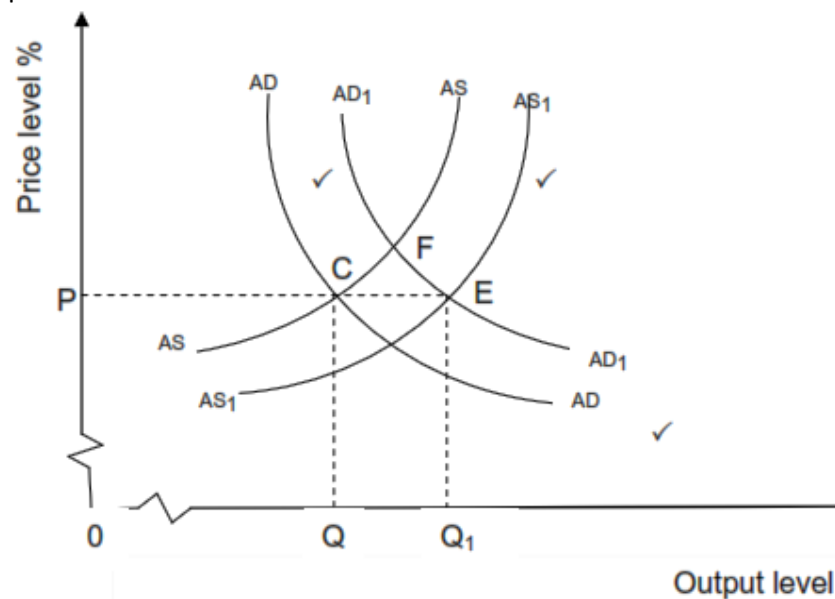
- However, if supply also increase as demand increases then we are moving from Q to Q1 this is great and price stays at P1.
- More demand → production → creation → me → ding → mo → demanding etc, etc.

**Demand-side policy**

The aggregate demand is created by households, businesses and the government (C + G + I)

### **Inflation**

- Aggregate demand and supply are in equilibrium.
- When the demand increases, the supply will react in the same way.
- If the supply does not react to an increase in demand, prices will increase (a new equilibrium).
- This will lead to inflation.
- Aggregate demand and supply are in equilibrium where  $AD = AS$  at point **C**, and again where  $AD_1 = AS_1$  at point **E**.
- When the demand increases, the supply will react in the same way.
- **Fig (a)** below illustrates that if  $AD_1$  increases and  $AS$  does not respond, the new equilibrium will be at point **F**. Therefore, real production will increase and prices will also increase. Inflation will prevail.



### **Unemployment**

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

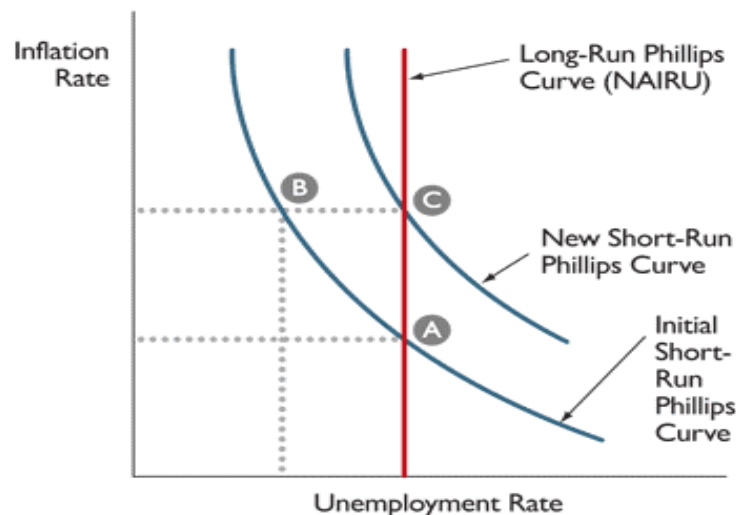
In economics, the **Phillips curve** is a historical inverse relationship between rates of unemployment and corresponding rates of inflation that result in an economy. Stated simply, decreased unemployment, (i.e., increased levels of employment) in an economy will correlate with higher rates of inflation.

- The PC curve shows the initial situation. A is the point of intersection of the PC curve with the x-axis. It shows the natural rate of unemployment, for instance 14%. This is the rate of unemployment that causes no pressure on wages and has no inflationary effects.



- If the economy is stimulated so that the unemployment rate falls to B, for instance, 10% wages increase to such an extent that inflation is at 2%.
- If unemployment falls to C for instance, 8%, inflation caused by wage increases is at 6%.
- If unemployment increases from C to B to A, inflation falls from 6% to 2% to 0%.
- There is an inverse relationship between unemployment and inflation.

### Short- and Long-Run Phillips Curves



#### Supply-side policies

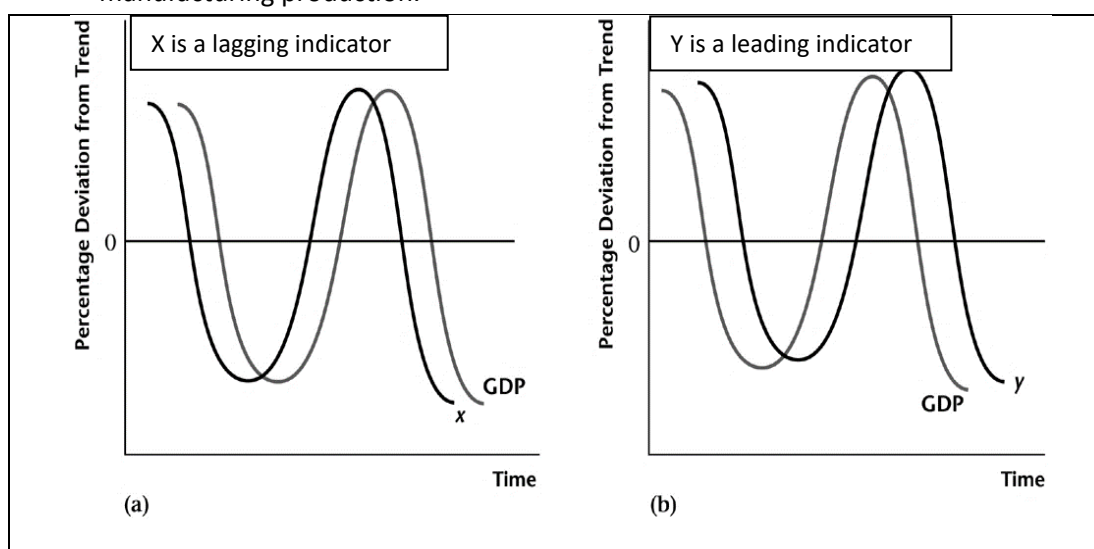
The supply-side policies focus on aggregate supply of the producers. For example, when the cost of production is reduced, producers can supply more goods & services.

- **Reduction of costs**
  - Infrastructural services – the government can supply infrastructure services such as transport, communication and energy
  - Administrative costs – they can reduce administrative costs such as inspections and unnecessary regulations
  - Cash incentives - to produce certain goods and services
- **Improving the efficiency of inputs**
  - Tax rates – they can reduce taxes of the business
  - Capital consumption - more production capacity
  - Human resources development - better trained staff
  - Free advisory services - technical advice from expensive expert sources.
- **Improving the efficiency of markets**
  - Deregulation – no minimum prices or wages
  - Competition - competition reduce cost
  - Levelling the playing field – equal opportunity to produce products

[Mind the Gap]

## Forecasting of business cycles

- **Leading indicators** - the turning points of these variables tend to always lead the reference turning points. They give a warning of what we can expect in the future, economists use them to forecast turning points in the economy.
  - **Examples:** net gold & foreign reserves, volume of mining production, total number of new cars sold, share prices, number of new businesses registered and real exports.
- **Lagging indicators** - these variables tend to always lag with the reference turning points. They indicate what has already happened in the economy.
  - **Examples:** the hours worked in construction, employment, the number of commercial vehicles sold and investment in capital goods (machinery & equipment).
- **Coincident Indicators** - the turning points of these variables tend to always coincide with the reference turning points. They provide information about the current situation of the economy.
  - **Examples:** the real GDP, registered unemployment, volume of imports and the volume of manufacturing production.



## Methods of forecasting

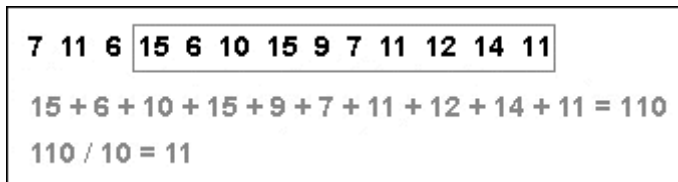
### **Extrapolation**

- This means using historical data and predicting the future on that basis. For example: If the economy grows or decreases continually, predictions can be made by means of extrapolation along the same trend line.

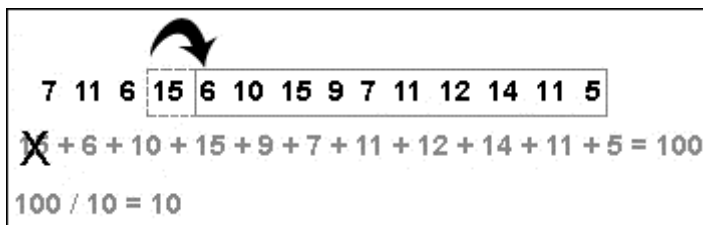
### **Moving averages**

- This refers to the average price of an indicator over a specified time period. Moving averages are used to look at price trends. Tables indicating the moving averages of share prices are used to indicate whether they are moving upwards or downwards. Information can be gathered from this on a daily, monthly or annual basis.

- As the new members (for the day, week or month) are added and the older members are deleted, the average 'moves'.
- By calculating a moving average, a forecaster can smooth out the minor fluctuations in a data series. This makes it easier to spot trends.
- For example, to calculate a basic 10-day moving average you would add up the closing prices from the past 10 days and then divide the result by 10. In Figure 1, the sum of the prices for the past 10 days (110) is divided by the number of days (10) to arrive at the 10-day average. If a trader wishes to see a 50-day average instead, the same type of calculation would be made, but it would include the prices over the past 50 days.



- As new values become available, the oldest data points must be dropped from the set and new data points must come in to replace them. Thus, the data set is constantly "moving" to account for new data as it becomes available. This method of calculation ensures that only the current information is being accounted for.
- In Figure 2, once the new value of 5 is added to the set, the box (representing the past 10 data points) moves to the right and the last value of 15 is dropped from the calculation. Because the relatively small value of 5 replaces the high value of 15, you would expect to see the average of the data set decrease, which it does, in this case from 11 to 10.



### Trend line

- The trend line that rises gradually will be positively sloped in the long run, the rising line indicates a growing economy
- The trend indicates the general direction in which indexes that were used in the business cycle move
- The trend will change when the time series data change their behaviour patterns of the past
- However, some forces must be overcome for that to happen e.g. Resistance points and channels

### Length of a cycle

- Measuring a cycle from peak to peak or trough to trough
- Longer cycles show strength and shorter cycles show weakness with regard to economic activities.

### Amplitude

- Measures the distance of the variable from the trend line
- Amplitude refers to the vertical (height) difference between a trough and the next peak of a cycle.
- The larger the amplitude, the more extreme the changes that occur.

### Extrapolation

- This means using historical data and predicting the future on that basis. For example: If the economy grows or decreases continually, predictions can be made by means of extrapolation along the same trend line.

### Warm Up questions or Practice Questions (Short Questions) MC / Matching / Give ONE word/ Name

### MULTIPLE CHOICE

**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 Employment figures in the business cycle will increase during a ...

- A. recession
- B. recovery
- C. depression
- D. trough



1.1.2. The number of new vehicles sold is a ... business cycle indicator.

- A. lagging
- B. coincident
- C. leading
- D. social

1.1.3 A focus on the improvement of input efficiency is a characteristic of the ... side policy.

- A. demand
- B. supply
- C. fiscal
- D. monetary

1.1.4 A fiscal policy that attempts to stimulate economic activity.

- A. expansionary
- B. restrictive
- C. money supply
- D. interest rates

1.1.5 Changes in technology will lead to a ... business cycle.

- A. demand-driven
- B. supply-driven

- C political
- D. Kuznets (5 x 2)

1.1.6 The distance between the trendline and the peak or trough is known as a/an

- A. amplitude
- B. recession
- C. boom
- D. depression

1.1.7 Indicators which change **before** the business cycle changes are called ... indicators.

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

1.1.8 The **new economic paradigm** is embedded in ... policy/policies.

- A. demand-side
- B. supply-side
- C. demand and supply-side
- D. monetary

1.1.9 A monetary policy that attempts to curb economic activity is known as ... policy.

- A. lagging
- B. monetary
- C. expansionary
- D. restrictive



1.1.10 Fluctuating factors that originate outside the economic system are referred to as ... factors.

- A. Indigenous
- B. Exogenous
- C. Endogenous
- D. International

1.2 **Choose a description from COLUMN B that matches the item in COLUMN. Write only the letter (A-E) next to the question number (1.2.1 – 1.2.4) in the ANSWER BOOK.**

Column A	Column B
1.2.1 Extrapolation	A Represents the real flow in the economy
1.2.2 Fiscal policy	B Estimating unknown data based on known data
1.2.3 Moving averages	C The price paid for the factors of production
1.2.4 Factor costs	D Government expenditure
1.2.5 Business Cycle	E Fluctuations in the economy

1.3 Provide the economic term/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 The method of predicting the future of a business cycle based on historical data.
- 1.3.2 A method of repeatedly calculating a series of different average values along a time series to produce a smooth curve.
- 1.3.3 The curve that show the relationship between inflation and unemployment.
- 1.3.4 The distance between the trendline and the peak.
- 1.3.5 The rate at which banks borrow money from the SARB.
- 1.3.6 The recurrent but not periodic pattern of increasing and decreasing economic activity.
- 1.3.7 The group of economists that believe markets are inherently unstable.
- 1.3.8 A business cycle of about 8 – 11 years where fixed investments by firms is responsible for the cycle –(prelim 2018)

(8 x 1)

## **SECTION B**

### **2.1 Lower cognitive (Easy questions)**

**(2 marks)**

HINT: When the question requires you to “List” or “Name”, you need not write a sentence. This MUST be done in bullet form.

This type of questions is found on the question paper: 2.1.1; 3.1.1; 4.1.1

- 2.1.1 Name any TWO characteristics of the downswing of the economy.
- 2.1.2 Name any TWO external reasons for business cycles.
- 2.1.3 Name TWO stages of the expansionary phase.
- 2.1.4 Name the TWO views why business cycles occur.
- 2.1.5 Name TWO types of business cycles.
- 2.1.6 Name TWO monetary policy instruments.
- 2.1.7 Name TWO fiscal policy instruments.
- 2.1.8 Name TWO economic indicators.

### **2.2. Middle order (Moderate questions)**

**(2 marks)**

HINT: This type of question is typical deep-level thinking. You need to answer this question in a sentence that is comprehensive and it should answer the question.

This type of questions is found on the question paper: 2.1.2; 3.1.2; 4.1.2

- 2.2.1 What impact could disinvestments or sanctions have on the business cycle?
- 2.2.2 How can extrapolation be used in predicting the trend of the economy?
- 2.2.3 What impact could disinvestments or sanctions have on business cycles?
- 2.2.4 Why does a business cycle diagram serve as a forecasting model?
- 2.2.5 How can the Reserve Bank cool down the economy?
- 2.2.6 How can deregulation stimulate economic growth?

### 3.1 Paragraph Middle Order

## **3. PARAGRAPH QUESTIONS**

### **3.1 Middle order (easy to moderate)**

**(8 marks)**

HINT: When a question requires to “explain”, “discuss”, “differentiate”, etc. You need to answer in full sentences. The answers are found in textbooks. This type of questions is found on the question paper: 2.4; 3.4 and 4.4

- 3.1.1 Explain the trendline as a method to do forecasting. (8)
- 3.1.2 Distinguish between the *amplitude* and the *trendline* as features underpinning forecasting. (8)
- 3.1.3 Explain the endogenous reasons for business cycles. (8)
- 3.1.4 Differentiate between the *leading* and *lagging* indicators. (8)
- 3.1.5 Discuss the multiplier effect during the upswing of the business cycle. (8)
- 3.1.6 Briefly explain the exogenous (monetarist) view as a cause of business cycles. (8)
- 3.1.7 Discuss lagging indicators as a feature underpinning forecasting. (8)

**3.2 Higher order (Moderate to difficult) (8 marks)**

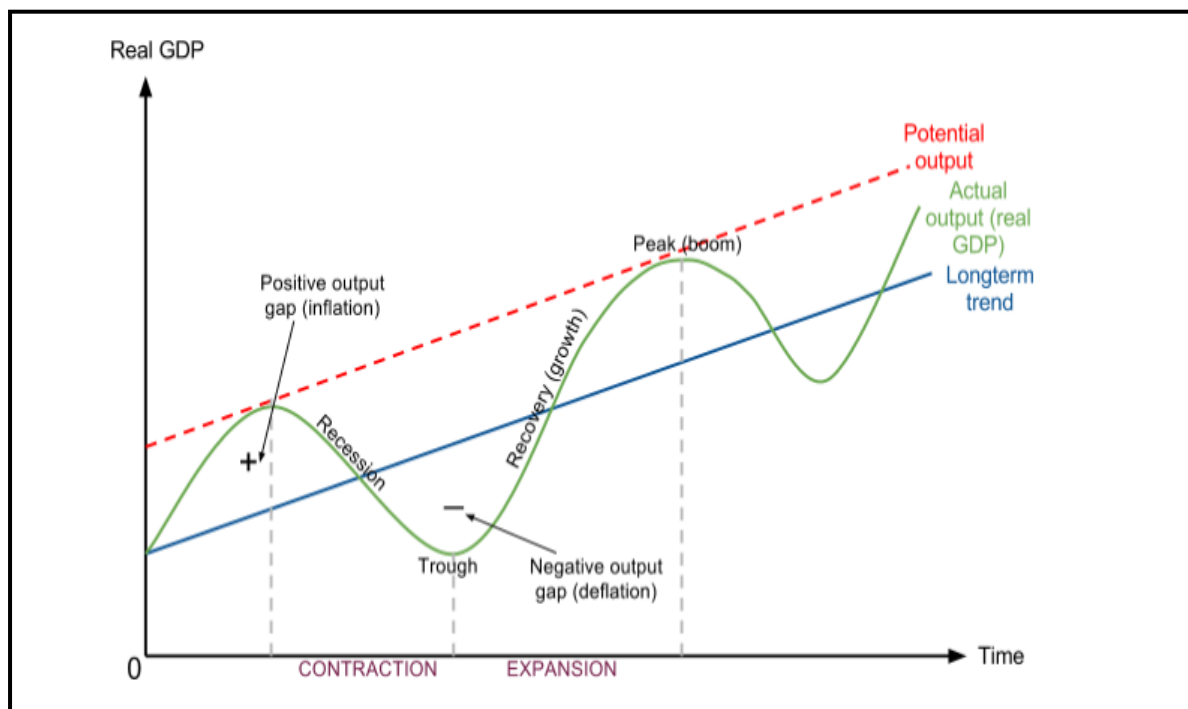
HINT: The answers to these questions are not usually found in textbooks. You must apply your content knowledge to answer them. You need to do some deep-level critical thinking. You need to answer in full sentences.

This type of questions is found on the question paper: 2.5; 3.5 and 4.5

- 3.2.1 Why is it impossible to achieve zero unemployment and low inflation rates in an economy? (8)
- 3.2.2 Why are leading indicators important in forecasting business cycles? (8)
- 3.2.3 How could the monetarists’ viewpoint on government policies cause a contraction in a business cycle? (**Essip, 2020, term 1**) (8)
- 3.2.4 Evaluate the use of fiscal policies to influence the economy. (**ES 2019**) (8)
- 3.2.5 How has the Keynesian (endogenous) school of thought influence the business cycle? (**SSIP2017 high flyers**) (8)

#### 4 DATA RESPONSE QUESTIONS

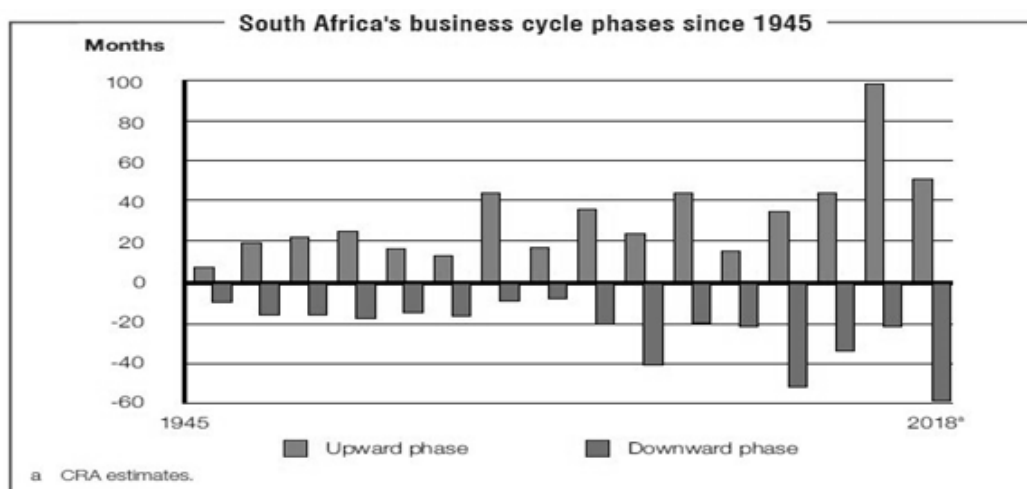
4.1 Study the graph below and answer the questions that follow.



- 4.1.1 Give an alternative term for the recovery (growth) as depicted from trough to peak. (1)
- 4.1.2 How is the length of a business cycle measured? (1)
- 4.1.3 Briefly describe the term *business cycle*. (2)
- 4.1.4 Why is a negative output gap reflected during a recession? (2)
- 4.1.5 Analyse the type of government policy that could effectively be applied when the economy is at its peak. (4)

4.2 Study the diagram below and answer the questions that follow. ES 2019

#### SOUTH AFRICA FACING ITS LONGEST DOWNWARD BUSINESS CYCLE SINCE 1945:



According to a report by the Centre for Risk Analysis, South Africa's latest business cycle has been in a downward phase since 2013. It seems unlikely that the cycle will experience an upward trajectory in the near future.



- 4.2.1 Identify the longest period (months) in which South Africa experienced an upswing in the economy. (1)
- 4.2.2 How long (years) is the current downswing of the South African economy? (1)
- 4.2.3 Briefly describe the term *economic trend*. (2)
- 4.2.4 Why are long upward amplitudes preferred than long downward amplitudes in the economy? (2)
- 4.2.5 How can the South African government use open market transaction to overcome the above ongoing economic decline? (4)
- 4.3 Study the information below and answer the questions that follow.

South Africa: New Passenger Car Sales	
October 2018	October 2019
35 044	35 904

Source: [www.naamsa.co.za](http://www.naamsa.co.za)

- 4.3.1 What type of economic indicator is reflected in the table above? (1)
- 4.3.2 In addition to your answer in 2.3.1, name any other type of economic indicator. (1)
- 4.3.3 Briefly describe the term *economic indicator*. (2)
- 4.3.4 Explain the trendline of a business cycle. (2)
- 4.3.5 Analyse the state of the economy by using the data provided in the table above. (4)



**QUESTION 5 -ESSAY TYPE QUESTIONS**

- When answering the main part of an essay, learners should write headings, sub-headings and provide examples for a maximum of 8 marks
- Explanations and discussions should be written in a point/bullet form in full sentences.
- Graphs should have a heading and be labelled and plotted correctly.
- The additional part of an essay should be of a higher cognitive level e.g. how can ..., why does..., evaluate, analyse, how successful is ..., propose or suggest ... etc.
- Learners should indicate the following when responding to an essay: introduction, main part, additional part and the conclusion.
- Essay-type questions should be **TWO-FOLDED** with the main part (26 marks) and the additional part (10 marks) as outlined in the table below:

STRUCTURE OF ESSAY	MARK ALLOCATION

<p><b>Introduction</b></p> <ul style="list-style-type: none"> <li>• A good starting point would be to define a concept or key word that appears in the question.</li> <li>• Include other sentences to support the topic.</li> <li>• Do not include in your introduction any part of the question.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max.2
<p><b>Body:</b></p> <p><b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate</p> <p><b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/ Calculate/Deduce/Compare/Analyse/Distinguish/Interpret/Briefly debate/How/ Suggest</p>	<p>Max.26</p> <p>Max.10</p>
<p><b>Conclusion</b></p> <p><b>Any higher Order conclusion should include:</b></p> <ul style="list-style-type: none"> <li>• A brief summary of what was discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts already discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max.2
TOTAL	40

#### QUESTION 5.1

- Discuss in detail the features underpinning forecasting. **(March Controlled Test, ES 2018 )**  
(26 marks)
- Illustrate the effect of the Phillips curve on the economy. (10 marks)

#### QUESTION 5.2

- Discuss in the new economic paradigm in detail. (26 marks)
- Why is not possible to achieve an equilibrium for the new economic paradigm?  
(10 marks)

**PUBLIC SECTOR**

**The Composition of the public sector**

The public sector comprises of the following:

- **Local government** - municipalities responsible for service delivery to ensure the daily running of a city or a town and the informal settlements and farms of the area.
- **Provincial government** – consists of nine provincial governments that implement the national government’s legislation, policies and plans.
- **Central government** - looks after the country and deals with matters that are important to the entire nation. Consisting of the President, the Deputy President and Ministers. Various departments: Department of Health, Department of Education, etc. Mostly formulates legislation, policies and plans to address economic and social issues.
- **Public corporations** – businesses that the government controls by law or in which the government has a majority shareholding. Examples are Eskom, Denel, SAA etc.

**Necessity of the public sector**

- To provide public goods & services
  - Community goods: goods supplied for the benefit of all citizens. Example: defence, police
  - Collective goods: goods for which it is possible to exclude free riders by levying fees or tolls. parks, beaches
  - Merit goods: goods that would be too expensive for some people to afford yet consuming them increases the welfare of the country. Examples: health, education
- To protect natural resources- our environment consists of resources that no one owns and yet everyone can use free of charge e.g. the oceans for fishing, the air we breathe.
- The redistribution of wealth and income
- To manage the economy
- To encourage competition

Objectives of the public sector

**Macro-economic objectives of the public sector**

Macroeconomic objective	Explanation
<b>Economic Growth</b> – an increase in the real GDP	Goods and services must be produced to satisfy want and needs, this create jobs, creates income, creates expenditure, creates production. Economic growth leads to economic development.
<b>Full Employment</b> –implies all people who want to work and are looking for work must be able to find employment	Goods education and training leads to people being employable, leads to employment leads to income leads to expense leads to production, leads to employment. Government supports education, labour-intensive businesses and the informal sector.
<b>Price Stability</b> – prices in the economy do not change much over time – the opposite of inflation	When prices are stable, and inflation is low, markets can function optimally and government achieve economic growth and development. The SARB have an inflation target of 3% to 6%. The interest rate (repo rate) is the main instrument to keep inflation stable

<p><b>Exchange Rate Stability</b> – the exchange rate expresses the value of one country’s currency in relation to the value of another country’s currency</p>	<p>Fluctuations, like depreciation and appreciation of a currency can create uncertainties for investors, producers and traders. South Africa has a floating exchange rate; however, government must still make sure that the exchange rate remains relatively stable to ensure a stable international market.</p>
<p><b>Economic Equity</b> – the reasonable division of income among the population</p>	<p>The government must prevent the rich from getting richer and the poor getting poorer. The following methods are used to redistribute the wealth of a country</p> <ul style="list-style-type: none"> <li>▪ Progressive tax system – higher income pays more tax</li> <li>▪ Tax used to finance social goods and services such as housing, educations and healthcare</li> <li>▪ Government pays cash grants such as old-age grants, disability grants, child support grants</li> <li>▪ The government implements policies to achieve BBBEE</li> </ul>

## Budgets

Types of budgets

Fiscal policy (including the Laffer curve)

Public sector failure

### Problems in the public sector

1. Accountability
2. Efficiency
3. Assessing of needs
4. Pricing policy
5. Parastatals
6. Privatisation/Nationalisation



### Warm Up questions or Practice Questions (Short Questions) MC / Matching / Give ONE word/ Name

#### TYPICAL EXAM QUESTIONS

#### MULTIPLE CHOICE

**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 The budget deficit for developing countries should not exceed ... % of GDP.

- A. 4
- B. 3
- C. 6
- D. 5

1.1.2. The removal of unnecessary restrictions by law is ...

- A. deregulation
- B. government withdrawal
- C. regulation
- D. market economy

1.1.3 The ... curve illustrates the relationship between taxation and government income.

- A. Phillips
- B. Lorenz
- C. Laffer
- D. demand

1.1.4 It refers to the transfer of functions, activities and ownership of the private sector to the public sector.

- A. Regulation
- B. Privatisation
- C. Deregulation
- D. Nationalisation

1.1.5 Social grants to the citizens of South Africa form part of the ... policy.

- A. monetary
- B. growth
- C. trade
- D. fiscal



(5 x 2)

**1.2 Choose a description from COLUMN B that matches the item in COLUMN. Write only the letter (A-E) next to the question number (1.2.1 – 1.2.4) in the ANSWER BOOK.**

Column A	Column B
1.2.1 Parastatal 1.2.2 Public goods 1.2.3 Fiscal policy 1.2.4 Expanded Public Works Programme 1.2.5 Pareto efficiency	A. Provided by the state and used by all members of a country B. government spending and taxation C. A nation-wide government intervention to create employment using labour-intensive methods D. State-owned-enterprises that provide public goods and services on behalf of the government E The state of an economy in which no one can be made better off without someone being worse off (4 x 1) (4)

**1.3 Give the economic term for each of the following descriptions. Write only the term/concept next to the question number.**

1.3.1 The policy that the Treasury or Department of Finance apply to influence the economy

- 1.3.2 Goods provided by the state because it is believed that they would be undersupplied by the market.
- 1.3.3 Income and expenditure estimates over a period of three years.
- 1.3.4 When government expenditure exceeds government income.
- 1.3.5 The main source of revenue for the state. (5 x 1)

## **SECTION B**

### **2.1 Lower cognitive (Easy questions)**

**(2 marks)**

HINT: When the question requires you to “List” or “Name”, you need not write a sentence. This MUST be done in bullet form.

This type of questions is found on the question paper: 2.1.1; 3.1.1; 4.1.1

- 2.1.1 Name the TWO main fiscal policy instruments that can be used by government to regulate the economy.
- 2.1.2 Name any TWO problems experienced in public sector provisioning.
- 2.1.3 Name TWO types of public goods
- 2.1.4 Name TWO objectives of the state
- 2.1.5 Name any TWO taxes on goods and services (5 x 2)

### **2.2 Middle order (Moderate questions)**

**(2 marks)**

HINT: This type of question is typical deep-level thinking. You need to answer this question in a sentence that is comprehensive and it should answer the question.

