

# SECONDARY SCHOOL IMPROVEMENT PROGRAMME (SSIP) 2017



**GAUTENG PROVINCE**  
EDUCATION  
REPUBLIC OF SOUTH AFRICA

**GRADE 12**



**SUBJECT: ECONOMICS**

**HIGH FLYERS' MATERIAL**

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To the Grade 12 Learner:

Congratulations on qualifying to attend this session for SSIP. You qualified for this session because of your good results in Grade 12 and Grade 11. We would like you to achieve even better results in the upcoming exams, and therefore we will be providing you with additional activities.

Do you know the format of the paper you will be writing on 02 November 2017 (Paper 1) and 07 November 2017 (Paper 2)?

**CLASSIFICATION OF TOPICS FOR THE GRADE 12 ECONOMICS QUESTION PAPERS**

ECONOMICS GR.12	
PAPER 1	PAPER 2
150 MARKS – 2 HOURS	150 MARKS – 2 HOURS
<b>MAIN TOPIC: MACROECONOMICS</b>	<b>MAIN TOPIC: MICROECONOMICS</b>
<b>SUBTOPICS:</b> <ul style="list-style-type: none"> <li>• Circular flow</li> <li>• Business cycles</li> <li>• Public sector</li> <li>• Foreign exchange markets</li> <li>• Protectionism and free trade</li> </ul>	<b>SUBTOPICS:</b> <ul style="list-style-type: none"> <li>• Perfect markets</li> <li>• Imperfect markets</li> <li>• Market failures</li> </ul>
<b>MAIN TOPIC: ECONOMIC PURSUITS</b>	<b>MAIN TOPIC: CONTEMPORARY ECONOMIC ISSUES</b>
<b>SUBTOPICS:</b> <ul style="list-style-type: none"> <li>• Growth and development</li> <li>• Industrial development policies</li> <li>• Economic and social performance indicators</li> </ul>	<b>SUBTOPICS:</b> <ul style="list-style-type: none"> <li>• Inflation</li> <li>• Tourism</li> <li>• Environmental sustainability</li> </ul>

The Paper comprises of 3 Sections:

- Section A – Short Questions
- Section B: Data Response and 8 mark questions
- Section C: Essay

SECTION A:

**HINT:** When answering Section A – short questions, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking. You are looking for the **MOST** correct answer in the multiple choice questions. There are 4 options so try to eliminate the completely wrong answer(s). Read carefully to identify the correct answer, identify the distractors that will also appear correct. The answer will **NEVER** be two options. Only **ONE** option is correct. Your answer will immediately be marked incorrect if you write **TWO** options.

**Give ONE term for each of the following descriptions, know your concepts.** There are 6 marks for these questions in each paper (Q 1.3). Know your concepts and definitions to answer these questions.

**HINT:** When answering Section B – Choose 2 of the 3 options. Read through the questions to select the ones that you know best. Use your 10 minute reading time to identify the questions you know best.

The mark allocation should guide you to the length of your answers. Discuss, explain, why, how and what questions should be answered in full sentences.  
4 mark questions must be answered with at *least* 2 facts, in full sentences.

**Calculations** – Start off with the formula; then show all steps in the calculations.

SPECIFY THE ITEMS WHEN DOING CALCULATIONS – E.G

CONSUMPTION (C)	R 1000
GOVERNMENT SPENDING (G)	R 800
INVESTMENT (I)	<u>R 250</u>
GDP	<u>R 2050</u>

With the **8 mark** question ensure that you have sufficient facts to answer the question (*teacher to explain*) e.g.  $2 \times 4$  and  $4 \times 2$

**Data response** question – the last question is normally opinion- or application based.

The opinion must be related to relevant content.

Application type questions in question 2.5, 3.5 and 4.5 must be answered in full sentences and relate to relevant content.

**Essays:** The **introduction** should be a definition. Do not repeat any part of the question in your introduction.

Make use of **headings** where possible- a maximum of 8 marks are allocated for heading and examples.

Include sufficient facts to cover the 26 marks in the **body**. These facts should be written in full sentences to obtain maximum marks.

The **conclusion** must not repeat any of the facts already mentioned in the body or introduction. Read the table outlining the structure of the essay to ensure that you have an appropriate conclusion.

AT THE END OF THE SESSIONS THERE IS SOME ADDITIONAL WORK THAT YOUR TAECHEER WILL BE COVERING IN TERM 3. THE TIME IS VERY SHORT, SO WE APPEAL TO YOU TO PLEASE START WORKING ON THESE ACTIVITIES DURING THE HOLIDAY PERIOD AND IN YOUR SPARE TIME SO THAT YOU CAN GET ADEQUATE PRACTICE IN TERMS 3 WORK AS WELL.

THANK YOU

## SESSION 1: MACROECONOMICS: THE CIRCULAR FLOW

**Learner Note:** The circular flow describes the continuous flow of spending, production and income between the different sectors in an economy.

### NATIONAL ACCOUNT

**Learner Note:** Methods that are used to determine the value of the economy.

### THE MULTIPLIER

**Learner Note:** The multiplier relates to how much the national income will change as a result of an injection or a leakage.

## SECTION A: TYPICAL EXAM QUESTIONS

### THE CIRCULAR FLOW

#### QUESTION 1: Section A – Short Questions

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 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 households
  
- 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
  
- 1.3 Which of the following is the best measure of production or output of an economy?
  - A Consumer price index
  - B Unemployment rate
  - C Gross Domestic Product
  - D Prime rate
  
- 1.4 The market value of all final goods and services produced in the economy in a given year is ...
  - A Net national product
  - B National income
  - C Personal income
  - D Gross domestic product

- 1.5 In the Gross Domestic Product, the biggest Rand value is ...
- A. Consumer expenditure
  - B. Rent payments
  - C. Net exports of goods and services
  - D. Gross private domestic investment
- 1.6 The largest rand value in the calculation of the Gross Domestic Product is ...
- A. Rent payments
  - B. Government spending on goods and services
  - C. Profits
  - D. Wages and salaries of workers
- 1.7 **The model** that illustrates the continuous **flow of spending, production and income** between the different **sectors** in an economy, is known as a(n) ... model.
- A. economic-cycle
  - B. circular-flow
  - C. business-flow
  - D. business cycle
- 1.8 The **money market** is a market for ...-term savings and loans.
- A. medium
  - B. short- and long
  - C. long
  - D. short
- 1.9 The study of **individual households** in an economy is known as ... economics.
- A. macro-
  - B. micro-
  - C. international
  - D. national
- 1.10 Savings flow back into the circular flow as ...
- A. government spending.
  - B. investment.
  - C. exports.
  - D. imports.

(10 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 Real flow 1.2.2 Multiplier 1.2.3 Marginal propensity to save 1.2.4 Money flow	A. The flow of spending B. The flow of money C. The portion of an increase in income that is not consumed D. The ratio between the eventual change in income and the initial investment. E. The flow of goods and services

(4 x 1)

- 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 Money taken from the economy, for example savings, taxes and imports.  
1.3.2 An initial change in spending results in a much bigger change in national income.  
1.3.3 The sector that needs to be **included** for the economy to be regarded as an **open** economy.  
1.3.4 The inflow of money into the circular flow.  
1.3.5 An economy where the foreign sector is included.  
1.3.6 The short term and very short term market for savings and loans.  
1.3.7 Shows the income and expenditure estimations for a three year period.  
1.3.8 The total value of all final goods and services produced in the borders of a country.  
1.3.9 An initial change in expenditure leads to a much bigger change in national income.  
1.3.10 The movement of goods and services in the economy.

(10 x 1)

**QUESTION 2: Section B**

- 2.1 According to the circular flow, what is the reason for the three key sectors, (household, business and government) to work together? (1x2) (2)

**QUESTION 3: Section B**

**HINT:** When a question requires to “explain”, “discuss”, “differentiate”, etc. You need to answer in full sentences.

- 3.1 Explain the role of the **foreign sector** as a participant in the **circular flow**. (4x2) (8)

**QUESTION 4: (Taken from various sources)**

- 4.1 How can the household, as an important participant in the circular flow model, contribute to building the economy? (8)

- 4.2 Link the role of the financial and foreign markets to the other participants in the circular flow. (8)
- 4.3 Justify the equation  $L = J$  and illustrate its component elements. (8)

### Section C

The mark allocations for Section C is as follows:

	MARK ALLOCATION
<b>Introduction</b> The introduction is a lower-order response. <ul style="list-style-type: none"> <li>• A good starting point would be to the main concept related to the question topic</li> <li>• Do not include any part of the question in your introduction.</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/ Distinguish/ Differentiate/ Explain/ Evaluate <b>Additional part:</b> Give own opinion/ Critically discuss/ Evaluate/ Critically evaluate/ Draw a graph and explain/ Use the graph given and explain/ Complete the given graph/ Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ Suggest	Max.26  Max.10
<b>Conclusion</b> Any Higher order conclusion includes: <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned in the body</li> <li>• Any opinion or value judgement on the facts 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: 40 minutes** (Adapted from Limpopo/ Prelim. 2015 and DBE Nov 2016)

*Several economic activities are the function of different markets in the economy.*

- Discuss the role of markets in a circular flow model. (26)
  - Explain the multiplier process by using a fully labeled graph (10)
- [40]



**NATIONAL ACCOUNT:**

**QUESTION 1:**

(Taken from various sources)

- 1.1 South Africa uses a system of **national accounts** recommended by the ...  
 A. UN.  
 B. IMF.  
 C. World Bank.  
 D. AU
- 1.2 Consumption of **fixed capital** is used to calculate GDP at ...  
 A. basic prices.  
 B. market prices.  
 C. factor cost.  
 D. basic cost
- 1.3 When  $I + G + X > S + T + M$ , the **level** of national income will ...  
 A. rise.  
 B. fall.  
 C. remain the same.  
 D. initially increase and then decrease.
- 1.4 **Taxes and subsidies** on ... are taken into account when calculating GDP at **basic prices**.  
 A. exports  
 B. commodities  
 C. products  
 D. production



(4 x 2)

**QUESTION 2:**

- 2.1 How is expenditure related to income and production? (8)

**QUESTION 3:**

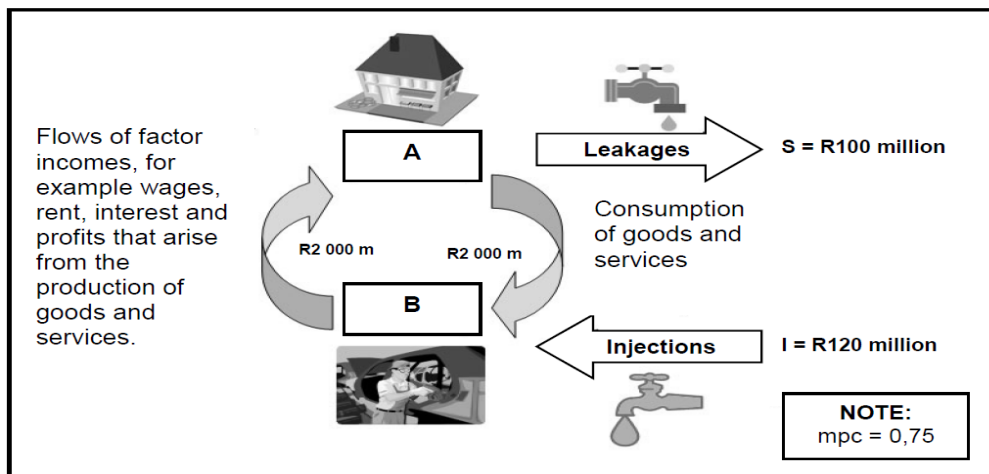
**Section B** (Taken from DBE/Feb.–Mar. 2013)

- 3.1 Explain how the **Gross Domestic Product** (GDP) at **market** prices is derived by using the **Expenditure method** – GDP(E). (4 x 2) (8)

**QUESTION 4:**

**Section B** (Adapted from DBE/NOV. 2014)

Study the illustration below and answer the questions that follow



- 4.1 Give ONE example of taxes on products. (2)
- 4.2 How will national income be influenced by the above leakages and injections? (2)
- 4.3 How would you convert GDP to GNP? (2)
- 4.4 Calculate the change in national income caused by the investment above. Show ALL calculations. (4)

### QUESTION 5:

### Section B

Study the table below and answer the questions that follow.

<b>NATIONAL INCOME AND PRODUCTION ACCOUNTS OF SOUTH AFRICA</b>	
	<b>2012 R million</b>
Compensation of employees	1 451 603
Net operating surplus	922 030
Consumption of fixed capital	405 640
<b>Gross Value Added @ Factor Cost</b>	<b>2 779 273</b>
Other taxes on production	56 527
Other subsidies on production	15 538
<b>(A)</b>	<b>2 820 262</b>
Taxation on products	338 804
Subsidies on products	20 086
<b>Gross Domestic Product @ Market Prices</b>	<b>(B)</b>

[Source: SARB Quarterly Bulletin, December 2013]

- 5.1 Name the missing item labelled A. (2)
- 5.2 Briefly describe the term gross domestic product (GDP). (2)
- 5.3 Explain the item 'consumption of fixed capital formation' (2)
- 5.4 Calculate Gross 'Domestic Product @ Market prices' labelled B. Show ALL calculations. (4)

### QUESTION 6:

### Section B

Study the table below and answer the questions that follow.

10

NATIONAL INCOME ACCOUNTS OF SOUTH AFRICA		
	R millions	
	2012	2013
Compensation of employees	1 451	1 576
Net operating surplus	922	961
Consumption of fixed capital	406	443
<b>Gross value added at factor cost</b>	<b>2 779</b>	<b>2 980</b>
Other taxes on production	56	64
LESS: Subsidies on production	15	14
<b>... (A) ...</b>	<b>2 820</b>	<b>3 030</b>
Taxes on products	338	374
LESS: Subsidies on products	20	19
<b>Gross domestic product at market prices</b>	<b>3 138</b>	<b>3 385</b>

[Adapted from SARB Quarterly Bulletin, September 2014]

- 6.1 What method of calculation was used in the table above to calculate gross domestic product? [2]
- 6.2 Name the missing item labelled A [2]
- 6.3 Briefly describe the item 'net operating surplus'. [2]
- 6.4 Calculate the compensations of employees as a percentage of GDP at market prices in 2013. Show ALL calculations. [4]

## THE MULTIPLIER

### QUESTION 1

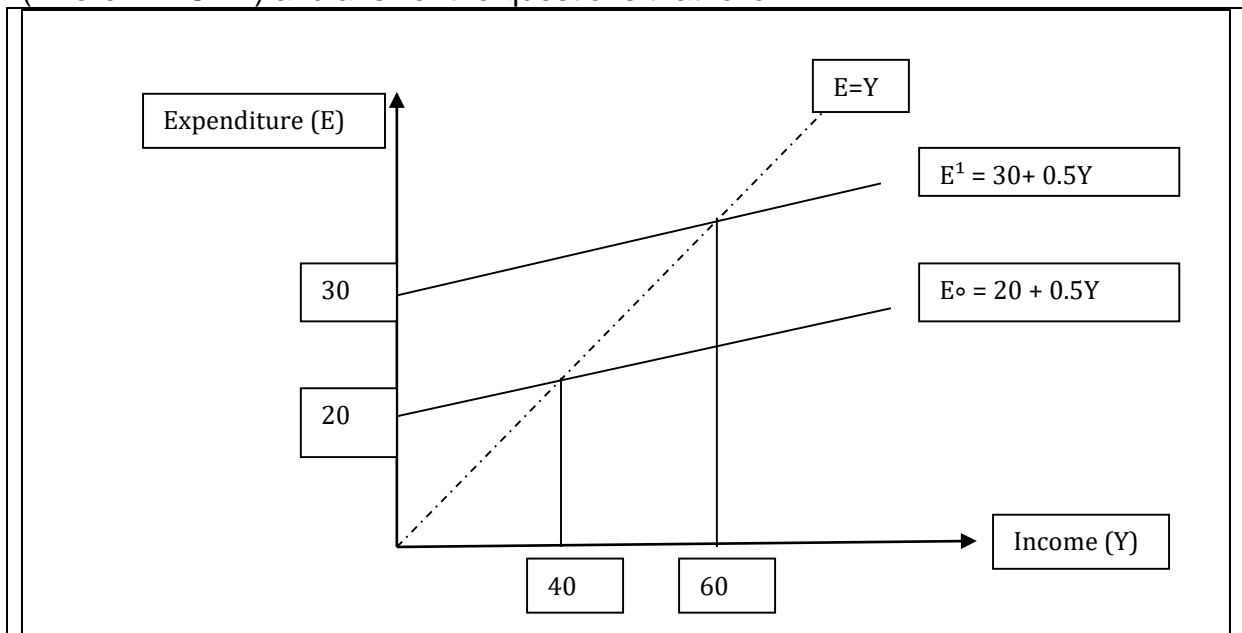
Section A (Taken from various sources)

- 1.1 The value of the multiplier increases if the marginal propensity to ... increases.
- A. import  
B. save  
C. to invest  
D. consume
- 1.2 The change in the value of income divided by the change in the value of injections is known as ...
- A. the circular-flow model.  
B. Gross National Income.  
C. the macroeconomic multiplier.  
D. marginal propensity to tax

**QUESTION 2**

**Section B** (Taken from DoE/Exemplar 2008)

Study the graph below that depicts a simplified two-sector economy (where  $E = C + I$ ) and answer the questions that follow.



- 2.1 Name the **TWO** sectors involved in deriving the **macro-economic multiplier**. [2]
- 2.2 What is represented by the line **E = Y**? [2]
- 2.3 Use the formula,  $k = \Delta Y / \Delta J$ , to **calculate the multiplier** (k) for the above scenario. Show ALL calculations. [4]
- 2.4 **Calculate the multiplier**, using the formula,  $k = 1 / (1 - MPC)$ , when the marginal propensity to consume (MPC) = 0.8. Show ALL calculations. [4]
- 2.5 Explain the **relationship** between the MPC and the multiplier. [2]

**QUESTION 3**

(Taken from DBE/Feb.–Mar. 2013)

Study the extract below and answer the questions that follow.

**MULTIPLIER**

Assume an economy is initially in equilibrium where income (Y) equals R100 000m, savings (S) R40 000m and consumption (C) R60 000m.

[Source: *Enjoy Economics*]

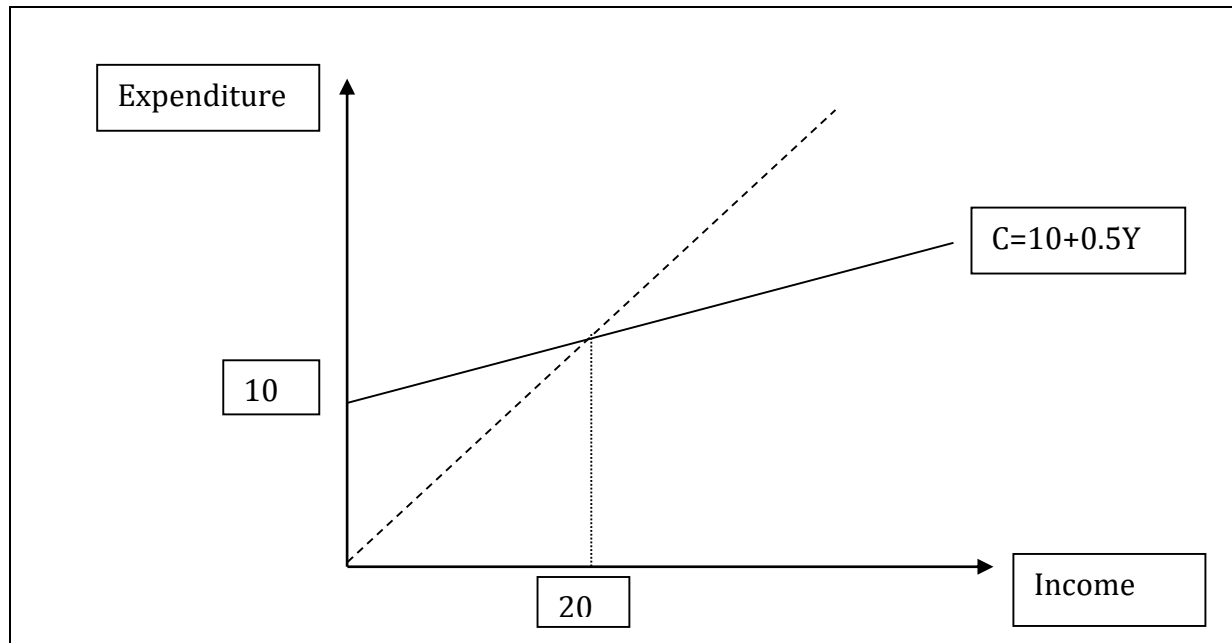
- 3.1 Define the **macroeconomic multiplier**. [2]
- 3.2 What does the term **equilibrium** in this extract refer to? [2]
- 3.3 Calculate the **marginal propensity** to consume (mpc). [2]
- 3.4 Calculate the **value** of the **multiplier**. Show ALL calculations. [4]

**HINT:** To do question 3.4 you need to use your answer in question 3.3.

**QUESTION 4**

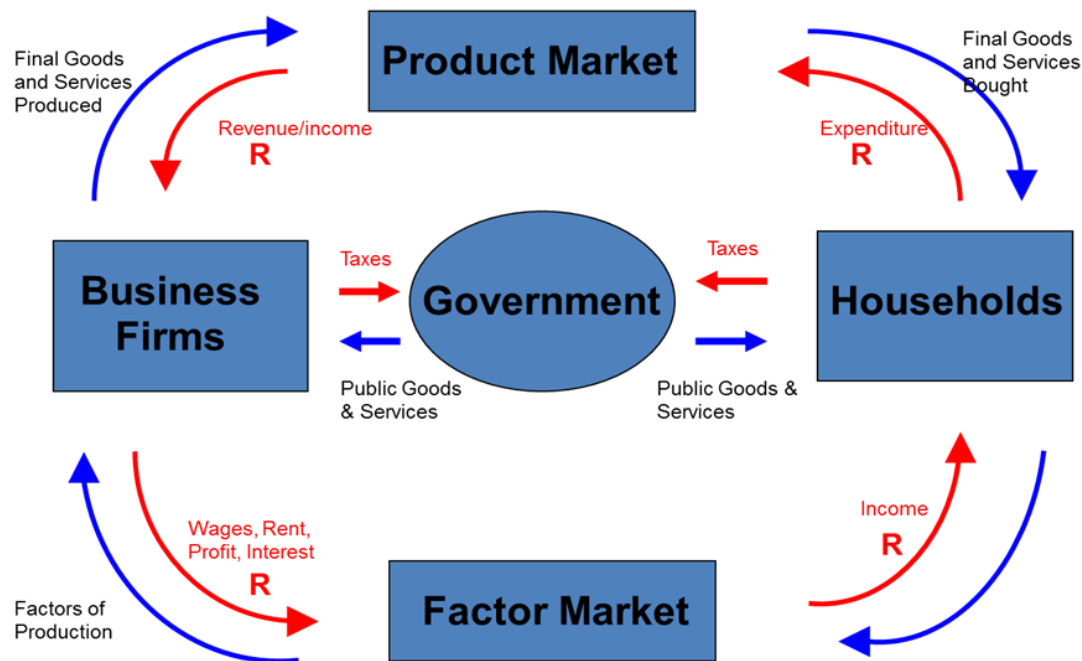
(Taken from DoE/Feb. – March 2009)

Copy the graph below in the ANSWER BOOK. Indicate the new consumption curve, new equilibrium formed after investment increased by R20 million, and describe the multiplier effect of the increase of investment of R20 million on the economy. (8)

**SECTION B: ADDITIONAL CONTENT NOTES****CIRCULAR FLOW**

- Simplified or two-sector model
  - Households
  - Business
- Closed or three-sector model
  - Add Government
- Open or four-sector model
  - Add Foreign Sector

# The Circular Flow



Looking at the circular flow model, we see the following:

## 1. PARTICIPANTS

### 1.1 Households

- The owners of the factors of production
- The consumers of final goods & services

### 1.2 Business

- The producers of final goods & services
- The demanders of factors of production

### 1.3 Government

- Deliver public goods & services
- Levy taxes

### 1.4 Foreign Sector

- Surplus goods and services are exported
- good & services not available in SA are imported

## 2. Markets

### 2.1 Factor Market

- Includes: Raw material, Capital, labour and Entrepreneur

### 2.2 Product Market

- Includes: Services example a doctor  
Goods
  - Durable- a car

- Semi-durable – a cell phone
- Non-durable – air time

### 2.3 Financial Market

- The capital market – investments or loans longer than 3 years.
- The money market – investments or loans shorter than 3 years.

## 3. **Flows**

### 3.1 Real Flow

- Final Goods and services flows from Business to Households
- Factors of production flows from households to business

### 3.2 Monetary Flow

- Expenses flows from households and become income to business
- Business expenses flows from business and become household income – salaries, rent, interest & profit

## **Money Market (Less than 3 years)**

This is a market for short-term savings and loans.

Kinds of securities that change hands in this market:

- Bankers acceptances
- Short-term company debentures
- Treasury bills
- Reserve bank debentures
- Short-term government bonds
- The SARB is a key institution in the money market.