This type of questions is found on the question paper: 2.1.2; 3.1.2; 4.1.2

- 2.2.1 How does wasteful spending by the government affect economic growth?
- 2.2.2 What is the effect of the fiscal policy on the general price level? **Essip 2020, term 1**
- 2.2.3 How does the South African government use progressive tax to achieve economic equity?
- 2.2.4 What is the relationship between the main budget and MTEF? GP Prelim 2019
- 2.2.5 Why would public sector failure lead to economic instability? (5 x 2)

## **3. Paragraph questions**

### **3.1 Middle order (easy to moderate)**

HINT: When a question requires to “explain”, “discuss”, “differentiate”, etc. You need to answer in full sentences. The answers are found in textbooks. This type of questions is found on the question paper: 2.4; 3.4 and 4.4

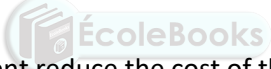
- 3.1.1 Briefly discuss *efficiency* and *parastatals* as reasons that contribute to public sector failure. (8)
- 3.1.2 Differentiate between *community goods* and *collective goods*. (8)
- 3.1.3 Explain accountability as a problem of public sector provisioning. (8)
- 3.1.4 Explain privatisation as a problem of public sector provisioning. (8)
- 3.1.5 Explain *management failure* and *lack of motivation* as reasons for public sector failure. (8)

### **3.2 Paragraph type questions**

#### **Higher order (Moderate to difficult)**

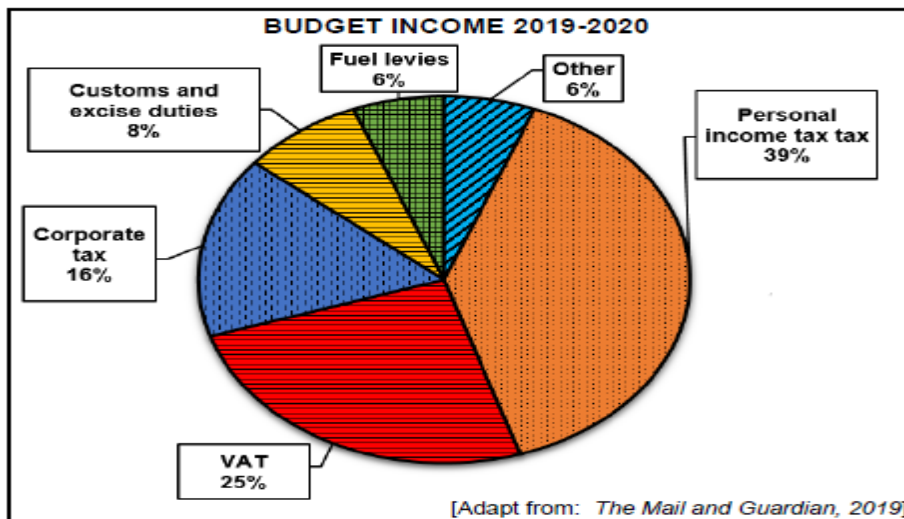
HINT: The answers to these questions are not usually found in textbooks. You must apply your content knowledge to answer them. You need to do some deep-level critical thinking. You need to answer in full sentences.

This type of questions is found on the question paper: 2.5; 3.5 and 4.5

- 
- 3.2.1 How can the government reduce the cost of the business sector to stimulate aggregate supply? ES March Controlled Test, 2018) (8)
  - 3.2.2 How successful is the government in achieving its macroeconomic objectives? (8)
  - 3.2.3 How can the government improve the efficiency of service delivery? (8)
  - 3.2.4 Evaluate the provisioning of public goods and services in South Africa.GP prelim 2019 (8)
  - 3.2.5 Why are State-Owned Enterprises (SOE's) seen as a problem in public sector provisioning? WC Prelim 2019 (8)

## **4. DATA RESPONSE QUESTIONS**

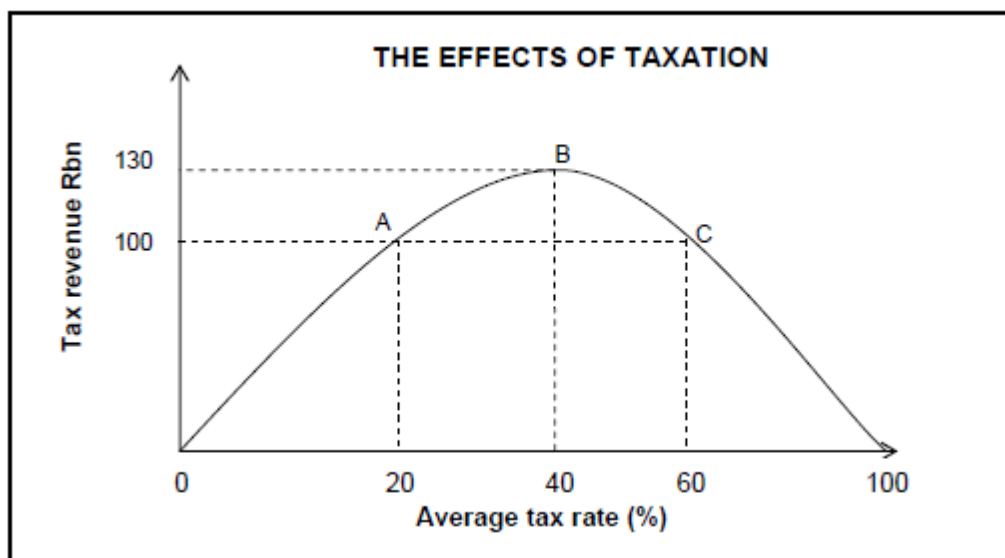
- 4.1 Study the following information and answer the questions that follow.



- 4.1.1 Name the biggest contributor of revenue to the State. (1)
- 4.1.2 What is the current VAT rate in South Africa? (1)
- 4.1.3 Briefly describe the term indirect tax. (2)
- 4.1.4 Why is it necessary for government to provide schools and hospitals for its citizens? (2)
- 4.1.5 How does the Minister of Finance use his discretion on fiscal decisions? (4)



4.2 Study the following information and answer the questions that follow.



- 4.2.1 Which curve is depicted in the graph above? (1)
- 4.2.2 What tax rate will generate maximum revenue for the government? (1)
- 4.2.3 What is the correlation between a tax rate of zero and a tax rate of 100% for government? (2)



- 4.2.4 Why will an increase in tax rate not necessarily increase government revenue? (2)
- 4.2.5 Suggest ways that the state can use to increase its revenue without increasing taxation. (4)

4.3 Read the extract below and answer the following questions. ES P1, 2019

**PUBLIC AND PRIVATE SECTOR INTEGRATION**

Financial investments through public private partnerships are critical in meeting the socio-economic needs of the people. Addressing backlogs in essential public services and simultaneously maintaining fiscal prudence require the country's budgetary resources to work harder.

*(Source: <https://mg.co.za/tag/gauteng-treasury>)*

- 4.3.1 Name ONE example of socio-economic needs of people. (1)
- 4.3.2 Give ONE example how the private sector can assist the government to address socio-economic issues. (1)
- 4.3.3 Briefly describe the term *public-private-partnerships*. (2)
- 4.3.4 What is fiscal prudence? (2)
- 4.3.5 How can public private partnerships contribute to income redistribution? (4)

**QUESTION 5 -ESSAYS**

**Essay Type Questions**

- When answering the main part of an essay, learners should write headings, sub-headings and provide examples for a maximum of 8 marks
- Explanations and discussions should be written in a point/bullet form in full sentences.
- Graphs should have a heading and be labelled and plotted correctly.
- The additional part of an essay should be of a higher cognitive level e.g. how can ..., why does..., evaluate, analyse, how successful is ..., propose or suggest ... etc.
- Learners should indicate the following when responding to an essay: introduction, main part, additional part and the conclusion.
- Essay-type questions should be **TWO-FOLDED** with the main part (26 marks) and the additional part (10 marks) as outlined in the table below:

STRUCTURE OF ESSAY	MARK ALLOCATION
Introduction	

<ul style="list-style-type: none"> <li>• A good starting point would be to define a concept or key word that appears in the question.</li> <li>• Include other sentences to support the topic.</li> <li>• Do not include in your introduction any part of the question.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max.2
<p><b>Body:</b></p> <p><b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate</p> <p><b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/ Calculate/Deduce/Compare/Analyse/Distinguish/Interpret/Briefly debate/How/ Suggest</p>	Max.26  Max.10
<p><b>Conclusion</b></p> <p><b>Any higher Order conclusion should include:</b></p> <ul style="list-style-type: none"> <li>• A brief summary of what was discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts already discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max.2
TOTAL	40

**QUESTION 5.1** (Essip, Term 1, 2020)

- Discuss the problems for public sector provisioning in South Africa. (26 marks)
- How does poor delivery services of municipalities impact on the economy? (10 marks)

**QUESTION 5.2**

- Discuss the FIVE main macroeconomic objectives of the government. (ES March Controlled Test, 2018) (26 marks)
- How can the government improve service delivery in your community? (10 marks)

**QUESTION 5.3**

- Discuss in detail how the following factors contribute to poor public-sector provisioning: EC Prelim 2019

(1) Lack of accountability	(10)	
(2) Inefficiency	(8)	
(3) Difficulty in assessing needs	(8)	
		(26)
• Suggest solutions on how efficiency of state-owned enterprises can be improved.		(10)

## FOREIGN EXCHANGE MARKETS

### THE REASONS FOR INTERNATIONAL TRADE

#### DEMAND REASONS

The **size of the population** impacts demand. If there is an increase in population growth, it causes an increase in demand, as more people's needs must be satisfied. Local suppliers may not be able to satisfy this demand.

The **population's income levels** effect demand. Changes in income cause a change in the demand for goods and services. An increase in the per capita income of people results in more disposable income that can be spent on local goods and services, some of which may then have to be imported.

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

**Preferences and tastes** can play a part in the determining of prices, e.g. 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.

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

#### SUPPLY REASONS

**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.

**Climatic conditions** make it possible for some countries to produce certain goods at a lower price than other countries, e.g. Brazil is the biggest producer of coffee.

**Labour resources** differ in quality, quantity and cost between countries. Some countries have highly skilled, well-paid workers with high productivity levels, e.g. Switzerland.

**Technological resources** are available in some countries that enable them to produce certain goods and services at a low unit cost, e.g. Japan.

**Specialisation** in the production of certain goods and services allows some countries to produce them at a lower cost than others, e.g. Japan produces electronic goods and sells these at a lower price.

**Capital** allows developed countries to enjoy an advantage over underdeveloped countries. Due to a lack of capital, some countries cannot produce all the goods they require themselves.

### ABSOLUTE AND COMPARATIVE ADVANTAGE

#### **Absolute Advantage:**

*Where one country can produce goods with fewer resources than another country.*

	Oil (Barrels)	Whisky (Litres)
Russia	10	5
Scotland	20	40

- One unit of labour in each country can produce either oil or whisky.
- A unit of labour in Russia can produce either 10 barrels of oil per period or 5 litres of whisky.
- A unit of labour in Scotland can produce either 20 barrels of oil or 40 litres of whisky.

#### Comparative Advantage



**Comparative Advantage:** *Where one country can produce goods at a lower opportunity cost – it sacrifices less resources in production.*

#### Russia:

- if it moved 1 unit of labour from whisky to oil it would sacrifice 5 litres of whisky but gain 10 barrels of oil ( $OC = 5/10 = \frac{1}{2}$ ). Moving 1 unit of labour from oil to whisky production would lead to a sacrifice of 10 barrels of oil to gain 5 litres of whisky ( $OC$  of whisky is  $10/5 = 2$ )

#### Scotland:

- if it moved 1 unit of labour from whisky to oil it would sacrifice 40 litres of whisky but gain 20 barrels of oil ( $OC = 40/20 = 2$ ). Moving 1 unit of labour from oil to whisky production would lead to a sacrifice of 20 barrels of oil to gain 40 litres of whisky (Opportunity cost of whisky is  $20/40 = \frac{1}{2}$ ). For Scotland the opportunity cost of oil is four times higher than that in Russia (2 compared to  $\frac{1}{2}$ ).
- In Russia, oil can be produced cheaper than in Scotland (Russia only sacrifices 1 litre of whisky to produce 2 extra barrels of oil whereas Scotland would have to sacrifice 2 litres of whisky to produce 1 barrel of oil).
- There can be gains from trade if each country specialises in the production of the product in which it has the lower opportunity cost – Russia should produce oil; Scotland, whisky.

## THE EFFECTS OF INTERNATIONAL TRADE

- Specialisation increases the standard of living, especially when the area of specialisation is in great demand due to a shortage of supply
- Mass production becomes possible if the domestic demand is added to foreign demand, e.g. manufacturing of cell phones.
- Efficiency increases when there is competition. Lower prices mean that the same income can buy more goods and services.
- Globalisation is driven by international trade, e.g. trade in IT products and vehicles (cars and trucks).

## **BALANCE OF PAYMENTS**

*The balance of payments is a systematic record of all transactions between one country and the rest of the world.*

### Composition of the balance of payments:

- The current account
- The capital transfer account
- The financial account

#### **1. CURRENT ACCOUNT**

Goods exports  
 + Net gold exports  
 + Services receipts  
 + Income receipts  
 less Merchandise imports  
 less Payment for services  
 less Income payments  
 Current transfers (net receipts)  
 Balance on Current Account  
 Memo item: trade balance



#### **2. CAPITAL TRANSFER ACCOUNT**

**Net lending to (+) or borrowing from (-) rest of the world**

#### **3. FINANCIAL ACCOUNT**

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

#### **Balance on financial account**

Memo item: balance on financial account excluding reserve assets  
 Unrecorded transactions

## EXCHANGE RATES

A **foreign exchange market** is a market engaged in buying and selling of foreign exchange.

**Exchange rate** is the rate at which one currency is exchanged for another. It is also considered the value of one country's currency in terms of another country's currency.

### Types of exchange rates

- (a) **The floating exchange rates:** price determined only by demand and supply of the currency – no government intervention.
- (b) **The fixed exchange rates:** the value of a currency fixed in relation to an anchor currency – not allowed to fluctuate.
- (c) **The dirty floating or managed exchange rates:** the rate is influenced by government via central bank around a preferred rate.

<b>FACTORS THAT WILL INFLUENCE DEMAND AND SUPPLY OF FOREIGN EXCHANGE</b>	
<b>Demand factors for foreign exchange</b>	<b>Supply factors of foreign exchange</b>
<ul style="list-style-type: none"> <li>• Importing goods</li> <li>• Payment for services from foreign countries</li> <li>• Buying shares in another country</li> <li>• Tourists spending money overseas</li> <li>• Repayment of debt borrowed from foreign countries</li> </ul>	<ul style="list-style-type: none"> <li>• Exporting goods</li> <li>• Providing services to foreign countries</li> <li>• Receiving dividends on shares invested in foreign countries</li> <li>• Inflow of foreign capital</li> <li>• Expenditure of money by foreign tourists</li> <li>• Raising new loans in foreign countries</li> </ul>

### Types of exchange rates

#### **The floating exchange rate**

Price determined only by demand and supply of the currency – no government intervention

#### **The Fixed Exchange Rates pegged exchange rate)**

The value of a currency fixed in relation to an anchor currency. Government determine the exchange rate.

#### **The Dirty Floating or Managed Exchange Rate**

The rate is influenced by government via central bank around a preferred rate

### Appreciation

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

### Implications

Exports become more expensive

Imports become cheaper

### **Depreciation**

A decrease in the price of currency in terms of another currency due to market forces

#### **Implications**

Exports become cheaper

Imports become more expensive

### **Revaluation**

An administered increase in the exchange rate of a currency in term of another currency under a fixed exchange rate system.

It is administered by the government

### **Devaluation**

An administered reduction in the exchange rate of a currency in term of another currency under a fixed exchange rate system

It is administered by the government.

## **TERMS OF TRADE**

Terms of trade compares a country's export prices with its import prices by means of indexes.

#### **Formula**

$$\frac{\text{Index of export prices}}{\text{Index of import prices}} \times 100$$



## **TYPICAL EXAM QUESTIONS**

**Warm Up questions or Practice Questions (Short Questions)  
MC / Matching / Give ONE word/ Name**

### **MULTIPLE CHOICE**

**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 The systematic record of all the transactions of a country's inhabitants with the rest of the world, is known as the ...

- A. trade balance.
- B. circular flow.
- C. national budget.
- D. balance of payments.

1.1.2 South Africa is currently following a ... exchange rate system.

- A. managed floating
- B. free floating
- C. fixed
- D. pegged

- 1.1.3 A demand for US dollars will occur when ...
- A. placing a deposit with an American bank.
  - B. buying shares in South African firms.
  - C. receiving interest from the World Bank.
  - D. tourists visit South Africa.
- 1.1.4 Deliberate action by the government to lower the value of the currency is known as ...
- A. depreciation
  - B. appreciation
  - C. devaluation
  - D. revaluation
- 1.1.5 The ratio of export prices and import prices is known as the ...
- A. terms of trade
  - B. exchange rate
  - C. balance of trade
  - D. current account
- (5 x 2)

**1.2 Choose a description from COLUMN B that matches the item in COLUMN. Write only the letter (A-E) next to the question number (1.2.1 – 1.2.4) in the ANSWER BOOK.**

Column A	Column B
1.2.1 Terms of trade	A. When debit and credit entries on the BOP are not in balance B. Index of import prices and export prices C. A form of credit which can be used when balance of payments difficulties are experienced D. the price of one national currency in terms of another currency E. Increase of the price of a currency
1.2.2 Special Drawing Rights	
1.2.3 Exchange rate	
1.2.4 Appreciation	
1.2.5 Disequilibria	

(5 x 1) (5)

**1.3 Give the economic term for each of the following descriptions. Write only the term/concept next to the question number.**

- 1.3.1 The worldwide interaction of economies, with trade as a key element
- 1.3.2 An international organisation that lends money to countries with ongoing balance of payment problems
- 1.3.3 An account in the BOP that contains information on investments made by South Africans in other countries
- 1.3.4 The market engaged in buying and selling of foreign currencies
- 1.3.5 An increase in the price of a currency in terms of other currencies through market forces

(5 x 1) (5)



## **SECTION B**

### **2.1 Lower cognitive (Easy questions)**

**(2 marks)**

HINT: When the question requires you to “List” or “Name”, you need not write a sentence. This MUST be done in bullet form.

This type of questions is found on the question paper: 2.1.1; 3.1.1; 4.1.1

- 2.1.1. List TWO demand reasons for international trade. (2)
- 2.1.2 List TWO supply reasons for international trade. (2)
- 2.1.3 Name TWO sub accounts of the balance of payments accounts. (2)
- 2.1.4 List TWO demand reasons for foreign exchange. (2)
- 2.1.5 List TWO supply reasons for foreign exchange. (2)

### **2.2 Middle order (Moderate to difficult questions)**

**(2 marks)**

HINT: This type of question is typical deep-level thinking. You need to answer this question in a sentence that is comprehensive and it should answer the question.

This type of questions is found on the question paper: 2.1.2; 3.1.2; 4.1.2

- 2.2.1 How can the increase in repurchase rate affect the direct investment by domestic businesses in South Africa? (2)
- 2.2.2 How can the appreciation of the rand affect the exports of goods and services? (2)
- 2.2.3 How can the influx of foreign tourists to South African affect the rand? (2)
- 2.2.4 What effect will the depreciation of the Rand have on the demand for foreign goods? (2)
- 2.2.5 Why is gold listed separately in the Balance of Payments? (2)

## **3. PARAGRAPH QUESTIONS**

### **3.1 Middle order (easy to moderate)**

**(8 marks)**

HINT: This type of question is typical deep-level thinking. You need to answer this question in a sentence that is comprehensive and it should respond to the question posed.

This type of questions is found on the question paper: 2.1.2; 3.1.2; 4.1.2

- 3.1.1 Explain *natural resources* and *climate* as reasons for international trade. (8)
- 3.1.2 Compare a *free-floating* exchange rate system with a *managed-floating* exchange rate system. (8)
- 3.1.3 Distinguish between *devaluation* and *appreciation*. (8)
- 3.1.4 Discuss the composition of the current account in the BOP. (8)
- 3.1.5 Briefly discuss the demand reasons for foreign exchange. (8)

### **Paragraph type questions**

#### **3.2 Middle order (difficult)**

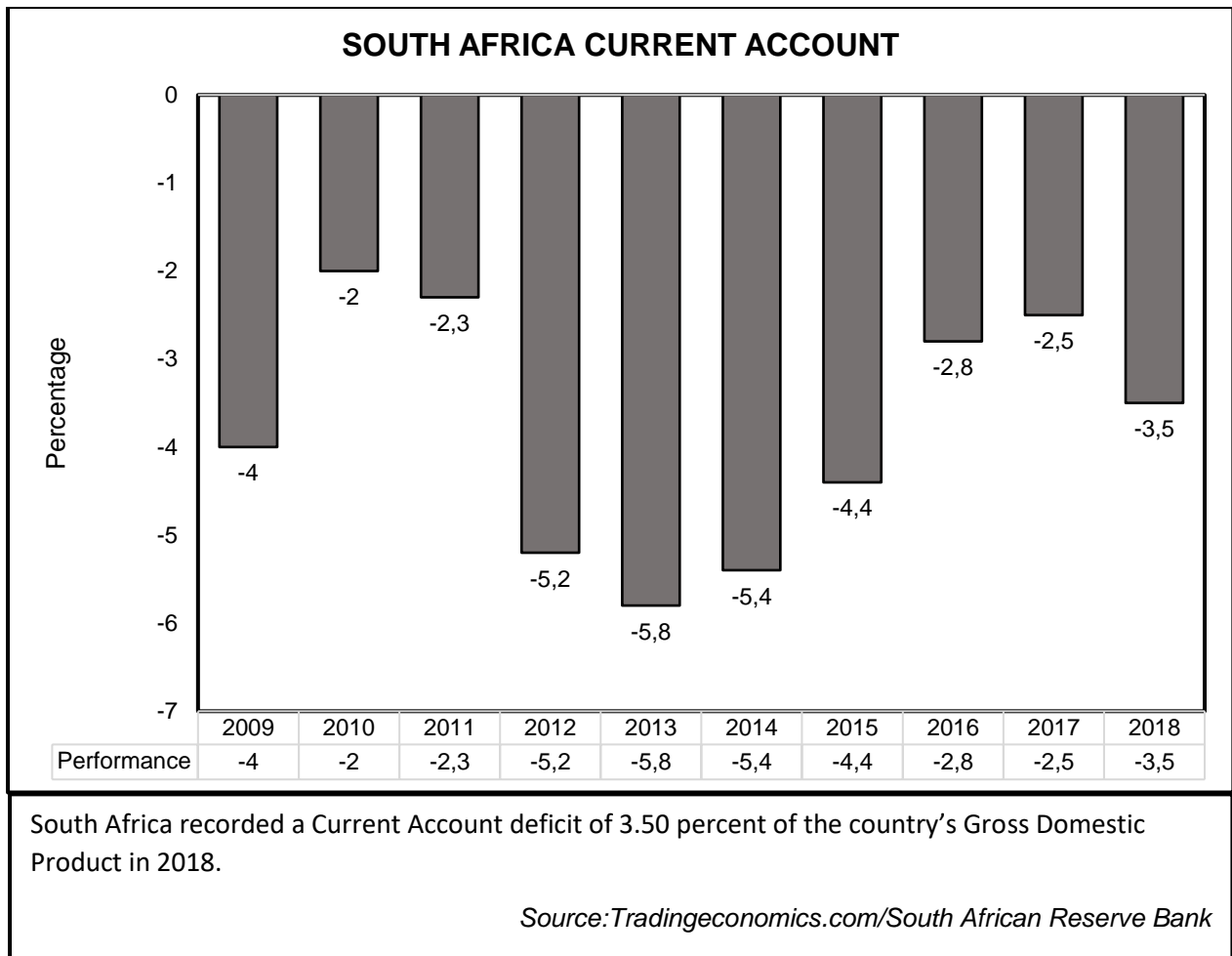
HINT: The answers to these questions are not usually found in textbooks. You must apply your content knowledge to answer them. You need to do some deep-level critical thinking. You need to answer in full sentences.

This type of questions are found on the question paper: 2.5, 3.5 and 4.5

- 3.2.1 Evaluate the effects of a currency depreciation in an economy. (8)  
(EC Prelim 2019)
- 3.2.2 How will an increase in export prices and import prices affect the South African economy? (8)
- 3.2.3 Evaluate the effects of international trade on the South African economy. (8)
- 3.2.4 How will foreign direct investment benefit the South African economy? (8)
- 3.2.5 How can imports be targeted to reduce the deficit on the balance of trade in South Africa? (8)  
(ES March Controlled Test, 2018)

#### **4. DATA RESPONSE QUESTIONS**

- 4.1 Study the graph below and answer the questions that follow. (ES June P1,2019)



- 4.1.1 Identify the year in which the lowest deficit on the current account was recorded. (1)
- 4.1.2 What was the trend of the current account since 2009? (1)
- 4.1.3 Briefly describe the term *current account*. (2)
- 4.1.4 What does a deficit on the current account imply? (2)
- 4.1.5 How does a strong economic expansion impact on the current account? (4)

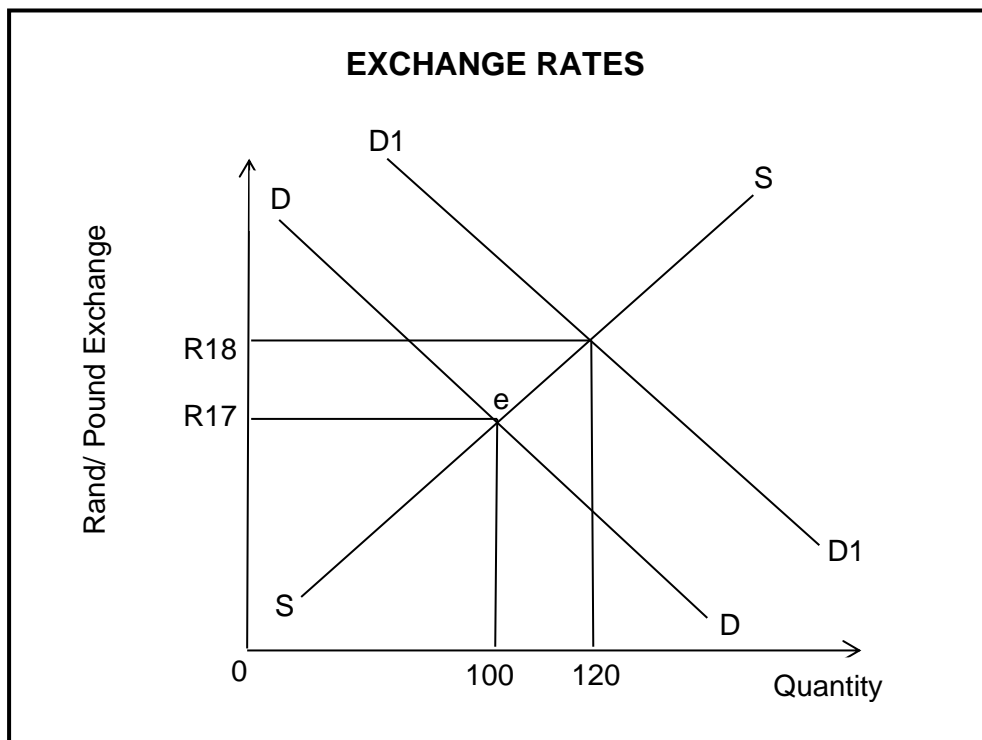
4.2 Study the following information and answer the questions that follow.  
(ES June P1, 2019)

SOUTH AFRICAN TERMS OF TRADE			
Year	Index of import prices	Index of export prices	Terms of trade
2016	149	150	101
2017	140.7	152.2	108
2018	148.7	156.6	A

*[Source: SARB Quarterly Bulletin 2018]*

- 4.2.1 What is the relationship between the index of import prices and the index of export prices? (1)
- 4.2.2 What was the trend on index of export prices between 2016 and 2018? (1)
- 4.2.3 Briefly describe the term *terms of trade*. (2)
- 4.2.4 How does a weak exchange rate impact on the terms of trade? (2)
- 4.2.5 Calculate the terms of trade for 2018. Show all calculations. (4)

4.3 Study the following information and answer the questions that follow.



- 4.3.1 Identify the original equilibrium exchange rate in the above graph? (1)

- 4.3.2 What exchange rate system does South Africa currently use? (1)
- 4.3.3 Briefly describe the term *exchange rate*. (2)
- 4.3.4 What will be the effect of an undervalued rand on the economy? (2)
- 4.3.5 Use the graph to illustrate a depreciation of the Rand against the US dollar. (4)

## PROTECTIONISM AND FREE TRADE

**Protectionism** refers to government policies and regulations (such as restrictive quotas and tariffs on imported goods), which are designed to benefit local producers of goods and services in their competition with imported goods, thus helping them to survive.

**Free trade** occurs where government creates very few barriers to international trade. This allows the free flow of goods and services into the country from any other country that can produce these goods cheaper, better, or in the required volumes.

### 1. A desirable mix

Free trade cannot operate without being controlled. However, there is no watch dog system to control international trade. Problems such as the following arise when there are no control measures:

- Products imported from abroad are inspected, but consumers do not always know if the workers who produced them were paid a reasonable wage and worked in safe conditions.
- The World Trade Organisation (WTO) is the only international organisation that deals with the global rules of trade between nations.
- The WTO aims to ensure that trade flows as smoothly, predictable and freely as possible.

### 2. Export promotion

When government pays incentives to encourage the production of goods that can be exported. Export promotion means that the government actively assists and encourages local firms to sell goods and services in international markets.

#### Reasons:

- Achieve export-led economic growth.
- Enlarge the production capacity of a country.
- Export-markets are much bigger than domestic markets.
- Leads to reduced prices due to large volumes.
- Improving international competitiveness of South African producers.
- Improving performance of manufacturing, service industries.
- Ensuring optimal use of resources.
- Job creation.
- Improves Balance of Payments.

### 3. Import Substitution

When countries introduce policies to locally encourage the production of goods that are usually imported. Import substitution occurs when the government of a country encourages the use of local goods and services rather than imported ones.

**Reasons:**

- Diversification Expansion of manufacturing makes economies less dependent on foreign countries.
- Trade Developing countries rely on their natural resources as a basis for economic growth and development Increase employment opportunities.
- To establish domestic industries.
- To replace imports by encouraging local economic growth.
- Correct BOP problems.
- Create national independence.

**4. South Africa's international trade policies:**

- Southern African Customs Union (SACU)
- South African Development Community (SADC)
- African Union (AU)
- The Common Market for Eastern and Southern Africa
- New Partnership for Africa's development (NEPAD)
- European Union (EU)
- Mercusor
- BRICS



**Warm Up questions or Practice Questions (Short Questions)  
MC / Matching / Give ONE word/ Name**

**TYPICAL EXAM QUESTIONS      MULTIPLE CHOICE**

**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 When there are no restrictions to trade such as taxes on goods or bans on imports, it is called ...

- A. dumping
- B. protectionism
- C. free trade
- D. diversification

1.1.2. Interfacing and interaction of economies, with trade as a key element, is known as ...

- A. free trade.
- B. communication.
- C. industrialisation.
- D. globalisation.

1.1.3 An argument in favour of the protection of local industries is...

- A. unstable wage levels.
- B. economies of scale
- C. the prevention of dumping
- D. fewer job opportunities

1.1.4 An advantage of import substitution is ... in the domestic economy

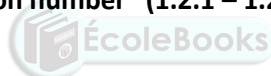
- A. less competition
- B. more diversification
- C. less protection
- D. fewer job opportunities

1.1.5 The use of tariffs by government to discourage imports is known as ...

- A. protectionism.
- B. import substitution.
- C. export promotion.
- D. globalisation.

(5 x 2) (10)

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



Column A	Column B
1.2.1 trade liberalisation	A. A tariff as percentage of the value of imported goods
1.2.2 Specific import duties	B. Calculated as a certain amount per unit, mass or size of a good
1.2.3 Ad valorem	C. A deliberate government policy to protect domestic industries against foreign competition
1.2.4 Excise duties	D. Custom duties and quotas
1.2.5 Import control	E. The removal of trade barriers

(5 x 1) (5)

**1.3 Give the economic term for each of the following descriptions. Write only the term/concept next to the question number.**

1.3.1 A penalty applied by one or more countries on another

1.3.2 A trade policy whereby government uses incentives and subsidies to encourage South African businesses to sell to other countries.

1.3.3 A trade policy whereby the country encourages the local production of goods rather than importing the goods

1.3.4 Withdrawal of capital investment from a company or a country

1.3.5 A tariff imposed as a percentage of the value of goods imported

(5 x 1) (5)

## **SECTION B**

### **2.1 Lower cognitive (Easy questions)**

**(2 marks)**

HINT: When the question requires you to “List” or “Name”, you need not write a sentence. This MUST be done in bullet form.

This type of questions is found on the question paper: 2.1.1; 3.1.1; 4.1.1

- 2.1.1 Name TWO import substitution methods. (2)
- 2.1.2 Name TWO advantages of export promotion. (2)
- 2.1.3 Name TWO disadvantages of import substitution. (2)
- 2.1.4 Name TWO arguments in favour of protectionism (2)
- 2.1.5 Name TWO arguments for free trade. (2)

### **2.2 Middle order (Moderate questions)**

**(2 marks)**

HINT: This type of question is typical deep-level thinking. You need to answer this question in a sentence that is comprehensive and it should respond to the question posed.