## **Capital Market (More than 3 years)**

- Long-term deposits and borrowings (e.g. mortgage bonds)
- The JSE is a key institution in the capital market.

## **Foreign exchange market**

- Receipts for exports and payments for imports.
- Exchange rate is determined by demand and supply.

## **STOCKS AND FLOWS**

### **Flows**

These are movements of economic variables such as production, income, spending, etc.

Economist measure flows over a period of time.

### **Stocks**

A stock tells us about the fixed amount of an economic variable at a particular point in time.

E.g. the number of people employed at a given time.



## Leakages and injections

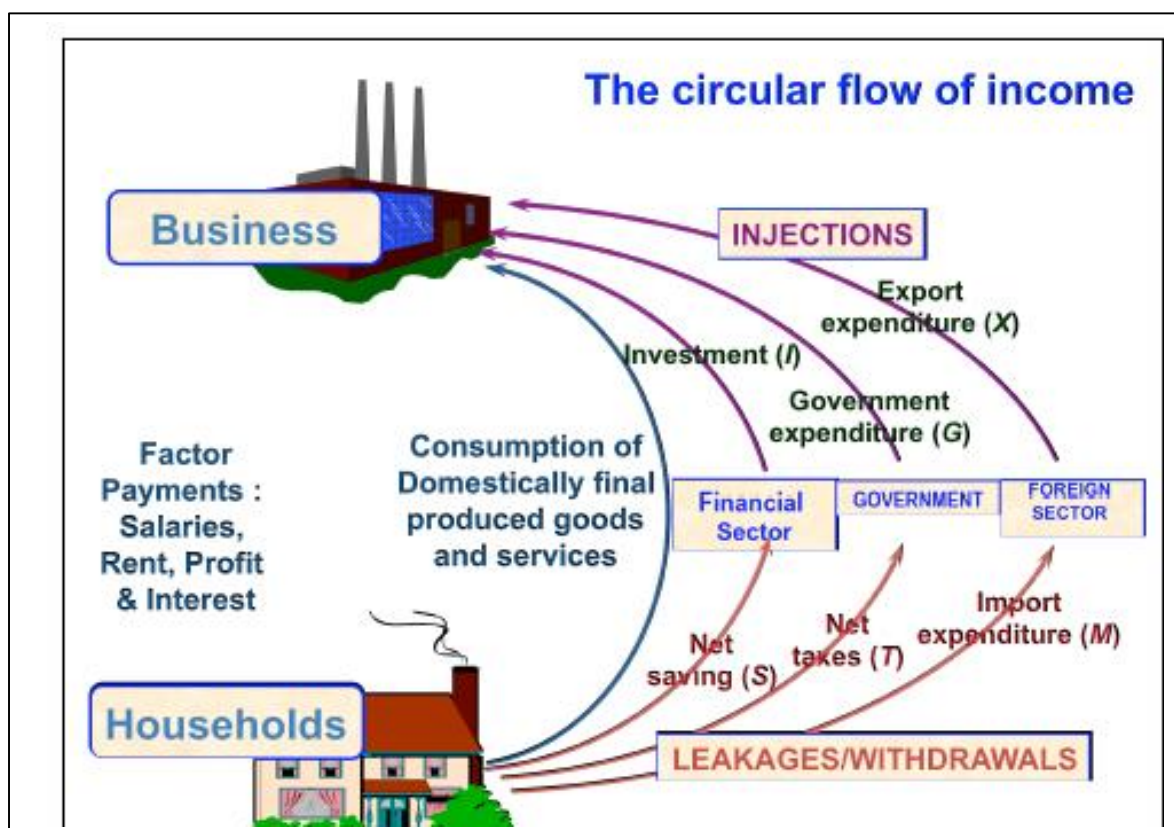
Resource income and spending are not always equal because of **leakages**. Flows out of the circular flow that occur when resource income is received and not spent directly on purchases from domestic firms.

- Saving = S
- Taxes = T
- Import purchases = M

However, at least some of these leakages are returned to the circular flow via various **injections**.

Added spending in the circular flow that is not paid for out of current resource income

- Investment = I
- Government spending = G
- Exports bought by foreign buyers = X



## NATIONAL ACCOUNT

**Gross Domestic Product (GDP):** The total market value of all final goods and services produced within the boundaries of a country in a particular period (usually one year).

In **Grade 11**, you learnt about the **three methods** of calculating GDP:

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



These measures of economic activity are useful not only as an indicator of economic activity within a country, but also:

- to determine the standard of living in a country
- to compare prosperity levels between countries
- to measure economic growth from one year to the next

The national accounts are published by the SARB in the SARB QB (<http://www.reservebank.co.za>). It is also available from Stats SA (<http://www.statssa.gov.za>).

The circular flow model is often referred to as the circular flow of income and expenditure, but it starts with production.

### **Wants = production**

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.

### **Deriving national account**

- **Production Method**
  - Production takes place in the primary, secondary and tertiary sectors.
  - However, we cannot merely add up all the market values of all outputs of all participants, because such a calculation would amount to double counting.
  - By subtracting intermediate goods from final goods we find the value that was added by each sector.

Primary Sector  
 + Secondary Sector  
 + Tertiary Sector  
 = **GROSS VALUE ADDED AT BASIC PRICES**  
 + TAXES on PRODUCT  
 - SUBSIDIES on PRODUCTS  
 = **GROSS DOMESTIC PRODUCT AT MARKET PRICE**

- **INCOME METHOD**

GDI adds together the income earned by the owners of the factors of production.

Compensation of employees  
 + net operating surplus  
 + Consumption of fixed capital  
 = **GROSS VALUE ADDED AT FACTOR COST**  
 + TAXES on PRODUCTION  
 - SUBSIDIES on PRODUCTION  
 = **GROSS VALUE ADDED AT BASIC PRICES**  
 + TAXES on PRODUCT  
 - SUBSIDIES on PRODUCTS  
 = **GROSS DOMESTIC PRODUCT AT MARKET PRICES (GDI)**

Compensation of employees (1) consists mainly of gross salaries and wages.

Net operating surplus (2) includes mainly the total value of goods and services that are produced, less cost. Cost has 3 elements:

- cost of intermediate goods and services
- cost of remuneration of employees
- cost of the consumption of fixed capital

The net operating surpluses show profits and surpluses before taxation.

## • EXPENDITURE METHOD

GDP(E) measures total expenditure of final goods and services produced within the borders of a country.

C -Final consumption expenditure by households  
+ G - Final consumption expenditure by government  
+ I - Gross capital formation  
+ Residual item  
**= GROSS DOMESTIC EXPENDITURE**  
+ X Exports of goods and services  
- M LESS imports of goods and services  
**EXPENDITURE ON GDP at MARKET PRICES**

$$\text{GDP(E)} = C + I + G + (X - Z)$$

## 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.

**EXAMPLE:**

Income = R200 000 and Savings = R40 000.

Investment = R40 000 and R10 000 additional Investment is made.

Calculate the Multiplier and the effect of the additional investment.

**STEP 1:**

$$\begin{aligned} &= \text{Savings (S)/ Income (Y)} \\ &= 40\,000/200\,000 \\ &= 0.2 \end{aligned}$$

This means that for every R1 invested, R1 becomes income and 20c is saved and 80c is spend and becomes income again.

**STEP 2:**

$$\begin{aligned} Y &= 200\,000 \\ S &= 40\,000 \\ I &= 40\,000 + 10\,000 \end{aligned}$$

**Additional injection** = R10 000

10 000 X 0.2 = R2 000 – (R2 000 goes to Savings as per multiplier and **R8 000** to Income)

$$Y = 200\,000 + 10\,000 + 8\,000$$

$$S = 40\,000 + 2\,000$$

$$I = 40\,000 + 10\,000$$

$$8\,000 \times 0.2 = R1\,600$$

R1 600 goes to Savings as per multiplier and **R6 400** to income

$$Y = 200\,000 + 10\,000 + 8\,000 + 6\,400$$

$$S = 40\,000 + 2\,000 + 1\,600$$

$$I = 40\,000 + 10\,000$$

$$6\,400 \times 0.2 = R1\,280$$

R1 280 goes to Savings as per multiplier and R5 120 to income

$$Y = 200\,000 + 10\,000 + 8\,000 + 6\,400 + 5\,120$$

$$S = 40\,000 + 2\,000 + 1\,600 + 1\,280$$

$$I = 40\,000 + 10\,000$$

With this example it is clear that the economy was originally in equilibrium (leakages = injection – R40 000 = R40 000). But then an injection via Investment was made and the economy was no longer in equilibrium.

The R10 000 injection created a multiplier effect and **Savings increased** 1<sup>st</sup> by R2 000 then by R1 600 and then by R 1 280 – slowly till it will be back in equilibrium with R10 000.

In the process the **national income increased** by R10 000 then R 8 000 then R6 400 then R5 120. Showing how a small increase in an injection lead to a proportionally larger increase in national income.

This process will take until infinity to complete and therefore do we use a formula to calculate the effect of an increase or decrease in an injection on the national income

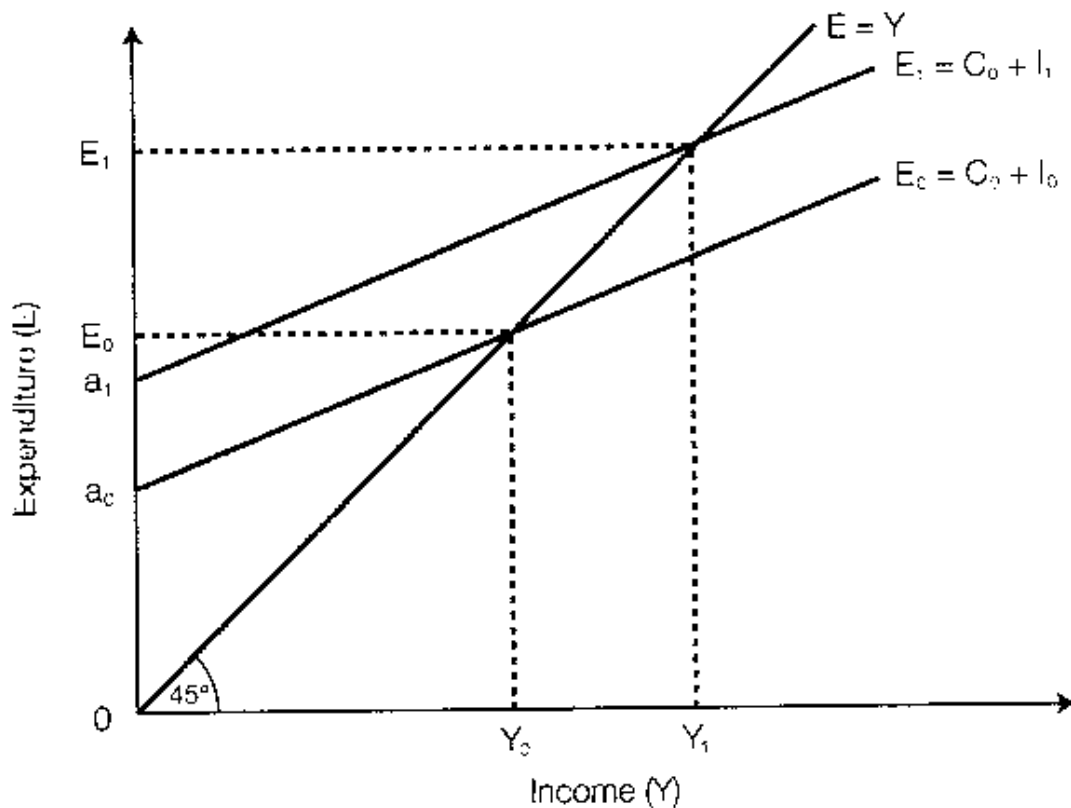
**Formula**

$$\text{Multiplier} = \frac{1}{1-mpc} \text{ Or } \frac{\Delta Y}{\Delta C}$$

- A multiplier = 1 means for every R1 injected R1 is added to income
- A multiplier < 1 means for every R1 injection less than R1 is added to income and ripple effect takes LONG to work trough
- A multiplier > 1 means for every R1 injection more than R1 is added to income ripple effect FAST

In a two sector economy (households and businesses):

- $Y = C + I$
- $Y = E = \text{equilibrium}$ , therefore, you should be able to show  $I = S$ .
- We illustrate this by using the Keynesian 45° diagram.



3 sector economy:  $k = \frac{1}{MPS + MRT}$  (MRT = marginal rate of taxation)

4 sector economy:  $k = \frac{1}{MPS + MRT + MPM}$  (MPM = marginal propensity to import)

## SECTION C: SOLUTIONS AND HINTS TO SECTION A

### CIRCULAR FLOW

#### QUESTION 1:

- 1.1 D (Businesses sell goods and services to households) ✓✓  
 1.2 B (Households sell resources to businesses) ✓✓  
 1.3 C (Gross Domestic Product) ✓✓  
 1.4 D (Gross domestic product) ✓✓  
 1.5 A (Consumer expenditure) ✓✓  
 1.6 B (Government spending on goods and services)  
 1.7 B (circular flow) ✓✓  
 1.8 D (short) ✓✓  
 1.9 B (micro) ✓✓  
 1.10 B (investment) ✓✓ (10 x 2) (20)

- 1.2.1 E (the flow of goods and services) ✓  
 1.2.2 D (the ratio between the eventual change in income and the initial investment) ✓  
 1.2.3 C (the portion of an increase in income that is not consumed) ✓  
 1.2.4 B (the flow of money) ✓ (4 x 1) (4)

- 1.3  
 1.3.1 Leakage ✓  
 1.3.2 Multiplier ✓  
 1.3.3 Foreign sector ✓  
 1.3.4 Injection ✓  
 1.3.5 Open economy ✓  
 1.3.6 Money market ✓  
 1.3.7 MTEF ✓  
 1.3.8 GDP ✓  
 1.3.9 Multiplier ✓  
 1.3.10 Real flow ✓ (10x 1) (10)



#### QUESTION 2

- 2.1 **According to the circular flow, what is the reason for the three key sectors, (Household, business and government) to work together?**  
 • They all work together to ensure that society's needs are provided for through the creation of goods and services. ✓✓ (1x2) (2)

#### QUESTION 3:

(Taken from DBE/Feb.-Mar.2012)

- 3.1 **Explain the role of the foreign sector as a participant in the circular flow.** (4x2) (8)  
 • There is a flow of goods (imports) to the business from the foreign sector ✓✓ which the business pays for ✓✓  
 • This will be regarded as expenditure for the business ✓✓  
 • There is also a flow of goods from the business to the foreign sector ✓✓  
 • This will be income for the business ✓✓

## QUESTION 4:

(Taken from various sources)

### 4.1 How can the household, as an important participant in the circular flow model, contribute to building the economy? (8)

- The owners of the four factors of production can try to increase the quality thereof to make a better contribution to the economy ✓✓
- Households can sell their factors of production at lower rates to help lower the inflation rate and build the economy ✓✓
- Households (labourers) can limit labour unrest and strikes where they usually claim unrealistic wage/ salary increases (much more than the current inflation rate) ✓✓
- Households can increase their savings and contribute indirectly to increased production in the manufacturing sector ✓✓
- Households can limit their spending on luxury goods that will limit the aggregate demand and stabilise prices ✓✓
- Households can concentrate on buying South African goods to stimulate local production, future exports and increased penetration of markets internationally ✓✓
- Households can pay their relevant taxes and claim better service delivery and infrastructure development ✓✓

### 4.2 Link the role of the financial and foreign markets to the other participants in the circular flow. (8)

#### Financial markets

- The savings of household, firms and the government sector gets accumulated in the financial market ✓✓
- It invests money by lending money to households, firms and the government ✓✓
- The inflows of money in the financial market are equal the outflows of money. ✓✓
- It makes the circular flow of income complete and continuous

#### Foreign sector

- Foreign sector receives revenue from firms, households and government for export of goods and services ✓✓
- It makes payments for imports from firms and the government ✓✓
- It makes payments for the factors services to the households ✓✓

### 4.3 Justify the equation $L = J$ and illustrate its component elements. (8)

- The economy is in equilibrium if leakages are equal to injections ( $L = J$ ) ✓✓
- $L (S + T + M) = J (I + G + X)$  ✓✓
- The process of restoring equilibrium causes changes to national income as follows:
- National income will rise when:  $I + G + X > S + T + M$ , injections are more than leakages ✓✓

- The amount of injections in excess of leakages increases demand; in order to satisfy the additional demand, more goods and services will be produced and more income will be generated ✓✓
- National income will fall when:  $I + G + X < S + T + M$ . Injections are less than leakages. ✓✓
- The amount of leakages in excess of injections reduces the existing demand, hence less will be produced and less income will be generated. ✓✓

**QUESTION 5:**

**40 minutes**

*Several economic activities are the function of different markets in the economy.*

- Discuss the role of markets in a circular flow model. (26)
- Explain the multiplier process by using a fully labeled graph. (10)

**INTRODUCTION**

The economy of a country is regarded as an open economy because of the presence of households, producers, government, foreign sector and financial sector as active participants in the economy. Markets link the participants in the economy ✓✓

The economy of a country is regarded as an open economy because of the presence of households, producers, government, foreign sector and financial sector as active participants in the economy. / The circular flow model is a simplified model of the interactions between the participants in the economy ✓✓  
(Accept any other relevant introduction)



**BODY: MAIN PART**

**PRODUCT / GOODS/ OUTPUT MARKET ✓**

- These are the markets for consumer goods and services ✓✓
- Goods are defined as tangible items, like food, clothes, cars, etc. that satisfies some human wants or needs ✓✓
- Buying and selling of goods that are produced in markets e.g. ✓✓
  - Capital Goods market for trading of buildings and machinery
  - Consumer goods market for trading of durable consumer goods, semi-durable consumer goods and non-durable consumer goods. ✓✓
- Services are defined as non-tangible actions and include wholesale and retail, transport and financial markets.

**FACTOR / RESOURCE/ INPUT MARKETS ✓**

- Households sell factors of production on the markets: rent for natural resources, wages for labour interest for capital and profit for entrepreneurship ✓✓
- The factor market includes the labour, property and financial markets. ✓✓
- The market where services of factors of production are traded e.g. labour is hired and capital is borrowed – these services earn wages, interest, rent and profits ✓✓



## FINANCIAL MARKETS ✓

- They are not directly involved in the production of goods and services, but act as a link between households, the business sector and other participants with surplus funds ✓✓
- E.g. banks, insurance companies and pension funds ✓

## MONEY MARKETS ✓

- In the money markets short term loans, and very short term funds are saved and borrowed by consumers and business enterprises ✓✓
- Products sold in the market are bank debentures, treasury bills and government bonds ✓✓
- The simplest form exists when parties make demand and short-term deposits and borrow on short term ✓✓
- The SARB is the main institution in the money market ✓✓

## CAPITAL MARKETS ✓

- In the capital markets long term funds are borrowed and saved by consumers and the business sector ✓✓
- The Johannesburg Securities Exchange (JSE) is a key institution in the capital ✓✓
- Products sold in this market are mortgage bonds and shares ✓✓

## FOREIGN EXCHANGE MARKETS ✓

- On the foreign exchange markets businesses buy/ sell foreign currency to pay for imported goods and services ✓✓
- These transactions occur in banks and consists of electronic money transfers from one account to another ✓✓
- The leading centres/ most important foreign exchange markets are in London, New York and Tokyo ✓✓  
e.g. traveller's cheques for use during travel abroad ✓

## FLOWS ✓

- Flows of private and public goods and services are real flows and they are accompanied by counter flows of expenditure and taxes on the product market ✓✓
- Factor services are real flows and they are accompanied by counter flows of income on the factor market ✓✓
- Imports and exports are real flows and are accompanied by counter flows of expenditure and revenue on the foreign exchange market ✓✓

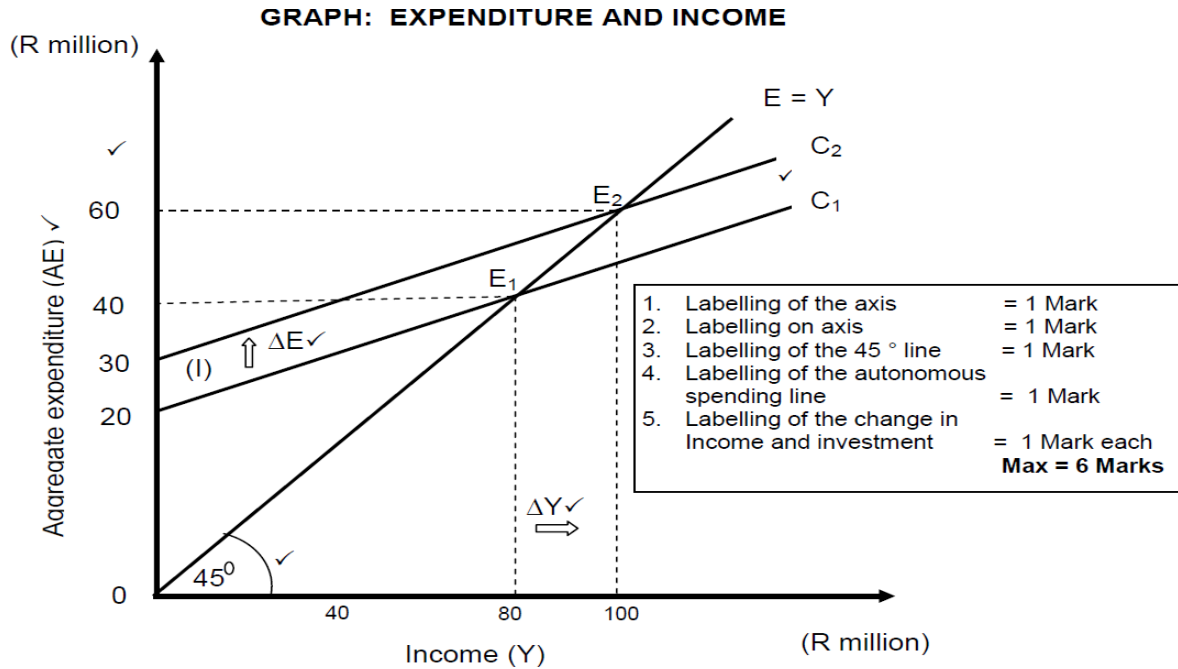
**Mnemonic: G,Fa,Fi,M,C,Fo,FI**

**(max. 26)**

(Accept any other relevant facts)



**ADDITIONAL PART**



- A change in investment of R 10m will result in a change in income of R 20m ✓✓
- The income increases by more than a proportionate change in investment ✓✓  
Or
- An increase in investment causes the expenditure function to shift upwards from C<sub>1</sub> to C<sub>2</sub> so that C<sub>1</sub> is parallel to C<sub>2</sub> ✓✓
- The effect of the increase in investment is that the total expenditure will increase from R 20m to R 30m ✓✓
- The increase in the value of output (Y) is greater than the increase in the expenditure (E) ✓✓ **(max.4)**  
(Explanation must comply with the figures supplied in the graphical representation) **(max.10)**

**CONCLUSION**

The circular flow ensures continued interdependence and coordination of the economic activities in the economy / markets are critically important institutions in our economic system, because they regulate the supply and demand and safeguard price stability and general business confidence. ✓✓  
(Any other relevant higher conclusion) **(max. 2)**  
**[40]**

**NATIONAL ACCOUNT**

**QUESTION 1:**

- 1.1 B (IMF) ✓✓
- 1.2 C (factor cost) ✓✓
- 1.3 A (rise) ✓✓
- 1.4 D (production) ✓✓

**QUESTION 2:** (Taken from the examination guideline)

**2.1 How is expenditure related to income and production? (8)**

- If the government decides to embark on a big infrastructure programme, such as bus lanes in the major cities (Pretoria and Johannesburg)
- This project will require additional workers, who in turn will earn an income ✓✓
- These individuals now have an income, which will be used to purchase consumer goods and services ✓✓
- This will stimulate the demand for goods and services, which will lead to increased production ✓✓
- The increase in production will need additional employees to assist in providing for more goods and services ✓✓
- These employees will also add to greater demand, which will increase levels of production, which in turn increases the levels of employment and income, stimulating greater consumer demand ✓✓

**QUESTION 3:** (Taken from DBE/November 2010)

**3.1 Explain how the Gross Domestic Product (GDP) at market prices is derived by using the Expenditure method – GDP(E). (4 x 2) (8)**

- Expenditure on GDP measures total expenditure on final goods and services produced within the borders of the country. ✓✓
- It is calculating by adding together expenditures of the participants in an open economy/(households, state, businesses) ✓✓
- Households spend on durable goods/ semi-durable goods/ non- durable goods and services. ✓✓
- State spends on public goods ✓✓
- Businesses spends on capital goods ✓✓
- The residual item is included as balancing item. ✓✓
- The exports of the foreign sector are added and the imports are subtracted.
- $GDP(E) = C + G + I + (X - M)$  ✓✓ (Any 4 x 2)(8)

**QUESTION 4:** (Taken from DBE/Nov & March 2015)

**4.1 Give ONE example of taxes on products. (1)**

- Vat ✓
- Sin tax/ excise tax ✓
- Fuel levy ✓ [1]

**4.2 How will national income be influenced by the above leakages and injections?**

National income will increase because (investment) J exceeds (savings) L  
(2 x 1) [2]

**4.3 How would you convert GDP to GNP?**

GDP plus primary income from the rest of the world ✓ minus primary income to the rest of the world ✓ [2]

**4.4 Calculate the change in national income caused by the investment above. Show ALL calculations.**

$$M = \frac{1}{1 - MPC}$$
$$\frac{1}{1 - ,75}$$
$$4 \checkmark \checkmark$$

Effect:  $R120m \times 4 = R480m$  ✓✓ [4]

26

**QUESTION 5:**

- 5.1 **Name the missing item labelled A.**  
Gross value added / GDP at basic price✓ [1]
- 5.2 **Briefly describe the term gross domestic product (GDP).**  
The total value of all final goods and services✓ produced within the boundaries of the country for a specific period, e.g. a year✓ [2]
- 5.3 **Explain the item ‘consumption of fixed capital formation.’**  
Consumption of fixed capital is the depreciation (diminishing value of an asset) over time ✓✓ [2]
- 5.4 **Calculate Gross ‘Domestic Product @ Market prices’ labelled B. Show all calculations.**

Gross value Added @ Basic prices	2 820 262✓
+ Taxes on products	338 804✓
- Subsidies on products	20 086✓
<b>Gross Domestic Product @ Market Prices</b>	<b>3138 980✓</b>

**QUESTION 6:**

(Adapted from DBE/November 2015)

- 6.1 **What method of calculation was used in the table above to calculate gross domestic product?**  
Income method✓ [1]
- 6.2 **Name the missing item labelled A**  
GVA (GDP) at basic prices ✓ [1]
- 6.3 **Briefly describe the item ‘net operating surplus’.**  
Net operating surplus is the profit and surpluses of businesses before taxation [2]
- 6.4 **Calculate the compensations of employees as a percentage of GDP at market prices in 2013. Show all calculations.**  
 $\frac{1\ 576}{3\ 385} \times 100$ ✓✓  
46.55%✓✓ [4]

**THE MULTIPLIER**

**QUESTION 1:**

(Taken from various sources)

- 1.1 D (consume) ✓✓
- 1.2 C (macroeconomic multiplier) ✓✓

**QUESTION 2:**

**20 minutes**

(Taken from DoE Exemplar 2008)

- 2.1 **Name the TWO sectors involved in deriving the macro-economic multiplier**  
Households/Consumers ✓  
Business sector/Firms/Producers ✓ (2 x 1) [2]
- 2.2 **What is represented by the line E = Y?**  
It shows all the possible levels of expenditure and output at which the economy is in equilibrium ✓✓ (2 x 1) [2]
- 2.3 **Use the formula,  $k = \Delta Y \div \Delta J$ , to calculate the multiplier (k) for the above scenario**

$$k = \frac{20}{10} \checkmark \checkmark$$

$$= 2 \checkmark \checkmark$$

- 2.4 Calculate the multiplier**, using the formula,  $k = 1/(1 - MPC)$ , when the marginal propensity to consume (MPC) = 0.8. Show calculations. [4]

$$k = \frac{1}{1-0.8} \checkmark$$

$$= \frac{1}{0.2} \checkmark$$

$$= 5 \checkmark \checkmark$$

[4]

- 2.5 Explain the relationship between the mpc and the multiplier.**  
The bigger the mpc, the bigger the multiplier (and vice versa)  $\checkmark \checkmark$  [2]

### QUESTION 3:

- 3.1 Define the macroeconomic multiplier**

A small increase in spending  $\checkmark$  produces a proportionately larger increase in national income  $\checkmark$  [2]

- 3.2 What does the term equilibrium in this extract refer to?**

Injections = Leakages  $\checkmark \checkmark$  [2]

- 3.3 Calculate the marginal propensity to consume (mpc).**

$$mpc = R100\ 000 - R40\ 000 = R60\ 000$$

$$\frac{60\ 000}{100\ 000} \checkmark = 0,6 \checkmark \quad \text{or } 0,6 \checkmark \checkmark$$

[2]

- 3.4 Calculate the value of the multiplier. Show ALL calculations.**

$$K = \frac{1}{1-mpc}$$

$$= \frac{1}{1-0.6} \checkmark$$

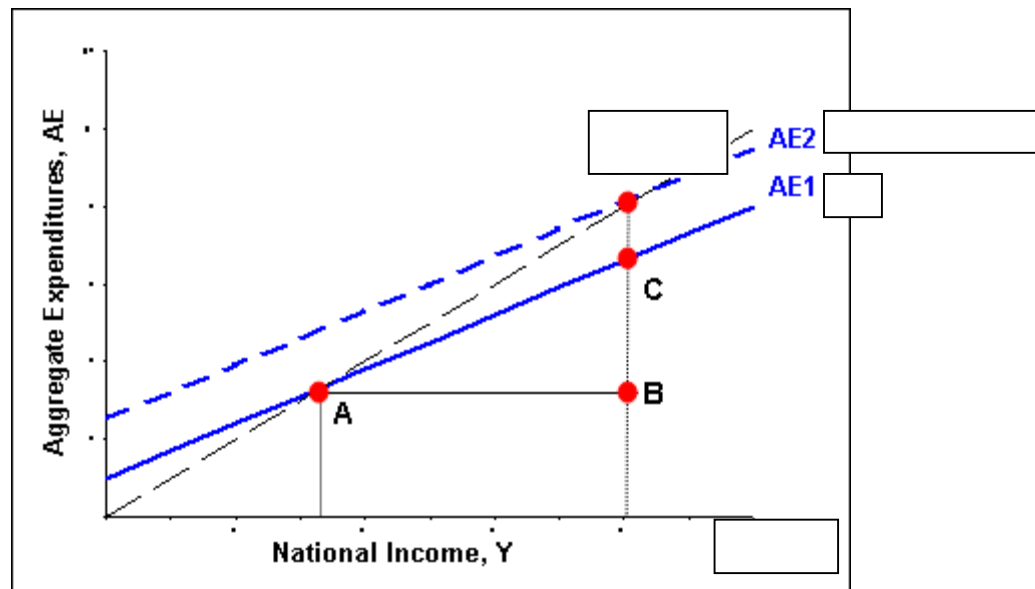
$$= \frac{1}{0.4} \checkmark$$

$$= 2,5 \checkmark \checkmark$$

[4]

**QUESTION 4:**

(Taken from DoE/Feb.-Mar. 2009)



(Max. 4 marks)

In the diagram above, a change in investment of R20 million, with an mpc of (0,5) ✓✓ will result in equilibrium moving from E to E<sub>1</sub> ✓ (R20 million – R60 million).

The multiplier is therefore = 2 ✓✓, therefore the change in income with an injection of R 20 million, will be (2 x R20 million = R40 ) ✓✓

The multiplier describes the situation where a change in spending causes a disproportionate change in the level of aggregate income ✓✓

$$M = \frac{\text{(change in Y)} \checkmark \checkmark}{\text{(change in J)}}$$

The multiplier effect starts off with unused resources in the economy ✓✓ (e.g.) increase in investment, like construction of roads leads to more jobs ✓✓ The new workers would then have income to purchase consumer goods which in turn stimulates the demand for goods and services ✓✓ and this results in increased levels of production which further increases the level of employment ✓✓ This raises income and stimulates greater consumer demand ✓✓ The size of the eventual change in the income will depend on mpc (marginal propensity to consume) ✓✓

(Max. 4 marks) (8)

## SESSION 2: BUSINESS CYCLES

### SECTION A: TYPICAL EXAM QUESTIONS

**QUESTION 1:** Section A (Taken from various sources)

**1.1 Various options are provided as possible answers to the following questions. Choose the correct answer.**

1.1.1 Exogenous factors e.g. ... will cause fluctuations in the level of economic activity

- A. weather patterns
- B. immobility of markets
- C. demand patterns
- D. supply

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

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

1.1.3 The number of **new motor cars** sold is a ... business cycle indicator.

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



1.1.4 A focus on the **improvement** of input efficiency is a characteristic of the ...-side policy.

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

1.1.5 The GDP of a country is an example of a ... **economic indicator** in forecasting.

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

1.1.6 Changes in **technology** will lead to a ... business cycle.

- A. demand-driven
- B. supply-driven
- C. political
- D. Kuznets

- 1.1.7 Indicators which change **before** the business cycle changes are called ... indicators.
- A. lagging
  - B. leading
  - C. coincident
  - 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 fiscal policy that attempts to stimulate economic activity
- A. restrictive fiscal policy
  - B. monetary fiscal policy
  - C. expansionary fiscal policy
  - D. restrictive monetary fiscal policy
- 1.1.10 During an economic recession ... will increase
- A. employment
  - B. production
  - C. spending
  - D. unemployment

(8x2) (16)

**1.2 Give ONE term for each of the following descriptions.**

- 1.2.1 The recurrent but not periodic pattern of increasing and decreasing economic activity.
- 1.2.2 The lowest point between the end of an economic recession and the start of an economic expansion.
- 1.2.3 The method of predicting the future of a business cycle based on historical data.
- 1.2.4 Factors that cause fluctuations which originate outside the market system.
- 1.2.5 Measures the intensity of upswings and downswings in economic activity.
- 1.2.6 A method of repeatedly calculating a series of different average values along a time series to produce a smooth curve.
- 1.2.7 The curve that shows the relationship between tax rates and tax revenue.
- 1.2.8 The distance from the trend line to the peak and the trough.
- 1.2.9 The group of economists that believe markets are inherently unstable.
- 1.2.10 The rate at which banks borrow money from SARB.

(10 x 1) (10)

**QUESTION 2: Section B** (Taken from various sources)

- 2.1 What impact do you think will a huge investment such as the Gautrain project, have on the business cycle? (1 x 2) (2)
- 2.2 Explain why a business cycle diagram serves as a forecasting model. (1 x 2) (2)

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- 2.3 How can extrapolation be used in predicting business cycles? (1 x 2) (2)
- 2.4 How can the Reserve Bank use interest rates to stimulate the economy? (1 x 2) (2)
- 2.5 How will the contraction phase of a business cycle influence the economy through interest rates? (8)
- 2.6 How has the Keynesian (endogenous) school of thought influence the business cycles? (8)
- 2.7 Discuss the **trend line** in the forecasting of business cycles. (4 x 2) (8)
- 2.8 Compare and contrast **endogenous** and **exogenous** explanations of business cycles. (2 x 4) (8)
- 2.9 Briefly discuss **lagging indicators** as a feature underpinning forecasting. (4 x 2) (8)
- 2.10 Distinguish between the **amplitude** and **trend line** as features underpinning forecasting. (2 x 4) (8)
- 2.11 Illustrate a typical business cycle. (8)

**QUESTION 3:** **Section B** (Adapted from Mind the gap)  
Study the cartoon below and answer the questions that follow.

EcoleBooks



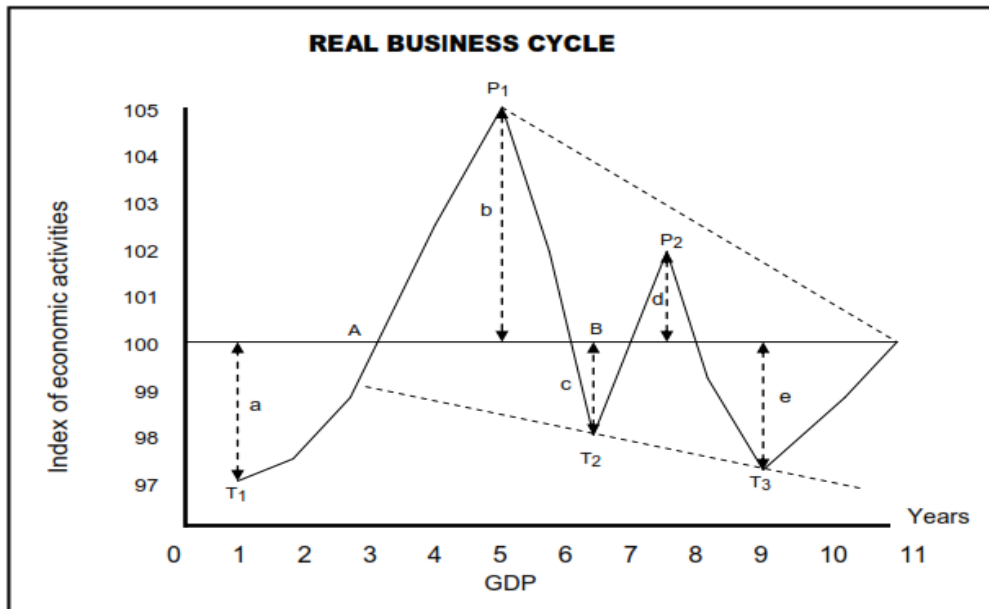
Source: Mail & Guardian, 2010

- 3.1.1 What message is depicted in the cartoon above? (2)
- 3.1.2 How would you describe the recovery phase of a typical business cycle? (2 x 2) (4)
- 3.1.3 Briefly explain how the government can use **fiscal policy** to stimulate economic activity during the recession phase. (2 x 2) (4)

32



**QUESTION 4:** **Section B** (Taken from June-July 2015)  
Study the diagram below and answer the questions that follow.



- 4.1.1 What do the dotted lines **a** and **b** represent? (2 x 1) (2)
- 4.1.2 Briefly explain the term real (actual) business cycles. (2)
- 4.1.3 What is the importance of the length (T2 – T3) of a business cycle? (2)
- 4.1.4 What can the government do to ensure that high inflation does not occur during peaks of a business cycle? (4)

**QUESTION 5:** **Section B** (Taken from DBE/November 2014)  
Study the information below and answer the questions that follow.

**ECONOMIC INDICATORS**

Economic indicators are statistics used to measure some aspect of the economy which helps to forecast business cycles, for example unemployment rates, retail sales and job advertising space. Besides economic indicators the length and amplitude of a business cycle are other factors that underpin the forecasting of business cycles. The Reserve Bank also compiles composite indicators to reflect the performance of the economy.

[Adapted from the Internet 2013]

- 5.1.1 Identify a **leading economic indicator** from the above data. (2)
- 5.1.2 Define the term **composite indicator**. (2)
- 5.1.3 What does the **amplitude** cycle demonstrate? (2)
- 5.1.4 Explain the **length** of a business cycle as a feature that underpins forecasting. (4)

**QUESTION 6: Section B (taken from DBE /November 2016)**

Study the following extract and answer the questions that follow

**SA ECONOMY CLOSING IN ON A RECESSION**

South Africa's economy is at risk of falling into a recession, the World Bank said, as it cut the nation's growth forecast for this year to 0,8%.

Growth in Africa's third-largest economy is under pressure, following a slump in commodity prices, weakening demand from China and the worst drought in more than a century.

The rand has plunged 14% against the dollar in the past three months as sentiment worsened and credit-rating companies (Moody's, Standard & Poor's and Fitch) downgraded the country's credit rating because of growth risks.

South Africa is projected to remain largely below the average growth rate of 4,5% for sub-Saharan Africa in 2016 to 2017.

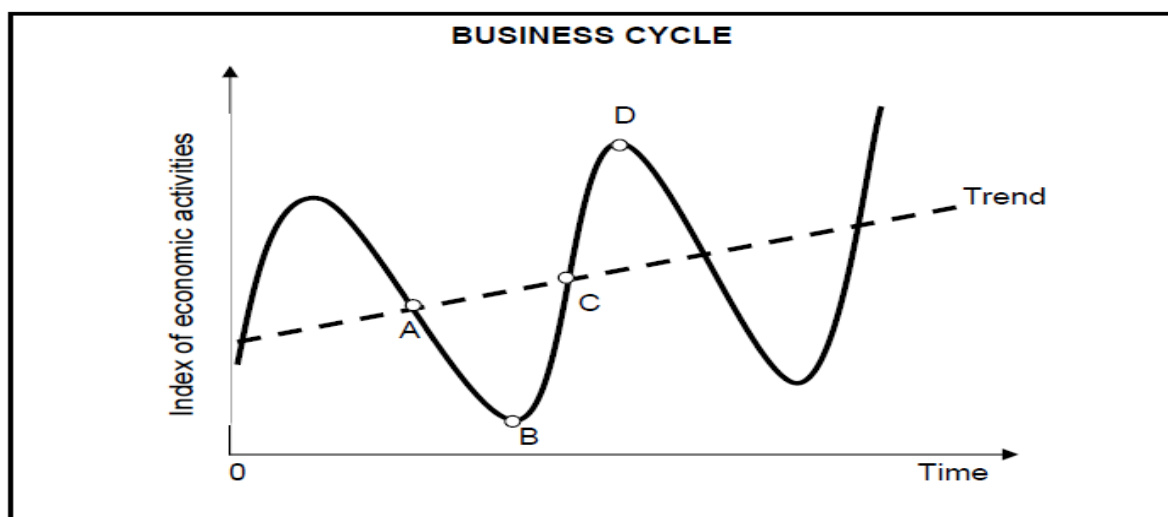
Against this backdrop, poverty in South Africa is set to rise as incomes fall.

[Adapted from *Fin24*, February 2016]

- 6.1.1 Give TWO factors in the extract above that contributed to the poor performance of the South African economy. (2 x 1)
- 6.1.2 When is a country officially in a recession? (2)
- 6.1.3 What impact will the downgrading of South Africa's credit rating have on its economy? (2)
- 6.1.4 In your opinion, what can government do to stabilise the business cycle? (2 x 2) (4)

**QUESTION 7**

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



- 7.1.1 Name ONE turning point in the business cycle. (2)
- 7.1.2 What is indicated by the trend? (2)
- 7.1.3 What impact, do you think, will a huge investment, such as the Gautrain project, have on the business cycle? (2)
- 7.1.4 Explain how the government can stimulate economic activity in an effort to smooth out business cycles. (2 x 2)(4)

**QUESTION 8: 40 minutes Section C (Taken from FEB/MARCH 2015)**

STRUCTURE OF ESSAY:	MARK ALLOCATION:
<p><b>Introduction</b> The introduction is a lower-order response.</p> <ul style="list-style-type: none"> <li>• A good starting point would be to the main concept related to the question topic</li> <li>• Do not include any part of the question in your introduction.</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> <b>Main part:</b> Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate <b>Additional part:</b> Give own opinion/ Critically discuss/ Evaluate/ Critically evaluate/ Draw a graph and explain/ Use the graph given and explain/ Complete the given graph/ Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ Suggest</p>	<p>Max 26</p> <p>Max 10</p>
<p><b>Conclusion</b> Any Higher order conclusion includes:</p> <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned in the body</li> <li>• Any opinion or value judgement on the facts 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>

*The government's primary aim with business cycle policies is to achieve the possible growth rates.*

- Discuss the demand-side and supply-side policies used by government to smooth out business cycles. (26)
- Use a well labelled graph to explain the effects of demand and supply policies on the price. (10)

[40]

**QUESTION 9: 40 minutes Section C**

*Economic indicators are useful to interpret the overall health of the economy either current or the future.*

- **Discuss in detail** the features underpinning forecasting of business cycles (26)
- How can the **monetary policy** be used to smooth out business cycles(10) [40]

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## SECTION B: SOLUTIONS TO BUSINESS CYCLES

### QUESTION 1:

**1.1 Various options are provided as possible answers to the following questions. Choose the correct answer.**

- 1.1.1 A weather patterns ✓✓
- 1.1.2 B recovery ✓✓
- 1.1.3 C (leading) ✓✓
- 1.1.4 B (supply) ✓✓
- 1.1.5 D (coincident) ✓✓
- 1.1.6 B (supply-driven) ✓✓
- 1.1.7 A (leading) ✓✓
- 1.1.8 B (supply) ✓✓
- 1.1.9 C (expansionary fiscal policy) ✓✓
- 1.1.10 D (unemployment) ✓✓ (10 x 2) (20)

**1.2 Give ONE term for each of the following descriptions.**

- 1.2.1 Business cycle ✓
- 1.2.2 Trough ✓
- 1.2.3 Extrapolation ✓
- 1.2.4 Exogenous ✓
- 1.2.5 Amplitude ✓
- 1.2.6 Moving averages ✓
- 1.2.7 Phillips curve ✓
- 1.2.8 Amplitude ✓
- 1.2.9 Keynesians ✓
- 1.2.10 Repo rate ✓ (10 x 1) (10)



**QUESTION 2: Section B** (Taken from various sources)

**2.1 What impact do you think a huge investment such as the Gautrain project, will have on the business cycle?**

If the business cycle is currently in a downswing, it will lead to the turning point, moving into an upswing ✓✓ / if the business cycle is currently in an upswing, it will lead to an extended expansion phase ✓✓ (1 x 2) (2)

**2.2 Explain why a business cycle diagram serves as a forecasting model.**

It is helpful for the government to be able to predict what the level of economic output will be in the country in a year. ✓✓ or It helps to make predictions about changing conditions and future events that may significantly affect the economy ✓✓ (Accept any other relevant answer) (1 x 2) (2)

**2.3 How can extrapolation be used in predicting business cycles?**

By extending the current trend line/to base forecasting on information already known ✓✓ (1 x 2) (2)

**2.4 How can the Reserve Bank use interest rates to stimulate the economy?**

By reducing interest rates ✓ credit becomes more accessible which will lead to an increase in expenditure and stimulate economic activities ✓ (1 x 2) (2)

**2.5 How will the contraction phase of a business cycle influence the economy through interest rates?**

In the latter stage of the downswing, interest rates will decrease ✓✓ more people will borrow money to stimulate the economy ✓✓

In the early stage of a downswing interest rates will increase ✓✓ to dampen the economy - people will borrow less money ✓✓

Accept any other relevant answer (8)

**2.6 How has the Keynesian (endogenous) school of thought influence the business cycles?**

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

(Accept any other relevant response) (8)

**2.7 Discuss the trend line in the forecasting of business cycles.**

- It represents the average position of a cycle. ✓✓
- Indicates the general direction in which the economy is moving. ✓✓
- An upward trend suggest that the economy is growing. ✓✓
- Trend line usually has a positive slope, because production capacity increases over time. ✓✓

(Accept any other relevant answer) (4x 2) (8)

**2.8 Compare and contrast endogenous and exogenous explanations of business cycles.**

**Endogenous explanation**

- Also called Monetarists view. ✓✓
- Dependant variables which originate within the economy ✓✓
- Markets are inherently unstable ✓✓
- Government intervention may be required ✓✓
- The price mechanism fails to coordinate demand and supply in markets causing upswings and downswings ✓✓

(2 x 2) (4)

### Exogenous explanation

- Also called Keynesian view ✓✓
  - Independent variables which originate outside the economy ✓✓
  - Markets are inherently stable ✓✓
  - Government should not intervene in the market ✓✓
  - Weather conditions and market shocks cause upswings and downswings ✓✓
- (2 x 2) (4)  
(8)

### 2.9 Briefly discuss lagging indicators as a feature underpinning forecasting.

- Follow coincident indicators ✓✓
- Serve to confirm the behaviour of the coincident indicators ✓✓
- If it does not confirm the upswing or downswing, for instance, it signals that the upswing or downswing is weak and will most likely end at an early stage ✓✓
- Change direction after reference turning points in the business cycle has been reached ✓✓
- Confirm changes that were first indicated by the leading indicators and then the coincident indicators ✓✓
- Provide an advance signal of a turning point in the business cycle ✓✓
- First to reflect imbalances that intensify (increase) or subsidise (decrease) in the economy ✓✓
- Influence of movements on subsequent movements in the leading indicators help explain the view that one business cycle generates the next one ✓✓



(4 x 2) (8)

### 2.10 How can the amplitude and trend line can be used in the forecasting of business cycles?

#### Amplitude:

The power of the underlying forces – for example interest rates, exports or consumer spending ✓✓

- A large amplitude during upswing demonstrates strong underlying forces ✓✓
- The duration of a cycle with a large amplitude is usually longer than one with a smaller amplitude ✓✓

The extent of change – the larger the amplitude the more extreme the changes that may occur ✓✓

- For example during an upswing unemployment may decrease from 20% to 10% (a decrease of 50%) inflation may increase from 3% to 6% (by 100%) or a surplus on the current account (of the balance of payments) can change from surplus to a deficit ✓✓

#### Trend line:

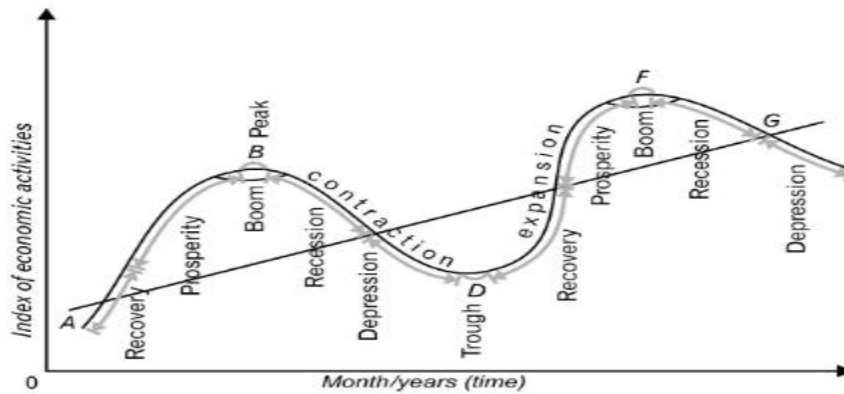
- The trend line that rises gradually will be positively sloped in the long run, the rising line indicates a growing economy ✓✓
- The trend indicates the general direction in which indexes that were used in the business cycle move ✓✓
- The trend will change when the time series data change their behaviour patterns of the past ✓✓