This type of questions is found on the question paper: 2.1.2; 3.1.2; 4.1.2



- 2.2.1 Why it is unlikely that a free international trade policy will be successful in South Africa? (2)
- 2.2.2 How are the wages of local workers negatively affected by dumping? (2)
- 2.2.3 What effect will quotas have on imports? (2)
- 2.2.4 How can a country protect itself from dumping? (2)
- 2.2.5 How is *ad valorem* tariff applied? (2)

## **3. PARAGRAPH QUESTIONS**

### **3.1 Middle order (easy to moderate)**

**(8 Marks)**

HINT: When a question requires to “explain”, “discuss”, “differentiate”, etc. You need to answer in full sentences. The answers are found in textbooks.

This type of questions is found on the question paper: 2.4; 3.4 and 4.4

- 3.1.1 Explain *specialisation* and *economies of scale* as arguments in favour of free trade. (8)
- 3.1.2 Explain *tariffs* as a method for import substitution. (8)
- 3.1.3 Briefly discuss the advantages of import substitution. (8)
- 3.1.4 Discuss the different forms of economic integration. (8)



**PARAGRAPH TYPE QUESTIONS**

**3.2 Higher order (moderate to difficult questions)**

**(8 MARKS)**

HINT: The answers to these questions are not usually found in textbooks. You must apply your content knowledge to answer them. You need to do some deep-level critical thinking. You need to answer in full sentences.

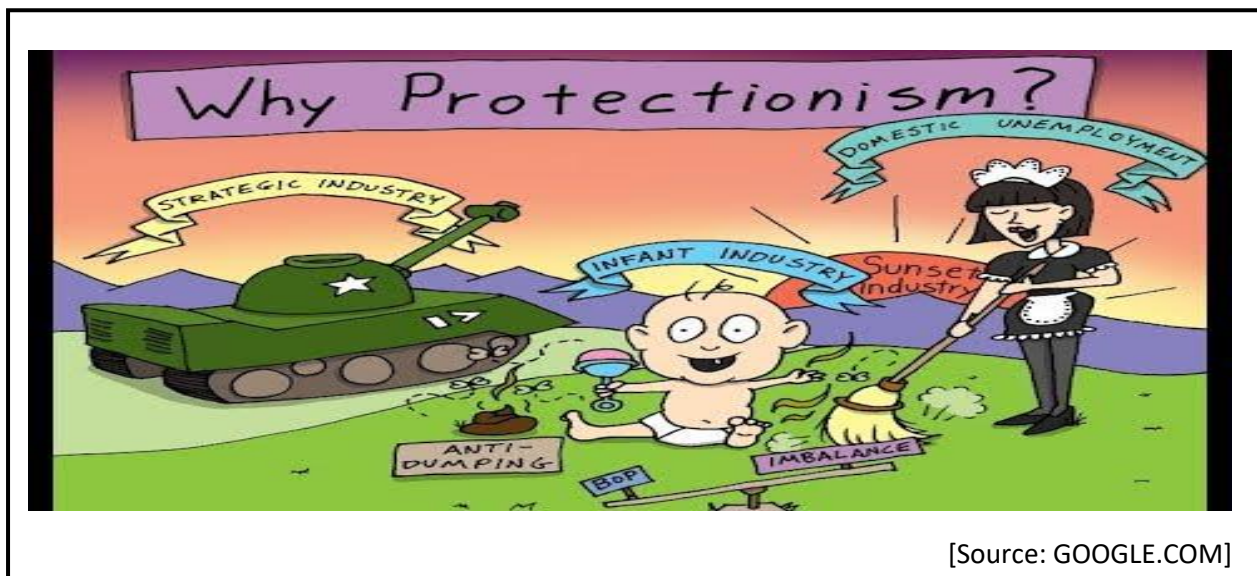
This type of questions is found on the question paper: 2.5; 3.5 and 4.5

- 3.2.1 How is the South African economy influenced by the effects of international trade? (8)
- 3.2.2 Evaluate the effectiveness of export promotion policy in South Africa. (8)
- 3.2.3 How successful are the methods implemented by South Africa to promote exports of goods and services? (LP Prelim, 2019) (8)
- 3.2.4 Why is it important for government to keep on protecting their key strategic industries against industrial take-overs? (LP Prelim, 2019) (8)
- 3.2.5 How has South Africa attempted to encourage the export of its products to foreign markets? eSSIP, Term 1, 2020 (8)



**4. DATA RESPONSE QUESTIONS**

- 4.1 Study the cartoon below and answer the questions that follow: eSSIP, Term 1, 2020



[Source: GOOGLE.COM]

- 4.1.1 List ONE argument in favour of protectionism. (1)
- 4.1.2 What is the name of the international organisation that was created to monitor and liberalise international trade? (1)

- 4.1.3 Briefly describe the term *protectionism*. (2)
- 4.1.4 What is the impact of dumping on the RSA's economy? (2)
- 4.1.5 How successful has protectionism as a trade policy protected industries against foreign competition? (2 x 2) (4)

[10]

4.2 Study the extract below and answer the questions that follow: eSSIP, Term 1, 2020

#### SA, NIGERIA HOLD OFF ON FREE TRADE

The free trade agreement tabled in Kigali remains unsigned by the two continental giants, South Africa and Nigeria. The agreement on the African Continental Free Trade Area (ACFTA) is seen as a new beginning for the continent, that will catapult African countries and companies to higher levels of growth.

The agreement commits countries to remove tariffs on 90% of goods.

[Source: *The New Age Business*, 22 March 2018]

- 4.2.1 Name ONE other trade agreement that South Africa is part of with other African countries (1)
- 4.2.2 Give ONE benefit South Africa would have from trading with Nigeria. (1)
- 4.2.3 Briefly describe the term *free trade area*. (2)
- 4.2.4 What is the impact of free trade on the prices of goods? (2)
- 4.2.5 How would imposing tariffs on imported goods benefit South Africa? (2 x 2) (4)

[10]

### QUESTION 5 -ESSAYS

#### Essay Type Questions

- When answering the main part of an essay, learners should write headings, sub-headings and provide examples for a maximum of 8 marks
- Explanations and discussions should be written in a point/bullet form in full sentences.
- Graphs should have a heading and be labelled and plotted correctly.
- The additional part of an essay should be of a higher cognitive level e.g. how can ..., why does..., evaluate, analyse, how successful is ..., propose or suggest ... etc.
- Learners should indicate the following when responding to an essay: introduction, main part, additional part and the conclusion.
- Essay-type questions should be **TWO-FOLDED** with the main part (26 marks) and the additional part (10 marks) as outlined in the table below:

STRUCTURE OF ESSAY	MARK ALLOCATION
<b>Introduction</b> <ul style="list-style-type: none"> <li>• A good starting point would be to define a concept or key word that appears in the question.</li> <li>• Include other sentences to support the topic.</li> <li>• Do not include in your introduction any part of the question.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max.2
<b>Body:</b>  <b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate  <b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/ Calculate/Deduce/Compare/Analyse/Distinguish/Interpret/Briefly debate/How/ Suggest	Max.26           Max.10
<b>Conclusion</b> <b>Any higher Order conclusion should include:</b> <ul style="list-style-type: none"> <li>• A brief summary of what was discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts already discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max.2
<b>TOTAL</b>	<b>40</b>

**QUESTION 5.1** (NSC, Nov, 2017)

- Discuss import substitution as part of South Africa's international trade policy. (26 marks)
- Advise the Minister of Trade, Industry and Competition on whether the South African government should adopt a policy of free trade. (10 marks)

**QUESTION 5.2** (NW Prelim, 2019)

- Discuss export promotion in detail.
  - Reasons (4)
  - Methods (6)
  - Advantages (8)
  - Disadvantages (8) (26 marks)
- Evaluate the success of South African trade policy in protecting the local textile industry against foreign competition. (10 marks)

## ECONOMICS GROWTH AND DEVELOPMENT

WORD	MEANING
Economic growth	Increase in the <b>CAPACITY</b> of the <b>ECONOMY</b> to produce more goods and services. It is measured by <b>real GDP</b> .
Economics development	Increase in the <b>standard of living</b> (welfare) of the population in a country. It is measured by the increase in <b>real GDP per capita</b> .
demand-side approach	The focus is on attempts to increase aggregate demand in an economy. Fiscal and monetary policy can be used Demand side economics is all about increasing demand in the consumer. T
Supply-side approach	Supply-side theory is an economic theory built on the concept that increasing the supply of goods leads to <a href="#">economic growth</a> .
Broad Based Black Economic Empowerment (BBBEE)	the goal of broad-based empowerment is to distribute wealth across as broad a spectrum of previously disadvantaged South African society as possible; broad-based empowerment measures equity ownership and management representation against apartheid entrenched status quo prohibiting non-whites from fair economic participation.
Growth, employment and redistribution (Gear)	A strategy to promote economic growth, increase employment and redistribute income
Globalisation	The worldwide interaction of economies with trade as an important element
Integrated Manufacturing Strategy (IMS)	A strategy to strengthen institutional capacity to deliver services that will facilitate development
Joint initiative on Priority Skills acquisition (JIPSA)	An initiative to aid the development of urgently needed skills to facilitate job creation
National Growth Path (NGP)	Initiatives to stimulate economic growth
Reconstruction and Development Programme (RDP)	A development policy to improve service delivery to the poor and create an environment for human development
Small, Medium and Micro Enterprises (SMMEs)	A small business that has a small share of the market place; operates independent of larger enterprises; employs few people; and is managed directly by owners

### **ECONOMIC GROWTH**

Consists of growth in the **REAL GDP** and implies an increase in the **CAPACITY** of the **ECONOMY** to produce more goods and services. It requires policies that **EMPOWER THE ECONOMY**.

### **ECONOMIC DEVELOPMENT**

Consists of growth of **PER CAPITA REAL GDP** and implies an increase in the **CAPACITY** of the **POPULATION** to **PRODUCE** more goods and services. It requires policies that **EMPOWER PEOPLE**.

### **The demand-side approach**

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

$$C + I + G + X - M$$

### Consumption spending by households (C)

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

### Investment spending by firms (I)

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

### Government spending (G)

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

### Imports and exports

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

Exports on the other hand leads to job creation and increase in production

### Monetary policies

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

### FISCAL POLICY

- A fiscal policy that reduces taxes and keeps them at low levels will stimulate demand.
- Cuts in personal income tax will increase disposable income by the same amount.
- Fiscal policy focuses on budget deficit and surpluses to either raise or reduce aggregate demand.

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

#### Trade policies

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

#### SUPPLY-SIDE APPROACH

The supply-side economists put emphasis on the factors that affected the production capacity of the economy:

##### Efficiency and effectiveness of markets

- **Reducing unnecessary regulations:** Unnecessary regulations hamper the operation of markets example some labour laws reduce employment
- **Increasing competition:** The Competition Act to reduce anti-competitive behaviour by companies
- **Privatisation:** State-owned companies have been sold to private shareholders such as Telkom, this is to reduce state intervention in the economy and to increase the efficiency in the companies.

##### Business efficiency

- Rigid labour laws and regulations applying to businesses should be relaxed so that more people can be employed and entrepreneurs will be encouraged to start businesses.
- **Taxes:** Both corporate and personal income taxes have been reduced over the past years. The effect of bracket creeping on personal income tax has been attended to.
- **Capital:** depreciation of capital goods used by the business has been revised to encourage investment, also start-up capital and loans to SMMEs

- **Human resources:** SETAs were established to facilitate post-school, world-related training
- **Free advisory services:** in connection with the development of export markets, managing and running SMMEs, agricultural production, etc.

**The cost of doing business-** This applies mainly to the infrastructure

- Reliable and plentiful supply of water and electricity at low cost.
- Efficient and low-cost transport system to allow movement of raw materials from the producing areas to the industrial centres, and final goods to the consumers and the ports.

## **THE FACTORS OF PRODUCTION**

**Natural resources** - South Africa has a competitive advantage in respect to following:

- **Mineral resources:** Gold and platinum base metals and coal. These raw materials can easily be exploited and exported.
- **Vegetation and wildlife:** There is great diversity of wildlife and vegetation.
- **Coast line:** Beautiful scenic coastline which is ideal for tourism.
- **Location:** Its geographical location makes it closer to European markets than its competitors such as Australia.

**Human resources** - Economic growth depends upon the quality and size of the labour force so that labour may be productive in producing goods and services. The following can be done to improve the quality of labour.

- Improving education and training so that labour can be more productive.
- Improving the quality of health services.
- Limiting the power and influence of trade unions.

In South Africa the quality of public education and health services is poor. Trade unions often during strike season disrupt production through strikes and labour unrest often occurs.

**Entrepreneurship** - When an entrepreneur starts a new business, he contributes to the economic development of the local community. Economic growth occurs, incomes increase, living standards improve, investment opportunities arise, the tax base is enlarged by a greater number of new enterprises, technological developments occur and job opportunities arise.

**Capital formation** - Capital formation is essential so that a country can grow and develop. Capital can be increased in a number of different ways.

- Increased savings by consumers which are then invested. The problem is that the rate of savings among South African consumers is low and many are in debt.
- Increased taxes by government which can be spent on capital investment. The problem in South is less than 20% of the country's budget is spent on improving and retaining existing infrastructure. Biggest part of budget go to salaries.
- Increased overseas investment – labour unrest and threats of nationalisation deter foreign investment.
- Encouraging small and medium business enterprises.

## **APPROACHES OF GROWTH AND DEVELOPMENT POLICIES IN SOUTH AFRICA**

### **The new Growth path (NGP)**

This policy was announced in October 2010. The aim is to enhance growth, create employment and create greater equity.

The key areas where jobs can be created are:

- Infrastructure expansion



- Agricultural value chain
- Mining value chain
- Green economy
- Manufacturing sector
- Tourism

### **Reconstruction and Development Programme (RDP)**

The RDP was implemented in 1994 and was aimed at improving living standards among South Africans.

#### **Providing the following needs**

Jobs, Land, Housing, Water, Telephones, Transport, Food, Health care, Environment, Social security and welfare

### **DEVELOPING OUR HUMAN RESOURCES**

Aims to develop a culture of teaching and learning. All have equal access to education. Important areas to be developed include:

- Education and training
- Literacy
- Arts and culture
- Sport and recreation
- Youth development

### **BUILDING THE ECONOMY**

RDP's goals for the economy

- End poverty
- Create jobs
- Build the SA economy and integrate it into the world economy
- End discrimination



### **Growth, Employment and Redistribution Programme (GEAR)**

GEAR is a macroeconomic strategy adopted by the Department of Finance in June 1996 as a five-year plan.

#### **Aims:**

- Strengthening economic development
- Broadening of employment
- Redistribution of income and socioeconomic opportunities in favour of the poor
- GEAR remains government macroeconomic policy

### **Accelerated and Shared Growth Initiative for South Africa (AsgiSA)**

This plan consists of the following components:

- **The challenge (aim):** To halve poverty and unemployment by 2014. Aim seen as feasible if economic growth rate is maintained.
- **Consultation:** Local governments and provincial governments consulted.
- **Targets of accelerated and shared growth:** Between 5 and 6% growth rate and achievement of a more balanced and sustainable growth.
- **Binding constraints:** Include currency volatility (rand exchange rate varies considerably), backlogs in infrastructure and investment, shortage of suitably skilled labour, barriers to entry, limits to competition and limited new investment opportunities, many state



regulations on small businesses and deficiencies in state organisation, capacity and leadership.

The programme plans to achieve these objectives by concentrating its efforts on the following six areas:

1. Infrastructure investment
2. Sector investment strategies
3. Education and skills development
4. Eliminating the Second economy
5. Macroeconomic issues
6. Governance and institutional interventions

#### **Joint Initiative on Priority Skills Acquisitions (JIPSA)**

- It is the skills development arm of ASGISA. Focus is on skills development, especially through the SETAS

#### **Expanded Public Works Programme (EPWP)**

- It is a nationwide government intervention to create employment using labour-intensive methods, and to give people skills they can use to find jobs when their work in the EPWP is done.

#### **National Development Plan (NDP)**

- It sets out to expand economic opportunities through investment in infrastructure, more innovation, private investment and entrepreneurship.

#### **Small Business Development Promotion Programme (SBDPP)**

- It was designed to deliver support and services to small, medium and micro enterprises.
- Department of Trade and Industry (DTI), Industrial Development Corporation (IDC) and the National Small Business Act offer these services.
- Laws are revised to help change power imbalances.

#### **Black Economic Empowerment Programmes (BEE)**

- The Black Empowerment Act and Employment Equity Act were designed to assist in the transformation and redress of previously disadvantaged groups. Measures are implemented to ensure redress and affirmative action in the workplace and business environment.

#### **National Skills Development Strategy**

NSDS provides a framework for skills development in the workplace and was implemented in phases

NSDS 1 – focus on productive citizenship

NSDS 2 – focus on equity, quality training and skills development in the workplace

NSDS 3 – focus on institutional learning

#### **Characteristics of developed countries:**

- Well-developed infrastructure
- Relatively high standard of living
- High productivity
- Low population growth
- Rapid capital development
- Normal distribution of income
- Diversified economic structure

**Characteristics of developing countries:**

- Low standard of living
- Low productivity
- High population growth
- Unemployment
- Defective economic structure
- Weaker position in international relations
- Climate, soil and terrain restrictions

**Warm Up questions or Practice Questions (Short Questions)  
MC / Matching / Give ONE word/ Name**

**MULTIPLE CHOICE**

**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 Economic development ...

- A leads to an increase in poverty
- B is the same as economic growth
- C is an increase in the level of economic welfare
- D is an increase in unemployment

1.1.2 Aggregate supply can be stimulated through a government policy of ...

- A lowering the production capacity of the factors of production.
- B limiting the efficiency of inputs.
- C limiting the efficiency of markets.
- D reducing production cost.

1.1.3 Demand side policy may be implemented through ... to improve the economic growth.

- A human resource
- B capital formation
- C increasing exports
- D entrepreneurship

1.1.4 Lowering the repo rate can be seen as a ... approach to economic growth.

- A fiscal
- B demand-side
- C banking
- D value-added

1.1.5 A development policy which works with Sectoral Education Training Authorities is ...

- A Joint Initiative on Priority Skills Acquisition.
- B Export Processing Zones.
- C Reconstruction and Development Programme.
- D Expanded Public Works Programme. (5 x 2) (10)

**1.2 Choose a description from COLUMN B that matches the item in COLUMN. Write only the letter (A-E) next to the question number (1.2.1 – 1.2.4) in the ANSWER BOOK. (eSSIP Term 3, 2020)**

Column A	Column B
1.2.1 Fiscal policy measure	A Production factors
1.2.2 Monetary measure	B Import substitution
1.2.3 Demand factors	C Increased or decreased interest rates
1.2.4 Supply factors	D Household income, consumer confidence, availability of credit
1.2.5 Trade policy measure	E cutting personal taxation

(5 x 1) (5)

**1.3 Provide the economic term/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 The increases in peoples' standard of living
- 1.3.2 The return of land to those that have lost it due to discriminatory laws in the past
- 1.3.3 Tax levied on gains earned on the sale of capital goods, such as properties and shares
- 1.3.4 Grants like old age pension, child support grants to provide for the poor
- 1.3.5 Increase in capacity of a country to produce goods and services

(5 x 1)

## **SECTION B**

### **2.1 Lower cognitive (Easy questions)**

**(2 marks)**

HINT: When the question requires you to "List" or "Name", you need not write a sentence. This MUST be done in bullet form.

This type of questions is found on the question paper: 2.1.1; 3.1.1; 4.1.1

- 2.1.1 Name TWO growth policies in South Africa. (2 x 1) (2)
- 2.1.2 Name any TWO characteristics of countries of the South. (2 x 1) (2)
- 2.1.3 Name TWO fiscal measures to stimulate the economy. (2 x 1) (2)
- 2.1.4 Name TWO current redress measures in South Africa. (2 x 1) (2)
- 2.1.5 Name TWO monetary policy instruments. (2 x 1) (2)

## 2.2. Middle order (Moderate questions)

(2 marks)

HINT: This type of question is typical deep-level thinking. You need to answer this question in a sentence that is comprehensive and it should answer the question.

This type of questions is found on the question paper: 2.1.2; 3.1.2; 4.1.2

- 2.2.1 What is the effect of affirmative action on the Black labour force in South Africa?
- 2.2.2 How does an increase in household income affect economic growth?
- 2.2.3 How can SMMEs contribute to economic growth in South Africa?
- 2.2.4 What effect will a huge increase in electricity costs have on small businesses in South Africa?
- 2.2.5 How can the cost of doing business influence the supply of goods and services?

## 3. PARAGRAPH QUESTIONS

### 3.1 Middle order (easy to moderate)

(8 marks)

HINT: When a question requires to “explain”, “discuss”, “differentiate”, etc.

You need to answer in full sentences. The answers are found in textbooks.

This type of questions is found on the question paper: 2.4; 3.4 and 4.4



- 3.1.1 Explain progressive *personal income taxes* and *wealth taxes* as instruments to reduce income inequality.
- 3.1.2 Differentiate between *economic growth* and *economic development*. (8)
- 3.1.3 Briefly discuss the demand-side policy used in promoting growth and development (SSIP 2018)
- 3.1.4 Explain Black Economic Empowerment (BEE) as a development initiative. (SSIP 2018)
- 3.1.5 Briefly discuss cost of doing business to achieve economic development in South Africa. (ES June 2018)

### 3.2 Higher order (Moderate to difficult)

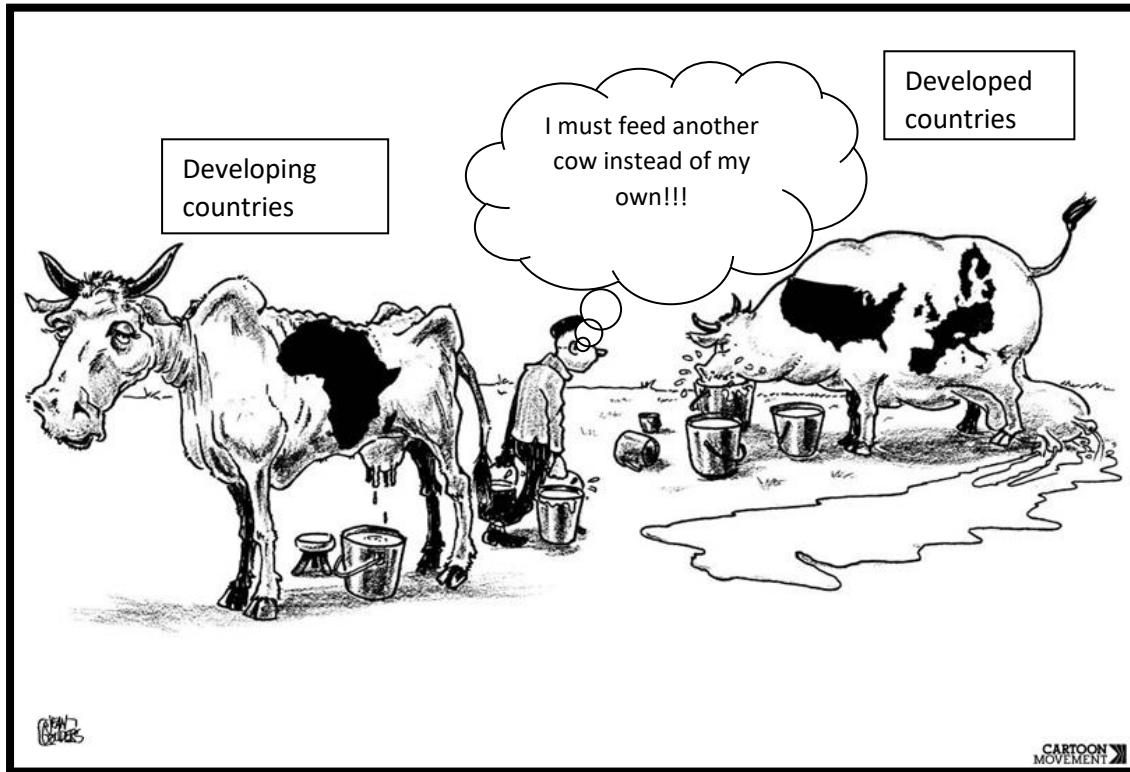
(8 marks)

HINT: The answers to these questions are not usually found in textbooks. You must apply your content knowledge to answer them. You need to do some deep-level critical thinking. You need to answer in full sentences. This type of questions is found on the question paper: 2.5; 3.5 and 4.5

- 4.2.1 Evaluate Growth, Employment and Redistribution (GEAR) approach as a development policy in South Africa. (GP Prelim 2018) (8)
- 4.2.2 How does corruption influence good governance in South Africa? (GP Prelim 2018) (8)
- 4.2.3 Evaluate BBBEE as a measure to redress inequalities in South Africa. (ES June 2019) (8)
- 4.2.4 Evaluate the use of demand-side measures in promoting economic growth and development in SA. (SSIP 2018) (8)
- 4.2.5 How can taxation be used to stimulate employment in South Africa. (ES June 2019) (8)

4. DATA RESPONSE QUESTIONS

4.1 Study the cartoon below and answer the questions that follow. ES June 2019



Source: Adapted internet images

- 4.1.1 Give ONE example of a country in the North. (1)
- 4.1.2 Give ONE characteristic of a country in the North (1)
- 4.1.3 Briefly describe the term *globalisation*. (2)
- 4.1.4 Why are countries of the South considered as developing countries? (2)
- 4.1.5 How does globalization affect developing countries? (4)

4.2 Read the information below and answer the questions that follow. eSSIP, Term 3, 2020

	<p>The NDP has progressed despite a critique report stating that South Africa has the most challenges of unequal society and being trapped in poverty in the world. Many people were still experiencing low <b>economic development</b>.</p>
--	--

Source: fin24 14 April 2018

- 4.2.1 In which year is the NDP aiming to eliminate poverty? (1)
- 4.2.2 Name ONE way how the government can reduce poverty of the vulnerable groups in South Africa. (1)
- 4.2.3 Briefly describe the term *economic development*. (2)
- 4.2.4 What negative effect can the NDP have on taxpayers? (2)
- 4.2.5 How will the South African economy benefit by the implementation of the NDP? (4)

**4.3 Study the extract below and answer the questions that follow. NW 2=Preliim 2019**

**THE SUPPLY-SIDE APPROACH TO SOUTH AFRICA'S GROWTH AND DEVELOPMENT**

Supply side policy includes any policy that improves economy's productive potential and its ability to produce. Government actions include improving the factors of production and the performance of firms. It deals with the country's capacity to produce goods and services.

[Adapted from: *Economics Online*]

- 4.3.1 Give any factor that can improve the production capacity of a firm. (1)
- 4.3.2 Why should a country produce more goods and services? (1)
- 4.3.3 Describe the term *capital deepening*. (2)
- 4.3.4 What positive role can the government play in improving the quality of natural resources? (2)
- 4.3.5 How successful has the South African government been in improving the quality of labour? (2 x 2) (4)



**4.4 Study the information below and answer the questions that follow**

**WORLD BANK WARNS LOW GROWTH INHIBITS NATIONAL DEVELOPMENT PLAN**

According to an article of the World Bank, the National Development Plan (NDP) may be a dream deferred without structural growth in the economy.

The NDP is a detailed blueprint of SA's plans to eliminate poverty and reduce inequality by 2030, but it has been gathering dust since 2012. It envisages for 5.4% growth and a 6% decrease in unemployment by 2030.

The World Bank expects SA's growth to accelerate to 1.4% in 2018 from a previous estimate of 1.1%, but it does not expect economic growth to rise beyond 2% in the medium term. To achieve the goals set out in the NDP; SA would need 8% growth.

The World Bank furthermore suggested that SA's hopes of fulfilling any of the NDP goals, particularly reducing poverty, hinged on greater access to higher education. Other contributing factors would be higher investment, higher innovation and broader participation.

*Adapted source. <https://www.businesslive.co.za/bd/economy/2018-04-16-world-bank-warns-low-growth-inhibits-national-development-plan/>*

- 4.4.1 Identify ONE goal of the NDP per the article. (1)
- 4.4.2 What was the expected growth according to the World Bank for 2018? (1)
- 4.4.3 Briefly explain the phrase “structural growth” in the economy. (2)
- 4.4.4 How can South Africa attract higher investments? (2)
- 4.4.5 Why does the World Bank base any successes of the NDP on greater access to higher education? (4)
- [10]

**QUESTION 5 -ESSAY TYPE QUESTIONS**

- When answering the main part of an essay, learners should write headings, sub-headings and provide examples for a maximum of 8 marks
- Explanations and discussions should be written in a point/bullet form in full sentences.
- Graphs should have a heading and be labelled and plotted correctly.
- The additional part of an essay should be of a higher cognitive level e.g. how can ..., why does..., evaluate, analyse, how successful is ..., propose or suggest ... etc.
- Learners should indicate the following when responding to an essay: introduction, main part, additional part and the conclusion.
- Essay-type questions should be **TWO-FOLDED** with the main part (26 marks) and the additional part (10 marks) as outlined in the table below:

STRUCTURE OF ESSAY	MARK ALLOCATION
<p><b>Introduction</b></p> <ul style="list-style-type: none"> <li>• A good starting point would be to define a concept or key word that appears in the question.</li> <li>• Include other sentences to support the topic.</li> <li>• Do not include in your introduction any part of the question.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max.2
<p><b>Body:</b></p> <p><b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate</p> <p><b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/ Calculate/Deduce/Compare/Analyse/Distinguish/Interpret/Briefly debate/How/ Suggest</p>	<p>Max.26</p> <p>Max.10</p>
<p><b>Conclusion</b></p> <p><b>Any higher Order conclusion should include:</b></p> <ul style="list-style-type: none"> <li>• A brief summary of what was discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts already discussed</li> </ul>	Max.2

<ul style="list-style-type: none"> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	
<b>TOTAL</b>	<b>40</b>

**QUESTION 5.1 ES June 2019**

Discuss supply-side approach as a mechanism to stimulate economic growth and development.  
(26 Marks)

Evaluate the success of the New Growth Path since its inception in South Africa.  
(10 marks)

**QUESTION 5.2 GP Prelim 2018**

Discuss in detail how monetary and fiscal policies are used in the demand-side approach to enhance economic growth and development in South Africa. (26 marks)

Evaluate the effect of globalisation on South Africa’s development.  
(10 marks)

**INDUSTRIAL AND REGIONAL DEVELOPMENT POLICIES**

**INDUSTRIAL DEVELOPMENT POLICIES OF SOUTH AFRICA**

**Industrial development**

Planning for and building new industries in certain areas as well as expanding existing industries in certain areas.

**Reasons for industrial development**

- Exploit the world economy to trade and acquire knowledge.
- Maintain macroeconomic stability.
- Achieve high rates of savings and investment.
- Establish large scale manufacturing, agricultural, mining and services production.
- Diversification of the economy.
- Develop domestic manufacturing capacity to increase exports.
- Create jobs.
- Develop and maintain appropriate incentives to attract investors.
- Contribute to the industrial development of the African continent.

**National Industrial Policy Framework (NIPF)**

**Aims**

1. To make the economy more diverse so that exports can increase.
2. To make industrialisation more intensive in the long run.
3. To promote the development of labour-intensive industries.



4. Greater participation by disadvantaged groups and development of marginalised areas.
5. Increase potential for large scale production.

### ***The industrial Policy Action Plan 2 (IPAP 2)***

- Purpose is to expand production in value-added sectors, with high employment and growth potential.
- Industries included:
  - Metals fabrication, capital and transport equipment, green and energy-saving industries and agro-processing
  - Interventions in sectors identified in the first Industrial Policy Action Plan like: automotive and components, medium and heavy vehicles, plastics, etc.
  - Focus on sectors in which South Africa has the potential to develop long-term advanced capabilities like nuclear, advanced materials and aerospace sectors.

## **REGIONAL DEVELOPMENT**

These policies are aimed at providing and encouraging aid and other assistance to regions that are less economically developed.

### **Aims**

- Reduce unequal development of economic activities within the country
- To stimulate development in poorer areas
- To implement and coordinate the implementation of national and regional industrial policies
- To prevent new imbalances from emerging

The following guidelines are the best practice to improve the development of a region:

**(i) Development is a multi-dimensional process** - The development of a region is not determined only by economic factors. Non-economic factors such as social infrastructure must also be considered. Education, health and balanced eating habits are important for productivity.

**(ii) Development from the inside** - Development from the inside means that each region will be responsible for its own development. As far as possible, local physical and human resources should be used.

**(iii) Development of people for people by people** - The ultimate aim of regional development is increasing people's standard of living. No development can happen without people. Aspects such as training and health are very important.