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- However some forces have to be overcome for that to happen, e.g. Resistance points and Channels  
(Accept any other relevant facts) (Any 2 x 4)(8)

2.1.11 Illustrate a typical business cycle.



Labelling of the axis = 1 Trend line = 1 Peak = 1 Trough = 1 Phases = 4 Contraction = 1 Expansion = 1 <b>Total marks = 8 marks</b>
---

**QUESTION 3:**

(Adapted from the Examination Guideline)

**3.1 Data-response**

- 3.1.1 It illustrates the business cycle struggling to recover due to the burden of unemployment ✓✓ (Accept other relevant answer) (2)
- 3.1.2 • Economic activities start to increase ✓✓  
• Exports will start to increase, resulting in an increase in production ✓✓  
(Accept other relevant answer) (2 x 2) (4)
- 3.1.3 The government can reduce taxation ✓✓ The government spending can be increased ✓✓ (2x 2) (4)
- [10]**

**QUESTION 4:**

**4.1 Data-response**

- 4.1.1 Amplitude ✓✓ (2)
- 4.1.2 Real changes in economic activities over a period of time ✓✓ (2)
- 4.1.3 • The length of the business cycle is the amount of time it takes to move through one complete cycle ✓✓  
• Longer cycles show strength- shorter cycles show weaknesses ✓✓  
• The length in this instance is approximately 3 years and we can predict that the following one will also take approximately 3 years or shorter ✓✓  
(Accept any other relevant answer) (2)
- 4.1.4 • Government can increase taxes ✓✓  
• Government expenditure can be reduced ✓✓

- Monetary policy instruments e.g. increased interest rates, inflation targeting ✓✓
- (Accept any other relevant answers related to fiscal and monetary policy)
- (2 x2) (4)  
**[10]**

**QUESTION 5:** **Section B** (Taken from DBE/November 2014)

**5.1 Data-response**

5.1.1 Job advertising space ✓✓ (2)

5.1.2 It is a summary of various indicators of the same type into one single index ✓✓/The three composite indicators are often used to calculate a single composite indicator to benchmark a country's economic performance ✓✓ A composite indicator measures multi-dimensional concepts e.g. competitiveness, e-trade or environmental quality, which cannot be captured by a single indicator ✓✓ Ideally a composite indicator should be based on theoretical framework which allows individual indicators to be selected, combined and weighted in a manner which reflects the dimensions or structure of the economy being measured ✓✓  
(Accept any other correct definition) (Max 2)

5.1.3 • It demonstrates the power of underlying forces ✓✓  
• It demonstrates the extent of change ✓✓  
• A large amplitude shows the strength (severity) of underlying forces  
• The larger the amplitude the more the extreme the changes that might occur/It shows how deep and how high the recession goes ✓✓  
• The amplitude demonstrates the distance of the peaks and troughs measured from the trend line ✓✓  
• It indicates the effect of economic activity ✓✓  
(Accept any other relevant answer) (1 x 2) (2)

5.1.4 • Is measured from peak to peak or from trough to trough/ It is the time used to move through a complete cycle ✓✓  
• If the length is 10 years it can be predicted that it will take 10 years for the economy to move through another complete cycle ✓✓  
• Cycles may overshoot ✓✓  
• Longer cycles are stronger/shorter cycles are weak ✓✓  
• The strength of the underpinning forces ✓✓  
(Accept any other relevant answer) (2 x 2) (4)  
**[10]**

**QUESTION 6:** **Section B** (taken from DBE /November 2016)

6.1.1 Give TWO factors in the extract above that contributed to the poor performance of the South African economy. (2 x 1)(2)

- Slump in commodity price ✓
- Weakening demand from China ✓
- Drought ✓
- Plunging value of the rand ✓

Any (2 x 1)(2)



- 6.1.2 When is a country officially in a recession?  
When the country experiences a negative economic growth rate for two consecutive quarters ✓✓ (2)
- 6.1.3 What impact will the downgrading of South Africa's credit rating have on its economy? (2)
- Down grading implies a bigger risk for investors which might lead to an increase in interest rates ✓✓
  - The fact that South Africa which has very high levels of debt, will have to pay higher interest rates, this will definitely impact on the lower income groups who will not be able to afford goods and services ✓✓
  - There will be less money available for spending; this will put more pressure on the budget, the tax payer as well as social grants and infrastructure development ✓✓
  - A poor credit rating might increase poverty that will drive a lower standard of living which might lead to a recession ✓✓
- (Accept any other correct relevant response) (2)
- 6.1.4 In your opinion, what can government do to stabilise the business cycle? (2 x 2) (4)
- The government can get involved in the smoothing of cycles through monetary and fiscal policy measures ✓✓
  - The government can apply supply and demand side policies to stabilise prices ✓✓
  - The government might take measures to influence the aggregate demand that will stimulate consumer spending ✓✓
  - The government might take measures to influence the level of aggregate supply and lead to an increase in domestic production and lower inflation pressure ✓✓
- (Accept any other correct relevant response) Any (2 x 2) (4)  
**[10]**

## QUESTION 7

- 7.1.1 Point B (peak)/D (trough) ✓ (2)
- 7.1.2 It indicates the expected growth rate of a country ✓ /also referred to as the long-term growth potential of the economy. ✓ /the general direction in which the indexes that were used in business cycles move ✓ (2)
- 7.1.3 If the business cycle is currently in a downswing, it will lead to the turning point, moving into an upswing ✓✓ / if the business cycle is currently in an upswing, it will lead to an extended expansion phase ✓✓  
(Any other relevant answer) (Any 2 x 2) (4)
- 7.1.4 •Using expansionary monetary policies ✓✓ e.g. reducing interest rates ✓  
•Expansionary fiscal policies ✓✓ e.g. reducing tax ✓  
•Increased government expenditure ✓✓ e.g. capital investment projects ✓  
(Any other relevant examples) (2 x 2) (4)  
**[10]**

## QUESTION 8:

40 minutes

*The government's primary aim with business cycle policies is to achieve the possible growth rates.*

- Discuss the demand-side and supply-side policies used by government to smooth out business cycles. (26)
- Use a well labelled graph to explain the effects of demand and supply policies on the price. (10)

## INTRODUCTION

The new economic paradigm in terms of the smoothing of business cycles discourages monetary policy makers from using monetary and fiscal policies to fine tune the economy but rather encourages achieving stability through sound long term decisions relating to demand and supply in the economy/smoothing out the painful part of economic down-fall that is part of the market economy ✓✓

(Accept other relevant definition/description of smoothing/new economic paradigm)  
**(Max 2)**

## BODY: MAIN PART

The new economic paradigm is embedded in the demand- and supply side policies. ✓✓

### Demand-side policies

- It focuses on aggregate demand in the economy ✓✓
- When households, firms and the government spend more, demand in the economy increases. ✓✓
- This makes the economy grow but leads to inflation. ✓✓

### Inflation: ✓

- Aggregate demand increases more quickly than aggregate supply and this causes price increases. ✓✓
- If the supply does not react to the increase in demand, prices will increase. ✓✓
- This will lead to inflation (a sustained and considerable increase in the general price level) ✓✓

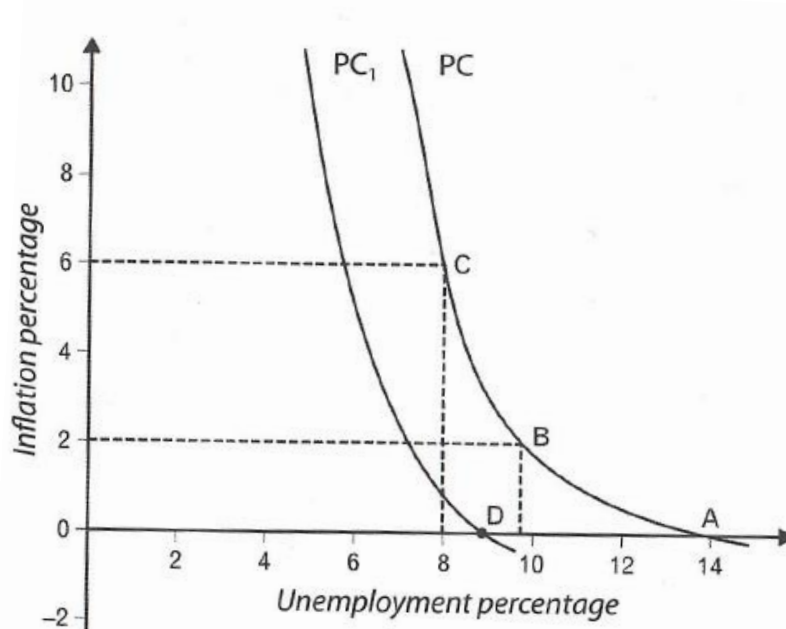
### Unemployment: ✓

- Demand-side policies are effective in stimulating economic growth. ✓✓
- Economic growth can lead to an increase in demand for labour. ✓✓
- As a result more people will be employed and unemployment will increase. ✓✓
- As unemployment decreases inflation is likely to increase. ✓✓
- This relationship between unemployment and inflation is illustrated in the Phillips curve. ✓✓
- The Phillips curve shows the initial situation. **A** is the point of intersection of the Phillips curve with the x-axis. It shows the natural rate of unemployment, for instance 14%

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- At point **A** inflation rate is zero. ✓✓
- 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%. ✓✓

### Phillips curve (PC)



Heading = 1 Labelling of axes = 1 Drawing of correct 2 curves = 1 Point A = 1 <b>Max 4 marks</b>
---



### Supply-side policies

#### Reduction of costs ✓

- Infrastructural services: reasonable charge and efficient transport, communication, water services and energy supply. ✓✓
- Administrative costs: these costs include inspection, reports on applications of various laws, regulations and by-laws, tax returns and returns providing statistical information. ✓✓ It adds to costs and businesses carry a heavy burden ✓✓
- Cash incentives: it includes subsidies for businesses to locate in neglected areas where unemployment is high and compensation to exporters for certain costs they incur in development of export markets. ✓✓

#### Improving the efficiency of inputs ✓

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

### Improving the efficiency of markets ✓

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

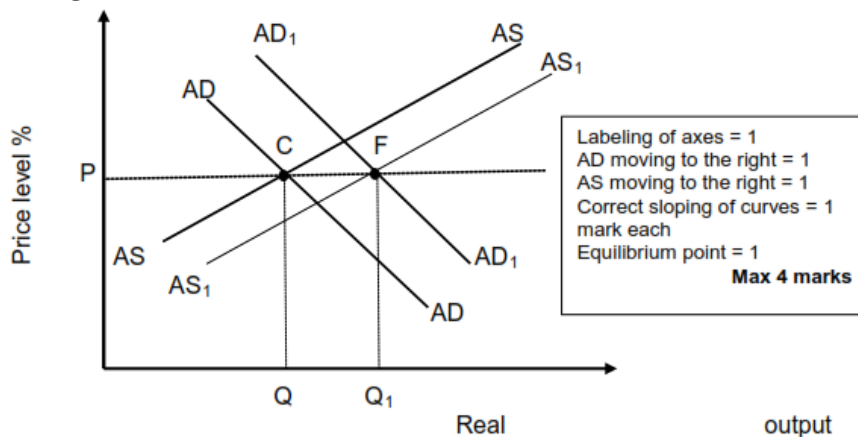
Answers must be in full sentences and well described with examples to be able to obtain 2 marks per fact.

Learners should be awarded 1 mark per heading or sub-heading to a maximum of 8 marks.

(8 x 1) (8)

(Max 26)

### BODY: ADDITIONAL PART



### Explanation:

The above graph shows:

- Aggregate demand (AD) and aggregate supply (AS) are in equilibrium at point C. ✓✓
- If aggregate demand is stimulated so that it moves to AD1 and aggregate supply responds promptly and relocates at AS1; a larger real output becomes available without any price increases. ✓✓
- Supply is often sticky and fixed in the short term. ✓✓
- Therefore, if aggregate demand increases to AD1 and aggregate supply does not respond, intersection is at point F. Real production increases but so does the price, in other words, with more inflation. ✓✓
- The aggregate demand locates at any position to the left of AS1 inflation prevails. ✓✓
- The solution is to create conditions that ensure supply is more flexible. ✓✓
- If the cost of increasing production is completely flexible, a great real output can be supplied at any given price level. ✓✓

(Max 6)

[10]

### Conclusion

It is clear from the discussion above that it is critically important to manage the aggregate supply and demand to ensure stability in the economy. ✓✓

(Accept any relevant higher order conclusion)

(Max 2)

[40]

**QUESTION 9:****40 minutes Section C**

*Economic indicators are useful to interpret the overall health of the economy either current or the future.*

- **Discuss in detail** the features underpinning forecasting of business cycles (26)
- How can the **monetary policy** be used to smooth out business cycles? (10)

[40]

**INTRODUCTION**

Accurate prediction is not possible in Economics. The best the economists can do is to try and forecast what might happen. There are a number of techniques available to help economists to forecast business cycles, e.g. economic indicators ✓✓OR Successive periods of contraction and expansion of economic activities ✓✓  
(Accept any other relevant introduction) **Max 2**

**BODY: MAIN PART****Business cycle indicators****1. Leading economic indicators ✓**

- These are indicators that change before the economy changes / coincides with the reference turning point ✓✓
- They give consumers, business leaders and policy makers a glimpse (advance warnings) of where the economy might be heading.
- Peak before a peak in aggregate economic activity is reached.
- Most important type of indicator in helping economists to predict what the economy will be like in the future ✓✓
- When these indicators rise, the level of economic activities will also rise in a few months' time/ an upswing ✓✓
- E.g. job advertising space/inventory/sales ratio ✓

**2. Coincident economic indicators ✓**

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

**3. Lagging economic indicators ✓**

- They do not change direction until after the business cycle has changed its direction ✓✓
- They serve to confirm the behaviour of co-incident indicators. ✓✓
- E.g. the value of wholesalers' sales of machinery ✓
- If the business cycle reaches a peak and begins to decline, we are able to predict the value of new machinery sold ✓✓

**4. Composite indicator ✓**

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- It is a summary of the various indicators of the same type into a single value ✓✓
- Their values are consolidated into a single value, if this is done we find a value of a composite leading, coincident and lagging indicator ✓✓

Accept ONE example from the table below:

LEADING INDICATORS	CO-INCIDENT INDICATORS	LAGGING INDICATORS
<ul style="list-style-type: none"> <li>• Net new companies registered</li> <li>• Number of new vehicles sold</li> <li>• Net gold and other foreign reserves</li> <li>• Number of residential building plans passed</li> <li>• Share prices</li> <li>• Real export of goods (gold excluded)</li> <li>• Gross operating surplus as % of GDP</li> <li>• Labour productivity in manufacturing</li> <li>• Job advertisements in newspapers</li> <li>• Commodity prices in US \$ for a basket of SA export commodities</li> <li>• Opinion survey of the average hours of work per factory worker in the manufacturing sector</li> <li>• Opinion survey on stocks in relation to demand: manufacturing and trade</li> <li>• Opinion of business confidence of manufacturing, construction and trade</li> <li>• Opinion survey of volume of orders in manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>• Registered unemployed</li> <li>• Physical volume of manufacturing production</li> <li>• Real retail sales</li> <li>• Real merchandise imports</li> <li>• Utilization of capacity in manufacturing</li> <li>• Gross value added at constant prices excluding agriculture, forestry and fishing</li> <li>• Industrial production index</li> <li>• Value of wholesale, retail and new vehicle sales at constant prices</li> <li>• Total formal non-agricultural employment</li> </ul>	<ul style="list-style-type: none"> <li>• Employment in non-agricultural sectors.</li> <li>• Hours worked in construction</li> <li>• Cement sales in tons</li> <li>• Number of commercial vehicles sold</li> <li>• Real investment in machinery and equipment</li> <li>• Unit labour cost in manufacturing</li> <li>• Wholesale sales of metals, machinery and equipment</li> <li>• Prime overdraft rate of banks</li> <li>• Value of non-residential buildings completed at constant price</li> </ul>

#### 4 Length ✓

- This is the time that it takes for a business cycle to move through one complete cycle (measured from peak to peak) ✓✓
- It is useful to know the length because the length tends to remain relatively constant over time.
- If a business cycle has the length of 10 years it can be predicted that 10 years will pass between successive peaks or troughs in the economy. ✓✓
  - Longer cycles show strength. ✓✓
  - Cycles can overshoot. ✓✓
  - Ways to measure lengths:
    - Crisis to crisis ✓✓
    - Historical records ✓✓
    - Consensus on businesses experience ✓✓



## 5 Amplitude ✓

- It is the difference between the total output between a peak and a trough. ✓✓
- It measures the distance of the oscillation of a variable from the trend line / It is the intensity (height) of the upswing and downswing (contraction and expansion) in economic activity ✓✓
- A large amplitude during an upswing indicates strong underlying forces – which result in longer cycles ✓✓
- The larger the amplitude the more extreme the changes that may occur / extent of change ✓✓
- E.g. During the upswing inflation may increase from 5% to 10%. (100% increase) ✓✓

## 6 Trend ✓

- A trend is the movement of the economy in a general direction. ✓✓
- It usually has a positive slope because the production capacity of the economy increases over time ✓✓
- Also known as the long term growth potential of the economy. ✓✓
- The diagram above illustrates an economy which is growing – thus an upward trend (positive slope) ✓✓
- Trends are useful because they indicate the general direction in which the economy is moving – it indicates the rate of increase or decrease in the level of output ✓✓

### Extrapolation ✓

- Forecasters use past data e.g. trends and by assuming that this trend will continue, they make predictions about the future ✓✓
- Means to estimate something unknown from facts or information that are known ✓✓
- If it becomes clear that the business cycle has passed through a trough and has entered a boom phase, forecasters might predict that the economy will grow in the months that follow ✓✓
- It is also used to make economic predictions in other settings e.g. prediction of future share prices ✓✓

## 8 Moving average ✓

- It is a statistical analytical tool that is used to analyse the changes that occur in a series of data over a certain period of time / repeatedly calculating a series of different average values along a time series to produce a smooth curve ✓✓
- The moving average could be calculated for the past three months in order to smooth out any minor fluctuations ✓✓
- It is calculated to iron out (minimize) small fluctuations and reveal long-term trends in the business cycle ✓✓

**Answers must be in full sentences and well described with examples to be able to obtain 2 marks per fact.**

**Learners should be awarded 1 mark per heading and examples, to a maximum of 8 marks.**  
**(8 x 1) (8)**  
**(Max 26)**



## BODY: ADDITIONAL PART

- An expansionary monetary policy is implemented when the economy is in recession in order to stimulate economic activities. ✓✓
- Interest rates can be reduced to encourage spending. ✓✓
- Households and firms can borrow more and spend more. ✓✓
- The increased spending increases the level of economic activity. ✓✓
- Investment will increase and more factors of production will be employed. ✓✓
- Higher levels of production, income and expenditure will be achieved. ✓✓
- If the supply of goods and services does not increase in line with an increase in demand, inflation will increase. ✓✓
- Inflation can be curbed by reducing money supply and availability of credit. ✓✓
- To dampen demand at the peak the government will be able to reduce the money supply by increasing interest rates. ✓✓
- Selling government bonds and securities (open market transactions) and reduce the supply of money in circulation. ✓✓
- Increase the cash reserve requirements to manipulate money creation activities of banks. ✓✓
- Persuade banks to decrease lending (moral suasion) ✓✓
- To devalue the exchange rate (exchange rate policy) ✓✓

(Max 10)

### Conclusion

It remains clear that business cycles must be clearly monitored through the indicators available; policy makers must act quickly by using monetary and fiscal instruments in order to prevent instability in the economy. ✓✓

(Accept any other relevant higher order conclusion)

(Max 2)

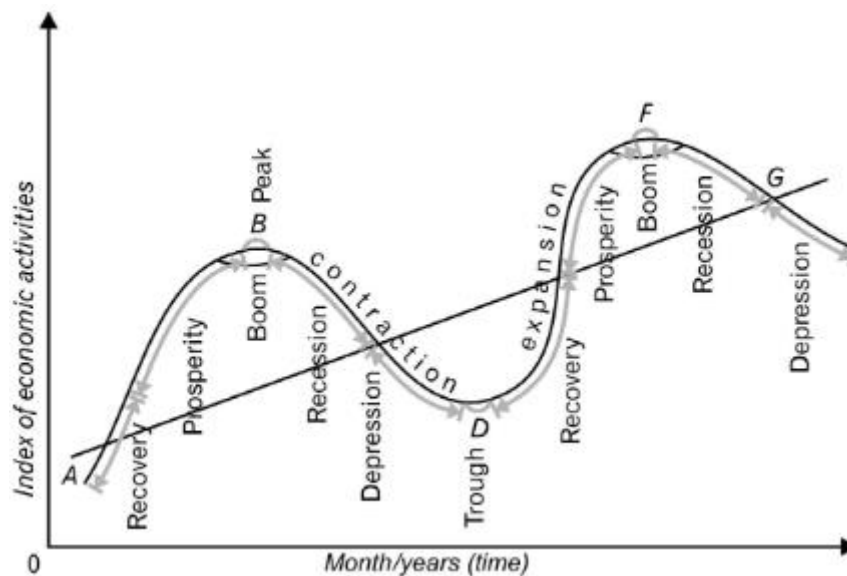
[40]

## SECTION C: ADDITIONAL CONTENT NOTES

### BUSINESS CYCLES

**HINT:** Business cycles consist of a lot of definitions and concepts which are pure learning work. Learners must know these definitions and concepts to get good marks in this topic. Learners must remember that a definition must have certain key words in it and it is not their own words. These key words are needed to get marks in the final examination. (Economic terminology).

#### Phases of the Business Cycle



#### The expansion phase

- The expansion phase occurs when economic activity rises. This is reflected in an increase in spending, GDP and employment.

#### Peak

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

#### The contraction phase

- The contraction phase is the downward phase of the business cycle. During this phase, spending declines, GDP falls, employment decrease, business confidence declines and income falls.

#### Trough

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

**The contraction phase is divided into two:**

- Recession – refers to a decline in the level of economic output (a downturn in the business cycle) that lasts for six months or longer.
- Depression – refers to a sustained, long-term economic downturn in the business cycle that is more severe than a recession.

## Terminology

- **Period** – Measuring a cycle from peak to peak or trough to trough
- **Amplitude**- measures the distance of the variable from the trend line
- **Time series** – frequency of data – daily, weekly, monthly, quarterly or annually
- **Trends** (trend line) – the general direction in which the indexes are moving

## 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 stays 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 falls down and may even decline.</li> <li>• Businesses' profits decreases and in many cases becomes a loss.</li> </ul>

## Causes of business cycles

**HINT:** Learners must know the difference between the Keynesians and the Monetarist approaches.

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

### Definition

Exogenous factors occur from outside, and then impact on the economy.

- (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.

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

### Definition

Endogenous factors are an inherent part of the economy, unlike factors that impact from outside the economy.



- (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) **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.

## 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. (Taken from Focus Economics)

## Smoothing of the business cycle.

Government policy with regard to business cycles

In a market economy, the authorities have three functions in particular: protection, an affluent function and a management and administrative function. It is the authorities' responsibility to protect the communal interests of its citizens.

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 equal division of income

## 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:

**Monetary policy**

**Fiscal policy**

### 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.

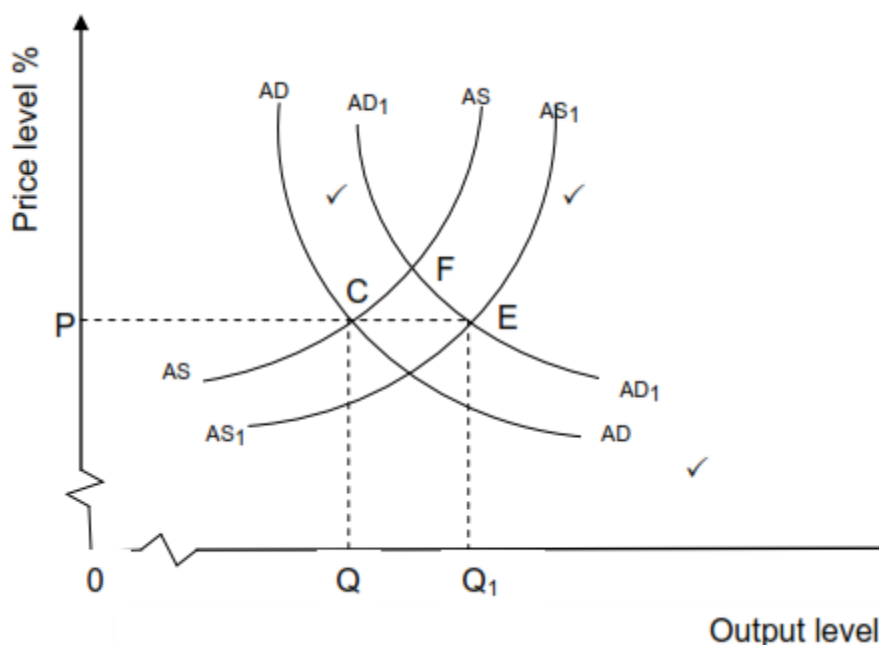
**Fiscal policy**

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

**The new economic paradigm**

***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.



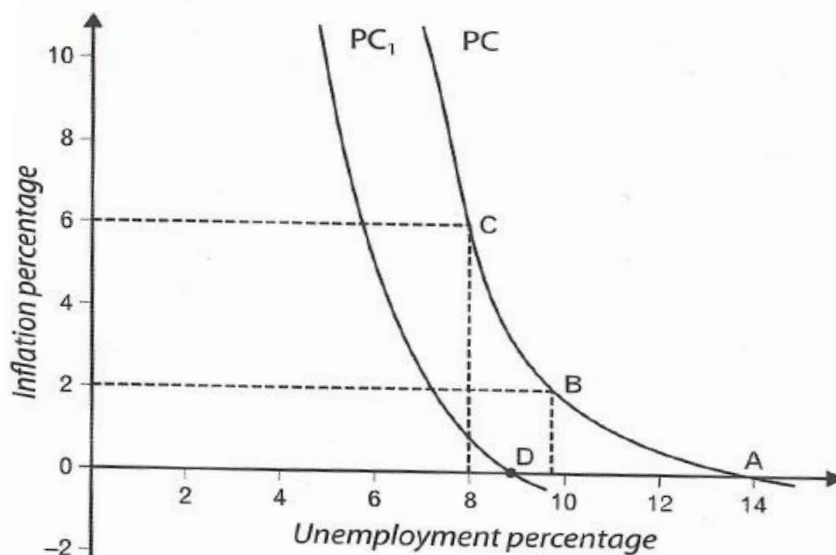
**Fig (a): Effects of demand-side & supply-side policies**

## 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.
- Demand-side policies are effective in stimulating economic growth.
- Economic growth increases the demand for labour and this reduces unemployment
- But as unemployment falls, inflation starts to rise.
- This relationship between unemployment and inflation is illustrated by the Phillips curve (PC) in **figure (b)** below:

### Phillips curve (PC)

- 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.





## Supply-side policies:

### Reduction of costs

- Infrastructural services
- Administrative costs
- Cash incentives

### Improving the efficiency of inputs

- Tax rates
- Capital consumption
- Human resources development
- Free advisory services

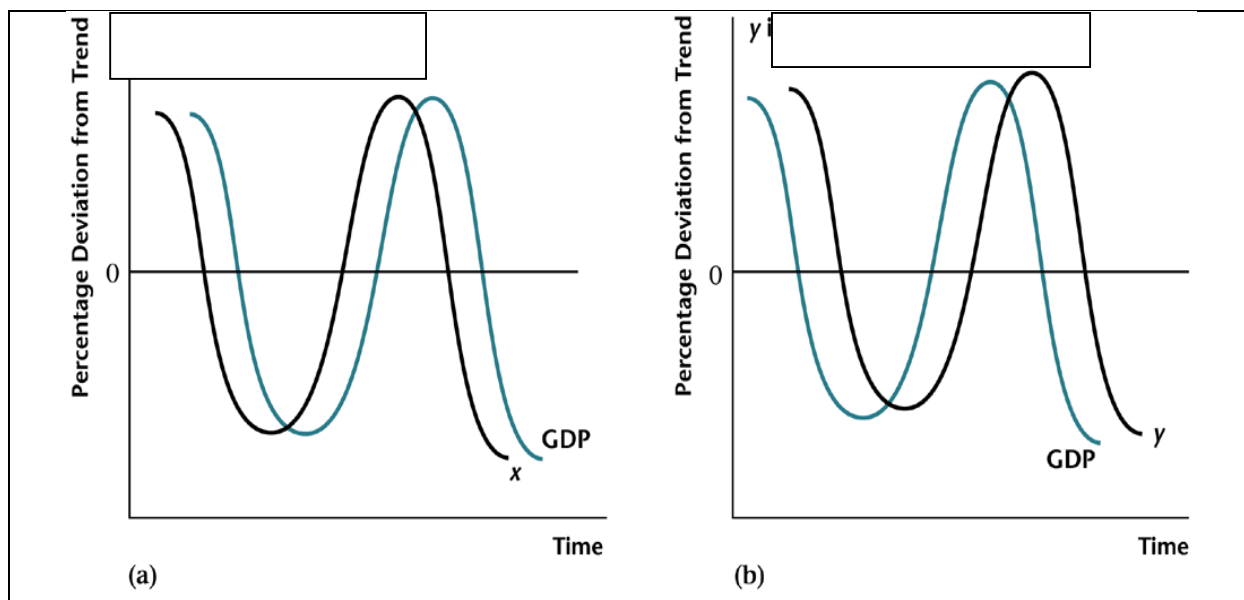
### Improving the efficiency of markets

- Deregulation
- Competition
- Levelling the playing field

(Taken from Mind the Gap)

## Forecasting of business cycles:

- **Leading indicators** - the turning points of these variables tend to always lead the reference turning points.
- **Lagging indicators** - these variables tend to always lag with the reference turning points
- **Coincident Indicators** - the turning points of these variables tend to always coincide with the reference turning points.



## 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'.



<b>SESSION 3:                    MACROECONOMICS: THE PUBLIC SECTOR</b>
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<b>Learner Note:</b> To evaluate the role of the public sector in the economy with special reference to its socio-economic responsibility in the South African context. The government is one of the four main participants in the economy.
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<b>Section A: Typical Exam Questions</b>
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**QUESTION 1.1:**                    **Section A**                    (Taken from various sources)

- 1.1 Policymakers who watch **trends** and change policies when the economy is not performing satisfactorily make use of ... **stabilisers**.
- A. automatic  
B. manual  
C. discretionary  
D. automatic-manual
- 1.2 The **curve** which illustrates the degree of **inequality** in the distribution of **income** in South Africa is known as the ... curve.
- A. Phillips  
B. Laffer  
C. Gini  
D. Lorenz
- 1.3 A **fixed amount** paid by consumers on water and electricity irrespective of the units consumed is known as ...
- A. municipal tax.  
B. user charge.  
C. a flat rate.  
D. taxes
- 1.4 **Large public corporations** or business entities in the public sector are known as
- A. parastatals.  
B. corporates.  
C. public companies.  
D. private companies
- 1.5 **Parastatals** are business entities of a ... sector.
- A. commercial  
B. private  
C. public  
D. sole trader
- 1.6 The government's **medium-term expenditure framework** (MTEF) provides an outline of income and expenditure for the next ... years.



- A. four  
B. three  
C. two  
D. five
- 1.7 The mini budget stretching over a period of 3 years and presented to Parliament in October each year is known as the ...  
A main budget  
B medium term expenditure framework  
C short term budget  
D medium term budget policy statement
- 1.8 Government spending forms part of the ... policy.  
A Monetary  
B Fiscal  
C SARB  
D SABS
- 1.9 Public goods paid for by consumers, is known as ... goods.  
A community  
B private  
C collective  
D merit
- 1.10 When government sells more than 50% shares of a public enterprise, it is known as ...  
A Privatising  
B Nationalisation  
C Free trade  
D Protectionism
- 1.11 An example of a cash benefit is ...  
A Child support grant  
B Free electricity  
C No school funds  
D School meals
- 1.12 The transfer of ownership from the public to the private sector is known as ...  
A Decentralisation  
B Nationalisation  
C Privatising  
D Centralisation
- 1.13 The income and expenditure frameworks of government for a three year period is reflected in the ...  
A Provincial budget  
B Main budget  
C Medium term expenditure framework  
D Medium term budget policy statement



- 1.14 The government's medium term expenditure framework provides a framework of income and expenditure for the following ... years.
- A 4
  - B 3
  - C 2
  - D 5
- 1.15 A reason for the existence of the public sector is to ...
- A provide private goods
  - B provide demerit goods
  - C determine the prices of consumer goods
  - D provide merit goods
- 1.16 The public sector in South Africa has ... levels.
- A 2
  - B 5
  - C 3
  - D 4
- 1.17 A fixed amount of money is paid by consumers for water and electricity independent of the number of units consumed.
- A Municipal tax
  - B Consumer levy
  - C Water bills
  - D Flat rate
- 1.18 Large public corporations or business undertakings in the public sector are known as ...
- A Corporates
  - B Parastatals
  - C Public companies
  - D Private Companies
- 1.19 A characteristic of public goods is their ...
- A Excludability
  - B Competitive
  - C Non-rivalry
  - D rivalry
- 1.20 Parastatals are business entities in the ... sector
- A Commercial
  - B Private
  - C Public
  - D Foreign

**QUESTION 1: 1.2**

COLUMN A		COLUMN B	
1.2.1	Parastatal	A	Aim of government to improve the quality of life of the poor
1.2.2	Social services	B	Shows expected income and expenditure for 3 years
1.2.3	Public goods	C	Consumption by one person does not exclude consumption by another
1.2.4	Laffer curve	D	Non-rivalry and non-excludable
1.2.5	Non-rivalry	E	Large public corporations managed by business principles
1.2.6	Medium term expenditure framework	F	Shows the relationship between tax rates and tax income

**QUESTION 2:**

**Give the term for the following statements. Write only the term next to the question number (1.3.1-1.3.20)**

- 2.1 A curve depicting the possible relationship between income tax rates and total tax revenue received by government
- 2.2 The government sells more than 50% of the shares in state owned businesses
- 2.3 Goods and services e.g. education, benefitting the community as a whole
- 2.4 Services e.g. water, sewerage, garbage disposal handled by municipalities in South Africa
- 2.5 A document showing anticipated revenue and estimated expenditure
- 2.6 Official rules and prescribed procedures
- 2.7 Social payments e.g. old age pensions and disability grants
- 2.8 Taxes that are not shifted to the end user, e.g. PAYE
- 2.9 The requisition of privately-owned enterprises by government with or without compensation
- 2.10 When a government fails to manage an economy and the resources under its control optimally
- 2.11 Putting laws in place to regulate activities
- 2.12 Harmful goods. E.g. cigarettes
- 2.13 Indirect tax on goods and services consumed in the economy.
- 2.14 Cash and other payments by government and organisations to needy persons and organisations looking after the needy

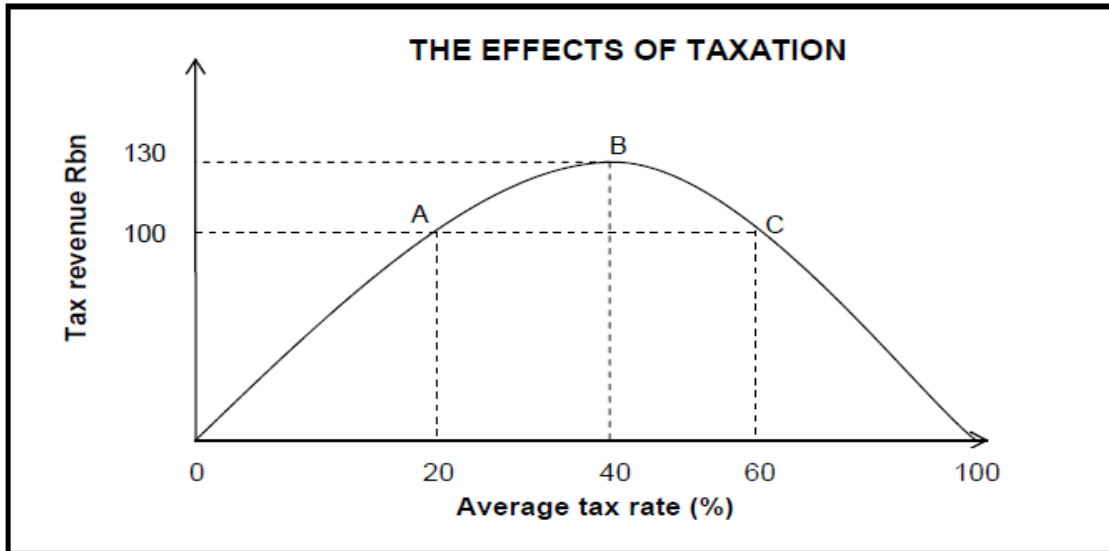
(1x 14) (14)

**QUESTION 3:**

**3.1. DATA RESPONSE**

**TAKEN FROM 2015 OCT / NOV**

Study the graph below and answer the questions that follow.



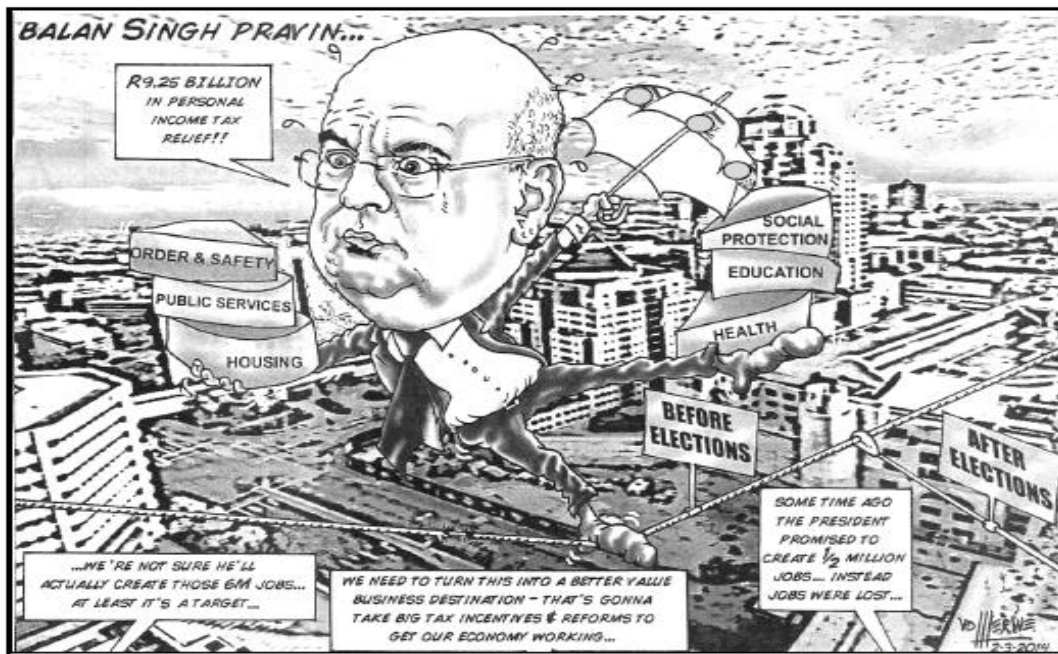
- 3.1.1 Which curve is depicted in the graph above? (2)
- 3.1.2 What tax rate will generate maximum revenue for the government? (2)
- 3.1.3 What is the correlation between a tax rate of zero and a tax rate of 100% for the government? (2)
- 3.1.4 Explain the implication of a tax rate of 60% on the taxpayer. (4)



**QUESTION 3.2:**

**TAKEN FROM 2015 FEB /MARCH**

Study the cartoon below and answer the questions that follow.



[Source: Business Times, 2 March 2014]

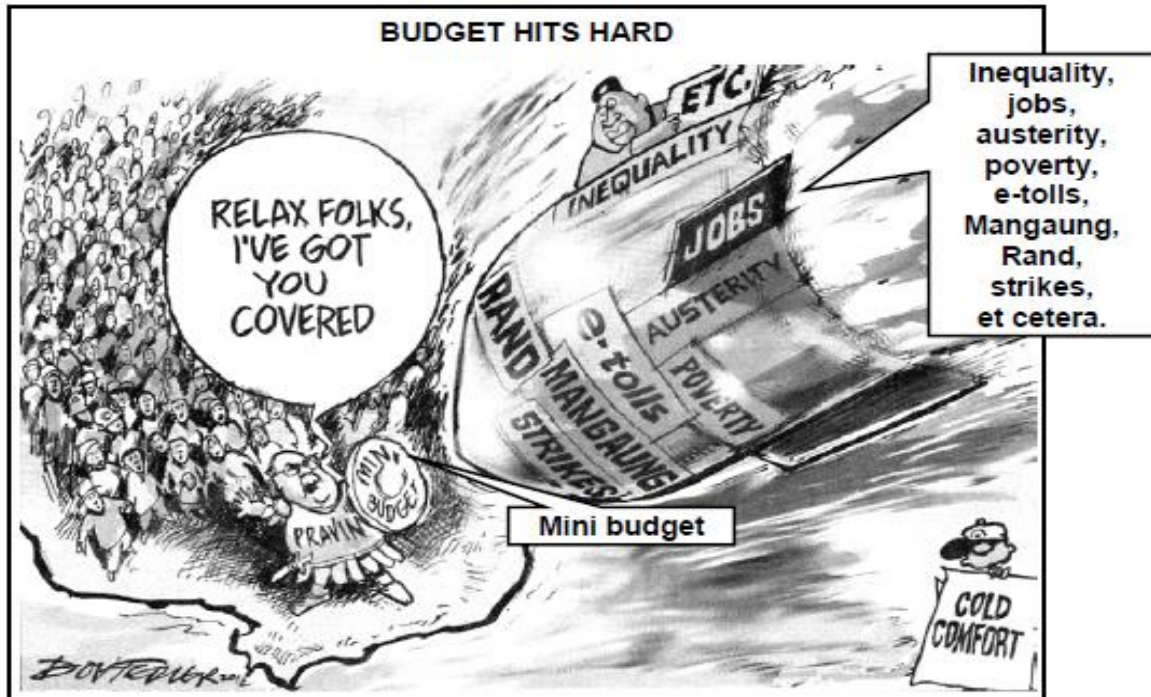


- 3.2.1 What message is depicted in the cartoon above? (2)
- 3.2.2 Give ONE example of a tax incentive. (2)
- 3.2.3 Explain the meaning of personal income tax relief. (2)
- 3.2.4 Which part of the population will benefit the most from personal income tax relief? Motivate your answer. (4)

**QUESTION 3.3**

(taken from 2014 FEB/ MARCH)

Study the cartoon below and answer the questions that follow.



[Adapted from *Business Report*, October 2012]

- 3.3.1 What is the purpose of the annual budget? (2)
- 3.3.2 Government has spent considerable amounts of money on the implementation of e-tolls in South Africa. What can government do to recover this money? (2)
- 3.3.3 What can employers do to reduce the negative impact of strikes on production? (2)
- 3.3.4 Do you think that the minister of finance can stop the rocket that is heading his way? Motivate your answer. (4)

**QUESTION 3.4:** (Taken from DBE/November 2012)

Study the cartoon below and answer the questions that follow.



- 3.4.1 What is the message of the cartoon? [2]
- 3.4.2 What can the private sector do to **improve** the living conditions of these workers? (2 x 2)[4]
- 3.4.3 How can the government **alleviate the level of poverty**? (2 x 2)[4]

**QUESTION 3.5:** (Taken from DBE/November 2012)

Study the extract below and answer the questions that follow.

**NATIONALISATION BENEFITS STILL NOT CLEAR**

Cosatu is calling for the nationalisation of mines and banks, as well as strategic businesses previously under state control – including petrochemicals company PetroSA and steel company ArcelorMittal.

There are claims that talk of nationalisation discouraged investment. Malikane, Cosatu's head of policy, said that '... previously foreign investment was used to blackmail the labour movement'. That is why South Africa needs to change the historical inequalities which existed before 1994. Government should invest in strategic minerals such as platinum and coal, 'but not gold as it is a sunset industry'.

[Adapted from *Business Times*, 7 August 2011]

- 3.5.1 What does **nationalisation** mean? [2]
- 3.5.2 What **effect** will the nationalisation of mines and banks have on the **man in the street**? (2 x 2)[4]
- 3.5.3 Why, do **you think**, are mines targeted for nationalisation? [2]
- 3.5.4 Why is **gold** referred to as a '**sunset industry**'? [2]

**QUESTION 3.6:** (Taken from DoE/Feb. – March 2011)

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

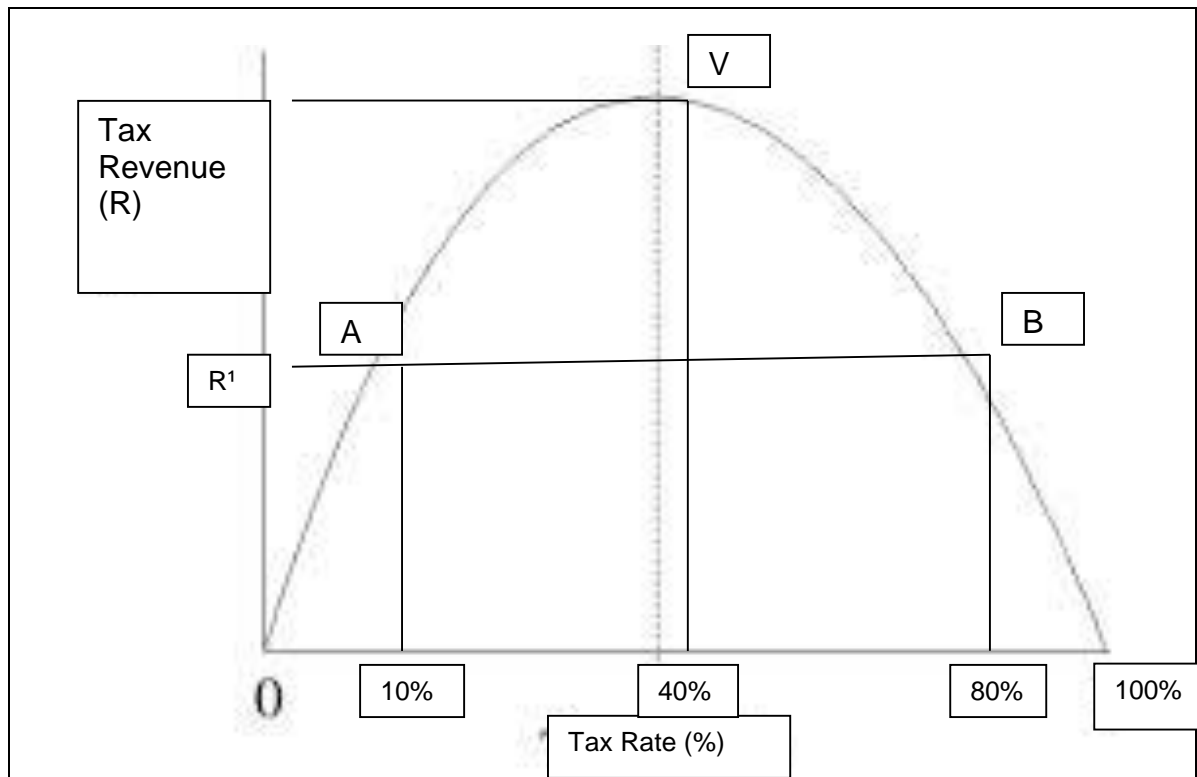
R MILLION	REVISED ESTIMATE	MEDIUM-TERM ESTIMATES		
		2008/09	2009/10	2010/11
Total revenue	611 124	642 990	709 074	781 226
Total expenditure	633 907	738 562	792 354	842 971
Gross domestic product	2 304 111	2 474 214	2 686 254	2 952 989

[Adapted: National Treasury (2009)]

- 3.6.1 During which **month** of the year is the **main budget** presented to parliament? [2]
- 3.6.2 Name the **main source** of **revenue** for the government. [2]
- 3.6.3 Was there a **surplus** or a **deficit** on the budget during the 2009/2010 fiscal year? Motivate your answer and **show calculations**. [4]
- 3.6.4 Define **medium-term expenditure framework**. [2]

**QUESTION 3.7:** (Taken from DoE/Feb. – March 2012)

Study the graph below and answer the questions that follow.