**(iv) Development from below** - Development should concentrate on the lowest level (lower class or working class) of society which tends to show the most need. Small-scale labour-intensive production methods are for example more appropriate than highly sophisticated capital-intensive methods.

## **Regional development policy**

### **Corridors in South Africa**

Spatial area that offer particular advantage to mining, manufacturing tourism and other businesses / a gateway that links two areas.

### **Spatial Development Initiatives (SDIs)**

Spatial development initiatives (SDI) endeavour to attract infrastructure and investments to underdeveloped areas. Creating employment is its primary aim. This programme makes provision for private-public partnerships (PPPs) to take advantage of the economic potential of underdeveloped areas.

### **The SDI programme consists of 9 local SDIs**

- KwaZulu-Natal SDI
- Wild Coast SDI - The Wild Coast SDI stretches along the Eastern Cape coast between East London and the KwaZulu-Natal border. More than 30 commercial projects in tourism, forestry and agriculture. These projects could bring more than R500-million worth of new investment into the Wild Coast and create more than 20 000 new jobs. A special effort will be made to direct tourists to projects owned by residents of the Wild Coast, especially craft manufacturers and families who have turned their homesteads into traditional guest houses. These measures will help to deal with the criticism that SDIs only offer major investment opportunities to established companies and multinationals.
- The SDI has set-up training programmes for communities with an interest in the projects. Eighteen tourism and leisure companies have qualified to bid for the SDI's projects. The first tenders should be awarded by the end of the year.
- Fish River SDI - consists of a series of development zones between East London and Port Elizabeth.  
Nine projects, 1 325 jobs will have been created in the automotive, clothing and textiles, transport and tourism industries. Three tourism projects to be set up in partnership with local communities. They are the development of the Great Fish River Nature Reserve, a fly-fishing venture near King William's Town and the setting up of a nature reserve near Bathurst. Other key Fish River projects are a R1,3- billion programme by international automakers Delta, Volkswagen and Mercedes Benz to increase their production for the local and export markets.
- West Coast Investment initiative - centred on the region around Saldanha on the Cape West Coast.  
Projects in mining and mineral beneficiation, fishing, agriculture, tourism and infrastructure - valued at around R20-billion. The 120 projects that are ready for investment are expected to create some 20 000 jobs. The Anglo-American Corporation announced it would take up one of the initiative's biggest projects and build a R1,6-billion zinc smelter at Saldanha.
- Coast-to-Coast Corridor
- Platinum SDI
- Phalaborwa SDI
- Gauteng Special Economic Zone
- Maputo Development Corridor - The first SDI to be established, it has succeeded in delivering investment and jobs along a corridor stretching from Gauteng to the Port of Maputo in Mozambique. It has attracted \$2,3-billion worth of investment and created around 20 000 jobs in industrial projects, tourism and small businesses.
- Lubombo SDI - covers northern KwaZulu-Natal, southern Mozambique and eastern Swaziland and comprises mainly agricultural and tourism investment projects. Projects valued at around R1,2- billion that should create up to 4 000 jobs in the tourism and agricultural sectors. A transnational SDI, Lubombo includes projects in Swaziland and Mozambique. One of its key infrastructure projects is the upgrading of the road between Richard's Bay and Maputo, and a link to Swaziland. A joint anti-malaria campaign between the three countries, to improve the health of local communities and help open the area to tourists, is also being run.

- Richards Bay Initiative - Where: The SDI stretches between Richard's Bay and Empangeni in northern KwaZulu- Natal. Twenty-five industrial projects worth more than R16-billion and five new tourism developments. The SDI will facilitate an upgrade of transport and municipal infrastructures, including the John Ross Highway that links Durban and Richard's Bay and the development of a container terminal at the harbour.

### **Industrial Development Zones (IDZs)**

IDZs are located near major transport nodes such as ports and airports they are enclosed areas. The benefits of IDZs are supporting investing companies, especially for greenfield development projects, access to transport for export purposes; waiver of import duties for products that are produced for export; and subsidies in the provision of skills training for employees.

- Coega - The Coega IDZ is the largest IDZ in Southern Africa. It was designated in 2001 and became South Africa's first Industrial Development Zone. It is located in the Nelson Mandela Bay Metropolitan Municipality in the Eastern Cape Province and it is strategically located on the east-west trade route to service both world and African markets. The Coega IDZ leverages public sector investment to attract foreign and domestic direct investment in the manufacturing sector with an export orientation. The IDZ has attracted investment in the agro-processing, automotive, aquaculture, energy, metals logistics and business process services sectors. This has advanced socio-economic development in the Eastern Cape region through skills development, technology transfer and job creation
- East London - Innovation, Efficiency, Growth and Sustainability are key to the East London Industrial Development Zone's (ELIDZ's) reason for existence. Established in 2003, as part of the South African government initiative to improve industrial competitiveness and economic growth in the country, the zone has become a prime industrial park in South Africa, renowned for its customised solutions for various industries including automotive, agro-processing and aqua-culture. The ELIDZ offers growth oriented companies a specialised manufacturing platform, innovative industrial and business solutions access to new markets and strategic industry networks.
- Richards Bay - The Richards Bay Industrial Development Zone (RBIDZ) is a purpose built and secure industrial estate on the North-Eastern South African coast. The N2 business corridor links the Province's two major ports, Durban and Richards Bay, and connects with Maputo in Mozambique and, ultimately, areas of East Africa. It is linked to an international sea port of Richards Bay, tailored for manufacturing and storage of minerals and products to boost beneficiation, investment, economic growth and, most importantly, the development of skills and employment. First-world infrastructure allows for the full exploitation of the areas' natural and strategic advantages. Through the superb industrial infrastructure, well-established network of shipments, tax and duty-free incentives, the IDZ aims to encourage international competitiveness and the attraction of export-orientated manufacturing investment.
- OR Tambo International Airport - The OR Tambo IDZ aims to develop land around OR Tambo International Airport to stimulate economic development through the use of the IDZ mechanism. The OR Tambo IDZ supports the growth of the beneficiation of precious metals and minerals sector, with a focus on light, high-margin, export-oriented manufacturing of South African precious and semi-precious metals. The multi-site development at OR Tambo IDZ consists of several industry-specific precincts and will be developed in phases over a 10- to 15-year period.
- Saldanha Bay - President Jacob Zuma launched the Saldanha Bay Industrial Development Zone (IDZ) and handed over the operator permit on 31 October 2013 at Saldanha Bay in the

Western Cape Province. It is envisioned that this newly established IDZ will serve as the primary oil, gas and Marine Repair engineering and logistics services complex in Africa, servicing the needs of the upstream Oil Exploration Industry and Production service companies operating in the oil and gas fields off Sub-Saharan Africa. Situated approximately two hours north of Cape Town. The SBIDZ will include logistics, repairs and maintenance, and fabrication activities.

- Dube Trade Port - Dube Trade Port is a catalyst for global trade and a portal between KwaZulu-Natal and the world. It is the only facility in Africa that brings together an international airport, a cargo terminal, warehousing, offices, a retail sector, hotels, and an agricultural area. Located 30km north of Durban, Dube Trade Port is positioned between the two biggest sea ports in Southern Africa and linked to the rest of Africa by road and rail. Areas that have been designated as the Industrial Development Zone are the *Dube Trade Zone* and the *Dube Agri Zone*.

**Dube Trade Zone** - aims to focus on manufacturing and value-addition primarily for automotive, electronics and fashion garments. The facility involves warehousing, manufacturing, assembling real estate resource, complete with a single facility in which all freight forwarders and shippers are located (Dube Trade House), which enjoys a direct link to the adjacent Dube Cargo Terminal via an elevated cargo conveyor system.

**Dube Agri Zone** - A high-tech, future farming facility and host to the continent's largest climate-controlled growing area under glass will focus on high-value, niche agricultural and horticultural products. The Agri Lab will look into specialised tissue culture, greenhouses, flowers and plants, all of which require swift air transportation.

### Special Economic Zones (SEZ)

- Geographically demarcated area where specific economic activities have been identified to be developed.
- These areas may enjoy incentives such as tax relief and support systems to promote industrial development.
- It creates a basis for a broader range of industrial parks.
- It also provides economic infrastructure to enable the effective clustering of value-adding and employment-enhancing manufacturers.

#### The aims of SEZ's

- Promote rapid development by acting as a magnet for investment in key growth areas.
- Enable the development of new industrial regions through the establishment of new industrial hubs in under-developed regions and the strengthening of existing one.
- SEZ's are used for the purposes such as export promotion, enterprise development, urban renewal, rural development and domestic or regional production.

#### SEZ's can benefit the economy by:

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

### DIFFERENCES BETWEEN IDZ AND SEZ

## Industrial Development Zones

- This is a purpose built industrial estate, physically enclosed and linked to an international port or airport with duty free incentives.
- It was designed to encourage international competitiveness in SA's manufacturing sector.
- IDZ's fall outside domestic customs zones and therefore able to import items free of customs and trade restrictions, add value, and then exports their goods.
- They are designed to attract new investment in export-driven industries. Thus, encouraging exports, economic growth and employment.
- IDZs are the responsibility of provincial and local government.
- Businesses develop around the IDZs (banking, personnel, insurance, auditing, IT, communication, accommodation, catering, shopping, transport).
- IDZs strengthen and stimulate economies in their immediate environments.
- Each IDZ offers direct links to an international port or airport, world-class infrastructure, a zero rate VAT on supplies from South African sources, government incentive schemes, reduced taxation for some products, access to latest information.

## SPECIAL ECONOMIC ZONES

- These are where there are broader ranges of industrial parks and economic infrastructure provided for effective clustering of value-adding and employment – enhancing manufacturers.
- Designed to increase the growth of the economy.
- Boast exports.
- And create employment.
- Investment is based on public-private partnerships with the state providing the infrastructure.
- And private enterprises setting up businesses.
- Incentives are offered to firms so that they can have a competitive advantage (Lower prices for their industrial exports over other world producers).
- growth in an SEZ is based on export-oriented manufacturing.

## SEZ in South Africa

- **Atlantis SEZ** - The proposed Atlantis SEZ is part of the City of Cape Town's initiative taken in 2011 to establish a greentech manufacturing hub in Atlantis. This was in response to the Department of Energy's Renewable Energy Independent Power Producer Programme (REIPPP). Localisation of manufacturing and the resultant job creation is one of the key priorities of Government through the REIPP programme. Situated on the West Coast of South Africa, 40km from Cape Town, the proposed Atlantis SEZ (ASEZ) capitalises on the province's already booming renewable energy and green technology sector. Greentech refers to green technologies that reduce or reverse the impact of people on the planet. This includes renewable energy technologies. Wind turbines, solar panels, insulation, biofuels, electric vehicles, materials recycling and green building materials are all examples of green technology. The hub has already attracted its first large greentech investor, Gestamp Renewable Industries (GRI). A wind tower manufacturer, GRI has already invested R300 million and is in full-scale production. For more information, visit [www.greencape.co.za](http://www.greencape.co.za)
- **Nkomazi SEZ** - The Nkomazi SEZ is located in the Nkomazi Local Municipality which is in the eastern part of Ehlanzeni District Municipality and approximately 65km of the central business district of Nelspruit in Mpumalanga Province. The geographic location of the Nkomazi area is its main competitive advantage. The Nkomazi area is strategically placed between northern Swaziland and the southwest of Mozambique. It is linked to Swaziland by

two national roads, the R570 and R571 and with Mozambique by a railway line and the national road the N4 which together form the Maputo Corridor

- **Maluti - A- Phofung SEZ** - Maluti-A-Phofung SEZ in Harrismith, Free State, lies at the mid-point of the crucial Durban-Johannesburg logistics route. This newly established SEZ offers exporters a logistics base that facilitates access to the Port of Durban, and intermodal logistics solutions for the transfer of freight between road and rail. The zone is well-suited and licensed for general manufacturing, offering a convenient production base for light and medium manufacturing. With excellent logistics links by road or rail to South Africa's industrial heartland, the Port of Durban and the southern Bloemfontein-Cape Town route, the SEZ is a natural choice for investors seeking a cost-effective location to service domestic and export markets.

In addition, the SEZ intends building on existing strengths to attract agro-processing industries to an area that has good access to the products of the agriculturally rich Free State. It harbours intentions of acting as an agglomeration, storage and logistics point for agricultural produce. Owned by the Free State Development Corporation, this site has existing facilities that can be leased immediately and is currently upgrading both the internal road and utility infrastructure to meet expected demand.

- **Musina/ Makhado SEZ** - The Musina/Makhado SEZ comprises two geographical locations that address unique industrial clusters. The site in Musina targets the light industrial and agro-processing clusters, while the Makhado site is a metallurgical/mineral beneficiation complex. A third site has been identified to target the petrochemical industries. The SEZ is strategically located along the N1 North-South route into the Southern African Development Community (SADC), very close to the border between South Africa and Zimbabwe. It forms part of the Trans-Limpopo Spatial Development Initiative (SDI) and has been developed as part of greater regional plans to unlock investment and economic growth and address the development of skills and employment. Newly built infrastructure enables full utilisation of the area's unique combination of mineral endowments and supports industries in the full-value chains for mineral beneficiation, agro-processing and light industrial manufacturing.

The strategic location of the SEZ and its close proximity to the main land-based route into SADC and the African continent, together with supporting incentives and a good logistics backbone, will make it the location of choice for investment in the mineral beneficiation, agro-processing and petrochemical industries.





## SOUTH AFRICA'S ENDEAVOURS

### South African strategies



#### **National Policy**

- Infrastructure investment – maintaining and expanding infrastructure
- Technology – use more technology in the production process to improve exports
- Competition – will improve quality of products and improve export possibilities
- Creative development – research and new product development
- Human capital – to maintain long-term economic growth

**Regional policy** – To get skilled workers to a place where work is available and to bring work to where workers are.

**Small business development** – To support SMMEs easier access to capital, information, business advice and entrepreneurial development.

**Black Economic Empowerment** – To support and empower indigenous people.

**Seda Technology Program (STP)** – National strategy of consolidating and rationalising small enterprise support intervention across the different government departments overall objective of improving the delivery of small business support services.

**Skills Development Programme (SSP)** – cash incentives to encourage greater investment in skills training and to introduce new, advanced skills to the SA labour force.

**Critical Infrastructure Programme (CIP)** - It is a cost sharing grant for projects designed to improve infrastructure in SA. It is deemed “critical” if the investment had not taken place or would not work optimally without the infrastructure.

**Custom free incentives** - These incentives are aimed at export orientated manufacturing businesses that operate in the IDZs and SEZs. Duty-free imports on intermediate products that will be used in the IDZ to produce other final goods.

**Foreign investment incentives** - It is a cash incentive to assist foreign investors who want to invest in new manufacturing businesses in SA. It covers the cost of relocating new machinery and equipment from abroad.

**Services to business processes** - The BPS aims to attract investment and create employment in South Africa through off-shore activities. A base incentive as a tax-exempt grant is paid over three years for each offshore job created and maintained.

TERM	DEFINITION
<b>Industrial Development policies</b>	Policies aimed at the encouragement of industrial investment and greater industrial efficiency. [Mind the gap pg. 147]
<b>Industrial development strategies</b>	Strategic plans for, or methods of, achieving industrial policy goals.
<b>Regional industrial development</b>	Policies that are aimed at increasing the economic livelihood of specific areas or geographical regions. [Mind the gap pg. 147]
<b>Spatial development initiative (SDI)</b>	To attract infrastructure and business investments to neglected and underdeveloped areas. [Mind the gap pg. 147]
<b>Industrial Development Zone (IDZ)</b>	Purpose-built industrial estates that are physically enclosed and linked to international port or airports.
<b>Special Economic Zones (SEZs)</b>	A geographical area of a country set aside for specifically targeted economic activities.
<b>The Industrial Policy Action Plan (IPAP)</b>	A policy and action plan designed to help build South Africa’s industrial base in critical sectors of production and value-added manufacturing.
<b>Public Private Partnership (PPP)</b>	Projects where the state provides the infrastructure and private sector provides capital to establish a business venture.

**Warm Up questions or Practice Questions (Short Questions)**  
**MC / Matching / Give ONE word/ Name**

**MULTIPLE CHOICE**



**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 The Maputo corridor is found in the ... province.

- A. Eastern Cape
- B. Gauteng
- C. Free State
- D. Mpumalanga

1.1.2 Spatial areas that offer a passageway to mining, manufacturing and other businesses are referred to as ...

- A. corridors
- B. gateways
- C. export processing zones
- D. highways

1.1.3 A purpose-built industrial estate which is physically enclosed and linked to an international port is a/an ...

- A. Passage
- B. Special Economic Zone
- C. Corridor
- D. Industrial development Zone

1.1.4 The process whereby previously disadvantaged people are empowered in development is called ...

- A. Skills Support Programme (SSP).
- B. Black Economic Empowerment (BEE).
- C. Industrial Development Zones (IDZ).
- D. Special Economic Zones.

1.1.5 The national government's initiative aimed at economic development of specific locations in South Africa, is called ...

- A. SDI
- B. DTI.
- C. STI
- D. DBE

1.1.6 The main objective of the Skills Support Programme is to ...

- A. reduce government expenditure.
- B. build five million houses.
- C. encourage greater investment in training.
- D. improve infrastructure.

1.1.7 A development policy which works with Sectoral Education Training Authority (SETA) is...

- A. Export Processing Zones
- B. Joint Initiative on Priority Skills Acquisition
- C. Reconstruction and Development Programme
- D. Expanded Public Works Programme

1.1.8 The Department of Trade and Industry implemented ... to assist industries to grow by identifying certain cross cutting issues and competitive input sectors.

- A. Spatial Development Initiative
- B. Special Economic Zones
- C. Strategic Integrated Projects
- D. Integrated Manufacturing Strategy

(8 x 2) (16)

**1.2 Choose a description from COLUMN B that matches the item in COLUMN. Write only the letter (A-E) next to the question number (1.2.1 – 1.2.4) in the ANSWER BOOK.**

Column A	Column B
1.2.1 Corridor	A. Enterprises that produce the same kind of products
1.2.2 IPAP	B. Policies aimed at increasing the economic livelihood of specific areas
1.2.3 Industry	C. A passage way allowing access from one area to another
1.2.4 Regional development	D. A three-year rolling industrial plan of action
1.2.5 DTIC	E. An organisation financing IPAP projects

(5 x 1) (5)

**1.3 Provide the economic term/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 Specifically demarcated areas earmarked for development
- 1.3.2 A project where the state provides the infrastructure and private sector provides capital to establish a business venture
- 1.3.3 A track of land that form a passageway allowing access from one area to another.
- 1.3.4 A socio-economic development framework for Africa that aims to promote sustainable development on the African continent
- 1.3.5 Government acts and strategies that encourage the ongoing operations in the manufacturing sector

(5 x 1) (5)

## **SECTION B**

### **2.1 Lower cognitive (Easy questions)**

**(2 marks)**

HINT: When the question requires you to "List" or "Name", you need not write a sentence. This MUST be done in bullet form.

This type of questions is found on the question paper: 2.1.1; 3.1.1; 4.1.1

- 2.1.1 Name any TWO incentives used by the South African government to improve industrial development. (2)
- 2.1.2 Name TWO Special Economic Zones in South Africa. (2)
- 2.1.3 Name any TWO member states which form part of BRICS. (2)
- 2.1.4 Name TWO South African growth and development policies. (2)
- 2.1.5 Name TWO growth sectors of South Africa's Integrated Manufacturing Systems (IMS). (2)

## 2.2. Middle order (Moderate questions)

(2 marks)

HINT: This type of question is typical deep-level thinking. You need to answer this question in a sentence that is comprehensive and it should answer the question.

This type of questions is found on the question paper: 2.1.2; 3.1.2; 4.1.2

- 2.2.1 How will decentralisation of a green economy have on industrial development in South Africa? (2)
- 2.2.2 How will decentralisation of industries contribute towards employment creation in South Africa? (2)
- 2.2.3 What negative impact could load shedding have on industrial development in South Africa? (2)
- 2.2.4 Why should IDZs be duty-free areas? (2)
- 2.2.5 Why is there a need for Special Economic Zones in South Africa? (2)

## 3. PARAGRAPH QUESTIONS

### 3.1 Middle order (easy to moderate)



(8 marks)

HINT: When a question requires to "explain", "discuss", "differentiate", etc. You need to answer in full sentences. The answers are found in textbooks.

This type of questions is found on the question paper: 2.4; 3.4 and 4.4

- 3.1.1 Briefly discuss the objectives of the National Development (NDP). (8)
- 3.1.2 Explain *good governance* and *investment of social capital* as benchmarks for regional development in South Africa. (8)
- 3.1.3 Briefly explain *critical infrastructure* and *skill support programme* as incentives used by the South African government to improve industrial development. (FS Prelim 2019) (8)
- 3.1.4 Briefly discuss the reasons for industrial development in South Africa. eSSIP 2019 Term 3 (8)
- 3.1.5 Briefly discuss the aims of Special Economic Zones. (8)

### 3.2 Higher order (Moderate to difficult)

(8 marks)

HINT: The answers to these questions are not usually found in textbooks. You must apply your content knowledge to answer them. You need to do some deep-level critical thinking. You need to answer in full sentences.

This type of questions is found on the question paper: 2.5; 3.5 and 4.5

- 3.2.1 Evaluate the implementation of the National Development Plan of South Africa in its 2030 vision. (8)
- 3.2.2 How does South Africa's regional development policies compare to international benchmarks, in terms of good governance and partnerships? (eSSIP, Term 3, 2020) (8)
- 3.2.3 How can the Small and Medium Enterprise Development Programme (SMEDP) and Foreign Investment Grants (FIG) help to improve industrial development in South Africa? (eSSIP, Term 3, 2020) (8)

#### 4. DATA RESPONSE QUESTIONS

- 4.1 Read the following extract and answer the questions that follow. (FS Prelim 2019 – adapted)

##### LIMPOPO'S PROPOSED SEZ ATTRACTS R40BN INVESTMENT

A significant investment is already expected to be injected into the proposed Musina-Makhado's SEZ – a boost for the energy and metallurgical industries.

A consortium of Chinese investors will be investing more than R40bn into an industrial park, which they will develop and manage in the SEZ. The park will focus on the beneficiation of minerals and agricultural endowments.

[Source: Adapted from [www.engineeringnews.co.za](http://www.engineeringnews.co.za)]

- 4.1.1 Name ONE main benefit of this SEZ investment to the labour market. (1)
- 4.1.2 Name ONE Special Economic Zone in the Eastern Cape. (1)
- 4.1.3 Briefly describe the term *Special Economic Zone*. (2)
- 4.1.4 What is the main objective of Spatial Development Initiatives? (2)
- 4.1.5 Why is the development of new industries important in the economy? (4)

- 4.2 Study the extract below and answer the questions that follow. (eSSIP, Term 3, 2019)

##### COEGA INDUSTRIAL DEVELOPMENT ZONE (IDZ)

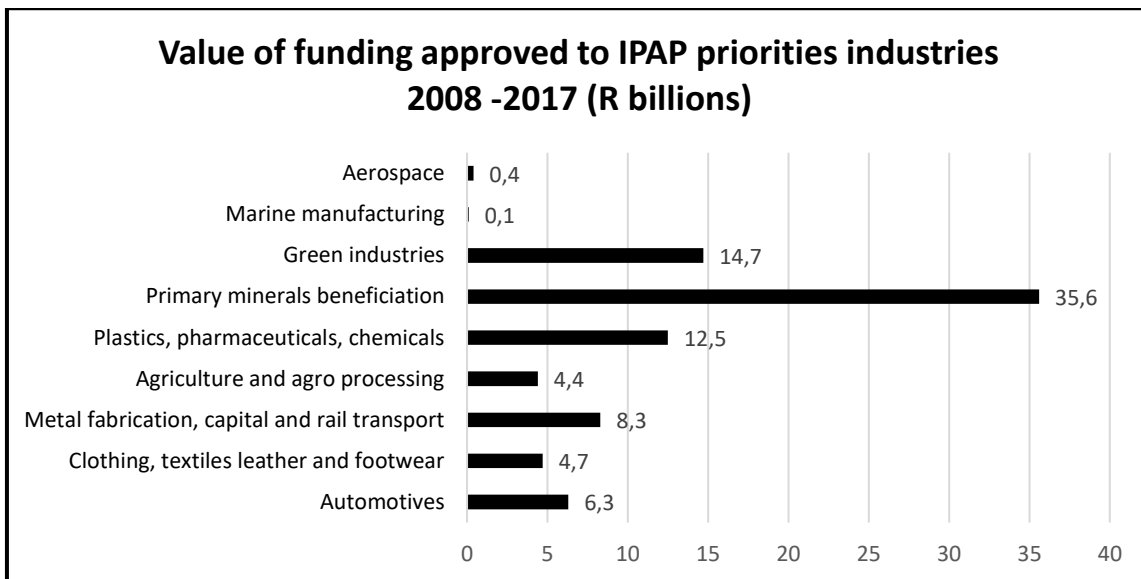
The Coega IDZ is located close to Nelson Mandela Bay in South Africa's foremost investment hotspot for industries with a global perspective. Coega has successfully attracted a health mix of both local and international investors.

[Adapted from [www.coega.co.za](http://www.coega.co.za)]

- 4.2.1 What was the aim of government to implement the industrial development zones? (1)
- 4.2.2 ONE of the services offered by the East London IDZ. (1)
- 4.2.3 Describe the term *industrial development zone*. (2)
- 4.2.4 Explain why the IDZ is regarded as a duty-free incentive. (2)
- 4.2.5 Why were IDZs not very successful since their inception in South Africa? (4)

[10]

4.3 Study the information below and answer the questions that follow.  
(eSSIP, Term 3, 2020)



Adapted source: [www.dti.org.za](http://www.dti.org.za)

- 4.3.1 Identify the industry that received the 5<sup>th</sup> largest funding in terms of IPAP funding priority. (1)
- 4.3.2 What does the abbreviation IPAP stand for? (1)
- 4.3.3 Briefly describe the concept *green industries*. (2)
- 4.3.4 How has investments in automotive contributed in the success of the Coega IDZ? (2)
- 4.3.5 Why was there so much investment in primary mineral beneficiation? (4)
- [10]

**QUESTION 5 -ESSAY TYPE QUESTIONS**

- When answering the main part of an essay, learners should write headings, sub-headings and provide examples for a maximum of 8 marks
- Explanations and discussions should be written in a point/bullet form in full sentences.
- Graphs should have a heading and be labelled and plotted correctly.
- The additional part of an essay should be of a higher cognitive level e.g. how can ..., why does..., evaluate, analyse, how successful is ..., propose or suggest ... etc.
- Learners should indicate the following when responding to an essay: introduction, main part, additional part and the conclusion.
- Essay-type questions should be **TWO-FOLDED** with the main part (26 marks) and the additional part (10 marks) as outlined in the table below:

**STRUCTURE OF ESSAY**

**MARK  
ALLOCATION**

<p><b>Introduction</b></p> <ul style="list-style-type: none"> <li>• A good starting point would be to define a concept or key word that appears in the question.</li> <li>• Include other sentences to support the topic.</li> <li>• Do not include in your introduction any part of the question.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max.2
<p><b>Body:</b></p> <p><b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate</p> <p><b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/ Calculate/Deduce/Compare/Analyse/Distinguish/Interpret/Briefly debate/How/ Suggest</p>	Max.26  Max.10
<p><b>Conclusion</b></p> <p><b>Any higher Order conclusion should include:</b></p> <ul style="list-style-type: none"> <li>• A brief summary of what was discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts already discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max.2
TOTAL	40

### QUESTION 5.1 (GP Prelim 2017)

- Discuss regional development in South Africa in terms of the best practise benchmark. (26 marks)
- Why were Industrial Development Zones (IDZs) not very successful since their inception in South Africa? (10 marks)

### QUESTION 5.2 (eSSIP, Term 3,2020)

- Discuss in detail South Africa's endeavours in regional development. (26 marks)
- How can the policy of regional development benefit South Africa? (10 marks)

## ECONOMIC AND SOCIAL INDICATORS

### **ECONOMIC INDICATORS**

The economic indicators measure the macroeconomic objectives of government as discussed in Session 3. The following macroeconomic aims were given:

- **Economic Growth** – Real GDP per capita.
- **Full employment** – Look at economically active population (EAP) and the use of productive resources, usually measured in terms of the unemployment rate.
- **Balance of payments stability** – Exchange rate stability (terms of trade).
- **Price stability** – Inflation rate
- **An equitable distribution of income** - The aim should be for a more fair distribution of income – use of the Gini coefficient.
- **Discuss in detail** the following economic indicators:

#### **Possible long (essay) question as per Exam guidelines 2017**

##### **- Production indicators**

- Nominal GDP
- Real GDP
- Per capita GDP

##### **- Inflation rate indicators**

- Production prices (PPI)
- Consumer prices (CPI)



##### **- Foreign trade indicators**

- Terms of trade
- The exchange rate

##### **- Employment indicators**

- Economically active population (EAP)
- Employment rate
- Unemployment rate

##### **- Productivity indicators**

- Labour productivity
- Remuneration per worker

##### **- Interest rate indicators**

- Repo rate

##### **- Money supply indicators**

- M1 ○ M2 ○ M3

### **1.1 Production indicators**

#### **Nominal GDP**

- GDP is the total value of all final goods and services within the geographic boundaries of a country over a given period.
- Market prices rather than basic or factor cost are used.

#### **Real GDP**

- The growth performance of an economy is measured in terms of real GDP figures. Nominal GDP cannot be used because its magnitude is partly caused by price increases and not by an increase in the physical numbers.
- Real GDP is obtained when the effect of inflation is removed from the data.

#### **Per capita GDP**

- Economic growth is desirable because it enables societies to consume more goods and services, but if the population grows at a faster rate everybody may be worse off, despite increases in the quantities of goods and services and it is for this reason per capita GDP is used.
- For the calculation of per capita real GDP, the real GDP figures are divided by the population number.
- Per capita figures are used for three reasons:
  - To indicate economic development
  - To indicate living standards
  - To compare living standards

## **1.2 Employment**

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

### **The economically active population (EAP)**

The economically active population figures are used (this was done in grade 11) All the people willing and able to work between 15(16) and 64(65) in a country and includes:

- Workers in the formal sector
- Workers in the informal sector
- Employers
- Self-employed persons
- Unemployed persons

### **Employment**

The number of employed persons expressed as a percentage of the EAP gives the employment rate.

Employment indicators are important because:



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

### **Unemployment**

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

### **1.3 Productivity**

Productivity measures the relationship between input and outputs. The more outputs you can produce for the same or less inputs the more productive you are.

Productivity is linked to cost – the more productive you are the lower costs are.

Example if one labourer can produce more than another labourer the cost of labour will reduce.

Productivity will increase the Real GDP per Capita. This will increase economic growth.

#### **Labour productivity**

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



#### **Remuneration per worker**

- If labour productivity increases by less than real wages, inflationary pressures will occur and the business cycle may turn unfavourable.
- The relationship between productivity and wages is important for the following reasons:
  - Employers relate it to profits
  - Workers relate it to improvements in the standard of living

## Inflation

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

### Consumer price index (CPI)

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

### Producer Price Index (PPI)

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

CPI	PPI
<ul style="list-style-type: none"><li>• Excludes price of raw materials &amp; intermediary goods.</li><li>• Includes VAT</li><li>• Includes services</li><li>• Manufactured goods included in the CPI are priced when they are sold to the consumers.</li></ul>	<ul style="list-style-type: none"><li>• Includes the prices of raw materials and intermediate goods.</li><li>• Excludes VAT</li><li>• Excludes services</li><li>• Manufactured goods included in the PPI are priced when they leave the factory or at the first entry into the country if imported.</li></ul>

### The formula to determine inflation:

$$\frac{CPI \text{ year 2} - CPI \text{ year 1}}{CPI \text{ year 1}} \times \frac{100}{1}$$



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

### 1.4 Interest rates

As seen in Business cycles and Public sector (done in the 1<sup>st</sup> term) - interest as the main instrument in the monetary policy play a key role in the economy and would therefore be vitally important in measuring economic growth.

#### a. Repo rate

The rate at which the SARB lends money to commercial banks.

#### b. Prime Rate

The rate at which commercial banks lends money to households and business.

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

### 1.5 Money supply

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

Money supply is divided in three categories.

- **M1:** This includes coins and notes.