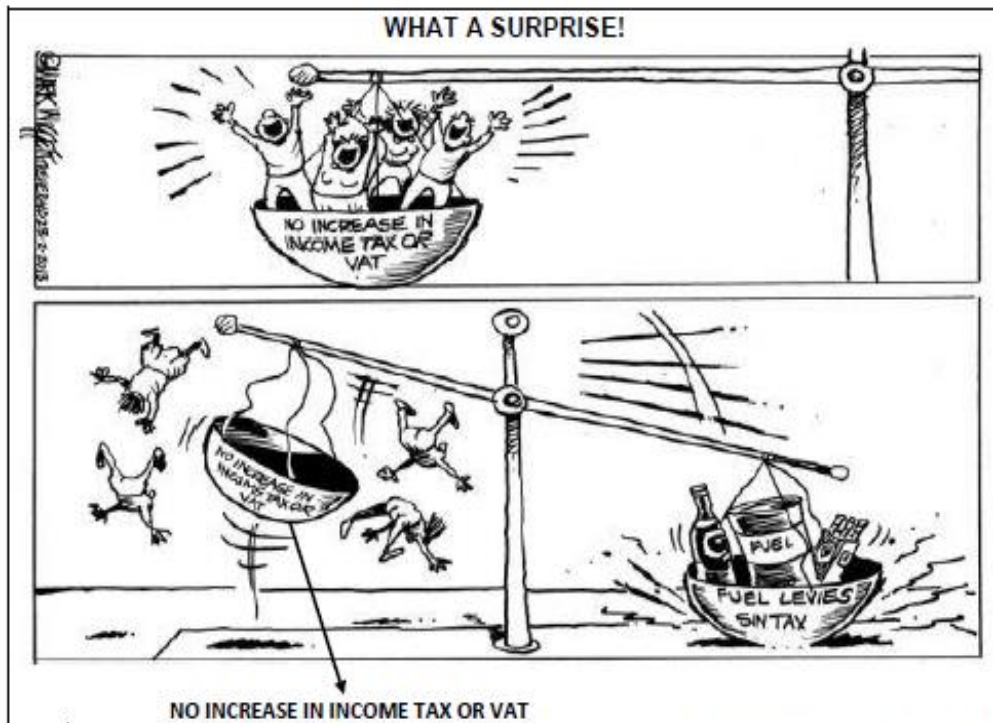


- 3.7.1 What is illustrated by the **Laffer curve**? [2]
- 3.7.2 At what point will **government revenue maximise**? [2]
- 3.7.3 What will be the **effect** on government revenue if the tax rate increases from 40% to 80%? [2]
- 3.7.4 What is the **implication** for the government if the tax payer is **taxed at 100%**? [2]
- 3.7.5 What **illegal** behaviour by the worker will be encouraged if the tax rate is **too high**? [2]

**QUESTION 3.8:**

(taken from DBE November 2016)

Study the cartoon and answer the question that follow:



[Source: Business Times, February 2016]

- 3.8.1 Identify TWO indirect taxes in the cartoon above. (2 x 1) (2)  
 3.8.2 Name the fiscal instrument represented by the scale in the cartoon above. (2)  
 3.8.3 What is the 'surprise' depicted in the cartoon above? (2)  
 3.8.4 In your opinion, why did the Minister of Finance decide to keep income tax and VAT at the same levels? (2 x 2) (4)

**QUESTION 4:**

(taken from DBE/FEB-MARCH 2017)

What impact will an increase in the VAT rate have on the standard of living of the poor? (1 x 2) (2)

**QUESTION 5:**

(taken from DBE MAY-JUNE 2016)

How can the Reserve Bank use interest rates to stimulate the economy? (1 x 2) (2)

**QUESTION 6:**

(taken from DBE Feb-March 2017)

What impact will an increase in the VAT rate have on the standard of living of the poor? (1 x 2) (2)

**QUESTION 7:**

(Taken from DBE/November 2012)

Name any TWO services provided by government. (2 x 1) (2)

**QUESTION 8:**

(taken from DBE NOV 2016)

Briefly discuss any TWO arguments in favour of privatisation. (2 x 4) (8)

**QUESTION 9:**

(Taken from DBE/November 2008)

Explain the reasons for public sector failure. (2X4) (8)



**QUESTION 10:** (taken from the 2017 examination Guidelines)  
Outline the necessity of the public sector (8)

**QUESTION 11**

**HIGHER ORDER TYPE QUESTIONS (2.5, 3.5 and 4.5)**

1. How can the South African government improve the efficiency of service delivery? (8)
2. Evaluate the success of economic growth and price stability as a part of government's macroeconomic objectives. (8)
3. Identify and explain how social rights are embedded in the budgets (8)
4. Propose four major purpose of fiscal policy. (8)
5. How can the South African government avoid public sector failure? (8)
6. Motivate why the government implements minimum wages in the labour market ? (8)
7. How can taxation be used to stimulate employment in South Africa? (8)
8. How successful is the SA government in achieving its macro-economic objectives? (8)
9. How does the South African government attempt to solve the problem of income inequality? (8)
10. How can the establishment of more labour-intensive industries benefit South Africa? (8)
11. How can inefficiencies leading to public sector failure be solved? (8)

**ESSAYS**

<b>STRUCTURE OF ESSAY:</b>	<b>MARK ALLOCATION:</b>
<p><b>Introduction</b> The introduction is a lower-order response.</p> <ul style="list-style-type: none"> <li>• A good starting point would be to the main concept related to the question topic</li> <li>• Do not include any part of the question in your introduction.</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> <b>Main part:</b> Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate <b>Additional part:</b> Give own opinion/ Critically discuss/ Evaluate/ Critically evaluate/ Draw a graph and explain/ Use the graph given and explain/ Complete the given graph/ Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ Suggest</p>	Max 26  Max 10
<p><b>Conclusion</b> Any Higher order conclusion includes:</p> <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned in the body</li> <li>• Any opinion or value judgement on the facts discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> </ul> <p>Recommendations</p>	Max 2
<b>TOTAL</b>	<b>40</b>

**QUESTION12: MACROECONOMICS PUBLIC SECTOR-40 MARKS – 40 MINUTES**

***Government is constantly trying to achieve specific objectives to improve the standard of living of the nation.***

- Discuss the macroeconomic objectives of the state in South Africa's economy. (26)
  - To what extent has the South African government achieved these objectives? (10)
- [40]**

**QUESTION 13: MACROECONOMICS PUBLIC SECTOR 40 MARKS- 40 MINUTES  
TAKEN FROM DBE FEB/MARCH 2013**

***The public sector in South Africa has been confronted by major challenges in recent years.***

- Evaluate the problems of public sector provisioning in South Africa. (26)
  - Outline examples of problems you have observed in your own community or elsewhere in South Africa. (10)
- [40]**

**SECTION B: ADDITIONAL CONTENT NOTES**

**The composition of the public sector.**

**General government**

- Central government
- Provincial Government
- Local Government
- Public corporations

**Necessity of the public sector**

- To protect its citizens against threats
- To maintain law and order inside the economy
- To provide certain necessity goods and services

**The SA Constitution and the public sector**

- Transparency
- Accountability
- The effective financial management of the economy, debt and the public sector

**Reasons for government intervention**

- To provide public goods & services

- Community goods – defence, police
- Collective goods – parks, beaches
- Merit goods – health, education
- To provide merit goods
  - Positive externalities
- To protect natural resources
  - Negative externalities
- The redistribution of wealth and income
  - Progressive taxation system
- To manage the economy
- To encourage competition

### Problems in the public sector)

- Accountability
- Efficiency
- Assessing needs
- Pricing policy
- Parastatal
- Privatisation
- Nationalisation

### Macro-economic aims of the public sector

- (i) Economic growth
- (ii) Complete employment
- (iii) Price stability
- (iv) Exchange rate stability
- (v) Economic equity /fairness



## BUDGET

### Main estimates

Preparations for the main estimate start in the April of the previous year, and the **Minister of Finance** delivers his medium-term budget policy statement (MTBPS) to parliament during the last week of October.

The Medium-term Expenditure Framework MTEF gives the Minister the opportunity to inform parliament about the changes that have arisen since the reading of the previous main estimate in February, as well as about developments in public policy. Changes in this budget can also be announced at this stage.

### Important decisions that influence the planning phase.

- Financial considerations
- Economic factors
- Policy considerations

### Provincial

South Africa's nine provinces each have their own budget that is submitted to the Provincial Legislature in the weeks following the main estimate. The largest part of the provincial budget is intended for education and health.



## Municipal budgets

Besides the grants municipalities receive from the State, they are in a position to impose rates on properties and to charge consumer tariffs on electricity, water, refuse removal and drainage.

## Fiscal policy

### Composition

- Government expenditure
- Direct and indirect taxes
- Direct Tax – SITE & PAYE
- inheritance tax & fuel levy

## The effect of the fiscal policy

### Income distribution

- Progressive: Fiscal policy ensures a more even distribution of income.
- Regressive: Fiscal policy causes an uneven distribution of income.
- Proportional: Fiscal policy results in income distribution remaining unchanged.

### Consumption

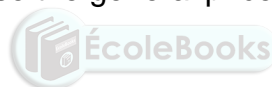
- Direct and indirect taxes influence people's spending patterns.
- Minimal savings cause decreasing consumption.

### Price level

- Direct tax reduces inflationary pressure.
- A rise in indirect taxes will raise the general price level.

### Disincentives

- High and progressive income tax rates discourage people from entering the labour market, from accepting promotions, and from working longer hours. (Taken from Mind the Gap)



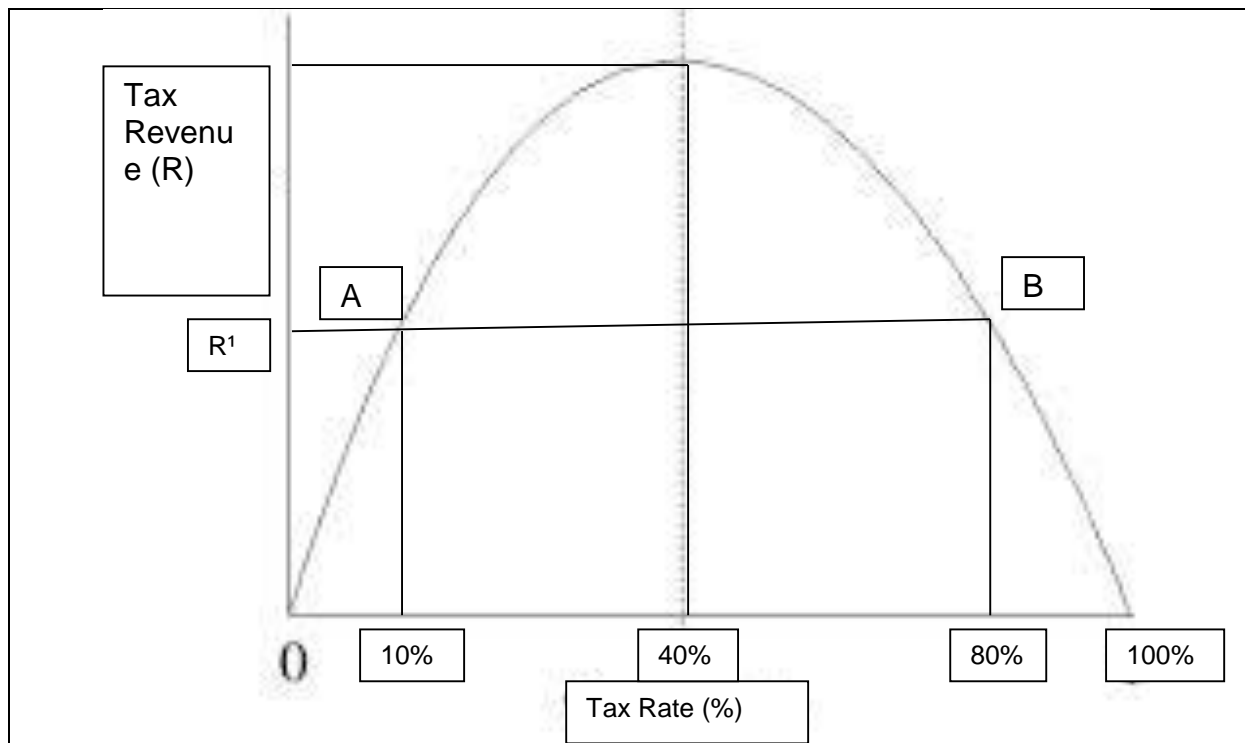
## LAFFER CURVE

### What Does Laffer Curve Mean?

Invented by Arthur Laffer, this curve shows the relationship between **tax rates** and **tax revenue** collected by governments.

- The curve suggests that, as taxes increase from low levels, tax revenue collected by the government also increases. It also shows that tax rates increasing after a certain point (T) would cause people not to work as hard or not at all, thereby reducing tax revenue.
- Eventually, if tax rates reached 100% (the far right of the curve), then all people would choose not to work because everything they earned would go to the government.
- Governments would like to be at point T, because it is the point at which the government collects maximum amount of tax revenue while people continue to work hard.





## Failures in the public sector

### I. Characteristics

- Ineffectiveness
- Unproductiveness



### II. Reasons

- Management & accountability
- Pricing & market forces
- Long term motivation

### III. Factor contributing

- Political interference
- Bureaucracy
- Rent-seeking groups
- Other factors

**SECTION C: SOLUTIONS AND HINTS**

**QUESTION 1:**

- 1.1 C (discretionary) ✓✓
  - 1.2 D (Lorenz) ✓✓
  - 1.3 C (a flat rate) ✓✓
  - 1.4 A (parastatals) ✓✓
  - 1.5 C (public) ✓✓
  - 1.6 B (three) ✓✓
  - 1.7 D (medium term budget policy statement) ✓✓
  - 1.8 B (fiscal policy) ✓✓
  - 1.9 C (collective goods) ✓✓
  - 1.10 A (privatising) ✓✓
  - 1.11 A (child grant) ✓✓
  - 1.12 C (privatising) ✓✓
  - 1.13 C (medium term expenditure framework) ✓✓
  - 1.14 B (3) ✓✓
  - 1.15 D (provide merit goods) ✓✓
  - 1.16 C (3) ✓✓
  - 1.17 D (flat rate) ✓✓
  - 1.18 B (parastatals) ✓✓
  - 1.19 C (non-rivalry) ✓✓
  - 1.120 C (public) ✓✓
- (2 x 20) (40)

**QUESTION 2: TERMINOLOGY**



- 2.1 Laffer curve ✓
  - 2.2 Privatisation ✓
  - 2.3 Merit goods ✓
  - 2.4 Public goods/collective goods ✓
  - 2.5 Budget ✓
  - 2.6 Bureaucracy ✓
  - 2.7 Security grants ✓
  - 2.8 Direct taxes ✓
  - 2.9 Nationalisation ✓
  - 2.10 Public sector failure ✓
  - 2.11 Regulation ✓
  - 2.12 Demerit goods ✓
  - 2.13 Value added tax (VAT) ✓
  - 2.14 Grant ✓
- (1x 14) (14)

**QUESTION 3.1**

**Data Response**

- 3.1.1 Which curve is depicted in the graph above?  
Laffer curve ✓✓ (2)
- 3.1.2 What tax rate will generate maximum revenue for the government?  
40% ✓✓ (2)
- 3.1.3 What is the correlation between a tax rate of zero and a tax rate of 100 % for the government?  
In both scenarios government will receive no income ✓✓ (2)

- 3.1.4 Explain the implication of a tax rate of 60% on the taxpayer  
 Tax evasion or tax avoidance will occur because too much tax is levied on the taxpayer ✓✓  
 Taxpayer's burden will increase (by 20%) ✓✓  
 Some of the tax payers will stop working due to the increased tax load ✓✓  
 (2x2) (4)

### QUESTION 3.1:

- The curve shows that as tax increase government revenue increases up to a certain point (e.g.  $t_1$ ) ✓✓
- If the tax rate rises beyond  $t$ , e.g. at  $t_2$  there will be a decline in government revenue ✓✓
- When the tax rate is high people are less likely to work hard ✓✓
- If tax is 100% then nobody will work because all income would go to the government ✓✓
- Too high tax rates may lead to tax evasion and avoidance ✓✓
- Reduction in tax rates will lead to a decrease in tax evasion and increase the incentive to work, save and invest ✓✓
- If tax rate is zero, no government revenue will be raised ✓✓
- Economists use this to justify a reduction in the level of income tax ✓✓
- The apex of the curve shows the tax rate where government revenue can be maximised ✓✓
- This point can vary from country to country – the Laffer curve may not always be symmetrical – it can peak at 40% or even at a 90% rate ✓✓
- Evidence suggests that tax rates in most countries are below  $t$ . ✓✓
- In South Africa individual and company income tax rates were reduced over the last decade ✓✓

(No marks to be allocated for the Laffer curve)

### QUESTION 3.2

Study the cartoon and answer the questions that follow.

#### 3.2.1 What message is depicted in the cartoon above?

Mr. Pravin Gordhan is trying to find a balance in the distribution of the state's income and the needs in the critical areas of the economy. ✓✓

Accept any other relevant message. (2)

#### 3.2.2 Give ONE example of a tax incentive.

- Duty-free incentives ✓✓
- Tax-free cash grants ✓✓

(1 x 2) (2)

#### 3.2.3 Explain the meaning of personal income tax relief.

It refers to measures taken by government to reduce the tax burden on the tax payers. ✓ E.g. revision of tax rate ✓ (2 x 1) (2)

#### 3.2.4 Which part of the population will benefit the most from personal income tax relief? Motivate your answer.

- The lower income part of the population. ✓✓

Motivation: To improve the standard of living of the poor the minister announced a relief in the scales specially applied to the low income levels. ✓✓  
 Accept any relevant answer (2 x 2) (4)

**QUESTION 3.3**

**Study the cartoon and answer the questions that follow.**

**3.3.1 What is the purpose of the annual budget?**

Gives effect to the government's fiscal policy. ✓✓  
 Guides government to achieve its macroeconomic objectives. ✓✓  
 (Any other relevant answer) (1 x 2) (2)

**3.3.2 Government has spent considerable amounts of money on the implementation of e-tolls in South Africa. Suggest ways in which government can recoup this money spent.**

- e-toll fees ✓✓
- increase in license fees ✓✓
- portion of the road accident fund ✓✓
- increase in road fines ✓✓
- increase in fuel levies ✓✓

(Any other relevant answer) (2)

**3.3.3 What can employers do to reduce the negative impact of strikes on production?**

- Offer wage increases ✓✓
- Better working conditions ✓✓
- Better service conditions ✓✓
- Promotions ✓✓

(Any other relevant answer) (1 x 2) (2)

**3.3.4 Do you think that the minister can stop the rocket that is headed his way? Motivate your answer**

No ✓, the expenditure of the government (rocket) is far greater than the revenue (little shield). ✓✓ The minister says that he has his people covered but the rocket is far bigger than his protection. ✓✓  
 Yes ✓ the minister can use the MTEF to address the economic challenges ✓✓  
 (Any other relevant explanation) (2 x 2) (4)

**QUESTION 3.4:** (Taken from DBE/November 2012)

**3.4.1 What is the message of the cartoon?**

- People in the private sector are enjoying all the benefits of the market system, at the expense of others ✓✓
- The need for government intervention ✓✓
- Shows unequal distribution of income ✓✓
- E.g. the Marikana issue ✓✓

(Any other relevant answer)

**3.4.2 What can the private sector do to improve the living conditions of these workers?**

- Provide subsidies or free housing ✓✓
  - bursaries to dependants of employees ✓✓
  - subsidised meals in canteens ✓✓
  - money that is used to look after the needs of the poor ✓✓
  - Increase wages ✓✓
  - Job creation ✓✓
  - Training (skills development) ✓✓
  - Employment equity ✓✓
  - Incentives (accept any relevant examples) ✓✓
  - CSI (Corporate Social Investment) ✓✓
  - PPP (Public Private Partnerships) ✓✓
  - EAP (Employee Assistance Programmes) ✓✓
- (Any other relevant answer)

### 3.4.3 How can the government alleviate the level of poverty?

- Social security grants ✓✓ e.g. pensions, disability grants ✓
  - Benefits in kind ✓✓ e.g. free water ✓ electricity ✓ feeding schemes ✓
  - Services ✓✓ sewerage ✓ clean water ✓ free housing ✓
  - Primary health care ✓✓ free hospitalisation ✓ clinics ✓
  - Education ✓✓ no school fees ✓
  - Nationalisation ✓✓
  - Progressive tax ✓✓
  - Job creation ✓✓
  - Skills training ✓✓
  - Incentive schemes to start businesses ✓✓
  - EPWP (Expanded Public Works Programme) ✓✓
  - To implement strategies (AsgiSA, Jipsa) ✓✓
- (Any other relevant answer)

### QUESTION 3.5:

(Taken from DBE/November 2012)

#### 3.5.1 What does nationalisation mean?

The process of government taking over the ownership and management of private enterprises ✓✓ with or without compensation.

#### 3.5.2 What effect will the nationalisation of mines and banks have on the man in the street?

##### POSITIVE EFFECTS: ✓✓

- More revenue (income) comes into the state coffers ✓✓
- An improved redistribution of income is possible to many ✓✓
- Job creation ✓✓
- Higher income per capita ✓✓
- Increase in the standard of living ✓✓

##### NEGATIVE EFFECTS: ✓✓

- Negative impact on share value ✓✓
- Negative impact on salaries / conditions of service ✓✓

- Corruption ✓✓
- Nepotism ✓✓
- Disinvestment ✓✓
- Poor quality of service delivery ✓✓
- Job losses ✓✓

(Any other relevant answer)

**3.5.3 Why, do you think, are mines targeted for nationalisation?**

- Employment opportunities ✓✓
- Revenue generation ✓✓
- Political gain/address inequality of the past/alleviate poverty ✓✓
- Strategic importance ✓✓
- Regarded as a national asset ✓✓

(Any other relevant answer) (2)

**3.5.4 Why is gold referred to as a 'sunset industry'?**

- It is a natural resource that can become depleted / gold is a dwindling asset ✓✓
- Mines may close down and no longer mine gold ✓✓
- Gold is currently not seen as strategic as platinum and coal ✓✓

(Any other relevant answer) (2)

**QUESTION 3.6:**

(Taken from DoE/Feb. – March 2011)

3.6.1 February ✓✓



3.6.2 Income tax ✓✓

3.6.3 Total revenue - Total expenditure = deficit ✓✓  
(R642 990 m. – R738 562 m.) ✓ = -R95 572 m ✓

3.6.4 It consists of a 3-year rolling expenditure and revenue projections for the national and provincial governments, presented against the backdrop of economic and fiscal goals and prospects for the economy. ✓✓

**QUESTION 3.7:**

(Taken from DoE/Feb. – March 2012)

3.7.1 Shows the relation between tax rates and tax revenue of the government ✓✓

3.7.2 At point V ✓✓

3.7.3 Tax revenue will decrease ✓✓

3.7.4 At 100% tax rate, nobody will be prepared to work and the revenue of government will also be zero ✓✓

3.7.5 Tax evasion may occur ✓✓

**QUESTION 4:**

(Taken from DBE/November 2012)

- Accountability ✓✓



- Efficiency ✓✓
- The problem of assessing needs ✓✓
- Pricing policy ✓✓
- Parastatals ✓✓
- Privatisation ✓✓

**QUESTION 5:**

(Taken from DoE/Feb. – March 2009)

- Improve efficiency of enterprises ✓✓
- Broaden the tax base ✓✓
- Attracts foreign investment ✓✓
- Lessens pressure on government budget ✓✓
- Promotes BEE / increased share in economy ✓✓
- Provides additional funds to carry out projects ✓✓

**QUESTION 6:**

(Taken from DBE/Feb.–Mar. 2013)

- Provides public goods and services ✓✓
- Manages the economy ✓✓
- Takes care of common resources ✓✓

**QUESTION 7:**

(Taken from DBE/November 2012)

- Protection ✓✓ e.g. police force ✓
- Economic ✓✓ e.g. provision of water ✓
- General ✓✓ e.g. infrastructure ✓
- Social ✓✓ e.g. pension, grants ✓
- Public goods ✓✓
- Community goods ✓✓
- Collective goods ✓✓
- Merit goods ✓✓
- Take care of common resources ✓✓
- Manage the economy ✓✓



Allocate 1 mark for any other relevant examples

(2 X 1) (2)

**QUESTION 8:**

(Taken from DoE/November 2008)

- Politicians tend to promote policies and spend money on projects as long as they get votes in return. ✓✓
- These policies might involve an inefficient allocation of resources. ✓✓
- Many public sector entities lack capacity because of a shortage of skills / management failure / Bureaucracy ✓✓
- This means that funds are often left unspent and then returned to the treasury. ✓✓
- Lack of accountability / Parastatals (public enterprise) ✓✓
- leads to inefficiency, corruption / crime, and poor service delivery. ✓✓
- Lack of motivation / apathy ✓ Workers rarely receive incentives for successful service delivery. This leads to services being limited, low in quality and high in cost. ✓✓
- Rent seeking / special interest groups / own interest ✓✓
- Individuals and enterprises influence government to act in their interest e.g. profitable contracts, favourable regulations etc. ignorance, personal and

hidden agendas, questionable motives improve the welfare of someone at the expense of another. ✓✓

- Serious structural weakness in the economy / Privatisation ✓✓ This can result in social goals not being attained. ✓✓
- Objectives are not attainable / overpopulation ✓✓ employment, housing and feeding programmes not possible with limited resources ✓✓
- Assessing needs ✓✓ leads to under and oversupply ✓✓
- Pricing policy ✓✓ problems in determining the price for public goods and services ✓✓

**QUESTION 9: Section B**

- Market failure / inefficient resource allocation ✓✓
- Provision of public goods and services ✓✓
- Problems with externalities require government intervention. e.g. negative externalities - government restricting output ✓✓
- Provision of merit goods - broad social benefit ✓✓
- Discourage demerit goods - taxes to discourage consumption and production. ✓✓
- Prevention of monopolies or encourage competition. ✓✓
- Redistribution of income for the benefit of society. ✓✓
- Managing the economy/stabilising the economy /enforcing a legal structure ✓✓

**QUESTION 10 (taken from the 2017 examination Guidelines)**

**Outline the necessity of the public sector (8)**

**To supply public goods and services ✓**

- Goods and services provided by the state for use by all the members of society. ✓✓ Three groups can be distinguished:
  - **Community goods** ✓
  - Goods of which there is a complete supply or none, e.g. defence, police. ✓
  - **Collective goods** ✓
  - Differ from community goods as fees, charges or tolls can be levied to exclude free-riders, e.g. beaches, drainage, parks. ✓
  - **Merit goods** ✓
  - Goods provided by the state, because it is believed that they would be under-supplied if their provision was left entirely to market forces. ✓✓
  - E.g. education, health care, research. ✓