- **M2:** Includes M1 and other short-term and medium-term deposits of the domestic private sector with monetary institutions,
- **M3:** Includes M2 plus all long-term deposits of the domestic private sector with monetary institutions.

Too much money in circulation could lead to more spending and higher inflation. Too little money in circulation leads to under-spending, which leads to reduction in production, leads to unemployment and decline in economic growth.

### **1.6 Foreign Trade (This was discussed in detail in the Session on Balance of Payment, Foreign exchange and Terms of trade)**

#### **Terms of trade**

The Terms of Trade looks at the relationship between the price received for exports and the amount of imports we are able to buy with that money.

$$\text{Terms of Trade} = \frac{\text{Average Price of Exports}}{\text{Average Price of Imports}} \times \frac{100}{1}$$

Changes in the terms of trade serve as an indicator of changes that may likely spill over into the balance of payment account and a deficit may follow this will lead to a depreciation in the currency.

#### **Exchange rates**

The rate at which one currency can be exchanged for another currency. Exports and imports are strongly influenced by the exchange rate of the domestic currency. (Look at your notes in Session 4 in appreciation and depreciation of the currency)

#### **Income inequality**

There are two measures of the distribution of income:

1. Gini coefficient – a measurement of inequality in a country. The Gini coefficient is a ratio between 1 and 0, where 0 shows perfect equality and 1 perfect inequality. The closer to 1 a country's Gini coefficient is, the greater the inequality in that country.
2. Lorenz curve – a curve that shows the cumulative percentage of wealth or income against the cumulative percentage of population.

#### **SOCIAL INDICATORS**

Sometimes called human development indicators or development indicators because they promote improvement in the standard of living.

Discuss in detail the following social indicators:

**Possible long (essay) questions as per exam guidelines 2017**

**- Demographic indicators**

*o Population growth*

*o Life expectancy*

**- Nutrition and health indicators**

**Nutrition**

*o Malnutrition*

*o Obesity*

**Health**

*o Child mortality*

*o Under 5 mortality*

*o Spending on health*

*o Access to clean water*

*o Access to sanitation*

**- Education**

*o Percentage public-sector spending*

*o Percentage enrolment in secondary schools*

**- Services**

*o Electricity*

*o Refuse/Garbage removal*

*o Water supply*

*o Sanitation*

**- Housing and urbanisation**

**Housing**

*o Number of houses completed*

**Urbanisation**

*o Natural growth in population*

*o Migration*

*o Founding of new towns*



## 1.1 Demographics

### Population growth

- This is the description of the physical population and its composition. To get this a census is done regularly to obtain this information.
- It provides information about where people are situated, what their needs are and how investment can be best spent.

### Life expectancy

- Life expectancy expresses the number of years a new born would live if the prevailing patterns of mortality remained the same throughout this person's life.
- It is important for government to know the average life expectancy is, because working humans require a range of social services and also supply the tax base.
- This is a measure of people's ability to live long and healthy life, to communicate, to participate in the community and to have sufficient income to experience a decent lifestyle.

## 1.2 Health and nutrition

### a. Health indicators

- Child mortality – this is measured in terms of the number of infants who die before reaching one year of age.
- Under 5 mortality – measured in terms of the probability that a new born baby will die before reaching the age of five years.
- Spending on health- measured in terms of the amount of public and private health expenditure on health care.
- Access to clean water – measured in terms of the percentage of a population that has reasonable access to safe drinking water (treated or uncontaminated).
- Access to sanitation facilities – measured in terms of the percentage of a population with at least adequate sanitation facilities that can effectively prevent human, animal and insect contact.

### b. Nutrition indicators

- Malnutrition – expressed in two ways: weight for age and height for age. The number of children who go hungry.
- Overweight – There exists an association between obesity in childhood and the high prevalence of diabetes, high blood pressure etc.

These measures are important to government as they are supplying healthcare and sometimes have to include legislation such as adding vitamin A to basic foodstuffs such as bread.

## 1.3 Education

The standard of living of people is directly connected to their education. Educated people are employable and can earn an income and provide for their own wants and needs.

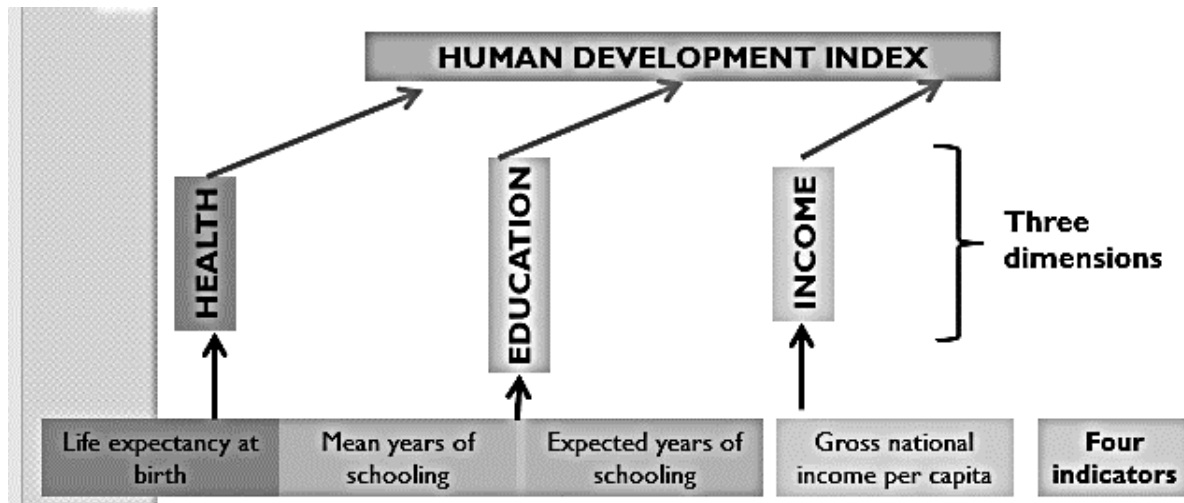
Two important measures are:

- Secondary enrolment percentage – how many children that start Grade 1 get to Grade 8 and finish Grade 12.
- Adult literacy – People over the age of 15 that can read and write.

Referring to Session 3 (Public sector) in the budget that the Minister of Finance delivered last year and this year the largest portion of government spending was given to education.

### The United Nations Human Development Index

The HDI creates a single statistic which was to serve as a frame of reference for both social and economic development. The following diagram gives us an idea of components involved with this measurement.



#### 1.4 Services

Because of our constitution certain basic services must be supplied by the government. These services have a direct effect on people's living standards. These basic services differ from rural to urban areas.

- Electricity
- Refuse disposal
- Water supply
- Sanitation

#### 1.5 Housing and urbanisation

**Urbanisation:** The process by which an increasing proportion of a country's population is concentrated in its urban areas because of natural increase and migration from rural areas.

This measure is important as more people come to live in urban areas the greater the demand for housing, services, education, health care, etc.

**Housing:** The percentage of the population living in a permanent dwelling, or house.

The government issue housing subsidies to help poor people to own a house. South African citizens or permanent residents earning R3 500 or less a month could apply for this subsidy.

### International comparisons

Figures collected by the World Bank, International Monetary Fund (IMF) and United Nations provide the best data for comparison purpose.

Other measures used:

- Purchasing power parity (PPP) (This was done in session 4) the number of units of one country's currency that gives the holder the same purchasing power as one unit of another country's currency.
- The Big Mac Index – Burgernomics explain the PPP theory. A Mc Donald's Big Mac burger, sold in about 120 countries. The index is based on the price of the Big Mac around the world as compared to its price in the United States.

### Warm Up questions or Practice Questions (Short Questions)

MC / Matching / Give ONE word/ Name

### MULTIPLE CHOICE

**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 The number of employed persons as a percentage of the economically active population (EAP), is called ...

- A the employment rate.
- B economic growth.
- C the productivity rate.
- D labour productivity.

1.1.2 A social indicator associated with health is ...

- A malnutrition.
- B availability of electricity.
- C infant mortality.
- D the percentage enrolment in secondary schools.

1.1.3 The ... index is used to calculate the inflation rate.

- A PPC
- B PPI
- C DTI
- D CPI

1.1.4 South Africa's official unemployment rate is determined by the ... rate.

- A narrow

- B short
- C broad
- D long

1.1.5 The terms of trade expresses only ...

- A quantities
- B prices
- C trade
- D volumes

(5 x 2) (10)

1.2 Choose a description from COLUMN B that matches the item in COLUMN. Write only the letter (A-E) next to the question number (1.2.1 – 1.2.4) in the ANSWER BOOK.

Column A	Column B
1.2.1 Life expectancy	A. It refers to the size and structure of the population
1.2.2 Demographics	B. An institution that collects and publish economic data in South Africa
1.2.3 Stats SA	C. Health and nutrition
1.2.4 Social indicator	D. Coins for notes in circulation
1.2.5 M1	E. probable number of years a person will live after birth

(5 x 1) (5)

1.3 Provide the economic term/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 An index used to calculate prices at the gate of factories
- 1.3.2 An indicator to measure the percentage population who are willing and able to work
- 1.3.3 A measure used to make comparisons between countries in terms of comparable money value
- 1.3.4 An index used to calculate inflation of buyers of goods and services
- 1.3.5 An index used to compare countries on human aspects of development

(5 x 1)

## SECTION B

### 2.1 Lower cognitive (Easy questions)

(2 marks)

HINT: When the question requires you to "List" or "Name", you need not write a sentence. This MUST be done in bullet form.

This type of questions is found on the question paper: 2.1.1; 3.1.1; 4.1.1

- 2.1.1 Name any TWO services indicators. (2)
- 2.1.2 Name TWO inflation indicators. (2)
- 2.1.3 Name TWO foreign trade indicators. (2)
- 2.1.4 Name TWO employment indicators. (2)
- 2.1.5 Name TWO health indicators. (2)

### 2.2. Middle order (Moderate questions)

(2 marks)



HINT: This type of question is typical deep-level thinking. You need to answer this question in a sentence that is comprehensive and it should answer the question.

This type of questions is found on the question paper: 2.1.2; 3.1.2; 4.1.2

- 2.2.1 How can productivity data/statistics be used more effectively to benefit the South African economy? NC Prelim 2019 (2)
- 2.2.2 Why are economic indicators used to assess the economy? (2)
- 2.2.3 What effect will a high illiteracy rate have on economic development? GP Prelim 2019 (2)
- 2.2.4 What is the correlation between education and social and economic development? (2)
- 2.2.5 Why is it important to know the life expectancy rate of a country? (2)

### **3. PARAGRAPH QUESTIONS**

#### **3.1 Middle order (easy to moderate)**

**(8 marks)**

HINT: When a question requires to “explain”, “discuss”, “differentiate”, etc. You need to answer in full sentences. The answers are found in textbooks. This type of questions is found on the question paper: 2.4; 3.4 and 4.4

- 3.1.1 Explain the components of M3 of money supply indicators. (8)
- 3.1.2 Explain malnutrition and obesity as nutrition and health indicators. (8)
- 3.1.3 Briefly discuss employment indicators. (8)
- 3.1.4 Briefly discuss the demographic social indicators. EC Prelim 2019 (8)
- 3.1.5 Briefly discuss *housing* and *urbanisation* as social indicators. NW Prelim 2019 (8)

#### **3.2 Higher order (Moderate to difficult)**

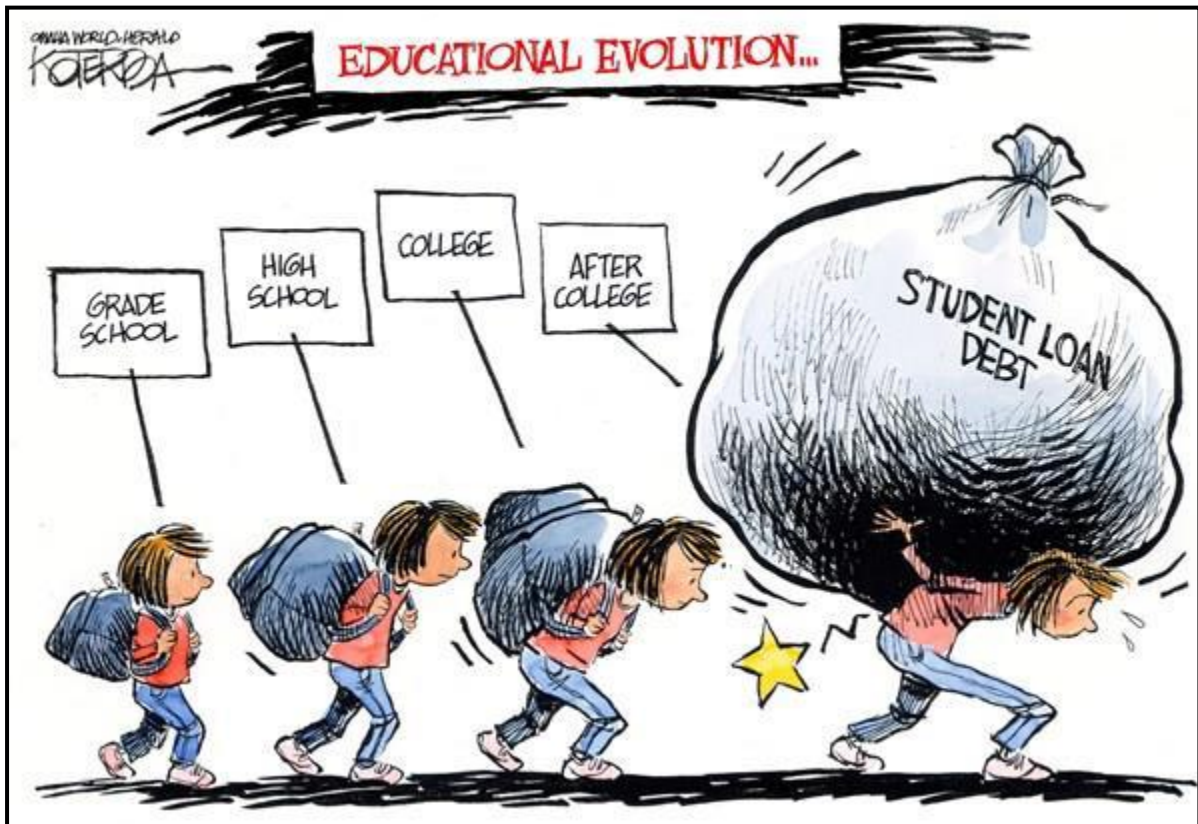
**(8 marks)**

HINT: The answers to these questions are not usually found in textbooks. You must apply your content knowledge to answer them. You need to do some deep-level critical thinking. You need to answer in full sentences. This type of questions is found on the question paper: 2.5; 3.5 and 4.5

- 3.2.1 Why is it important for the government to assess the performance of the economy? FS Prelim 2019 (8)
- 3.2.2 Evaluate the importance of life expectancy as a social indicator to the government. FS Prelim 2019 (8)
- 3.2.3 How do production indicators show the performance of the economy of a country? NC Prelim 2019 (8)
- 3.2.4 Evaluate the use of indicators to monitor the health of a population. GP Prelim 2019 (8)

#### 4. DATA RESPONSE QUESTIONS

4.1 Study the cartoon below and answer the questions that follow. NC Prelim 2019



[Adapted from: Sunday Times, 2019]

- 4.1.1 Name the social indicator that is associated with primary school completion. (1)
- 4.1.2 Which term is used in the national budget that calculates how much money is spent on education? (1)
- 4.1.3 Briefly describe the term *higher education*. (2)
- 4.1.4 Explain how education could have a direct influence on the quality of a country's labour force? (2)
- 4.1.5 How can the burden of state student loans be reduced by government to decrease poverty and social injustice? (2 x 2) (4)

4.2 Read the extract below and answer the questions that follow. NW Prelim 2019

#### HUMAN DEVELOPMENT INDEX OF SOUTH AFRICA

The HDI shows that South Africa is not the best in Sub-Sahara Africa. Our neighbouring country, Botswana, is the country with the best levels of quality of life on the Sub-Sahara continent. Regarding economic freedom, South Africa is in position 80 of 186 countries – behind Rwanda, Botswana and Mauritius.

[Adapted from Rapport, 14 January 2018]

- 4.2.1 Give ONE factor that is used to measure human development. (1)
- 4.2.2 Why is economic freedom in South Africa so important? (1)
- 4.2.3 Describe the term *demography*. (2)
- 4.2.4 How will an improved infrastructure contribute to an increase in the quality of life? (2)
- 4.2.5 Comment on success of the South African social policy in boosting economic development. (2 x 2) (4)

4.3 Study the information below and answer the questions that follow. (GP Prelim 2019)


<b>HOUSEHOLD DISTRIBUTION PER PROVINCE, 2011 AND 2017</b>				
Basic services are not delivered to individuals, but to groups of people who live together and who share resources as households.				
<b>Province</b>	<b>2011</b>	<b>2011</b>	<b>2017</b>	<b>2017</b>
	<b>Households</b>	<b>% Distribution</b>	<b>Households</b>	<b>% Distribution</b>
<b>Western Cape</b>	1 634 000	11,3	1 933 876	11,4
<b>Eastern Cape</b>	1 687 385	11,7	1 773 395	10,5
<b>Northern Cape</b>	301 404	2,1	353 709	2,1
<b>Free State</b>	823 316	5,7	946 639	5,6
<b>KwaZulu-Natal</b>	2 539 429	17,6	2 875 843	17,0
<b>North West</b>	1 062 015	7,3	1 248 766	7,4
<b>Gauteng</b>	3 909 022	27,1	4 951 137	29,3
<b>Mpumalanga</b>	1 075 488	7,4	1 238 861	7,3
<b>Limpopo</b>	1 418 102	9,8	1 601 083	9,5
<b>South Africa</b>	<b>14 450 162</b>	<b>100</b>	<b>16 923 309</b>	<b>100</b>

[Source: StatsSA – the state of basic service delivery in South Africa: In-depth analysis of the community survey 2017 data]

- 4.3.1 Give ONE example of a basic service. (1)
- 4.3.2 Which province had the most improvement in service delivery? (1)
- 4.3.3 Briefly describe the term social indicator. (2)
- 4.3.4 How can South Africa secure sufficient water supplies to the country? (2)
- 4.3.5 Why is the interpretation and comparison of social indicators a challenge? (4)

## QUESTION 5 -ESSAY TYPE QUESTIONS

- When answering the main part of an essay, learners should write headings, sub-headings and provide examples for a maximum of 8 marks
- Explanations and discussions should be written in a point/bullet form in full sentences.
- Graphs should have a heading and be labelled and plotted correctly.
- The additional part of an essay should be of a higher cognitive level e.g. how can ..., why does..., evaluate, analyse, how successful is ..., propose or suggest ... etc.
- Learners should indicate the following when responding to an essay: introduction, main part, additional part and the conclusion.
- Essay-type questions should be **TWO-FOLDED** with the main part (26 marks) and the additional part (10 marks) as outlined in the table below:

STRUCTURE OF ESSAY	MARK ALLOCATION
<b>Introduction</b> <ul style="list-style-type: none"> <li>• A good starting point would be to define a concept or key word that appears in the question.</li> <li>• Include other sentences to support the topic.</li> <li>• Do not include in your introduction any part of the question.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max.2
<b>Body:</b> <p style="text-align: center;"></p> <b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate	Max.26
<b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/ Calculate/Deduce/Compare/Analyse/Distinguish/Interpret/Briefly debate/How/ Suggest	Max.10
<b>Conclusion</b> <b>Any higher Order conclusion should include:</b> <ul style="list-style-type: none"> <li>• A brief summary of what was discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts already discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max.2
<b>TOTAL</b>	<b>40</b>

### QUESTION 5.1

- Discuss the following economic indicators in detail:
    - Production (16)
    - Foreign Trade (10)
- (26 marks)

- How can productivity be used more effectively to benefit the South African economy?  
(10 marks)

**QUESTION 5.2**

- Discuss the following social indicators:
  - a) Health (10)
  - b) Services (10)
  - c) Demographics (6) (26 marks)
- Evaluate the success of the development programs of South Africa in terms of standard of living. (10 marks)



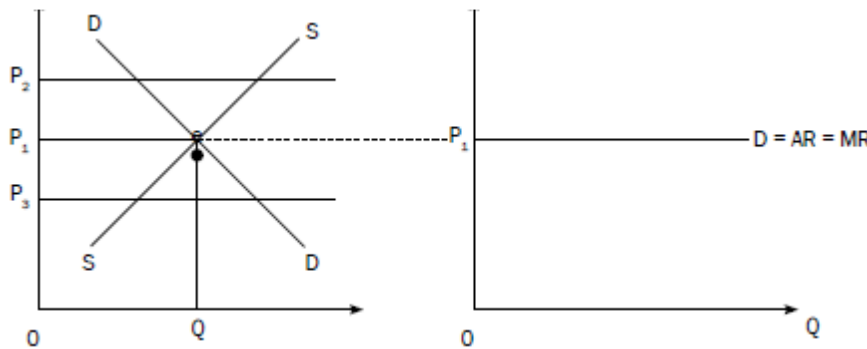
## PERFECT MARKETS

A perfect market is characterised by perfect competition. The conditions that result in perfect competition include:

- ❖ Equal access to the technology required for production
- ❖ No barriers to entry or exit from the marketplace
- ❖ Accurate and available market information
- ❖ No participant with the power to set the market price
- ❖ According to equilibrium theory, a perfect market will reach an equilibrium where the quantity supplied equals the quantity demanded at the market price

### Demand curve for an individual producer:

The individual producer is a **price taker** and sells goods at the market price. At this price, demand remains constant. A higher price such as  $P_2$  cannot be charged as customers will be lost to other producers. A lower price such as  $P_3$  cannot be charged as a small profit or a loss will be made.



In the **short-run**, a perfect market can make economic loss, economic profit or normal profit. With entry of more suppliers, the perfect competitor will make only normal profit in the **long run**.

### The Competition Act in South Africa:

The government introduced the Competition Act 89 of 1998 to promote competition in South Africa in to achieve the following objectives:

- ❖ promote the efficiency of the economy (its primary aim)
- ❖ provide consumers with competitive prices and a variety of products
- ❖ promote employment
- ❖ encourage South Africa to participate in world markets and accept foreign competition in South Africa
- ❖ enable SMMEs to participate in the economy
- ❖ to allow the previously disadvantaged to increase their ownership of businesses

### Institutions

- The **Competition Commission**: investigates restrictive business practices, abuse of dominant positions and mergers to achieve equity and efficiency in the South African economy.
- The **Competition Tribunal**: has jurisdiction throughout the Republic. It is a tribunal of record and independent from the other competition institutions. The Tribunal's main functions are

- to: grant exemptions, authorise or prohibit large mergers, adjudicate if any misconduct takes place, issue an order for costs on matters presented to it by the Competition Commission.
- c) The **Competition Appeal Court**: Its status is similar to the High court. It has jurisdiction throughout the Republic and is a court of record. Its main functions are to review orders made by the Competition Tribunal and amend or confirm these orders.

### Exam tips

- ❖ **Tips on how to draw graphs to show various equilibrium positions:**
  - **STEP 1:** First draw your TWO axes: Price (P) on the vertical axis and Quantity (Q) on the horizontal axis. Remember, they meet at the origin (0). Note that the labelling of the axes is not the same for all graphs.
  - **STEP 2:** draw the demand curve followed by the Marginal revenue curve, (in a perfect market  $D = MR = AR$ ).
  - **STEP 3:** Then draw the AC curve.
  - **STEP 4:** Then draw the MC curve which must cut the AC curve at its minimum point.
  - **STEP 5:** Identify profit maximising point.  $MC = MR$
  - **STEP 6:** Determine quantity (drop a line from the profit maximizing point to the x-axis).
  - **STEP 7:** Determine price (extend line upwards from the profit maximizing point to the demand curve) and then extend the line horizontal to the y-axis.
  - **STEP 8:** Compare AR/price to AC to determine profit or loss.
- ❖ Avoid using concepts such as zero economic profit, rather use the term normal profit.
- ❖ A review of grade 11 cost schedules, revenue schedules, cost curves and revenue curves is needed.
- ❖ The technical aspects need to be reinforced, e.g. the correct shape, positioning and labelling of cost and revenue curves in the perfect markets.
- ❖ The average cost curve (looks like a 'smile') must always be drawn before the marginal cost curve (looks like a 'tick'). This will ensure that the MC always intersects the AC at its minimum point.
- ❖ Give your opinion of the successes/failures of the competition policy. (relate to current examples)

### Warm Up questions or Practice Questions (Short Questions)

#### 1. Multiple Choice

- Multiple-choice questions are found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- Multiple-choice should have 4 POSSIBLE (A-D) options NOT 3 options.
- Learners should attempt to answer these questions. They should not leave blank spaces.
- Learners should not choose TWO options e.g. A & B. Guesswork is not encouraged.

1.1. A close example of a perfect market in South Africa is ...

- A oil companies
- B the Johannesburg Securities Exchange

- C Eskom
- D the retail industry

1.2 The supply curve for the individual firm under perfect conditions is ... sloped.

- A negatively
- B positively
- C horizontally
- D vertically

1.3 An individual firm under perfect competition has a ... demand curve.

- A perfectly elastic
- B perfectly inelastic
- C relatively elastic
- D relatively inelastic

1.4 Unit cost is also known as ... cost.

- A marginal
- B total
- C average
- D variable

1.5 In any market the average revenue is the same as the ....

- A price.
- B marginal revenue.
- C supply.
- D profit.

(5 x 2) (10)

## 2. Match the Concepts

- Matching items are found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- Learners should choose a description from COLUMN B that matches the item in COLUMN A.
- These questions test the learners' knowledge of concepts for each topic.
- Learners should not leave any question unanswered.

Column A	Column B
2.1 Break-even point	A authorises and prohibits large mergers and takeovers
2.2 Competition Tribunal	B period of production where all factors of production become variable
2.3 Long run	C actual expenditure of a business, e.g. wages and interest
2.4 Explicit costs	D total revenue is greater than total cost
2.5 Economic profit	E period of production where one of the production factors is fixed
	F total revenue is equal to total costs



(5 X 1) (5)

- 3.** Provide the economic **term/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.*
- Providing a term is found in Section A of the NSC examination papers.
  - It is compulsory to answer these questions.
  - These questions test the learners' knowledge of concepts for each topic.
  - Learners should not leave any question unanswered.

3.1 The point in production below which a firm's revenue is not able to meet its average variable costs, in other words where  $MR = AVC = P$ .

3.2 Sum of all individual businesses producing a similar kind of product. I

3.3 The cost that remains the same even if the output changes

3.4 A market structure where the individual firms are price-takers

3.5 The additional revenue earned when sales increase by one more unit (5 X 1) (5)

**4. List/Name/Give**

- List/Name type of questions are regarded as short questions of **lower cognitive level** and are found in Section B of the NSC examination papers e.g. Questions **2.1.1, 3.1.1** and **4.1.1**.
- The above questions are allocated 2 marks e.g. Name any TWO ... (2 x 1) (2).
- Learners should only list or name, therefore explanations and discussions are not needed.

4.1 Give TWO examples of variable costs. (2 x 1) (2) **DBE/Feb.–Mar. 2018**

4.2 Name TWO characteristics of perfect markets. (2 x 1) (2) **LP/Sep 2017**

**5. How and why type questions?**

- Short middle order questions are found in Section B of the NSC examination papers e.g. Questions **2.1.2, 3.1.2** and **4.1.2**.
- Examples are what, how and why questions of 2 marks.
- Learners must be guided by the mark allocation when answering the question e.g. Why ... (2 marks) will require ONE discussion point.
- Responses must give effect to the contextual demands of the question!

5.1 Why are businesses under the perfect market structure price takers? (1 x 2) (2)  
**DBE/Nov 2019**

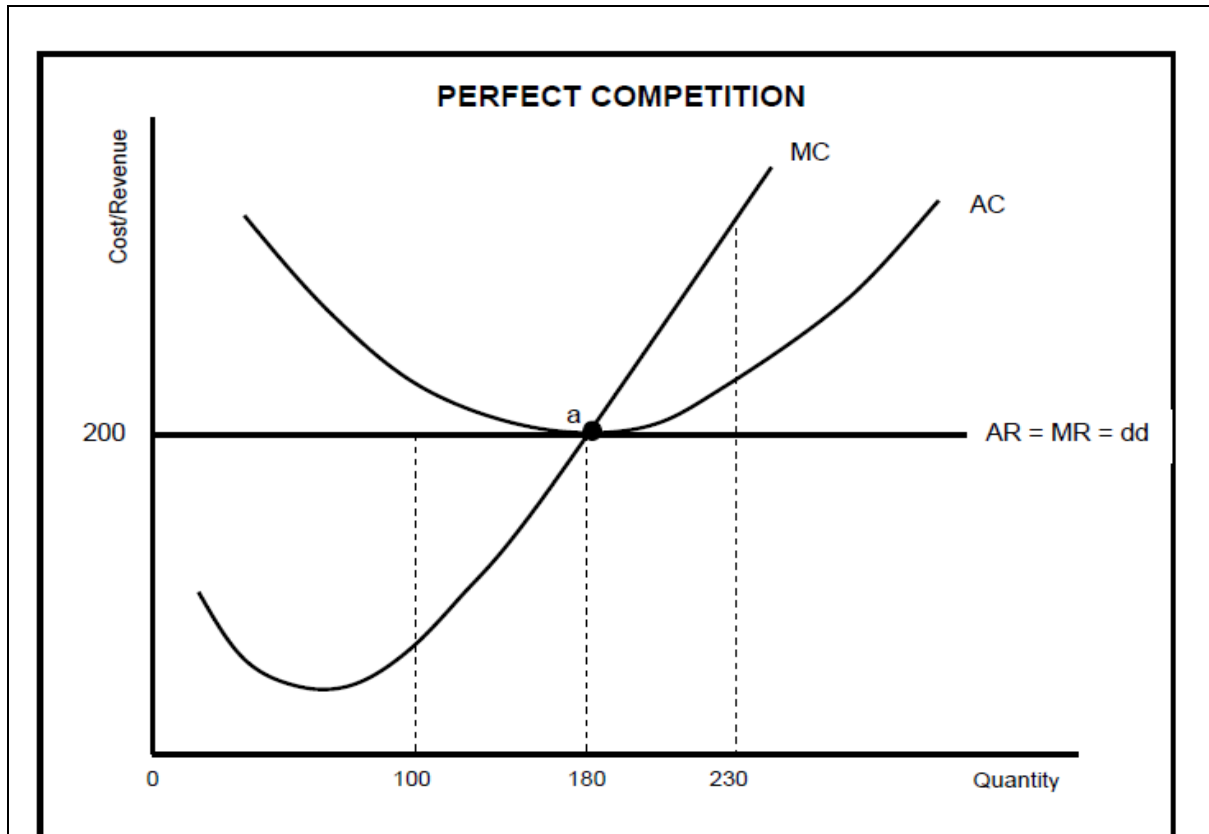
5.2 Why would a firm under perfect market find it impossible to increase the price of a product? (1 x 2) (2) **KZN/Sep.2019**

**Typical Exam questions**

**6. Data-response questions**

- These types of questions are of a middle cognitive level.
- Are found in Section B of the NSC examination question papers e.g. 2.2, 2.3, 3.2, 3.3, 4.2, and 4.3.
- They are in the form of graph/cartoon/ table/ extract/ real data or a combination of an extract and a graph/ cartoon/ table.
- Items in the data response questions range from easy to difficult questions (scaffolding).

6.1 Study the graph below and answer the questions that follow. **DBE/May - June 2019**



- 6.1.1 Identify the quantity the firm will produce at equilibrium point. (1)
- 6.1.2 Which curve represents the market price for the perfect competitor? (1)
- 6.1.3 Briefly describe the term normal profit. (2)
- 6.1.4 What would the impact on the market be if many firms leave this industry? (2)
- 6.1.5 Redraw the above graph and insert the average variable cost curve (AVC) to clearly indicate the shut-down point. (4)

6.2 Study the extract below and answer the questions that follow. Adapted from **DBE/Nov 2018**

### NEW AMENDMENTS TO COMPETITION ACT

The government introduced the Competition Act, 1998 (Act 89 of 1998) to promote competition and enhance the efficiency of the South African economy. The Competition Commission, Competition Tribunal and Competition Appeal Court play an important role in the administration of the Act.