**To conserve resources ✓**

- Government has to intervene to protect the environment if the environment is exposed to insensitive and even careless use it may be damaged. ✓✓
  - E.g. the oceans for fishing, the air we breathe; natural scenery. ✓

**To manage /intervene in the economy ✓**

- Ensures a social and legislative environment. ✓✓
- Apply suitable and credible economic and development policies. ✓✓

- Promote policies that ensure equal opportunity for all members of society. ✓ ✓
- Limit anti-competitive behaviour ✓ ✓

(Max 8 marks)

## QUESTION 11: HIGHER ORDER TYPE QUESTIONS

### 1. How can the South African government improve the efficiency of service delivery?

- Goods and services should be provided in the desired quantity and quality ✓ ✓  
Public goods can be efficiently provided if pareto-efficiency is achieved ✓ ✓
- Minimising red tape / avoid bureaucracy ✓ rules and procedures should be streamlined to minimize the negative impact on the delivery of services ✓
- Increase training ✓ effective training must be provided for government officials' e.g. in-service training, reskilling ✓
- Improve motivation ✓ by providing awards to productive workers, financially or payment in kind ✓
- Eliminate corruption ✓ put effective monitoring measures in place ✓  
(Accept any other relevant answer) (8)

### 2. Evaluate the success of economic growth and price stability as a part of government's macroeconomic objectives.

#### Economic growth

- Economic growth has been on a decreasing trend for the past five year's
- The average growth rate has been lower than 5% ✓ ✓
- This has been having a negative impact on the capacity of the economy to create employment ✓ ✓

#### Price stability

- Inflation has generally been within the target range of 3 to 6% ✓ ✓
- However, in 2014 it edged out of the range ✓ ✓
- due to high cost of production like wages and oil price ✓ ✓

(Accept any other relevant response with reference to current data) Any 2 x 4(8)

### 3 Identify and explain how social rights are embedded in the budgets

- to reduce poverty through programmes such as EPWP ✓ ✓
- the state also attempts to create a fair and more equitable distribution of income by using a progressive tax system ✓ ✓
- cash grants are paid to the poor to reduce poverty ✓ ✓
- free education provided to improve literacy ✓ ✓
- free primary health services provided for the poor ✓ ✓
- access to clean water and sanitation including people in rural areas ✓ ✓

- Free housing for the economically marginalised ✓✓  
(Accept any other relevant answer) (8)

**4. Propose four major purpose of fiscal policy.**

- to influence the achievements of economic objectives ✓✓
- government uses the national budget to stimulate economic growth, employment, redistribute income and address balance of payment problems ✓✓
- it can stimulate certain sectors in the economy by taxation and subsidising policies ✓✓
- it influences total demand and spending –government can cut taxes to increase disposable income and by increasing government expenditure
- It can also dampen economic activities by high levels of taxation and reducing government expenditure ✓✓  
(Accept any other relevant answer) (8)

**5. How can the South African government avoid public sector failure?**

- Goods and services should be provided in the desired quantity and quality ✓✓
- Public goods can be efficiently provided if pareto efficiency is achieved ✓✓
- Minimising red tape / avoid bureaucracy rules and procedures should be streamlined to minimize the negative impact on the delivery of services ✓✓
- Increase training effective training must be provided for government officials ✓✓ e.g. in-service training, reskilling ✓
- Improve motivation by providing awards to productive workers, financially or payment in kind ✓✓
- Eliminate corruption put effective monitoring measures in place ✓✓
- The minister of public service has launched the anti –corruption bureau to fast track disciplinary cases in the public sector ✓✓
- Cabinet and provinces have adopted a manual on procedures for recruiting , retaining and dealing with officials that resign ✓✓
- Uniform standards to be applied to all public servants across the government ✓✓
- The bureau will conduct investigations and institute disciplinary proceedings ✓✓
- Criminal cases will be referred to law enforcement agencies ✓✓  
**(Accept any other relevant answer)** (8)

**6. Motivate why the government implements minimum wages in the labour market.**

- Pressure was put on the South African government to introduce labour laws which require employers to pay minimum wages ✓✓
- The application of minimum wage laws is needed to improve a redistribution of income ✓✓
- To redress inequality (Gap between wealthy and poor) ✓✓
- To improve the standard of living ✓✓
- Government tried to protect domestic workers and farm workers – thus preventing exploitation ✓✓  
(Accept any other relevant fact)

## 7 How can taxation be used to stimulate employment in South Africa?

### Individual Income Tax ✓

- Lower taxes effectively increases the disposable income of people ✓✓
- This could lead to an increase in the demand for goods and services ✓✓
- Businesses (suppliers) will have to increase their production to compensate for the increased demand ✓✓
- This could lead to job creation ✓✓

### Company Tax: ✓

- Lower company tax increase investment possibilities to expand the businesses ✓✓
- This will create the opportunity to employ more people ✓✓

### Taxes on imports: ✓

- Import/custom duties reduce imports ✓✓
- Stimulate local production and create more jobs ✓✓

(Accept any other relevant facts)

(8)

## 8. How successful is the SA government in achieving its macro-economic objectives? (8)

### Economic Growth:

- SA targets 4–5% economic growth. Previously SA had a 5% growth rate ✓✓
- In recent years the growth rate decreased steadily (presently below 3%) ✓✓

### Full Employment:

- Compared to foreign countries unemployment is very high. (Expanded – over 30%) ✓✓
- Efforts by SA government to reduce these figures includes the GEAR strategy, focus on small business enterprises, Public Works Programme ✓✓
- 

### Exchange rate stability:

- SA now operates on a free floating exchange rate system in line with international benchmarks ✓✓
- Unfortunately our currency has lost its value, with a general trend of depreciation over the last few years ✓✓

### Price stability:

- For the past few years South Africa has managed to remain within the 3–6% target ✓✓
- The current increase in the repo rate has put constraints on the inflation rate ✓✓

**Economic equity:**

- Economic equity has improved (BEE, affirmative action, gender equity) and led to an improvement in economic equity ✓✓

**9. How does the South African government attempt to solve the problem of income inequality?**

The government can attempt to solve the problem of income inequality by:

- implementing a progressive tax system which has reduced the income gap between income earners ✓✓
- levying indirect taxes on consumption (e.g. VAT), while certain basic items that the poor often consumes, were excluded ✓✓
- providing free primary health care in provincial hospitals and clinics ✓✓
- making provision for those who cannot afford to pay by offering a free basic education ✓✓
- making transfer payments and subsidies payable to the poor and previously disadvantaged ✓✓
- implementing minimum wages ✓✓
- implement job creation programmes ✓✓
- implementing BBBEE and labour laws ✓✓

(Accept any other correct relevant answer) (8)

**10. How can the establishment of more labour-intensive industries benefit South Africa?**

Establishment of more labour intensive industries will benefit South Africa by:

- providing more jobs ✓✓
- improving the utilisation of available resources ✓✓
- e.g. mining, agriculture and manufacturing industries ✓
- transferring a greater variety of knowledge and skills to the workers ✓✓
- using artisans, technicians and engineers that will lead to better economic growth ✓✓
- improving the standard of living of the citizens (economic development) ✓✓
- generating more revenue for the state via income tax ✓✓

(Accept any other correct relevant response)

(Allocate a maximum of 2 marks for mere listing of facts / examples) (8)

**11. How can inefficiencies leading to public sector failure be solved?**

- Taxpayer's money can be used to ensure optimal allocation of resources ✓✓  
E.g. subsidise student's tuition fees on merit ✓
- Protection of industries of strategic importance ✓✓ e.g. the textile industry that are labour intensive ✓
- Monitor spending of government funds on social services budget related to avoid nepotism and corruption ✓✓
- Put structures and policies in place to take care of the environment directly e.g. increase the number of security staff to prevent animals e.g. rhinos to become extinct ✓
- Take care of the environment indirectly through programmes to make the communities aware of the state of the environment ✓✓ e.g. more environmental programmes on TV and grass root level ✓



- Human rights must be honoured to ensure cooperation at all levels of government ✓✓  
(Accept solutions that relate to bureaucracy, incompetence or corruption)  
(Accept any other correct relevant responses)  
(A maximum of 2 marks to be allocated for examples)

(8)

## ESSAYS

STRUCTURE OF ESSAY:	MARK ALLOCATION:
<p><b>Introduction</b> The introduction is a lower-order response.</p> <ul style="list-style-type: none"> <li>• A good starting point would be to the main concept related to the question topic</li> <li>• Do not include any part of the question in your introduction.</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> <b>Main part:</b> Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate <b>Additional part:</b> Give own opinion/ Critically discuss/ Evaluate/ Critically evaluate/ Draw a graph and explain/ Use the graph given and explain/ Complete the given graph/ Calculate/ Deduce/ Compare/ Explain Distinguish / Interpret/ Briefly debate/ How/ Suggest</p>	<p>Max 26</p> <p>Max 10</p>
<p><b>Conclusion</b> Any Higher order conclusion includes:</p> <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned in the body</li> <li>• Any opinion or value judgement on the facts discussed</li> <li>• Additional support information to strengthen the discussion/analysis</li> <li>• A contradictory viewpoint with motivation, if required</li> </ul> <p>Recommendations</p>	Max 2
<b>TOTAL</b>	<b>40</b>



**QUESTION12: MACROECONOMICS PUBLIC SECTOR-40 MARKS – 40 MINUTES**

***Government is constantly trying to achieve specific objectives to improve the standard of living of the nation.***

- Discuss the macroeconomic objectives of the state in South Africa's economy. (26)
  - In your opinion, to what extent has the South African government achieved these objectives? (10)
- [40]

**INTRODUCTION:**

The government provides goods and services that are under supplied by the market and therefore plays a major role in regulating economic activity and guiding and shaping the economy. ✓✓ (Max.2)

**BODY: MAIN PART**

**Objectives:**

- **Economic growth** ✓
  - Refer to an increase in the production of goods and services ✓✓
  - Measured in terms of Real GDP ✓✓
  - For economic growth to occur, the economic growth rate must be higher than Population growth ✓✓
  - Growth and development in a country benefit its citizens because it often leads to a higher standard of living ✓✓
- **Full employment** ✓
  - It is when all the people who want to work, who are looking for a job must be able to get a job ✓✓
  - High levels of employment is the most important economic objective of the government ✓✓
  - The unemployment rate increased over the past few years ✓✓
  - Informal sector activities must be promoted because it is an area where employment increase ✓✓
- **Exchange rate stability** ✓
  - The economy must be manage effectively and effective Fiscal and Monetary policy must be used to keep the exchange rate relatively Stable ✓✓
  - Depreciation and Appreciation of the currency create uncertainties for producers and traders and should be limited ✓✓
  - These uncertainties must be limited ✓✓
  - The SARB changed the Exchange rate from a Managed floating to a Free floating exchange rate ✓✓

- **Price stability** ✓
  - Stable price causes better results in terms of job creation and economic growth ✓✓
  - The SARB inflation target is 3% - 6% and they are successful in keeping inflation within this target ✓✓
  - Interest Rates, based on the Repo Rate are the main instruments used in the stabilisation policy ✓✓
  - The stable budget deficit also has a stabilizing effect on the inflation Rate ✓✓
  
- **Economic equity** ✓
  - Redistribution of income and wealth is essential ✓✓
  - South Africa uses a progressive income tax system – taxation on profits, taxation on wealth, capital gains tax and taxation on spending, are used to finance free services ✓✓
  - Free social services are basic education; primary health and to finance basic economic services ✓✓
  - E.g. Cash Grant to the poor, e.g. child grants and cash grants to vulnerable people, e.g. disability grants ✓✓
  - Progressive taxation means that the higher income earners pay higher/more taxation ✓✓

(Max. 26)

### **BODY: ADDITIONAL PART**

- Learner responses can be positive or negative
  - Follow the argument and see if the learner can produce enough evidence to support his/her answer

#### **Economic Growth:**

- SA targets 4–5% economic growth. Previously SA had a 5% growth rate ✓✓
- In recent years the growth rate decreased steadily (presently below 3%) ✓✓

#### **Full Employment:**

- Compared to foreign countries unemployment is very high. (Expanded – over 30%) ✓✓
- Efforts by SA government to reduce these figures includes the GEAR strategy, focus on small business enterprises, Public Works Programme ✓✓

#### **Exchange rate stability:**

- SA now operates on a free floating exchange rate system in line with international benchmarks ✓✓
- Unfortunately our currency has lost its value, with a general trend of depreciation over the last few years ✓✓

#### **Price stability:**

- For the past few years South Africa has managed to remain within the 3–6% target ✓✓

- The current increase in the repo rate has put constraints on the inflation rate ✓✓

**Economic equity:**

- Economic equity has improved (BEE, affirmative action, gender equity) and led to an improvement in economic equity ✓✓

(Any 5 x 2) (Max.10)

**CONCLUSION:**

While some successes have been achieved by government, the fulfilling of some of the objectives are compromised by factors like lack of accountability, corruption, budgeting, nepotism and incompetence. ✓✓

Any relevant conclusion

(Max. 2)

[40]

**QUESTION 13: MACROECONOMICS PUBLIC SECTOR 40 MARKS- 40 MINUTES**

*The public sector in South Africa has been confronted by major challenges in recent years.*

- Evaluate the problems of public sector provisioning in South Africa. (26)
- Outline examples of problems you have observed in your own community or elsewhere in South Africa. (10)

[40]

**INTRODUCTION**

The government responds to market failures by establishing and maintaining state owned enterprises to provide public goods and services ✓✓

Any other relevant introduction

(Max. 2)



**BODY: MAIN PART**

**1. Accountability ✓**

- It is required to give an explanation of one's decisions, actions and expenditures over a period of time ✓✓
- There are mechanisms for evaluating government's economic and financial performance ✓✓
- That the desired quantities and quality of goods and services for which taxes are raised are delivered ✓✓
- That monopolies, corruption, nepotism, incompetence and apathy does not occur ✓✓
- Two important elements of accountability is participation and transparency ✓✓
- Ministerial responsibilities, i.e. the ministers of government departments are responsible for decisions and actions and expenditures ✓✓
- Parliamentary questioning arises and members of the government departments have to respond ✓✓
- The national treasury is responsible for treasury control ✓✓
- The auditor-general reports annually in writing on each government department ✓✓

**2 Efficiency ✓**

- Public goods are efficiently provided if Pareto efficiency is achieved ✓✓

- That is if resources are allocated in such a way that no one can be made better off without making someone else worse off ✓✓
- Bureaucracy the official rules and procedures. ✓✓/insensitivity to the needs of their clients ✓✓
- Incompetence- the lack of skill or ability to do a task successfully ✓✓/
- May have improper qualifications/or an attitude of apathy ✓✓
- Corruption- the exploitation of a person's position for private gain ✓✓ /taking bribes, committing fraud, nepotism ✓✓

### 3 The problem of assessing needs ✓

- State-owned enterprises do not operate according to the forces of supply and demand ✓✓
- It becomes thus very difficult for state-owned enterprises to assess needs and they are thus prone to under- or over-supplying public goods and services ✓✓
- The census and other household surveys as well as local government structures provide this type of information ✓✓
- Since resources are scarce, government must then decide which needs and whose needs are to be satisfied ✓✓
  - In the private sector houses are built according to the price that people are able and willing to pay ✓✓
  - In the public sector housing is regarded as a social responsibility and authorities supply them according to the needs of people ✓✓

### 4. Pricing policy ✓

- In a market economy prices are determined by supply and demand ✓✓
- The objectives of firms are to maximise their profits and they usually set prices to achieve this objective ✓✓
- Government does not pursue the profit maximisation objective ✓✓
- Government takes into account certain social, economic, political and environmental conditions as well as public opinion ✓✓
- Free-of-charge services- this is met from taxes ✓✓ and applies to most community goods and collective goods ✓✓ (e.g.) defence, police ✓ whereby charges and toll fees are levied ✓
- User-charges ✓ option to charge depends on technical reasons ✓✓ (e.g.) cost of providing a double lane road could be recovered by toll charges ✓ Economic reasons ✓ such as services like water and electricity ✓✓ that have a zero price ✓ political reasons ✓ where income distribution is significantly unequal, administrative rationing according to need takes place ✓✓ (e.g.) public health and education ✓
- Direct and indirect subsidies ✓ direct subsidies are used to cover part of the costs ✓✓ (e.g.) urban bus service ✓ and an indirect subsidy is used to write off accumulated losses or deficits ✓✓
- Standing charges -called availability charges ✓✓ (e.g.) water and electricity ✓ standing charges goes to meet fixed costs and the price per unit consumed covers variable costs ✓✓
- Price discrimination - different users have different elasticities of demand for a good ✓✓ (e.g.) commercial and manufacturing businesses pay higher rates than households and they pay on a sliding scale ✓✓

**5. Parastatals ✓**

state-owned enterprises ✓ that either render a service or when an existing enterprise is nationalised ✓✓ They focus on making a profit and maximizing cost at the expense of the needs of some groups ✓✓ (e.g.) Iscor , SABC, SAA, Spornet ✓

**6. Privatisation ✓**

- refers to the process whereby state-owned enterprises and state-owned assets are handed over or sold to private individuals ✓✓
- cost of maintaining and managing state-owned enterprises are high which can lead to higher taxes and larger public debt ✓✓
- State-owned enterprises are not run as efficiently as private enterprises ✓✓
- Nationalisation is the process whereby the state takes control and ownership of privately owned assets and private enterprises ✓✓
- It includes contracting of services, public-private partnerships, increasing competitiveness ✓✓

**(Max 26 marks)**

**ADDITIONAL PART**

**Possible problems in your community or elsewhere**

- Lack of drinking water due to burst pipes / aging infrastructure ✓✓
  - Lack of electricity due to lack of infrastructure (load shedding) ✓✓
  - Lack of schooling – no buildings available – lack of maintenance ✓✓
  - Lack of health services due to lack of staff, infrastructure, strikes ✓✓
  - Lack of adequate housing (RDP) ✓✓ Books (Max 10 marks )
- Accept any other relevant answer

**CONCLUSION**

If the above problems are not dealt with timeously by government, government will continue to fail its people in terms of service delivery, seeing many protests occurring regularly ✓✓

**Any other relevant higher order conclusion**

**(Max 2 marks)**

**SESSION 4: MACROECONOMICS: ECONOMIC GROWTH AND DEVELOPMENT: FOREIGN EXCHANGE MARKET (GLOBALISATION)**

**Learner Note:** No country in the world can be self-sufficient. Countries rely on one another for the necessary resources, and goods and services to satisfy the large range of needs and wants of their people.

**SECTION A: TYPICAL EXAM QUESTIONS**

**QUESTION 1 Section A** (Taken from various sources)

**1.1 Various options are provided as possible answers to the following questions. Choose the correct answer.**

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 payment

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 dollar 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 South African Reserve Bank to lower the value of the currency is known as ...

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

1.1.5 The financial account in the balance of payment records the transactions related to...

- A. production
- B. assets and liabilities
- C. net gold exports
- D. trade balance

- 1.1.6 The practice of selling goods in a foreign country at lower prices than in the country of origin is known as
- A. exporting
  - B. importing
  - C. dumping
  - D. protectionism
- 1.1.7 Payment for services forms part of the ...in the balance of payment.
- A. financial account
  - B. current account
  - C. capital transfers account
  - D. unrecorded transactions
- 1.1.8 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
- 1.1.9 Countries experiencing fundamental balance of payments problems can apply at the ... for financial assistance
- A. International Monetary Fund
  - B. Federal bank
  - C. SARB
  - D. World Trade Organisation
- 1.1.10 Buying shares on the JSE by a foreigner is an example of ... investment.
- A. indirect
  - B. prima effects
  - C. portfolio
  - D. direct

(10 x 2) (20)

**1.2 Give ONE term for each of the following descriptions.**

- 1.2.1 Expresses a country's export prices in terms of its import prices.
- 1.2.2 The worldwide interaction of economies, with trade as a key element.
- 1.2.3 An international organisation that lends money to countries with ongoing balance of payment problems.
- 1.2.4 A situation where one country has a relative advantage in the production of goods and services.
- 1.2.5 The rate at which one currency is exchanged for another.
- 1.2.6 A set of accounts that shows a systematic record of the trade and financial transactions between a country and the rest of the world.
- 1.2.7 An account in the BoP that contains information on investments made by South Africans in other countries.
- 1.2.8 The market engaged in the buying and selling of foreign currencies
- 1.2.9 The value of exports minus imports.
- 1.2.10 An increase in the price of a currency in terms of other currencies through market forces.



- 1.2.11 A decrease in the price of a currency in terms of another currency due to market forces.
- 1.2.12 A deliberate decrease in the exchange rate of a currency in terms of other currencies.
- 1.2.13 A deliberate increase in the exchange rate of a currency in terms of other currencies.
- 1.2.14 Exchange rates which are allowed to respond to market forces within certain limits.
- 1.2.15 An account which shows records of investments by South Africans in other countries and by foreigners in South Africa.

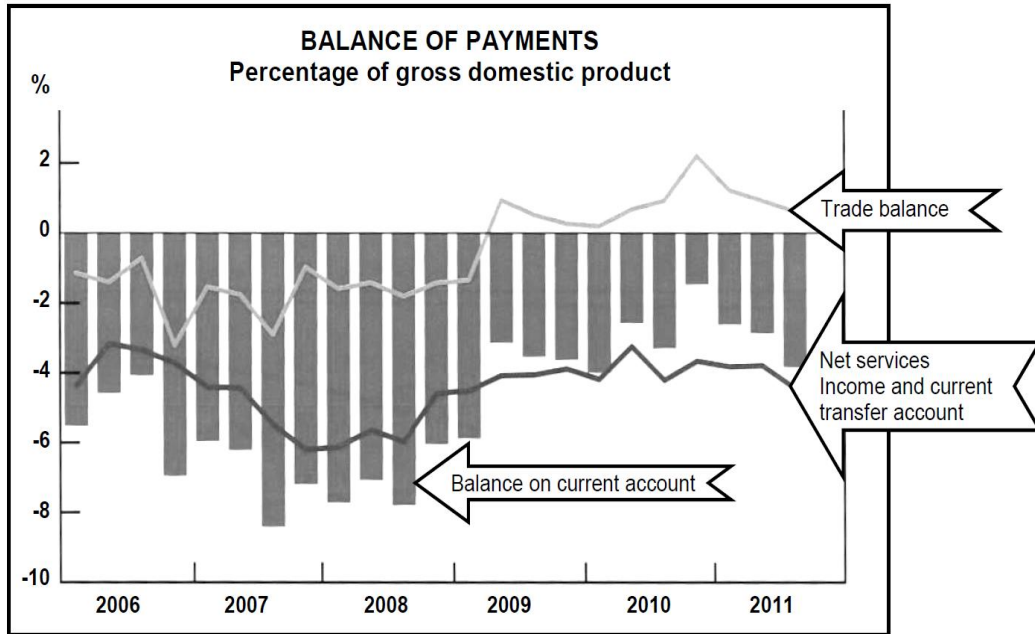
(15x1) (15)

**QUESTION 2      Section B      (Taken from various sources)**

- 2.1 How will appreciation of a currency affect the Balance of payment Account? (1 x 2) (2)
- 2.2 What impact will the depreciation of a currency have on the Balance of Payment Account? (1 x 2) (2)
- 2.3 Why is the exchange market important to tourists? (1 x 2) (2)
- 2.4 How will a decrease in export prices affect our country's terms of trade? (1 x 2) (2)
- 2.5 Why is gold exports listed as a separate item on the current account? (1 x 2) (2)
- 2.6 How will the trade balance be affected if a major South African retailer imports more clothes from China? (1 x 2) (2)
- 2.7 How can imports be targeted to reduce the deficit on the balance of trade in South Africa? (8)
- 2.8 Distinguish between devaluation and appreciation of the rand against the dollar. (4 x2) (8)
- 2.9 Make use of a graph and explain how an increase in exports to the USA will affect the value of the rand (10)
- 2.10 Assess how an increase in import prices and an increase in export prices (terms of trade) will affect the South African economy. (8)
- 2.11 How do the income level and the size of the population affect international trade? (2 x 4) (8)
- 2.12 Explain how the supply reasons affect international trade. (8)
- 2.13 Compare a free floating exchange rate system with a managed floating exchange rate system. (2 x 4) (8)