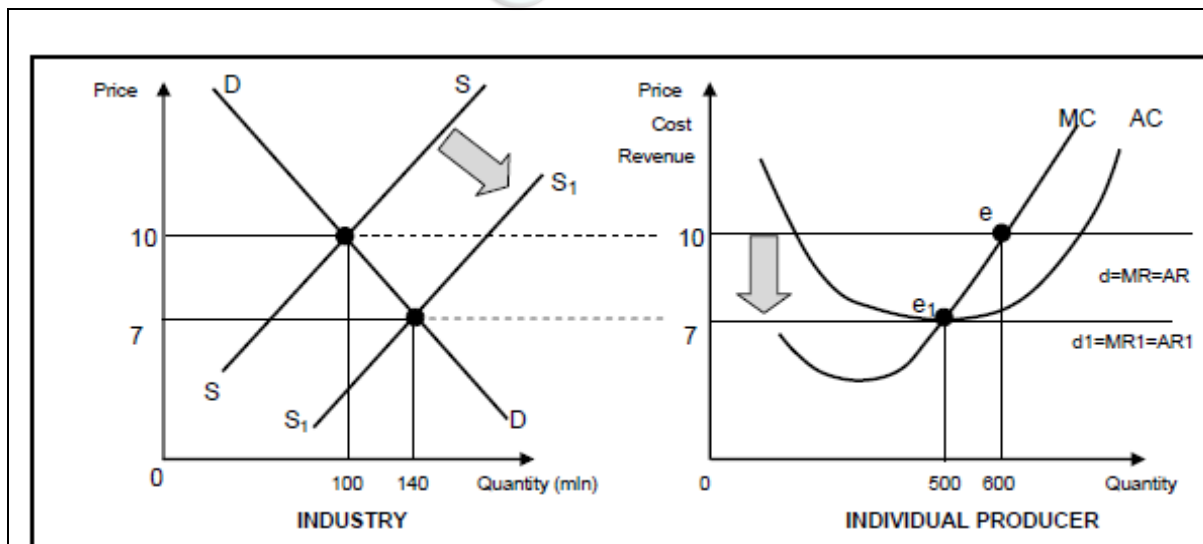
Companies that are suspected of collusion are investigated and if they are found guilty, they are fined heavily. In the new amendment of section 73A of the Competition Act, provision is made for new criminal sanctions to be imposed on individuals.

[Adapted from [Businesstech.co.za](http://Businesstech.co.za), 2016]

- 6.2.1 Which institution imposes fines on companies that are guilty of collusion? (1)
- 6.2.2 State any ONE aim of the competition policy. (1)
- 6.2.3 What is the role of the Competition Appeal Court? (2)
- 6.2.4 Briefly explain the benefit of competition for the consumer. (2)
- 6.2.5 How successful is the competition policy of South Africa? (2 x 2) (4)

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

DBE/Nov 2019



- 6.3.1 Where does the marginal cost curve (MC) intersect the average cost curve (AC)? (1)
- 6.3.2 Identify the price where the individual producer will make an economic profit. (1)
- 6.3.3 Briefly describe the term marginal cost. (2)
- 6.3.4 Why is the marginal revenue curve (MR) in the perfect market the same as the demand curve? (2)

6.3.5 Explain how long-run equilibrium is achieved in the market. (2 x 2) (4)

## 7. Paragraph Middle Order

- Consist of ONE single question e.g. explain, discuss, distinguish or differentiate, explain with the aid of a graph etc.
- 8 marks question are found in Section B of the NSC examination papers e.g. 2.4, 3.4 and 4.4
- Learners should explain or discuss in FULL SENTENCES. Listing or naming only is **NOT** encouraged, even when presenting answers in tables.

7.1 Explain the aims of South Africa's anti-monopolistic policy. (8) **DBE/Feb - Mar. 2018**

7.2 Use a graph of total cost (TC) and total revenue (TR) to explain profit maximisation in a perfect market. (8) **DBE/May - June 2019**

7.3 With the aid of a well-labelled graph (cost and revenue curves), explain the shut-down point for the individual firm in a perfect market. (8) **DBE/Nov 2018**

7.4 With the aid of graphs, briefly explain how price is determined for an individual producer in a perfect market. (8) **DBE/Nov 2018**

7.5 Explain the roles played by any TWO key institutions that monitor competition in South Africa. (8) **DBE/Feb.–Mar. 2017**



## 8. Paragraph Higher Order

- ONE single question e.g. How, Why, etc. for 8 marks and is found in Section B of the NSC examination papers e.g. Questions 2.5, 3.5 and 4.5
- Responses must give effect to the contextual demands of the question!

Other examples of paragraph questions of higher cognitive level:

- ❖ How is x related to y?
- ❖ What is the impact of b on c?
- ❖ What are the consequences of ...?
- ❖ How effective are...?
- ❖ Propose a solution to this problem
- ❖ Evaluate

8.1 Evaluate the success of the Competition Act in achieving its objectives. (8)  
**GP/Sep. 2019**

8.2 How will new entrants in the perfect competitive market impact on the profit levels of existing businesses? (8) **GP/Sep. 2017**

8.3 Why is competition in the marketplace good for the economy? (8)  
**MP/Sep 2019**

8.4 How can the anti-competitive policy benefit entrepreneurial activities? (8)  
**NW/Sep 2019**


**9. Essay Type Questions**

- When answering the main part of an essay, learners should write headings, sub-headings and provide examples for a maximum of 8 marks
- Explanations and discussions should be written in a point/bullet form in full sentences.
- Graphs should have a heading and be labelled and plotted correctly.
- The additional part of an essay should be of a higher cognitive level e.g. how can ..., why does..., evaluate, analyse, how successful is ..., propose or suggest ... etc.
- Learners should indicate the following when responding to an essay: introduction, main part, additional part and the conclusion.
- Essay-type questions should be **TWO-FOLDED** with the main part (26 marks) and the additional part (10 marks) as outlined in the table below:

<b>STRUCTURE OF ESSAY</b>	<b>MARK ALLOCATION</b>
<b>Introduction</b> <ul style="list-style-type: none"> <li>• A good starting point would be to define a concept or key word that appears in the question.</li> <li>• Include other sentences to support the topic.</li> <li>• Do not include in your introduction any part of the question.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max.2
<b>Body:</b>  <b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate  <b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/ Calculate/Deduce/Compare/Analyse/Distinguish/Interpret/Briefly debate/How/ Suggest	Max.26   Max.10
<b>Conclusion</b> <b>Any higher Order conclusion should include:</b> <ul style="list-style-type: none"> <li>• A brief summary of what was discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts already discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max.2
<b>TOTAL</b>	<b>40</b>

- 9.1 **Essay-type question** **DBE/Nov 2017**
- Explain, with the aid of THREE separate graphs, the following short-run equilibrium positions in a perfect market:
    - Economic profit (10 marks)
    - Economic loss (8 marks)
    - Normal profit (8 marks) (26 marks)
  - How successful is the competition policy in promoting a more competitive economy? (10 marks)
- [40]**

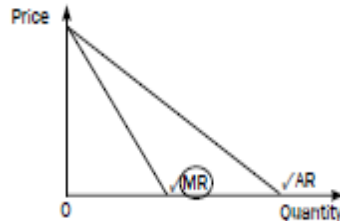
- 9.2 **Essay-type question** **Designed by the Developer**
- Compare and contrast a perfect market and an oligopoly in detail under the following headings:
    - Demand curve (8)
    - Profit (excluding graph) (6)
    - The nature of the product (6)
    - Entry into and exit from the market (6) (26)
  - Why is it impossible for a firm in a perfect market to make economic profit in the long run? (10)
- [40]**

- 9.3 **Essay-type question**  **Designed by the Developer**
- Compare perfect competition and monopolistic competition in detail under the following headings:
    - Demand curve (8)
    - The nature of the product (6)
    - Influence over the price (6)
    - Availability of information (6) (26)
  - What positive impact will an increase in competition have on South Africa? (10)
- [40]**

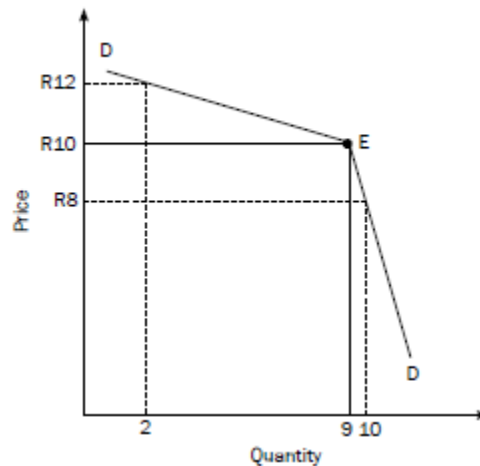
### IMPERFECT MARKETS

There are different types of imperfect markets, e.g. **monopolies, oligopolies and monopolistic competition**. An imperfect market is characterised by **imperfect competition**. Some participants have earlier or exclusive access to information that benefits them in the marketplace at the expense of their competitors. Certain participants will be able to access the market more easily than other participants, i.e. the supply of and demand for products will not be equal, and the matching of buyers to sellers will not be immediate.

The demand curve of the monopoly and the monopolistic competition is downward sloping and it is represented by the AR curve below.



An oligopoly has a kinked demand curve which has two sections. The top section is elastic while the bottom section is inelastic as depicted in the graph below.

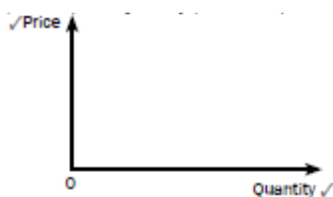


Oligopoly and monopolistic competition use non-price competition to increase sales. One of the reasons why oligopoly differs with monopoly and monopolistic competition is because there is collusion in oligopoly which takes the form of cartels and price leadership.

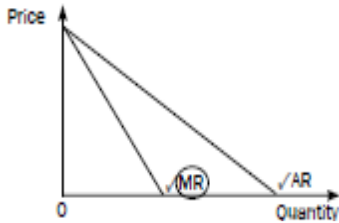
#### Exam tips

**Tips on how to draw economic profit for a monopoly:**

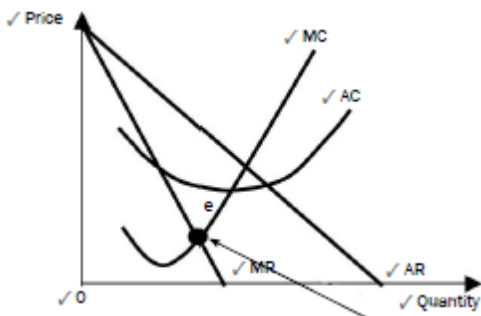
- a) **Step 1:** Draw your two axes: First, draw your TWO axes: Price (vertical) and Quantity (horizontal) remember, they meet at the origin (0). Everything counts for marks – do not leave out anything. Now go to step 2.



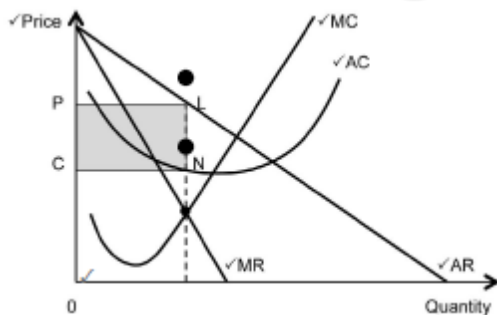
- b) **Step 2:** The two revenue curves start on the price axis and move down to meet the quantity axis. Draw these axes now. Then go to step 3.



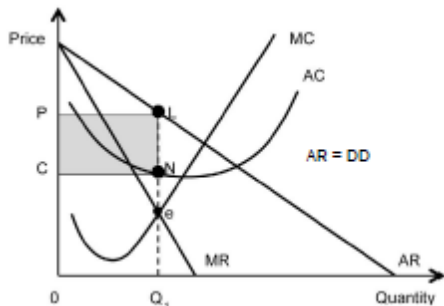
- c) **Step 3:** This MC curve intersects the AC curve at the minimum point of the AC curve.



- d) **Step 4:** The most important point on the graph is where  $MC = MR$  (look for the dot ●). At this point: equilibrium/maximum profit/profit maximisation is reached (all the same point).  
 e) **Step 5:** This dot is extended upwards and downwards. Your cost occurs where it meets the AC curve, and your market price occurs where it meets the AR curve (demand curve). Remember, a monopoly company will determine the price.



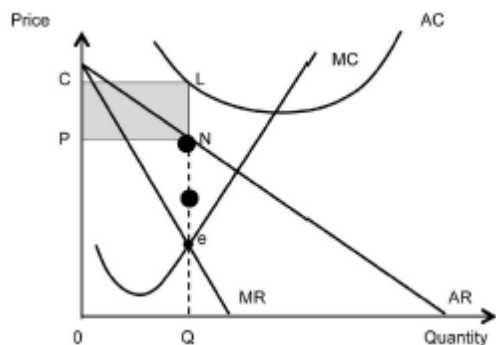
- f) The graph below shows economic profit made by a monopoly.



- g) Practice drawing step a – f. Draw these over and over until you do not make any mistakes  
 h) The technical aspects need to be reinforced, e.g. the correct shape, positioning and labelling of cost and revenue curves in the perfect markets.



- i) The average cost curve (looks like a 'smile') must always be drawn before the marginal cost curve (looks like a 'tick'). This will ensure that the MC always intersects the AC at its minimum point.
- j) **Take note:** some people argue that a monopolist always makes economic profit. This is not the case. Profitability of a monopolist depends on the demand for the product as well as the cost of production.
- k) The monopoly suffers short term losses when the AC curve lies above the AR or demand curve. The graph below shows economic loss made by a monopoly.



- l) Remember that monopoly and oligopoly make economic profit in the long run but monopolistic competition makes normal profit in the long run.
- m) **Essay-writing:** practice to compare imperfect markets e.g. monopoly with oligopoly, monopoly with monopolistic competition, monopolistic competition with oligopoly.
- n) Remember the formula for the following calculations: profits/losses, TC, FC, VC, AFC, AVC, AC, MC, TR, AR, and MR. Always show ALL calculations. Do not write the answer only.
- o) When discussing collusion relate to current examples of collusive behaviour.

**Warm Up questions or Practice Questions  
(Short Questions)**

**1. Multiple Choice**

- Multiple-choice questions are found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- Multiple-choice should have 4 POSSIBLE (A-D) options NOT 3 options.
- Learners should attempt to answer these questions. They should not leave blank spaces.
- Learners should not choose TWO options e.g. A & B. Guesswork is not encouraged.

1.1 A monopolist will maximise his revenue where his marginal revenue is equal to ...

- A one.
- B marginal cost.
- C zero.
- D the market price.

1.2 Products of a monopolistic market are ...

- A differentiated.
- B homogeneous.
- C unique.
- D identical.

- 1.3 An example of monopolistic competition in South Africa is ...
- A the banking sector.
  - B car manufacturers.
  - C fast-food outlets.
  - D Eskom.
- 1.4 In a monopoly market, entry is ...
- A completely blocked.
  - B relatively restricted.
  - C completely free
  - D easy but difficult
- 1.5 The supply curve of the oligopolistic competitor is ... sloped.
- A negatively
  - B horizontally
  - C positively
  - D vertically

## 2. Match the Concepts

- Matching items are found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- Learners should choose a description from COLUMN B that matches the item in COLUMN A.
- These questions test the learners' knowledge of concepts for each topic.
- Learners should not leave any question unanswered.

Column A	Column B
2.1 Oligopoly	A method of building customer loyalty by choosing one product instead of another
2.2 Patent	B a market structure with one supplier
2.3 Branding	C group of producers that operates similarly to a collective monopoly
2.4 Cartel	D an example of tacit collusion in an oligopoly market with regard to pricing
2.5 Monopoly	E A market structure where only a few sellers operate.
	F the exclusive right to manufacture a product

3 Provide the economic **term/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.*

- Providing a term is found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- These questions test the learners' knowledge of concepts for each topic.
- Learners should not leave any question unanswered.

3.1 An industry that is dominated or controlled by two producers

3.2 An imperfect market structure that makes a normal profit in the long run

3.3 An example of tacit collusion where a dominant firm will set the price and the others will follow

3.4 Products that vary in appearance, size and quality

3.5 A group of producers whose goal is to form a collective monopoly in order to fix prices and limit supply and competition

4. **List/Name/Give**

- List/Name type of questions are regarded as short questions of **lower cognitive level** and are found in Section B of the NSC examination papers e.g. Questions **2.1.1, 3.1.1** and **4.1.1**.
- The above questions are allocated 2 marks e.g. Name any TWO ... (2 x 1) (2).
- Learners should only list or name, therefore explanations and discussions are not needed.

4.1 Name any TWO characteristics of monopolistic competition. (2 X 1) (2) **DBE/May - June 2019.**

4.2 Name TWO methods of non-price competition. (2 x 1) (2) **DBE/Feb.–Mar. 2017**

5. **How and why type questions?**

- Short middle order questions are found in Section B of the NSC examination papers e.g. Questions **2.1.2, 3.1.2** and **4.1.2**.
- Examples are what, how and why questions of 2 marks.
- Learners must be guided by the mark allocation when answering the question e.g. Why ... (2 marks) will require ONE discussion point.
- Responses must give effect to the contextual demands of the question!

5.1 Why is it difficult for new firms to enter an oligopoly market? (1 x 2) (2) **DBE/Feb.–Mar. 2018**

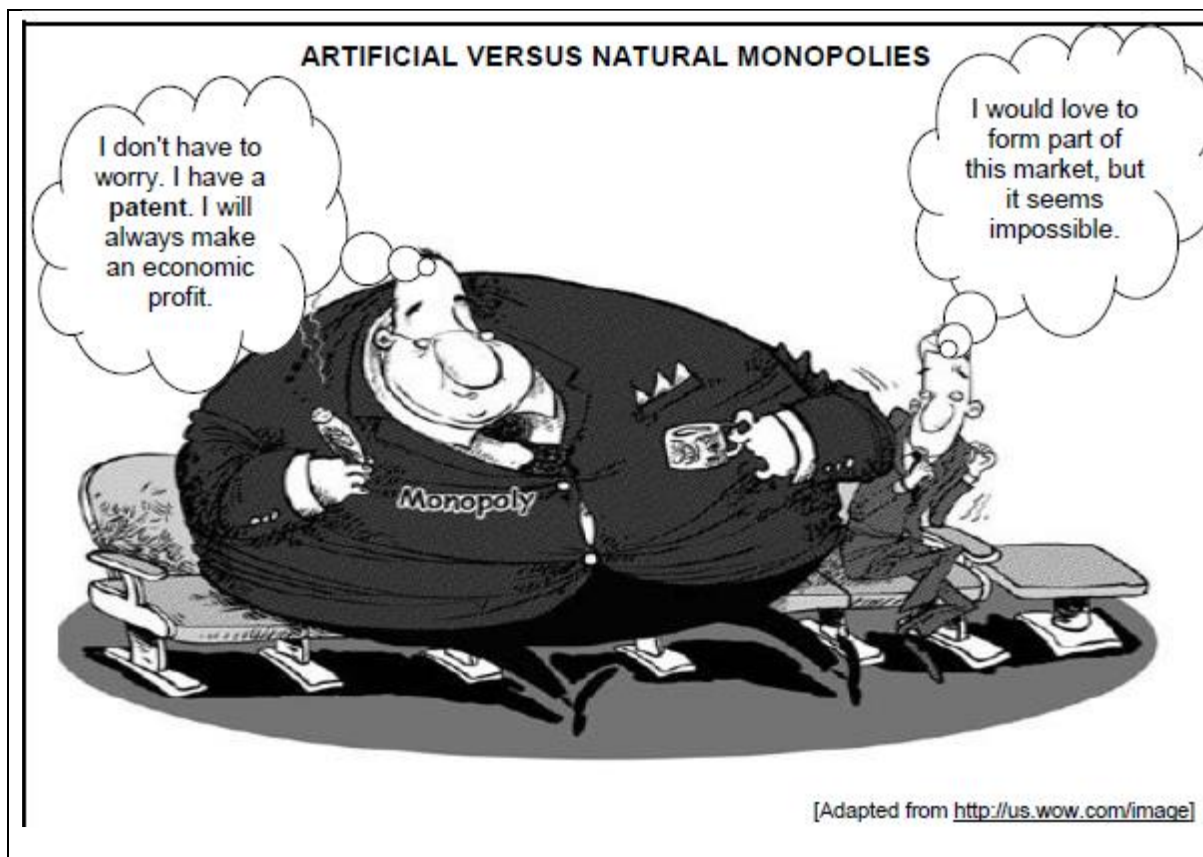
5.2 Why is there a high degree of interdependence between firms in an oligopoly market? (1 x 2) (2) **DBE/May –June. 2018**

## Typical Exam questions

### 6. Data-response questions

- These types of questions are of a middle cognitive level.
- Are found in Section B of the NSC examination question papers e.g. 2.2, 2.3, 3.2, 3.3, 4.2, and 4.3.
- They are in the form of graph/cartoon/ table/ extract/ real data or a combination of an extract and a graph/ cartoon/ table.
- Items in the data response questions range from easy to difficult questions (scaffolding).

6.1 Study the cartoon below and answer the questions that follow. **DBE/Feb.–Mar. 2018**



- 6.1.1 Identify the type of monopoly depicted in the cartoon. (1)
- 6.1.2 How many firms usually dominate this type of market? (1)
- 6.1.3 Describe the nature of the product produced by a monopoly. (2)
- 6.1.4 How are natural monopolies created? (2)
- 6.1.5 Why will this monopolist always make economic profit in the long run? (2 X 2) (4)

6.2 Read the extract below and answer the questions that follow. **DBE/May –June. 2018**

**BANKING CARTEL HITS SOUTH AFRICAN RAND HARD**

Three South African banks have been implicated in 'widespread' collusion relating to the price-fixing of the rand. It has been alleged that currency traders have been buying and selling US dollars in exchange for the rand at fixed prices. This was accomplished by making false sales to drive up demand, or colluding to agree not to trade for specific periods of time.

These trade practices have resulted in the depreciation of the rand. It consequently affected South Africa's import and export trade directly.

[Adapted from [Businessstech.co.za](http://Businessstech.co.za), 2016]

- 6.2.1 Identify ONE way in the extract in which the banks colluded regarding the exchange of the dollar for the rand at fixed prices. (1)
- 6.2.2 To what kind of market structure does the extract refer? (1)
- 6.2.3 Briefly describe the term cartel. (2)
- 6.2.4 Explain the view of the competition policy on the formation of cartels. (2)
- 6.2.5 How would cartels in the banking sector affect South Africa's foreign trade?  
(2 x 2) (4)

6.3 Study the information below and answer the questions that follow. **DBE/Nov 2018**

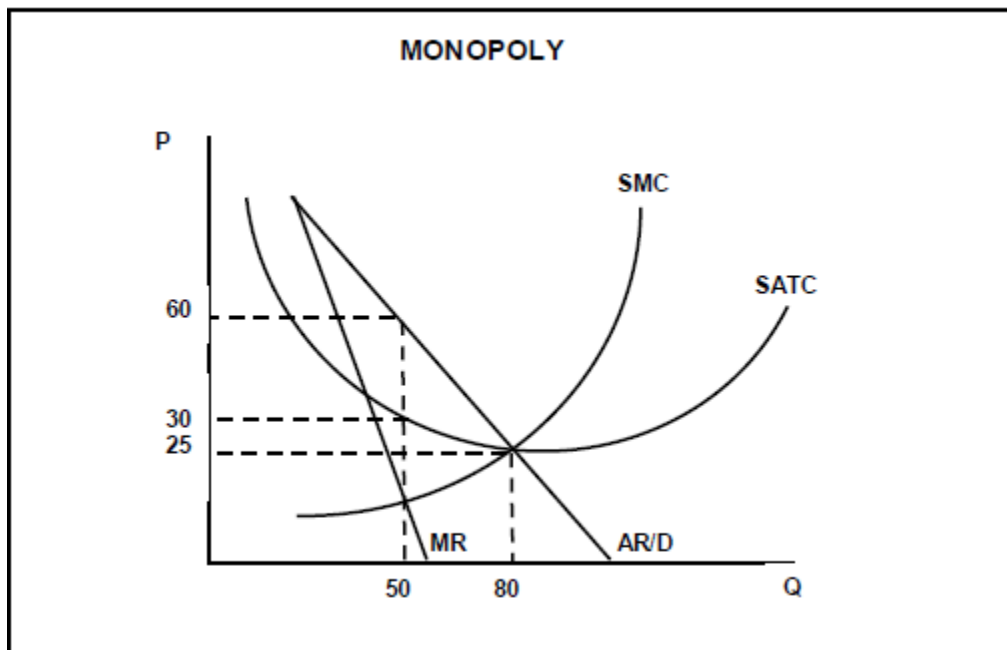
**FAST-FOOD RESTAURANTS IN THE MONOPOLISTIC COMPETITIVE MARKET**

South Africa's fast-food market is extremely competitive, as many sellers fight it out for their share of the consumer market. The fast-food industry accounts for about 40% of the total consumer food-service sales in South Africa, e.g. Fishaways selling fish and Steers selling hamburgers. It is regarded as a hybrid market structure.

[Adapted from City Press, February 2017]

- 6.3.1 Give ONE example of a monopolistic competitor that specialises only in chicken. (1)
- 6.3.2 Identify the concept that describes a combination of perfect competition and monopoly. (1)
- 6.3.3 Why does branding play a major role in monopolistic competition? (2)
- 6.3.4 Why businesses in the monopolistic competitive market prefer to compete on a non-price basis. (2)
- 6.3.5 Why will the economic profit made by a monopolistic competitor disappear in the long run?  
(2 x 2) (4)

6.4 Study the graph below and answer the questions that follow. **DBE/Feb.–Mar. 2017**



- 6.4.1 What is the selling price for the monopolist? (1)
- 6.4.2 Does the equilibrium position above represent a short run or a long run? (1)
- 6.4.3 Why will a monopolist always make economic profit in the long run? (2)
- 6.4.4 What is the requirement for this monopoly to be classified as an artificial monopoly? (2)
- 6.4.5 Calculate the total profit that this monopolist is making. Show ALL calculations. (4)

## 7. Paragraph Middle Order

- Consist of ONE single question e.g. explain, discuss, distinguish or differentiate, explain with the aid of a graph etc.
- 8 marks question are found in Section B of the NSC examination papers e.g. 2.4, 3.4 and 4.4
- Learners should explain or discuss in FULL SENTENCES. Listing or naming only is **NOT** encouraged, even when presenting answers in tables.

7.1 Draw a fully labelled graph to illustrate the long-run equilibrium of the monopoly.

**DBE/May –June. 2018**

7.2 Compare monopolistic competition with perfect competition. (8)**DBE/Feb.–Mar. 2017**

7.3 Discuss the challenges a monopolist will face if excessively high prices are charged for the products. (8) **DBE/May - June. 2019**

7.4 With the aid of a graph, explain the kinked demand curve. (8)  
**MP/Sep 2019**

7.5 Distinguish between natural and artificial monopolies (8)**NW/Sep 2019**

## 8. Paragraph Higher Order

- ONE single question e.g. How, Why, etc. for 8 marks and is found in Section B of the NSC examination papers e.g. Questions 2.5, 3.5 and 4.5
- Responses must give effect to the contextual demands of the question!

Other examples of paragraph questions of higher cognitive level:

- ❖ How is x related to y?
- ❖ What is the impact of b on c?
- ❖ What are the consequences of ...?
- ❖ How effective are...?
- ❖ Propose a solution to this problem
- ❖ Evaluate

8.1 Why do oligopolies often collude, although it is illegal in South Africa? (8)

**DBE/Feb.–Mar. 2018**

8.2 What positive impact will an increase in suppliers of electricity have on South Africa? (8) **EC/Sep. 2019**

8.3 Evaluate the impact of collusion on the economy. (8) **DBE/November 2018**

8.4 Evaluate the impact of imperfect competition on consumers. (8)

**DBE/November 2019**

8.5 How will a monopolistic competitor, like KFC, compete with other fast-food chicken outlets to increase its market share? (8) **DBE/Nov 2017**

## 9 Essay Type Questions

- When answering the main part of an essay, learners should write headings, sub-headings and provide examples for a maximum of 8 marks
- Explanations and discussions should be written in a point/bullet form in full sentences.
- Graphs should have a heading and be labelled and plotted correctly.
- The additional part of an essay should be of a higher cognitive level e.g. how can ..., why does..., evaluate, analyse, how successful is ..., propose or suggest ... etc.
- Learners should indicate the following when responding to an essay: introduction, main part, additional part and the conclusion.
- Essay-type questions should be **TWO-FOLDED** with the main part (26 marks) and the additional part (10 marks) as outlined in the table below:

<b>STRUCTURE OF ESSAY</b>	<b>MARK ALLOCATION</b>
<b>Introduction</b> <ul style="list-style-type: none"> <li>• A good starting point would be to define a concept or key word that appears in the question.</li> <li>• Include other sentences to support the topic.</li> <li>• Do not include in your introduction any part of the question.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max.2
<b>Body:</b>  <b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate  <b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/ Calculate/Deduce/Compare/Analyse/Distinguish/Interpret/Briefly debate/How/ Suggest	Max.26          Max.10
<b>Conclusion</b> <b>Any higher Order conclusion should include:</b> <ul style="list-style-type: none"> <li>• A brief summary of what was discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts already discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max.2
<b>TOTAL</b>	<b>40</b>

9.1 **Essay-type question DBE/May - June. 2019**

- Discuss in detail, without the use of graphs, the market structure of an oligopoly. (26 marks)
- How effective is the competition policy in regulating mergers and takeovers in South Africa? (10 marks)

**[40]**

9.2 **Essay-type question Designed by the Developer**

- Compare oligopoly and monopolistic competition under the following headings:
  - Demand curve (with graphs) (10)
  - Profit (6)
  - The nature of the product (6)
  - Entry and exit (4) (26 marks)
- How does a monopolistic competitor survive competition in the market? (10)

**KZN/Sep 2019**

**[40]**



## MARKET FAILURES & CBA

**Market failure** occurs when the market system is unable to achieve an efficient allocation of scarce resources, and is not able to achieve the best available outcomes. Resources are misallocated. Some people do not receive the goods and services they need, there are shortages or surpluses, there is wastage of resources and prices are not fair. Pareto efficiency is not achieved. The interaction of market forces does not always ensure that the correct quantity of goods and services are produced to meet demand.

The following factors lead to the misallocation of resources in the market:

- ❖ Externalities
- ❖ Missing markets
- ❖ Imperfect competition
- ❖ Lack of information
- ❖ Immobility of factors of production
- ❖ Imperfect distribution of income and wealth

When markets fail, there will most likely be three consequences which are:

- ❖ Inefficiencies
- ❖ Externalities (positive and negative)
- ❖ Government intervention

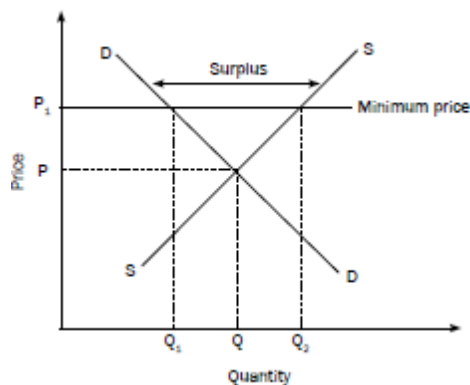
Due to the reason that the free market fails to allocate resources efficiently, the government intervenes. The government uses various methods to correct market failures such as the following:

- a) Direct controls
- b) Competition policy to monitor and regulate **imperfect markets**
- c) minimum wages
- d) maximum prices/price ceilings
- e) minimum prices/price floors
- f) Taxes and subsidies
- g) Redistribution of wealth
- h) Other ways to improve income distribution and overcome market failure such as social grants, prevention of misleading advertisements, public works programme etc.

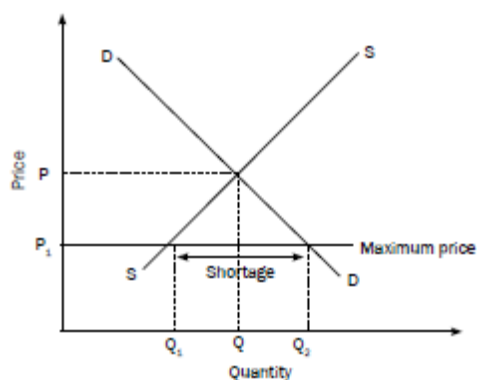
**Cost benefit analysis** (CBA) is an analysis done by government which weighs the costs and benefits of a project to determine whether it should be carried out. In the private sector **feasibility studies** are done which also provides for legal aspects relating to externalities. CBA brings greater objectivity to decision making.

### Exam tips

- ❖ Use **mnemonic code** as a strategy to remember the 6 causes of market failure. A mnemonic code is a useful technique for learning information that is difficult to remember.
  - **E** – Externalities
  - **M** – Missing markets
  - **I** – Imperfect Competition
  - **L** – Lack of information
  - **I** – Immobility of factors of production
  - **I** – Imperfect distribution of income and wealth
- ❖ Do not confuse minimum price and maximum price. A minimum price does not necessarily mean that the price is low and on the other hand the maximum price does not mean that the price is high.
  - A **minimum price** is a price which is charged at some point **above the equilibrium price**. Businesses cannot charge a lower price than the minimum price hence it is referred to as a **price floor**. Minimum price leads to higher price being charged at  $P_1$  in the graph below



- A **maximum price** is a price which is charged at some point **below the equilibrium price**. Businesses cannot charge a price above the maximum price, hence it is referred to as a **price ceiling**. Maximum price leads to lower price being charged at  $P_1$  in the graph below.



- ❖ Practise to draw and interpret the following with the aid of graphs: minimum wage, minimum price, maximum price, taxation and subsidies.

**Warm Up questions or Practice Questions  
(Short Questions)**

**1. Multiple Choice**

- Multiple-choice questions are found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- Multiple-choice should have 4 POSSIBLE (A-D) options NOT 3 options.
- Learners should attempt to answer these questions. They should not leave blank spaces.
- Learners should not choose TWO options e.g. A & B. Guesswork is not encouraged.

- 1.1 A social benefit is the sum of private benefit and ...
- A external benefit.
  - B internal benefit.
  - C private cost.
  - D marginal cost.
- 1.2 Public goods are provided and funded by ...
- A markets.
  - B factories.
  - C governments.
  - D companies.
- 1.3 The government can introduce ... to increase the mobility of labour.
- A taxes
  - B poverty
  - C inflation
  - D training programmes
- 1.4 The effect of a minimum price will increase the ... goods.
- A demand for
  - B supply of
  - C consumption of
  - D spending on
- 1.5 Price floor is the ... price which by law a firm is allowed to charge for its products
- A maximum
  - B average
  - C highest
  - D minimum

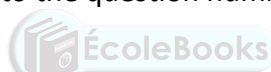
**2. Match the Concepts**

- Matching items are found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- Learners should choose a description from COLUMN B that matches the item in COLUMN A.

- These questions test the learners' knowledge of concepts for each topic.
- Learners should not leave any question unanswered.

Column A	Column B
2.1 Minimum wages	A when it is impossible to increase the welfare of one person without decreasing the welfare of another
2.2 Externality	B set below market equilibrium to make goods more affordable
2.3 Maximum prices	C incomplete because it cannot meet the demand for certain goods
2.4 Missing markets	D set above market equilibrium to allow producers to make fair profit
2.5 Pareto efficiency	E spillover effects of an economic activity on third parties
	F The wage rate set by government, below which no employer can pay his/her workers

3 Provide the economic **term/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.*



- Providing a term is found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- These questions test the learners' knowledge of concepts for each topic.
- Learners should not leave any question unanswered.

- 3.1 An analysis done by government which weighs the costs and benefits of a project to determine whether it should be carried out.
- 3.2 A financial grant from the government to support the production of a particular product
- 3.3 The wage rate set by government, below which no employer can pay his/her workers
- 3.4 Third party effects, such as the cost of pollution, that is not included in the market price
- 3.5 When a firm produces output that does not meet consumer preferences.

#### 4. List/Name/Give

- List/Name type of questions are regarded as short questions of **lower cognitive level** and are found in Section B of the NSC examination papers e.g. Questions **2.1.1, 3.1.1** and **4.1.1**.
- The above questions are allocated 2 marks e.g. Name any TWO ... (2 x 1) (2).
- Learners should only list or name, therefore explanations and discussions are not needed.

4.1 Name TWO features of public goods. (2 x 1) (2) **DBE/Nov 2019**

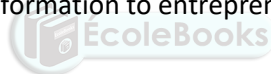
4.2 Give any TWO examples of positive externalities. (2 x 1) (2) **DBE/Nov 2017**

#### 5. How and why type questions?

- Short middle order questions are found in Section B of the NSC examination papers e.g. Questions **2.1.2, 3.1.2** and **4.1.2**.
- Examples are what, how and why questions of 2 marks.
- Learners must be guided by the mark allocation when answering the question e.g. Why ... (2 marks) will require ONE discussion point.
- Responses must give effect to the contextual demands of the question!

5.1 Why does the government sometimes set minimum prices (price floors) for certain products? (1 x 2) (2) **DBE/Feb.–Mar. 2018**

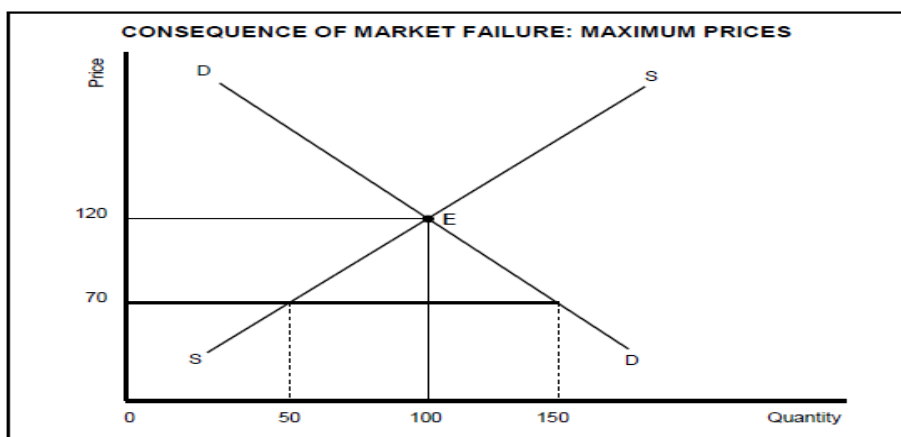
5.2 Why would a lack of information to entrepreneurs lead to market failure? (1 X 2) (2) **DBE/May - June 2019**



#### 6. Data-response questions

- These types of questions are of a middle cognitive level.
- Are found in Section B of the NSC examination question papers e.g. 2.2, 2.3, 3.2, 3.3, 4.2, and 4.3.
- They are in the form of graph/cartoon/ table/ extract/ real data or a combination of an extract and a graph/ cartoon/ table.
- Items in the data response questions range from easy to difficult questions (scaffolding).

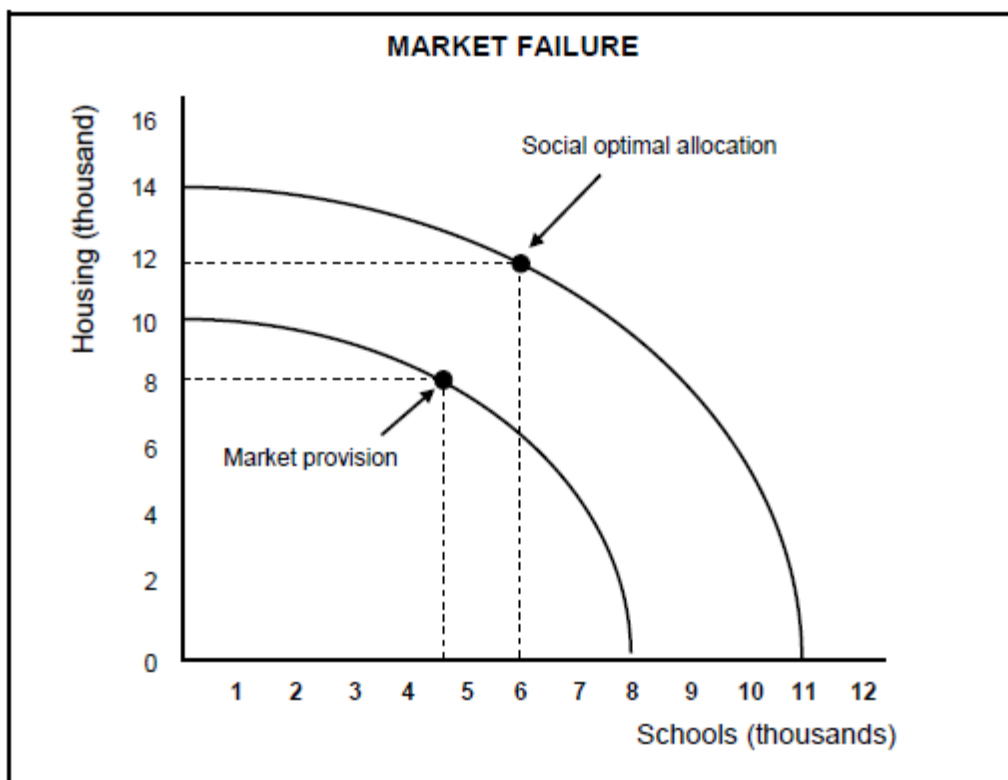
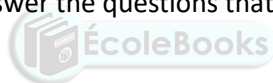
6.1 Study the graph below and answer the questions that follow. **DBE/May – June 2018**



- 6.1.1 What is the equilibrium price in the graph above? (1)
- 6.1.2 Identify the quantity of goods above which will be supplied if a maximum price of R70 is implemented. (1)
- 6.1.3 Briefly describe the term *market failure*. (2)
- 6.1.4 Why will a government implement maximum prices of certain goods? (2)
- 6.1.5 Use the graph to explain the impact of maximum prices on the market. (2 x 2) (4)

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

DBE/May - June 2019



- 6.2.1 Identify the number of houses the market will provide if all resources were spent on houses. (1)
- 6.2.2 How many schools should the government provide to reach the social optimum allocation? (1)
- 6.2.3 Briefly describe the term *market failure*. (2)
- 6.2.4 Why are markets reluctant to produce public goods such as roads? (2)
- 6.2.5 How can the government ensure macroeconomic stability through their involvement in production? (2 X 2) (4)

6.3 Study the extract below and answer the questions that follow. **DBE/May - June2019**

**COST BENEFIT ANALYSIS (CBA)**

We live in a world of scarce resources, so we need to set priorities and make choices about how to allocate resources. The CBA provides us with a tool that could be used in this decision-making process. Calculations in a CBA should be done by using market prices.

[Source: [www.google.com](http://www.google.com)]

- 6.3.1 In which sector is the cost benefit analysis generally used? (1)
- 6.3.2 Give any ONE redress method used by government to enforce the redistribution of income. (1)
- 6.3.3 Briefly describe the term *cost-benefit analysis*. (2)
- 6.3.4 Why is it necessary to do a cost benefit analysis for large projects? (4)
- 6.3.5 Why are some projects undertaken although the financial cost is very high? (2 x 2) (4)

**7. Paragraph Middle Order**

- Consist of ONE single question e.g. explain, discuss, distinguish or differentiate, explain with the aid of a graph etc.
- 8 marks question are found in Section B of the NSC examination papers e.g. 2.4, 3.4 and 4.4
- Learners should explain or discuss in FULL SENTENCES. Listing or naming only is **NOT** encouraged, even when presenting answers in tables.

- 7.1 Briefly discuss productive inefficiency and allocative inefficiency in terms of market failure. (8) **DBE/Nov 2019**
- 7.2 With the aid of a graph, explain the impact of minimum prices on the market. (8) **DBE/Nov 2019**

- 7.3 Briefly discuss merit and demerit goods as a cause of market failure. (8)  
**DBE/May – June 2018**
- 7.4 Briefly discuss the reasons for a cost-benefit analysis (CBA). (8)  
**DBE/May – June 2018**
- 7.5 With the aid of a graph, explain the impact of state subsidies on the production of goods and services. (8) **GP/Sep. 2019**

## 8. Paragraph Higher Order

- ONE single question e.g. How, Why, etc. for 8 marks and is found in Section B of the NSC examination papers e.g. Questions 2.5, 3.5 and 4.5
- Responses must give effect to the contextual demands of the question!  
Other examples of paragraph questions of higher cognitive level:
  - ✓ How is x related to y?
  - ✓ What is the impact of b on c?
  - ✓ What are the consequences of ...?
  - ✓ How effective are...?
  - ✓ Propose a solution to this problem
  - ✓ Evaluate



- 8.1 Evaluate the success of the government intervention in markets in distributing wealth. (8) **EC/Sep 2019**
- 8.2 Evaluate the success of the South African government interventions to discourage the consumption of demerit goods. (8) **MP/Sep 2019**
- 8.3 Assess the impact of producer subsidies in the economy. (8)  
**FS/Sep 2019**
- 8.4 Why is it necessary to implement a national minimum wage in South Africa?(8)  
**GP/Sep 2017**
- 8.5 Explain why governments sometimes proceed with a project even if the private costs exceed the private benefits in a cost-benefit analysis. (8) **DBE/Feb.– Mar. 2017**

## 9. Essay Type Questions

- When answering the main part of an essay, learners should write headings, sub-headings and provide examples for a maximum of 8 marks
- Explanations and discussions should be written in a point/bullet form in full sentences.
- Graphs should have a heading and be labelled and plotted correctly.



- The additional part of an essay should be of a higher cognitive level e.g. how can ..., why does..., evaluate, analyse, how successful is ..., propose or suggest ... etc.
- Learners should indicate the following when responding to an essay: introduction, main part, additional part and the conclusion.
- Essay-type questions should be **TWO-FOLDED** with the main part (26 marks) and the additional part (10 marks) as outlined in the table below:

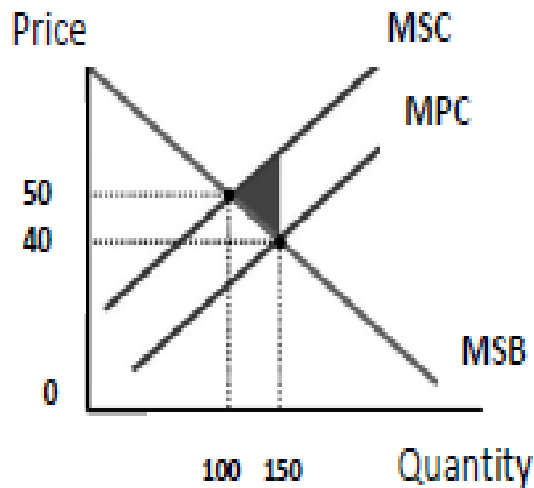
STRUCTURE OF ESSAY	MARK ALLOCATION
<p><b>Introduction</b></p> <ul style="list-style-type: none"> <li>• A good starting point would be to define a concept or key word that appears in the question.</li> <li>• Include other sentences to support the topic.</li> <li>• Do not include in your introduction any part of the question.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max.2
<p><b>Body:</b></p> <p><b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate</p> <p><b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/ Calculate/Deduce/Compare/Analyse/Distinguish/Interpret/Briefly debate/How/ Suggest</p>	<p>Max.26</p> <p>Max.10</p>
<p><b>Conclusion</b></p> <p><b>Any higher Order conclusion should include:</b></p> <ul style="list-style-type: none"> <li>• A brief summary of what was discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts already discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max.2
<b>TOTAL</b>	<b>40</b>

**9.1 Essay-type question Adapted from DBE/Feb.–Mar. 2018**

- Discuss the following causes of market failure without using any graphs:
  - Externalities (13 marks)
  - Missing markets (13 marks) (26 marks)
- What effect does a negative externality have on production levels? (10 marks)

**9.2 Essay-type question DBE/November 2018**

- Discuss, with the aid of graphs, the consequences of market failure under the following headings:
  - Producer subsidies (8 marks)
  - Maximum prices (8 marks)
  - Minimum wages (10 marks) (26 marks)
- With reference to the graph below, analyse how a negative externality can result in the misallocation of resources.



(10)

[40]



## INFLATION

**Inflation** is a continuous increase in the general price level of goods and services over a certain period of time. At the same time, there is a decline in the buying power of money. Methods which are used to measure inflation are as follows:

- ❖ Indexes
- ❖ Weighting
- ❖ Inflation rate

The South African Reserve Bank (SARB) is responsible to maintain price stability with the use of the **monetary policy**. SARB keep inflation within **3% and 6% target**. The aim of inflation targeting is to keep the inflation rate at low and more stable levels.

**How to calculate inflation rate:**

$$\text{Inflation rate} = \frac{\text{CPI Year 2} - \text{CPI Year 1}}{\text{CPI Year 1}} \times \frac{100}{1}$$

**Causes of inflation:**

- a) **Demand-pull inflation** occurs when aggregate demand in an economy outpaces (is faster than) aggregate supply, even though gross domestic product rises and unemployment falls. Effectively, too much money is spent chasing too few goods.
- b) **Cost-push inflation** is caused by an increase in the cost of goods or services that are very important to the economy, and for which no alternatives exist. Examples can be spikes in the

oil price due to war, huge price rises in essential food products due to drought, or excessive increases in the cost of labour due to control of industries by trade unions.

Fiscal measures, monetary measures and other measures can be used to combat inflation.

### Exam tips

- ❖ Learners should familiarise themselves with the current economic affairs to be able to interpret and analyse data as well as to respond to questions of higher cognitive level.
- ❖ The current inflation rate should be investigated by the learners.
- ❖ Learners should have knowledge of the following CONCEPTS/TERMS to master the content:
  - Core inflation
  - Headline inflation
  - Administered price inflation
  - Deflation
  - Hyper inflation
  - Stagflation
  - Demand-pull inflation
  - Cost-push inflation
  - Consumer price index
  - Production price index
- ❖ Knowledge of the equation which is used to calculate inflation rate is crucial.
- ❖ Remember that a fiscal policy is implemented by the department of Finance while the monetary policy is implemented by SARB.
- ❖ Remember that there are THREE types of consumer inflation, namely: core inflation, headline inflation and administered price inflation.

### Warm Up questions or Practice Questions (Short Questions)

#### 1. Multiple Choice

- Multiple-choice questions are found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- Multiple-choice should have 4 POSSIBLE (A-D) options NOT 3 options.
- Learners should attempt to answer these questions. They should not leave blank spaces.
- Learners should not choose TWO options e.g. A & B. Guesswork is not encouraged.

1.1 Low growth, high unemployment and high rates of inflation are characteristics of ...

- A stagflation.
- B inflation
- C hyperinflation
- D deflation

1.2 The South African Reserve Bank is responsible for implementing ... policy.

- A fiscal
- B domestic
- C monetary
- D foreign trade

1.3 The institution that publishes the consumer price index on a monthly basis is ...

- A the Department of Finance.
- B the Department of Tourism.
- C the South African Revenue Services.
- D Statistics South Africa.

1.4 Cost-push inflation can be caused by ...

- A lower wages.
- B a decrease in input costs.
- C exchange rate depreciation.
- D increase in productivity

1.5 Deflation is described as a decline in the ... over a period of time.

- A salaries of all workers
- B Gross Domestic Product
- C prices of certain products
- D general price level

## 2. Match the Concepts

- Matching items are found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- Learners should choose a description from COLUMN B that matches the item in COLUMN A.
- These questions test the learners' knowledge of concepts for each topic.
- Learners should not leave any question unanswered.

Column A	Column B
2.1 Monetary Policy Committee	A excludes products with volatile prices B measured where imported goods enter the country and manufactured goods leave the factory
2.2 Weighted index	C make decisions on repo (repurchase) rate D shows the relative importance of an item in a basket of goods and services that are used to calculate inflation
2.3 Inflation	E condition where a country experiences low economic growth, high unemployment and high inflation simultaneously
2.4 Stagflation	F an increase in the general price level in a particular year
2.5 Core inflation	

3 Provide the economic **term/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.*

- Providing a term is found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- These questions test the learners' knowledge of concepts for each topic.
- Learners should not leave any question unanswered.

3.1 This type of inflation excludes items that show a high price volatility from the CPI basket of goods.

3.2 An extreme increase in price of more than 50% per month

3.3 Prices on certain goods that are set or controlled by government, for example petrol

3.4 Low growth, high unemployment and high inflation rates occur simultaneously

3.5 Type of inflation that measures price changes to all final goods and services, not only those in the selected basket

#### 4. List/Name/Give

- List/Name type of questions are regarded as short questions of **lower cognitive level** and are found in Section B of the NSC examination papers e.g. Questions **2.1.1, 3.1.1** and **4.1.1**.
- The above questions are allocated 2 marks e.g. Name any TWO ... (2 x 1) (2).
- Learners should only list or name, therefore explanations and discussions are not needed.

4.1 Name TWO causes of cost-push inflation. (2 x 1) (2) **DBE/Feb.Mar. 2017**

4.2 Give any TWO examples of consumer inflation. (2 x 1) (2) **DBE/Nov 2018**

#### 5. How and why type questions?

- Short middle order questions are found in Section B of the NSC examination papers e.g. Questions **2.1.2, 3.1.2** and **4.1.2**.
- Examples are what, how and why questions of 2 marks.
- Learners must be guided by the mark allocation when answering the question e.g. Why ... (2 marks) will require ONE discussion point.
- Responses must give effect to the contextual demands of the question!

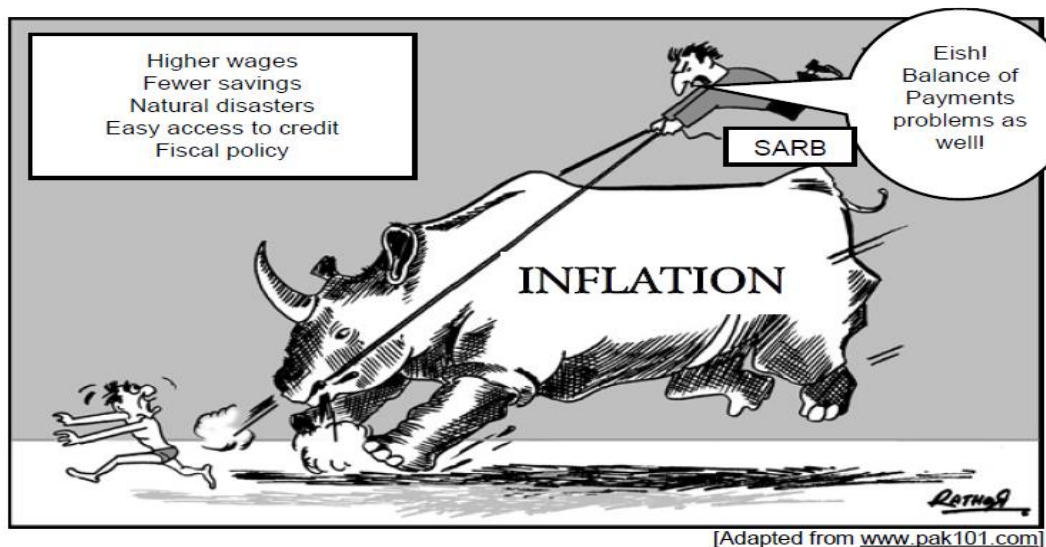
5.1 What do monetarists believe to be the main reason for inflation? (1 x 2) (2)  
**DBE/Feb.–Mar. 2018**

5.2 How is a reduction in taxes linked to demand pull inflation? (1 x 2) (2)  
**DBE/May – June 2018**

## 6. Data-response questions

- These types of questions are of a middle cognitive level.
- Are found in Section B of the NSC examination question papers e.g. 2.2, 2.3, 3.2, 3.3, 4.2, and 4.3.
- They are in the form of graph/cartoon/ table/ extract/ real data or a combination of an extract and a graph/ cartoon/ table.
- Items in the data response questions range from easy to difficult questions (scaffolding).

6.1 Study the information below and answer the questions that follow. **Adapted from DBE/Feb.–Mar. 2018**



[Adapted from [www.pak101.com](http://www.pak101.com)]

- 6.1.1 Identify ONE cause of demand-pull inflation in the information above. (1)
- 6.1.2 Identify ONE cause of cost-push inflation in the information above. (1)
- 6.1.3 Briefly describe the term inflation. (2)
- 6.1.4 What is the function the South African Reserve Bank? (2)
- 6.1.5 Why is the SARB concerned about the impact of inflation on the Balance of Payments? (2 x 2) (4)

6.2 Read the extract below and answer the questions that follow. **Adapted from DBE/Feb.–Mar. 2017**

### INFLATION AND ECONOMIC GROWTH

Inflation has never been good to the economy. However, whenever there is expected inflation, governments around the world take appropriate steps to minimise inflation to a certain extent. Inflation and economic growth are parallel lines and can never meet. Inflation reduces the value of money and makes it difficult for the common people to survive. Inflation and economic growth are incompatible because the former affects all sectors.

[Source: [www.fin24.com](http://www.fin24.com)]

- 6.2.1 What, according to the extract, is the effect of inflation on money? (1)
- 6.2.2 Which institution is responsible to monitor inflation in South Africa? (1)
- 6.2.3 Briefly describe the term stagflation. (2)
- 6.2.4 Explain the effect of an increase in interest rates on inflation. (2)
- 6.2.5 What are the negative effects of inflation on economic growth? (2 x 2) (4)

6.3 Study the extract below and answer the questions that follow. **DBE/Nov 2017**

**HEADLINE AND CORE INFLATION**

The consumer price index (CPI) is an important instrument for measuring headline inflation. Headline inflation rose from 5,8 per cent in June 2016 to a peak of 6,4 per cent in December 2016, with no indication that it is about to slow down. The main reason for that was the hike in maize and wheat prices caused by the severe drought.

The gradual increase in both headline and core inflation, despite a weaker currency, suggest that inflation expectations remain well anchored, although at the upper end of the 3%–6% band.

[Adapted from Mail & Guardian, February 2017]

- 6.3.1 Identify the index used to measure South Africa's inflation rate. (1)
- 6.3.2 Give the main reason for the increase in the CPI inflation above. (1)
- 6.3.3 Briefly describe the term core inflation. (2)
- 6.3.4 How can the South African Reserve Bank ensure that the CPI fluctuates within the 3%–6% band? (2)
- 6.3.5 Calculate the percentage change in the inflation rate between June 2016 and December 2016. Show ALL calculations. (4)

6.4 Study the information below and answer the questions that follow. **DBE/Nov 2018**

**SOUTH AFRICA'S INFLATION REACHES ITS LOWEST LEVEL SINCE 2015**

South African food prices grew at a slower rate in July 2017 than in June 2017. In June the general price level increased by 5,1%, while in July it increased by 4,6%. This led to the Reserve Bank reducing its repo (repurchase) rate by 50 base points. This was a major change from 2012 when the inflation rate was 6,5%.

[Adapted from [www.qooqle.co.za](http://www.qooqle.co.za)]

- 6.4.1 Identify, in the information above, the inflation rate that falls outside the inflation target range. (1)
- 6.4.2 Give ONE reason for the decrease in the inflation rate. (1)
- 6.4.3 Briefly describe the term repo (repurchase) rate. (2)
- 6.4.4 How will a decrease in the inflation rate benefit low-income earners? (2)
- 6.4.5 How can price stability affect the economy positively? (2 x 2) (4)

## 7. Paragraph Middle Order

- Consist of ONE single question e.g. explain, discuss, distinguish or differentiate, explain with the aid of a graph etc.
- 8 marks question are found in Section B of the NSC examination papers e.g. 2.4, 3.4 and 4.4
- Learners should explain or discuss in FULL SENTENCES. Listing or naming only is **NOT** encouraged, even when presenting answers in tables.

- 7.1 Briefly describe the fiscal measures that can be used to combat demand-pull inflation. (8) **DBE/Feb.–Mar. 2018**
- 7.2 Differentiate between the consumer price index (CPI) and the producer price index (PPI). (8) **DBE/May - June 2018**
- 7.3 Explain the negative effects of inflation on investors and people with a fixed income. (8) **DBE/Nov 2017**
- 7.4 Briefly discuss demand-pull inflation and cost-push inflation. (8) **DBE/Nov 2018**
- 7.5 Explain how wages and exchange rates can lead to cost-push inflation. (2 x 4) (8) **DBE/Feb – Mar 2016**

## 8.Paragraph Higher Order



- ONE single question e.g. How, Why, etc. for 8 marks and is found in Section B of the NSC examination papers e.g. Questions 2.5, 3.5 and 4.5
- Responses must give effect to the contextual demands of the question!  
Other examples of paragraph questions of higher cognitive level:
- How is x related to y?
- What is the impact of b on c?
- What are the consequences of ...?
- How effective are...?
- Propose a solution to this problem
- Evaluate

8.1 How does the government contribute to higher inflation? (8) **DBE/Feb.–Mar. 2018**

8.2 Advise the governor of the Reserve Bank on how monetary policy could be used to combat inflation. (8) **DBE/May - June 2018**

8.3 To what extent is inflation targeting beneficial to the economy? **DBE/Feb.–Mar. 2017**

8.4 How can South African households contribute to a lower inflation rate? (8)  
**DBE/Nov 2018**

8.5 How can higher inflation impact on the individual taxpayer? (8)  
**NC/Sep 2019**

## 9. Essay Type Questions

- When answering the main part of an essay, learners should write headings, sub-headings and provide examples for a maximum of 8 marks
- Explanations and discussions should be written in a point/bullet form in full sentences.
- Graphs should have a heading and be labelled and plotted correctly.
- The additional part of an essay should be of a higher cognitive level e.g. how can ..., why does..., evaluate, analyse, how successful is ..., propose or suggest ... etc.
- Learners should indicate the following when responding to an essay: introduction, main part, additional part and the conclusion.
- Essay-type questions should be **TWO-FOLDED** with the main part (26 marks) and the additional part (10 marks) as outlined in the table below:

STRUCTURE OF ESSAY	MARK ALLOCATION
<b>Introduction</b> <ul style="list-style-type: none"> <li>• A good starting point would be to define a concept or key word that appears in the question.</li> <li>• Include other sentences to support the topic.</li> <li>• Do not include in your introduction any part of the question.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max.2
<b>Body:</b>  <b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate  <b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/ Calculate/Deduce/Compare/Analyse/Distinguish/Interpret/Briefly debate/How/ Suggest	Max.26          Max.10
<b>Conclusion</b> <b>Any higher Order conclusion should include:</b> <ul style="list-style-type: none"> <li>• A brief summary of what was discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts already discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max.2
<b>TOTAL</b>	<b>40</b>

9.1 **Essay-type question DBE/May – June 2019**

- Discuss in detail the causes of demand-pull inflation. (26 marks)
- How effective has the Monetary Policy Committee of the Reserve Bank been to ensure price stability? (10 marks)

[40]

9.2 **Essay-type question DBE/November 2019**

- Examine in detail the causes of cost-push inflation. (26 marks)
- Analyse the negative impact of administered prices on the economy. (10 marks)

[40]

## TOURISM

**Tourism** is travel for leisure, recreation or business. Local tourists travel to different places in their own country. **Inbound tourists** come to South Africa from other countries. South African tourists who travel overseas are known as **outbound tourists**. South Africa is a popular tourist destination because of its beauty, wildlife, good weather and its interesting political history.

Reasons for the growth of the tourism industry are:

- Increased disposable income.
- Less working hours so more time to travel.
- An awareness of leisure and recreation.
- Improved transport, communication and accommodation facilities.
- Increased advertising and promotion.
- Enjoying the benefits of holidays and travel.
- Easily obtainable foreign exchange.

There are 6 areas which are affected by tourism:

- GDP
- Employment
- Poverty
- Externalities
- Environment
- Investment

Tourism has positive benefits to the households, businesses, government and infrastructure development.

The Department of Tourism leads and directs tourism policy. The starting point for policy on tourism is the White Paper on Tourism. Tourism policy is also supported and directed by the Tourism Forum, which is an advisory body to the Minister of Tourism.

**Exam tips** and what learners need to know, do and watch for (technical report findings) on this question or topic as per CAPS document

- Learners should familiarise themselves with the current economic affairs to be able to interpret and analyse data as well as to respond to questions of higher cognitive level.
- World heritage sites should not be confused with environmental world heritage sites.
- Positive and negative effects as well as benefits of tourism should be studied thoroughly to be able to respond to questions of higher cognitive level such as analyse, evaluate, critically discuss etc.

### Warm Up questions or Practice Questions (Short Questions)

#### 1. Multiple Choice

- Multiple-choice questions are found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- Multiple-choice should have 4 POSSIBLE (A-D) options NOT 3 options.

- Learners should attempt to answer these questions. They should not leave blank spaces.
- Learners should not choose TWO options e.g. A & B. Guesswork is not encouraged.

1.1 For an activity to be classified as part of tourism, the minimum length of stay should be one ...

- A year.
- B month.
- C day.
- D week.

1.2 Tourism is a ...-intensive industry.

- A capital
- B labour
- C trade
- D goods

1.3 People travelling to South Africa from other countries are known as ... tourists.

- A inbound
- B influx
- C internal
- D outbound



1.4 Attending a sports event is an example of ... tourism.

- A cultural
- B eco
- C business
- D medical

1.5 The main purpose of South African Tourism (SAT) is to promote South Africa as a tourist destination ... tourists.

- A domestic and international
- B only to domestic
- C only to international
- D only to business

## 2. Match the Concepts

Matching items are found in Section A of the NSC examination papers.

- It is compulsory to answer these questions.
- Learners should choose a description from COLUMN B that matches the item in COLUMN A.
- These questions test the learners' knowledge of concepts for each topic.
- Learners should not leave any question unanswered.

Column A	Column B
2.1 Cultural tourism	A visiting nature and wilderness areas
2.2 Outbound tourist	B World Heritage Site
2.3 Tourism industry	C visiting museums and art galleries
2.4 Robben Island	D Tourists travelling through South Africa using air, road, rail and sea transport to get to another destination
2.5 Ecotourism	E people travelling from their own countries to visit other countries
	F labour intensive and employs many skills

3 Provide the economic **term/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.*

- Providing a term is found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- These questions test the learners' knowledge of concepts for each topic.
- Learners should not leave any question unanswered.

3.1 Basic systems and structures that a country needs for economic activity, for example transport and communication

3.2 The type of tourism that involves attending conferences, trade fairs and exhibitions in other countries

3.3 Foreign tourists traveling through South Africa to another destination

3.4 Tourists visiting museums, art galleries and areas that depict a certain lifestyle, for example the Apartheid museum

3.5 People travelling to and staying in places outside their usual environment for no more than one consecutive year

4. **List/Name/Give**

- List/Name type of questions are regarded as short questions of **lower cognitive level** and are found in Section B of the NSC examination papers e.g. Questions **2.1.1, 3.1.1** and **4.1.1**.
- The above questions are allocated 2 marks e.g. Name any TWO ... (2 x 1) (2).
- Learners should only list or name, therefore explanations and discussions are not needed.

4.1 Give any TWO reasons why governments levy tax on tourism. (2 x 1) (2)

**DBE/Feb.–Mar. 2018**

4.2 Give TWO examples of World Heritage Sites found in South Africa (2 x 1) (2)

**KZN/Sep.2019**

**5. How and why type questions?**

- Short middle order questions are found in Section B of the NSC examination papers e.g. Questions **2.1.2, 3.1.2** and **4.1.2**.
- Examples are what, how and why questions of 2 marks.
- Learners must be guided by the mark allocation when answering the question e.g. Why ... (2 marks) will require ONE discussion point.
- Responses must give effect to the contextual demands of the question!

5.1 Why is international tourism important to the South African economy? (1 x 2) (2)

**DBE/May – June 2019**

5.2 How can the economy be negatively affected by tourism? (1 x 2) (2)

**GP/Sep. 2019**

**Typical Exam questions**

**6. Data-response questions**

- These types of questions are of a middle cognitive level.
- Are found in Section B of the NSC examination question papers e.g. 2.2, 2.3, 3.2, 3.3, 4.2, and 4.3.
- They are in the form of graph/cartoon/ table/ extract/ real data or a combination of an extract and a graph/ cartoon/ table.
- Items in the data response questions range from easy to difficult questions (scaffolding).

6.1 Study the table below and answer the questions that follow. **DBE/May – June 2019**

<b>DOMESTIC OVERNIGHT TRIPS PER PROVINCE IN 2016/2017</b>		
<b>PROVINCE</b>	<b>NUMBER OF TRIPS IN 2016</b>	<b>NUMBER OF TRIPS IN 2017</b>
Western Cape	3 042	3 504
Eastern Cape	2 511	2 368
Northern Cape	715	711
Free State	1 088	1 067
KwaZulu-Natal	2 494	3 246
Northwest	1 855	1 789
Gauteng	8 202	8 972
Mpumalanga	2 576	2 956
Limpopo	3 061	3 670
<b>TOTAL</b>	<b>25 543</b>	<b>27 532</b>

[Adapted from News 24, 2018]

6.1.1 How many provinces showed a decline in domestic overnight trips? (1)

6.1.2 Which institution compiles the data above? (1)

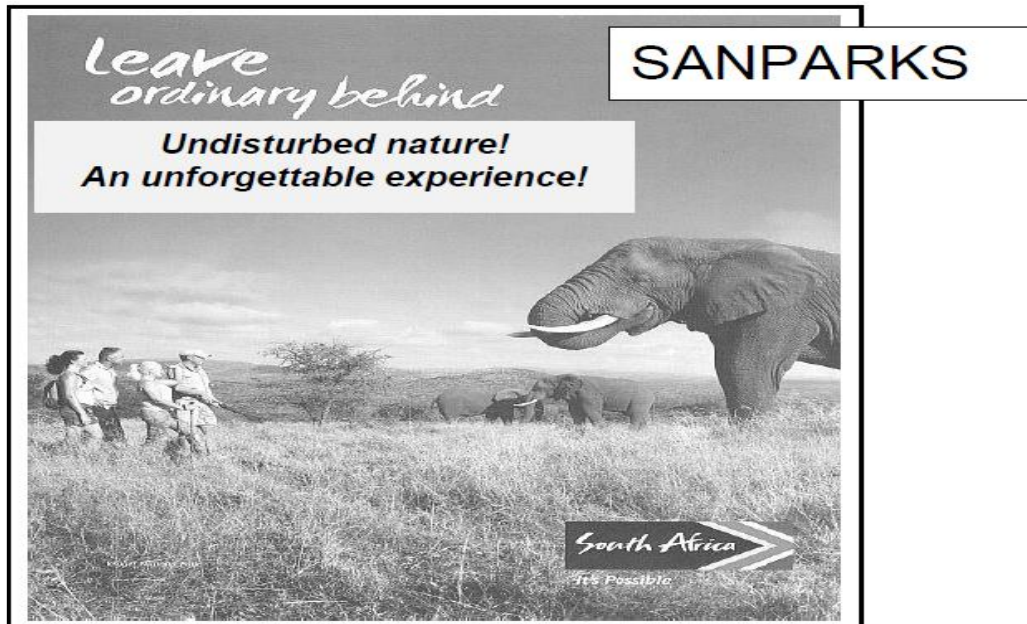
6.1.3 Briefly describe the term *domestic tourism*. (2)

6.1.4 How could households in rural areas benefit from tourism? (2)

6.1.5 Why is foreign tourism the fastest growing industry in South Africa?

(2 x 2) (4)

6.2 Study the advertisement below and answer the questions that follow. **DBE/Nov.2019**



[Adapted from [www.google.com](http://www.google.com)]

6.2.1 What type of tourism is depicted in the picture above? (1)

6.2.2 Which organisation is responsible for marketing tourism in South Africa? (1)

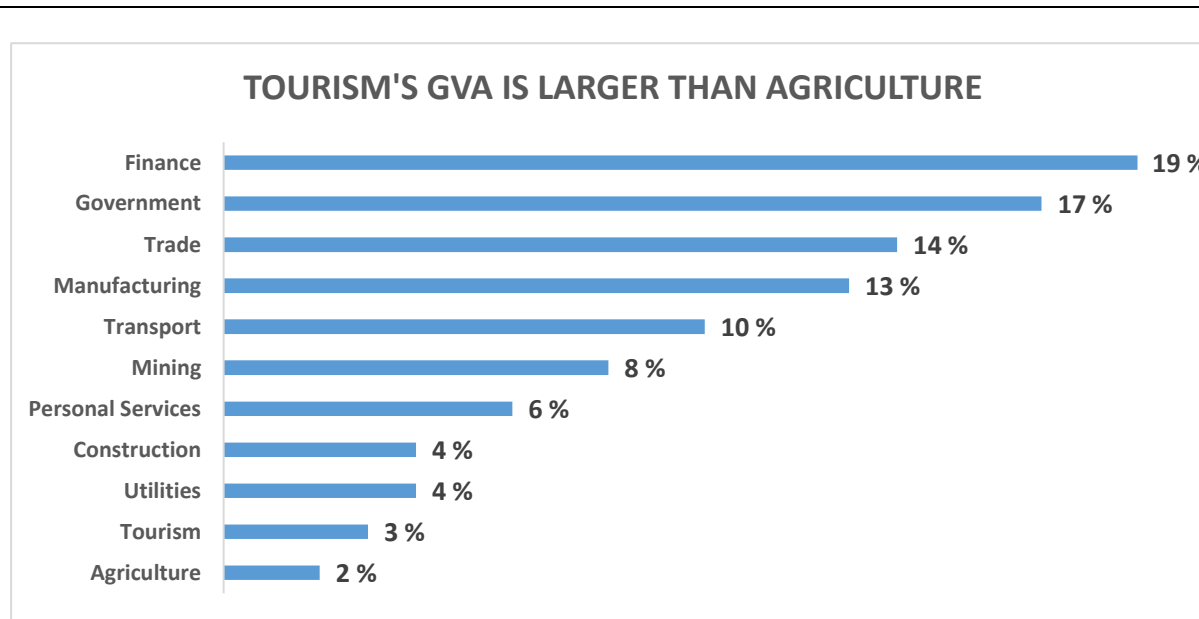
6.2.3 Briefly describe the term indigenous knowledge systems. (2)

6.2.4 Why is it necessary to have controlled visits to the various SANParks in South Africa? (2)

6.2.5 How can the marketing of World Heritage Sites benefit local communities?

(2 x 2) (4)

6.3 Study the details below and answer the questions that follow. GP/Sep. 2019



#### **ECOTOURISM – THE UNTOUCHED GOLD OF SOUTH AFRICA**

Ecotourism has the potential to alleviate poverty in South Africa by bringing money into the economy and creating jobs.



A foundation established in the name of ecotourism and travel is Conservation Corporation Africa (CCA), which brings awareness to local communities. Tourism is also closely linked to biodiversity in the country.

[Source: [www.stassa.gov.za](http://www.stassa.gov.za)]

- 6.3.1 Name the economic sector in which tourism largely operates. (1)
- 6.3.2 Give ONE reason for increased growth in tourism. (1)
- 6.3.3 Briefly describe the concept of ecotourism. (2)
- 6.3.4 Why is it important to protect biodiversity in South Africa? (2)
- 6.3.5 What are the biggest challenges to tourism in South Africa? (2 X 2) (4)

#### **7. Paragraph Middle Order**

- Consist of ONE single question e.g. explain, discuss, distinguish or differentiate, explain with the aid of a graph etc.
- 8 marks question are found in Section B of the NSC examination papers e.g. 2.4, 3.4 and 4.4
- Learners should explain or discuss in FULL SENTENCES. Listing or naming only is **NOT** encouraged, even when presenting answers in tables.



- 7.1 Briefly describe the negative effects of tourism on the environment. (8)  
**DBE/Feb.–Mar. 2018**
- 7.2 Briefly discuss the benefits of tourism for the government and infrastructure. (8)  
**DBE/Nov.2019**
- 7.3 Discuss employment and investment as the effects of tourism. (2 x 4) (8)  
**Mpumalanga/Sep 2019**
- 7.4 Explain the effects of increased tourism on poverty. (8)  
**DBE/May - June 2016**
- 7.5 Explain how tourism can be to the advantage of the South African households. (8)  
**WC/Sep 2018**

### 8. Paragraph Higher Order

#### PARAGRAPH – HIGHER ORDER

- ONE single question e.g. How, Why, etc. for 8 marks and is found in Section B of the NSC examination papers e.g. Questions 2.5, 3.5 and 4.5 Responses must give effect to the contextual demands of the question! Other examples of paragraph questions of higher cognitive level:

- ❖ How is x related to y?
- ❖ What is the impact of b on c?
- ❖ What are the consequences of ...?
- ❖ How effective are...?
- ❖ Propose a solution to this problem
- ❖ Evaluate

- 8.1 Evaluate the South African government's policies to promote tourism. (8)  
**DBE/May – June 2019**
- 8.2 Why is the tourism industry growing in South Africa? (8) **GP/Sep. 2019**
- 8.3 How can indigenous knowledge systems impact in promoting tourism in South Africa (8) **GP/Sep. 2019**
- 8.4 How does infrastructure promote domestic tourism in South Africa? (8)  
**KZN/Sep 2019**
- 8.5 Why is tourism regarded as the largest generator of jobs in South Africa? (8)  
**KZN/Sep 2019**

## 9. Essay Type Questions

- When answering the main part of an essay, learners should write headings, sub-headings and provide examples for a maximum of 8 marks
- Explanations and discussions should be written in a point/bullet form in full sentences.
- Graphs should have a heading and be labelled and plotted correctly.
- The additional part of an essay should be of a higher cognitive level e.g. how can ..., why does..., evaluate, analyse, how successful is ..., propose or suggest ... etc.
- Learners should indicate the following when responding to an essay: introduction, main part, additional part and the conclusion.
- Essay-type questions should be **TWO-FOLDED** with the main part (26 marks) and the additional part (10 marks) as outlined in the table below:

STRUCTURE OF ESSAY	MARK ALLOCATION
<p><b>Introduction</b></p> <ul style="list-style-type: none"> <li>• A good starting point would be to define a concept or key word that appears in the question.</li> <li>• Include other sentences to support the topic.</li> <li>• Do not include in your introduction any part of the question.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max.2
<p><b>Body:</b></p> <p><b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate</p> <p><b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/ Calculate/Deduce/Compare/Analyse/Distinguish/Interpret/Briefly debate/How/ Suggest</p>	<p>Max.26</p> <p>Max.10</p>
<p><b>Conclusion</b></p> <p><b>Any higher Order conclusion should include:</b></p> <ul style="list-style-type: none"> <li>• A brief summary of what was discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts already discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max.2
<b>TOTAL</b>	<b>40</b>

9.1 **Essay-type question** **DBE/Nov. 2018**

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

**[40]**

9.2 **Essay-type question** **DBE/Feb.–Mar. 2018**

- Discuss the benefits of tourism for:
  - Business (10 marks)
  - Infrastructure (8 marks)
  - Households (8 marks) (26 marks)
- How can tourist attractions in less popular destinations be marketed successfully? (10 marks)

**[40]**

**ENVIRONMENTAL SUSTAINABILITY**

The environment is under pressure because human claims on the environment are more than what nature can provide for a long term basis. Pressure on the environment is caused by air pollution, water use, toxic emissions from industries, hazardous waste generation, energy production and use, chemical pollution, over-fishing, deforestation, over-grazing, municipal waste and sewerage generation.



The market is driven by self-interest. The market considers the environment as an asset to be used for its own benefit. Sustainability is achieved in the free market only to the extent that resource prices rise as they become scarce (less available), and through the development of environment friendly technology.

Reasons why the market fails to ensure sustainability:

- The market sees the environment as a common resource.
- Externalities such as air pollution caused by factories cannot be stopped without restrictive policies.
- Lack of knowledge: Businesses cause damage without realising it, e.g. companies making aerosol cans (such as spray-on deodorants) and did not know the damaging effect they had on the ozone layer.
- Carelessness: People continue with harmful practices and leave future generations to worry about the consequences.

Public sector intervention aims to achieve social efficiency. This occurs through:

- Granting property rights
- Pay for environmental use
- Levy environmental tax
- Pay environmental subsidies
- Issue marketable permits
- Command and control

- Voluntary agreements
- Education

Environmental problems are global problems. For example, pollution from motor vehicles and the greenhouse effect have an impact on the entire world. Polluted air and water moves from one country to another, and if the ocean is polluted in America, it can affect beaches in Australia. International measures have been implemented to deal with the following 5 environmental problems:

- Biodiversity loss
- Chemical waste
- Hazardous waste
- Climate change policy – adaptation and mitigation
- Indigenous knowledge

Since the 1990's the United Nations has convened various meetings with all countries worldwide on issues affecting them. They should take responsibility for the management of these issues.

#### Exam tips

- Learners should familiarise themselves with the current economic affairs to be able to interpret and analyse data as well as to respond to questions of higher cognitive level.
- The term preservation and conservation should not be confused.
  - **Conservation** relates to the preservation (looking after) of natural resources to ensure they are not completely used up and disappear from the environment. Conservation seeks creative continuity of the environment, while ensuring that environmental change considers the quality of life for both present and future generations.
  - **Preservation** is linked to conservation. It is about preserving existing assets to ensure they do not get used in a way that is destructive to the environment. Preservation refers to keeping resources that are non-renewable intact, e.g. ecological systems, heritage sites.
- A thorough study of why the market fails to ensure sustainability and how the government is intervening, should be done.
- Knowledge of the major international protocols and agreements on sustainable development is required. The learners should investigate how successful are these international protocols and agreements.
- Knowledge of the 5 environmental problems and the international measures taken to solve them is important.

#### Warm Up questions or Practice Questions (Short Questions)

##### 1. Multiple Choice

- Multiple-choice questions are found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- Multiple-choice should have 4 POSSIBLE (A-D) options NOT 3 options.

- Learners should attempt to answer these questions. They should not leave blank spaces.
- Learners should not choose TWO options e.g. A & B. Guesswork is not encouraged.

1.1 The government can levy a/an ... tax on environmental polluters.

- A import
- B personal income
- C consumption
- D green

1.2 The granting of a licence to businesses that allow them to pollute up to a certain degree is referred to as ...

- A marketable permits.
- B legislation.
- C taxable permits.
- D licencing.

1.3 The agreement to ban 12 of the most dangerous manufactured chemicals was addressed by the ...

- A Basel Convention.
- B Stockholm Protocol.
- C Johannesburg Summit.
- D Kyoto Protocol.



1.4 Natural resources are managed in such a way that it is available to present and future generations

- A Preservation
- B Pollution
- C Renewal
- D Conservation

1.5 Global warming is caused by the release of ... into the atmosphere.

- A oxygen
- B carbon dioxide
- C hot air
- D cold air

## 2. Match the Concepts

- Matching items are found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- Learners should choose a description from COLUMN B that matches the item in COLUMN A.
- These questions test the learners' knowledge of concepts for each topic.
- Learners should not leave any question unanswered.



Column A	Column B
2.1 Command and control systems	A Seeks creative continuity of the environment, while ensuring that environmental change considers the quality of life for both present and future generations
2.2 Deforestation	B manage the environment in such a way that it remains intact
2.3 Conservation	C international agreement to limit the production of greenhouse gases
2.4 Preservation	D an engagement between government and businesses to reduce pollution
2.5 Kyoto Protocol	E measures that ensure the maximum level of a resource is used, e.g. tons of fish caught
	F the uncontrolled removal of vegetation in an unsustainable way

**3.** Provide the economic **term/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.*

- Providing a term is found in Section A of the NSC examination papers.
- It is compulsory to answer these questions.
- These questions test the learners' knowledge of concepts for each topic.
- Learners should not leave any question unanswered.

3.1 Natural resources that cannot be replaced when exhausted (used up).

3.2 A licence given to businesses allowing them to pollute up to a certain level

3.3 A variety of plant and animal species found in a particular environment

3.4 The release of harmful gases into the atmosphere

3.5 Resources that can be replaced or regenerated

**4. List/Name/Give**

- List/Name type of questions are regarded as short questions of **lower cognitive level** and are found in Section B of the NSC examination papers e.g. Questions **2.1.1, 3.1.1** and **4.1.1**.
- The above questions are allocated 2 marks e.g. Name any TWO ... (2 x 1) (2).
- Learners should only list or name, therefore explanations and discussions are not needed.

4.1 State any TWO measures used by the government to ensure environmental sustainability. (2 x 1) (2) **DBE/Feb.–Mar. 2018**

4.2 Name any TWO types of pollution. (2 x 1) (2) **DBE/May – JuNE.2018**

## 5. How and why type questions?

- Short middle order questions are found in Section B of the NSC examination papers e.g. Questions **2.1.2, 3.1.2** and **4.1.2**.
- Examples are what, how and why questions of 2 marks.
- Learners must be guided by the mark allocation when answering the question e.g. Why ... (2 marks) will require ONE discussion point.
- Responses must give effect to the contextual demands of the question!

5.1 What is the main purpose of preservation? (1 x 2) (2) **DBE/Nov 2018**

5.2 What effect will green tax have on the production output of a business that generates a negative externality? (1 x 2) (2) **DBE/Feb.–Mar. 2017**

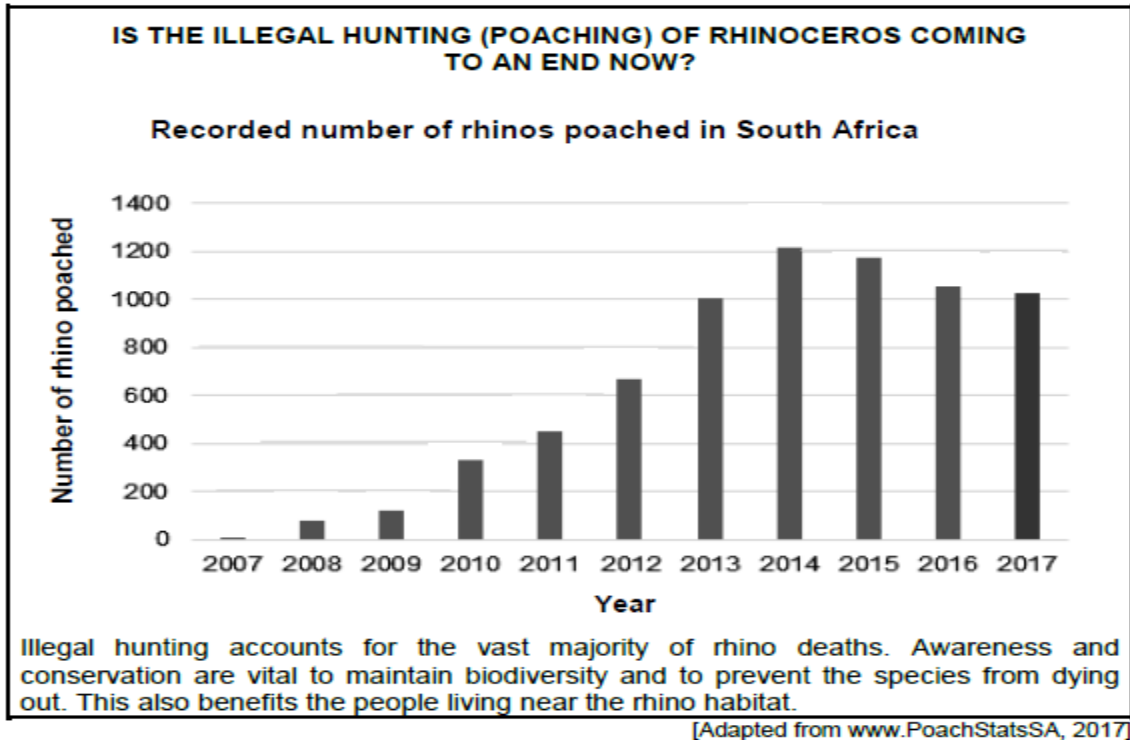
## Typical Exam questions

### 6. Data-response questions

- These types of questions are of a middle cognitive level.
- Are found in Section B of the NSC examination question papers e.g. 2.2, 2.3, 3.2, 3.3, 4.2, and 4.3.
- They are in the form of graph/cartoon/ table/ extract/ real data or a combination of an extract and a graph/ cartoon/ table.
- Items in the data response questions range from easy to difficult questions (scaffolding).

6.1 Study the information below and answer the questions that follow. **DBE/Nov 2018**





- 6.1.1 What is the main reason for the poaching of rhinos? (1)
- 6.1.2 In which year was rhino poaching at its worst in South Africa? (1)
- 6.1.3 Briefly describe the term *biodiversity*. (2)
- 6.1.4 Give ONE example of how awareness of the natural fauna and flora can be created. (2)
- 6.1.5 How will conservation benefit the people living near the rhino habitat? (2 x 2) (4)

6.2 Study the information below and answer the questions that follow. **DBE/Feb.–Mar. 2018**

**THE UNITED NATIONS CLIMATE CHANGE CONFERENCES**

The UN has yearly conferences which serve as a formal meeting of parties that are known as the Conference of the Parties (COP). The meetings assess the progress made in dealing with climate change. The first conference was held in Berlin, Germany, in 1995 and the third meeting was held in Kyoto, Japan, in 1997, where the reduction of greenhouse gases was discussed.

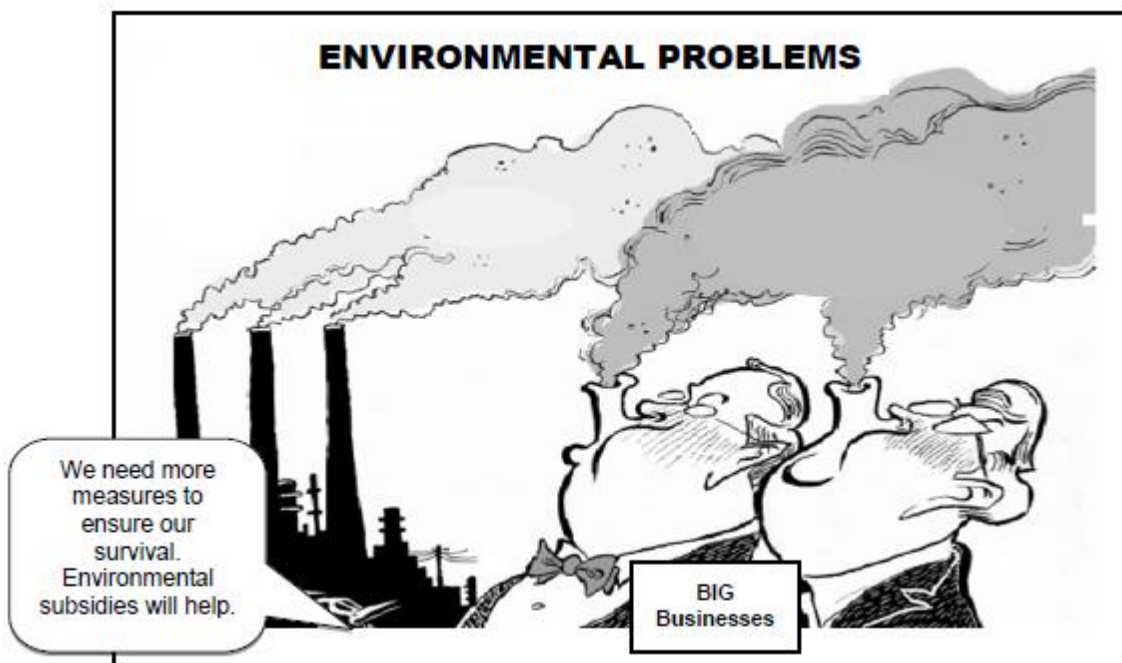
In 2011 the 17th meeting was held in Durban, South Africa. The emphasis was on the creation of a green climate fund. The Kyoto conference outlined the reduction of greenhouse gas emissions. In 2016 the 22nd conference (also known as COP 22) was held in Morocco. Despite these numerous meetings, global temperatures are still increasing.

[Adapted from [222.wikipedia.com](http://222.wikipedia.com)]

- 6.2.1 Give the name of ONE city in the extract where climate change conferences were held. (1)
- 6.2.2 Identify the international organisation in the extract above that initiates climate change conferences. (1)
- 6.2.3 Describe how greenhouse gases contribute to global warming. (2)
- 6.2.4 How can a green fund help to reduce global warming? (2)
- 6.2.5 Why is global warming increasing despite the many international conferences on climate change? (2 x 2) (4)

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

**DBE/Nov 2018**



[Source: [www.wikipedia](http://www.wikipedia), 2017]

- 6.3.1 Identify the type of pollution in the cartoon above. (1)
- 6.3.2 What major environmental problem can result from the business activities above? (1)
- 6.3.3 Briefly describe the term environmental sustainability. (2)
- 6.3.4 What impact will environmental problems have on food security (continuous food production)? (2)
- 6.3.5 How can environmental subsidies be used to ensure sustainable development in South Africa? (2 x 2) (4)

## 7. Paragraph Middle Order

- Consist of ONE single question e.g. explain, discuss, distinguish or differentiate, explain with the aid of a graph etc.
- 8 marks question are found in Section B of the NSC examination papers e.g. 2.4, 3.4 and 4.4
- Learners should explain or discuss in FULL SENTENCES. Listing or naming only is **NOT** encouraged, even when presenting answers in tables.

7.1 Differentiate between conservation and preservation of the environment. (8)

**DBE/May.-June.2019**

7.2 Explain the government's use of subsidies and permits as measures to ensure environmental sustainability. (8) **DBE/Nov 2017**

7.3 Discuss hazardous waste and loss of indigenous knowledge as environmental problems. (8) **KZN/SEP 2019**

7.4 Briefly explain charging for the use of the environment and levy environmental taxes as measures to protect the environment. (8) **GP/Sep 2017**

7.5 Discuss the challenges countries face in reducing the production of hazardous waste. (8) **Adapted from DBE/May.-June.2019**

## 8. Paragraph Higher Order

- ONE single question e.g. How, Why, etc. for 8 marks and is found in Section B of the NSC examination papers e.g. Questions 2.5, 3.5 and 4.5
- Responses must give effect to the contextual demands of the question!  
Other examples of paragraph questions of higher cognitive level:
- How is x related to y?
- What is the impact of b on c?
- What are the consequences of ...?
- How effective are...?
- Propose a solution to this problem
- Evaluate

8.1 Why have the international measures (agreements) been ineffective in reducing the effects of climate change? (8) **DBE/Nov 2018**

8.2 How can countries contribute to reducing ocean (sea) pollution?(8)  
**DBE/Nov 2019**

8.3 How successful has South Africa been in using education to ensure environmental sustainability? (8) **DBE/Nov 2019**

8.4 How can the market be used to ensure environmental sustainability? (8)  
**DBE/May - June 2016**

- 8.5 Why is South Africa regarded as a major air polluter in the world? (8)  
DBE/Feb.–Mar. 2017

### 9. Essay Type Questions

- When answering the main part of an essay, learners should write headings, sub-headings and provide examples for a maximum of 8 marks
- Explanations and discussions should be written in a point/bullet form in full sentences.
- Graphs should have a heading and be labelled and plotted correctly.
- The additional part of an essay should be of a higher cognitive level e.g. how can ..., why does..., evaluate, analyse, how successful is ..., propose or suggest ... etc.
- Learners should indicate the following when responding to an essay: introduction, main part, additional part and the conclusion.
- Essay-type questions should be **TWO-FOLDED** with the main part (26 marks) and the additional part (10 marks) as outlined in the table below:

STRUCTURE OF ESSAY	MARK ALLOCATION
<p><b>Introduction</b></p> <ul style="list-style-type: none"> <li>• A good starting point would be to define a concept or key word that appears in the question.</li> <li>• Include other sentences to support the topic.</li> <li>• Do not include in your introduction any part of the question.</li> <li>• Do not repeat any part of the introduction in the body.</li> <li>• Avoid saying in the introduction what you are going to discuss in the body.</li> </ul>	Max.2
<p><b>Body:</b></p> <p><b>Main part:</b> Discuss in detail / In-depth discussion / Examine / Critically discuss / Analyse / Compare / Evaluate / Distinguish / Differentiate / Explain / Assess / Debate</p> <p><b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/Critically evaluate/ Calculate/Deduce/Compare/Analyse/Distinguish/Interpret/Briefly debate/How/ Suggest</p>	<p>Max.26</p> <p>Max.10</p>
<p><b>Conclusion</b></p> <p><b>Any higher Order conclusion should include:</b></p> <ul style="list-style-type: none"> <li>• A brief summary of what was discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts already discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> <li>• Recommendations</li> </ul>	Max.2
TOTAL	40

9.1 **Essay-type question** **DBE/May.-June.2018**

- Discuss in detail the measures used by government to ensure sustainable development. (26 marks)
- Evaluate how successful the government has been to conserve and preserve the environment in South Africa. (10 marks)

**[40]**

9.2 **Essay-type question** **DBE/Nov 2017**

- Discuss the FIVE environmental problems and the international measures taken to solve these problems in order to ensure a sustainable environment. (26 marks)
- How does South Africa use conservation to ensure a sustainable environment?

(10 marks)

**[40]**