**QUESTION 3**

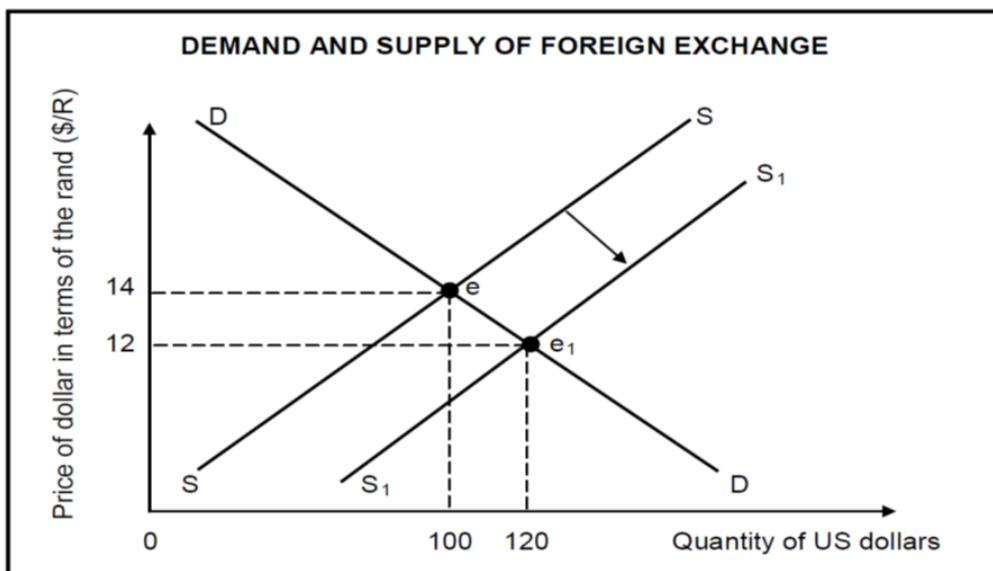
**3.1 Study the graph below and answer the questions that follow:**



- 3.1.1 Name TWO items that appears in the financial account of the balance of payments. (2)
- 3.1.2 Briefly describe the term Balance of trade. (2)
- 3.1.3 Describe the general trend of the balance on the current account between 2006 and 2011. (2)
- 3.1.4 Suggest TWO methods to improve the balance on the current account. (2 x 2) (4)

**QUESTION 4**

**4.1 Study the graph below and answer the questions that follow:**



- 4.1.1 Identify the original point of equilibrium. (2)
- 4.1.2 Explain the concept forex market (2)
- 4.1.3 What happens to the quantity of dollars when the supply curve shifts from SS to  $S_1S_1$ ? Give a possible reason for this shift. (3)
- 4.1.4 How will the value of the rand be affected in terms of the US dollar when SS shifts to  $S_1S_1$ ? Motivate your answer. (3)

## QUESTION 5

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

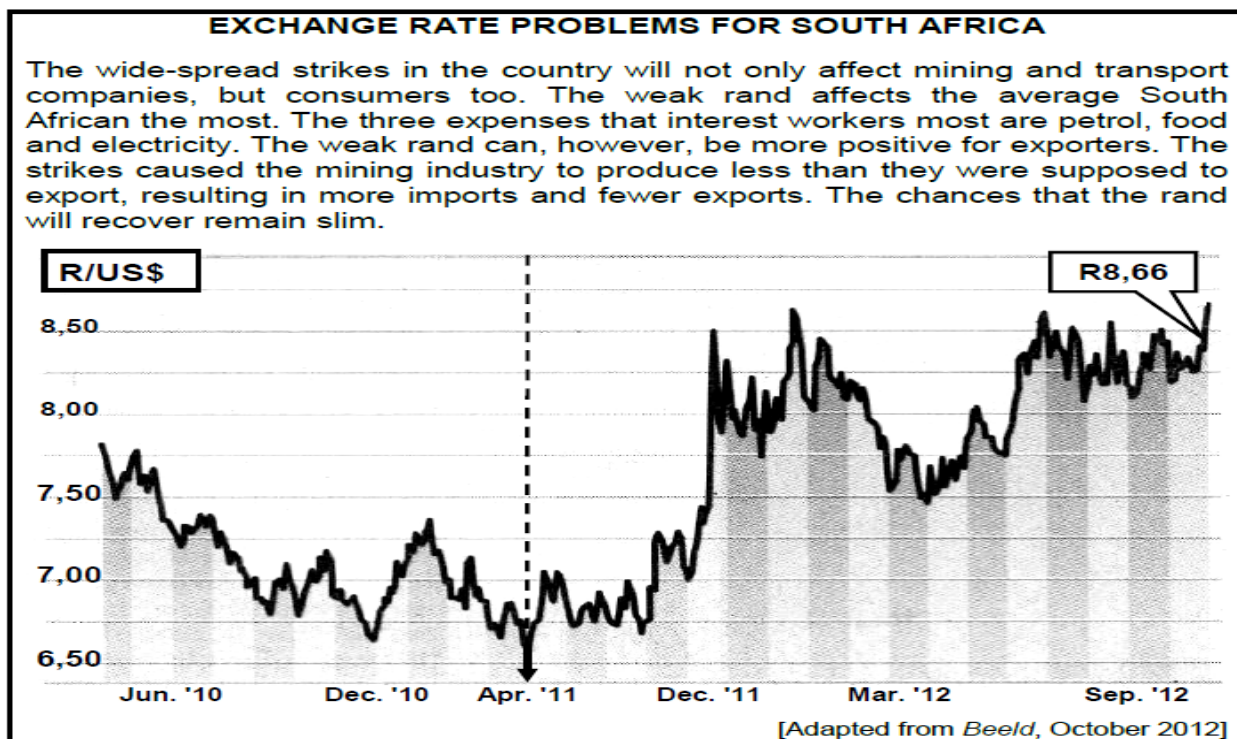
**SOUTH AFRICA IN THE PROCESS OF CHANGE**

YEAR	% CHANGE IN GROSS DOMESTIC PRODUCT (GDP)	% CHANGE IN PRIVATE CONSUMPTION EXPENDITURE (PCE)	% DIFFERENCE BETWEEN GDP AND PCE	BALANCE ON CURRENT ACCOUNT R (MILLION)
2006	5,5	3,0	+2,5	-5 000
2008	7,0	7,5	-0,5	-15 000
2010	4,5	7,8	-3,3	-28 000

- 5.1.1 Name any TWO components of the balance of payments (2 x 1) (2)
- 5.1.2 Briefly describe the term *balance of payments*. (2)
- 5.1.3 What impact did the difference between production and consumption have on imports in 2010? (2)
- 5.1.4 What is the correlation between the figures in the last two columns (4)

## QUESTION 6

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



- 6.1.1 Briefly describe the term exchange rate (2)
- 6.1.2 Explain the negative impact of strikes on the South African economy (2 x 2) (4)
- 6.1.3 Do you think South Africa attracted more direct investment during April 2011? Motivate your answer. (4)



**QUESTION 7:**

Study the table below and answer the questions that follow.

	<b>2015</b>	<b>2016</b>
Goods exports	970 667	1 053 628
Net gold exports	67 663	50 585
Services receipts	191 605	210 852
Income receipts	98 016	87 773
Less: Merchandise imports	1 076 290	1 089 677
Less: Payment for services	197 643	219 056
Less: Income payments	198 382	208 243
Current transfers (Net receipts)	-3 353	-27 458
Balance on Current Account	-177 897	-141 596
Memo item: trade balance	-37 960	<b>A</b>

[Adapted from SARB Quarterly Bulletin, March 2017]

- 7.1.1 Which institution provides the statistics above? (1)
- 7.1.2 Which item records transactions relating to donations and gifts to other countries? (1)
- 7.1.3 Briefly describe the capital transfer account as part of the BoP. (2)
- 7.1.4 Give ONE reason for the decline in gold exports. (2)
- 7.1.5 Calculate the trade balance (**A**) for 2016. Show ALL calculations. (4)

## QUESTION 8

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

SOUTH AFRICA: TERMS OF TRADE			
Year	Index of import prices	Index of export prices	Terms of trade
2010	141	171	121.3
2011	153	191	<b>A</b>
2012	163	200	122.7
2013	179	214	119.6

[Source: SARB Quarterly Bulletin, March 2015]

- 8.1.1 Identify the institution for publishing the data above? (1)
- 8.1.2 What is the trend in the index of import prices? (1)
- 8.1.3 Briefly explain the term terms of trade. (2)
- 8.1.4 Briefly explain why an increase in terms of trade will have a positive effect on the welfare of the country. (2)
- 8.1.5 Calculate the terms of trade for 2011 (**A**). Show ALL calculations. Round off your answer to ONE decimal place. (4)

## SECTION B: ADDITIONAL CONTENT NOTES

### The main 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 have a preference for 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.

#### Buying and selling goods and services from other countries:

- The purchase of goods and services from abroad that leads to an outflow of currency from SA – **Imports (M)**



- The sale of goods and services to buyers from other countries leading to an inflow of currency to SA – **Exports (X)**

Different factor endowments mean some countries can produce goods and services more efficiently than others – specialisation is therefore possible:

- **Absolute Advantage:**
  - Where one country can produce goods with **fewer resources** than another
- **Comparative Advantage:**
  - Where one country can produce goods at a **lower opportunity cost** – it sacrifices less resources in production

	Oil (Barrels)	Whisky (Litres)
Russia	10 or	5
Scotland	20 or	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:

**Opportunity Cost = sacrifice/ gain**



**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 ( $OC$  of whisky is  $20/40 = \frac{1}{2}$ )

For Scotland the  $OC$  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.

## BALANCE OF PAYMENTS

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

- Trade in goods
- Trade in services
- Income flows

New format of a balance of Payment as indicated in the new **2017 Examination Guideline (page 14)**

### 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



## 1. The current account

- The balance of the current account is an indication of whether the country can afford its day to day transactions.

Balance of payments, Annual figures, R millions		
	2014	2015
<b>Current account</b>		
Merchandise exports .....	943 375	973 776
Net gold exports .....	62 655	67 662
Service receipts .....	182 814	191 656
Income receipts .....	82 235	98 016
Less: Merchandise imports .....	1 069 711	1 075 850
Less: Payments for services .....	184 828	197 643
Less: Income payments .....	183 779	198 382
Current transfers (net receipts +) .....	-34 448	-33 533
<b>Balance on current account</b> .....	<b>-201 687</b>	<b>-174 298</b>
Memo item: Trade balance .....	-63 681	-34 412

## 2. The capital transfer account

- The balance shown reflects the net amount of the capital transfer, either negative or positive.

<b>Capital transfer account (net receipts +)</b> .....	<b>236</b>	<b>243</b>
Net lending to (+)/borrowing from (-) rest of world .....	-201 451	-174 055

## 3. The financial account

- Records all international transactions in assets and liabilities are recorded

<b>Financial account</b>		
Net direct investment (Inflow (+)/outflow (-) .....	-20 607	-51 217
Net incurrence of liabilities .....	62 627	22 065
Net acquisition of financial assets .....	-83 234	-73 282
Net portfolio investment (Inflow (+)/outflow (-) .....	49 132	69 568
Net incurrence of liabilities .....	73 386	106 013
Equity and investment fund shares .....	26 826	89 824
Debt securities .....	46 560	16 189
Net acquisition of financial assets .....	-24 254	-36 445
Equity and investment fund shares .....	-14 721	-17 768
Debt securities .....	-9 533	-18 677
Net financial derivatives (inflow (+)/outflow (-) .....	16 409	4 882
Net incurrence of liabilities .....	-194 842	-320 856
Net acquisition of financial assets .....	211 251	325 738
Net other investment (Inflow (+)/outflow (-) .....	121 821	119 042
Net incurrence of liabilities .....	148 133	72 273
Net acquisition of financial assets .....	-26 312	46 769
Reserve assets (increase (-)/decrease (+) .....	-16 602	9 071
<b>Balance on financial account</b> .....	<b>150 153</b>	<b>151 346</b>
Memo Item: Balance on financial account excluding reserve assets .....	166 755	142 275
Unrecorded transactions .....	51 298	22 709
Memo item: Balance on financial account excluding reserve assets including unrecorded transactions .....	218 053	164 984

Quarterly bulletin SARB – December 2015

### **Determining the value of the BOP (balancing the BOP)**

- = balance on current account
- + capital transfer account
- + balance on financial account
- + unrecorded transaction

### **EXCHANGE RATES**

#### **Determinants of Exchange Rates:**

- Exchange rates are determined by the demand for and the supply of currencies on the **foreign exchange market**

The demand and supply of currencies is in turn determined by:

- Relative interest rates
- The demand for imports
- The demand for exports
- Investment opportunities
- Speculative sentiments
- Global trading patterns
- Changes in relative inflation rates

#### **Appreciation of the exchange rate:**

- A rise in the value of R in relation to other currencies – each R buys more of the other currency e.g.
- SA exports appear to be more expensive
- Imports to the SA appear to be cheaper

#### **Depreciation of the Exchange Rate**

- A fall in the value of the R in relation to other currencies – each R buys less of the foreign currency e.g.
- SA exports appear to be cheaper
- Imports to the SA appear more expensive

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

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

#### **The Fixed Exchange Rates**

- The value of a currency fixed in relation to an anchor currency – not allowed to fluctuate

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

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

#### **Correcting disequilibria in the balance of payments**

The solution to correct balance of payments disequilibrium lies in earning more foreign exchange through more exports and reducing imports.

- Export promotion = government can help to promote exports
- Import substitution = government can help to reduce imports, making a country more self-reliant

## SECTION C: SOLUTIONS

### QUESTION 1      Section A      (Taken from various sources)

1.1 Various options are provided as possible answers to the following questions. Choose the correct answer.

- 1.1.1 D - balance of payments ✓✓
- 1.1.2 B- free floating ✓✓
- 1.1.3 A-placing a deposit with an American bank ✓✓
- 1.1.4 D-devaluation ✓✓
- 1.1.5 B-assets and liabilities ✓✓
- 1.1.6 C-dumping ✓✓
- 1.1.7 B-current account ✓
- 1.1.8 A-terms of trade ✓✓
- 1.1.9 A-International Monetary Fund ✓✓
- 1.1.10 C-portfolio ✓✓

(10 x 2) (20)

1.2 Give ONE term for each of the following descriptions.

- 1.2.1 Terms of trade ✓
- 1.2.2 Globalisation ✓
- 1.2.3 International Monetary Fund ✓
- 1.2.4 Comparative advantage ✓
- 1.2.5 Exchange rate ✓
- 1.2.6 Balance of payments ✓
- 1.2.7 Financial account ✓
- 1.2.8 Foreign exchange rate market ✓
- 1.2.9 Trade balance/Balance of trade ✓
- 1.2.10 Appreciation ✓
- 1.2.11 Depreciation ✓
- 1.2.12 Devaluation ✓
- 1.2.13 Revaluation ✓
- 1.2.14 Managed exchange rates ✓
- 1.2.15 Financial account ✓

(15 x 1) (15)

### QUESTION 2      Section B      (Taken from various sources)

2.1 How will appreciation of a currency affect the balance of payment account?

It will have a negative impact/Exports will decrease and imports will increase/This will cause an outflow of foreign exchange ✓✓ (2)

2.2 What impact will the depreciation of a currency have on the balance of payment account?

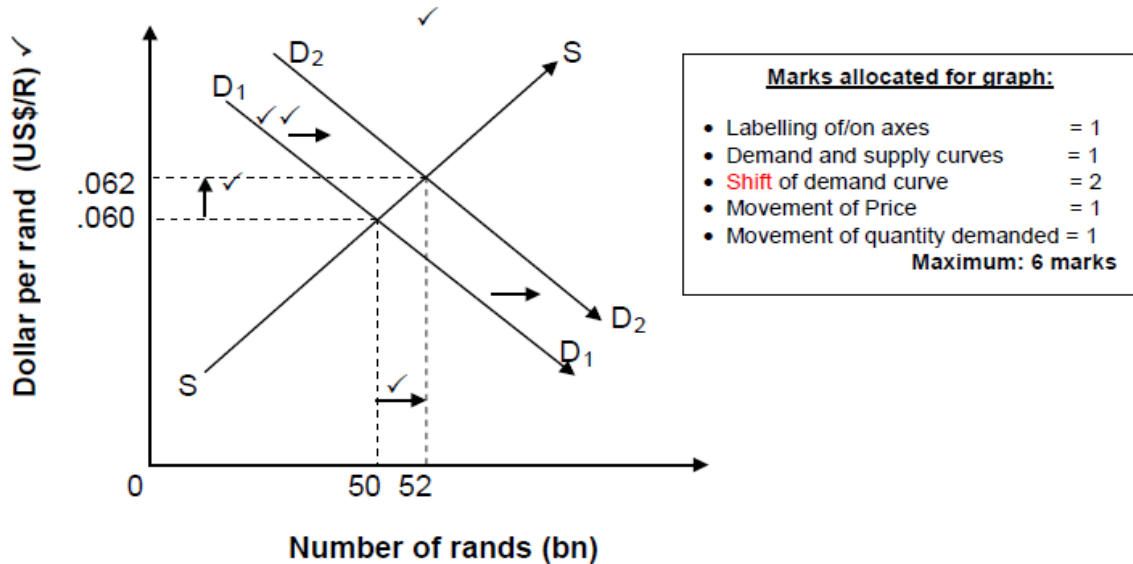
It will have a positive impact/Exports will increase and imports will decrease/This will cause an inflow of foreign exchange ✓✓ (2)

- 2.3 **Why is the exchange market important to tourists?**  
 Tourists need to exchange their own currency in order to buy goods and services in other countries. ✓✓  
 Accept any relevant response. (1 x 2)(2)
- 2.4 **How will a decrease in export prices affect our country's terms of trade?**  
 It would be negatively affected because our revenue received from exports will decline. ✓✓
- 2.5 **Why is gold exports listed as a separate item on the current account**  
 Due to the historic importance of gold, as a strategic export product of South Africa. (1 x 2) (2)
- 2.6 **How will the trade balance be affected if a major South African retailer imports more clothes from China?**  
 It will reduce the trade balance / trade balance will be negatively affected / imports will exceed the exports ✓✓ (2)
- 2.7 **How can imports be targeted to reduce the deficit on the balance of trade in South Africa?**
- South Africa can use import substitution as part of their international trade policy ✓✓
  - Tariffs can be imposed on imported goods, which will increase the prices of imported goods for domestic consumers, and that will tend to shift demand from imports to domestic products ✓✓ e.g. customs duties, ad valorem tariffs, specific tariffs ✓
  - Quotas can be imposed to limit the import of goods and services ✓✓
  - Subsidies will make local producers more competitive and switch from imported goods to locally produced goods ✓✓
  - Through exchange control government can reduce imports and limit the amount of foreign exchange made available to those who wish to import ✓✓
  - Physical control may put a complete ban or embargo on the import of certain goods from a particular country ✓✓
  - Trade can be diverted through monetary deposits, time-consuming customs procedures and high-quality standards are imposed to make the importing of goods more difficult ✓✓
- (8)
- 2.8 **Distinguish between devaluation and appreciation of the rand against the dollar.**
- Devaluation:**
- A decrease in the value of a currency by authorities (government) ✓✓
  - Refers to a fixed exchange rate system ✓✓
  - The government might devalue a currency to improve exports ✓✓
  - The government can change the rate from \$1 = R10 changes to \$1 = 12 ✓✓ (Max 4)
- Appreciation:**
- An increase in the value of a currency due to market forces ✓✓
  - Typical of a floating exchange rate system ✓✓
  - \$1 = R10 changes to \$1 = 8 ✓✓ (Max 4)
- (2 x 4) (8)



2.9 Make use of a graph and explain how an increase in exports to the USA will affect the value of the rand (10)

GRAPH:



- An increase in exports to the USA will lead to an increased demand for rand from D1 to D2 ✓✓
  - The quantity of rand demanded increase from 50 to 52bn ✓✓
  - The price of rand in terms of dollar increase from .060 dollar per rand to .062 dollar per rand ✓✓
- (Accept any other relevant explanation) Max (2 x 2) (4)

2.10 Assess how an increase in import prices and an increase in export prices (terms of trade) will affect the South African economy. (8)

**An increase in export prices will result in:**

- The numerical value of the terms of trade index improves ✓✓
  - Increased economic welfare because more revenue is earned with the same expenditure. ✓✓
  - However, over the long term the higher export prices may result in a decrease in sales volumes, depending on the price elasticity of demand. ✓✓
  - A welfare loss may result. ✓✓
- (2 x 2) (4)

**An increase in import prices will result in:**

- The terms of trade worsening / numerical value of terms of trade index worsen ✓✓
- Welfare lost because more resources were used to produce more units of exports to finance the higher cost of imports. ✓✓

(2 x 2) (4)  
(8)

2.11 **How do the income level and the size of the population affect international trade?**

**The income level**

- 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/more goods will be bought from foreign countries as the income of local people increases. ✓✓

**The size of the population**

- If there is an increase in population growth, it results in an increase in demand, as more people's needs must be satisfied. ✓✓
- Local suppliers may not be able to satisfy this demand. ✓✓

(2 x 4) (8)

2.12 **Explain how the supply reasons affect international trade.**

- **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. ✓✓

**Max 2 for examples**

(8)

2.13 **Compare a free floating exchange rate system with a managed floating exchange rate system.**

(2 x 4)(8)

**Free floating exchange rate system:**

- They work automatically, ✓✓ if imports increase the demand for foreign exchange increases. The currency **depreciates** as the result of the working of market forces ✓✓
- Depreciation makes a country's imports more expensive and exports cheaper ✓✓
- Imports decrease and exports increase, and the currency appreciates as the result of the working of market forces ✓✓

(2 x 2) (4)

103

### Managed exchange rate system:

- A system where central banks intervene in the exchange rate markets stabilising the currency ✓✓
- Central banks use their reserves to influence the exchange rates ✓✓
- E.g. When the value of the currency declines / depreciate the central bank will sell currency in the market to increase the demand and price/exchange rate ✓✓
- Over the long term currencies have to find their equilibrium levels ✓✓
- Any other relevant fact. (2 x 2) (4)

### Question 3:

#### 3.1 Data-response

- 3.1.1 Direct investments ✓  
Portfolio investments ✓  
Other investments ✓ (2x 1) (2)
- 3.1.2 Difference between merchandise exports and imports. ✓✓ (2)
- 3.1.3 Every year indicates a deficit. ✓✓ (2)
- 3.1.4 A weaker rand ✓✓  
Exchange rate ✓✓  
Lending and borrowing from the IMF ✓✓  
Change in demand ✓✓  
Export promotion ✓✓  
Import substitution ✓✓  
Interest rates ✓✓  
Import controls ✓✓  
Accept any other relevant answer (2 x 2) (4)

### Question 4

#### 4.1 Data-response

- 4.1.1 Point e/ At price R14 and a quantity of 100/demand DD equals/ intersects supply SS ✓✓
- 4.1.2 Foreign decentralised market for the trading of currencies. Includes all aspects of buying, selling and exchanging of currencies ✓✓
- 4.1.3 It increases ✓  
Reasons:
  - Increase in the number of American's visiting SA ✓✓
  - Higher investment by Americans in the South African economy/foreign currency speculation by US investors ✓✓
  - Increased exports to the USA ✓✓
  - Obtaining new loans from the United States ✓✓
  - Services (shipping, insurance) to USA. ✓✓
  - Receiving of interest and dividend on capital invested in USA ✓✓
- 4.1.4 Appreciated/Increased ✓  
Reasons:
  - Increased supply for dollars ✓✓
  - Decreased supply for rand ✓✓
  - Less rand for dollars ✓✓
  - Cheaper to buy dollars ✓✓

## QUESTION 5

### 5.1 Data-response

- 5.1.1 • Merchandise imports✓  
 • Merchandise exports✓  
 • Service receipts✓  
 • Income receipts✓  
 • Payment for services✓  
 • Current transfers✓  
 • Net gold exports✓ (2 x 1) (2)
- 5.1.2 Balance of payments is a systematic record of a country's financial transactions with the rest of the world. ✓✓ (2)
- 5.1.3 Imports increased✓✓ (2)
- 5.1.5 As the difference between GDP and PCE increases, ✓✓ the balance on the current account also increases negatively. ✓✓ (2 x 2) (4)

## QUESTION 6

### 6.1 Data-response

- 6.1.1 **Briefly describe the term exchange rate**  
 The price of one currency in terms of another country's currency  
 e.g. \$1 = R9,00 ✓✓ (2)
- 6.1.2 **Explain the negative impact of strikes on the South African economy?**  
 • Loss of labour hours✓✓  
 • Loss of production ✓✓  
 • Loss of income✓✓  
 • Decrease in exports/Balance of Payment problems✓✓  
 • Job losses✓✓  
 Accept any other relevant answer (2 x 2) (4)
- 6.1.3 **Do you think South Africa attracted more direct investment during April 2011? Motivate your answer.**  
 No, the exchange rate is not favourable / rand is stronger ✓✓ and therefore you get less value for foreign currency. ✓✓  
 (Any other relevant answer) (2 x 2) (4)

## QUESTION 7

### 7.1 Data-response

- 7.1.1 **Which institution provides the statistics above?**  
 South African Reserve Bank (SARB) ✓ (1)
- 7.1.2 **Which item records transactions relating to donations and gifts to other countries?**  
 Current transfers✓ (1)
- 7.1.3 **Briefly describe the capital transfer account as part of the BoP.**  
 It is a net amount that includes transactions and grants relating to ownership of fixed assets, debt forgiveness and the value of household and personal effects and financial claims and liabilities of migrants✓✓

- 7.1.4 **Give ONE reason for the decline in gold exports.**
- Less reliance on gold as a value stabilising commodity ✓✓
  - Worldwide recession led to a low gold price ✓✓
  - Closing-down of gold shafts led to down-scaling of gold production
- (2)

- 7.1.5 **Calculate the trade balance (A) for 2016. Show ALL calculations.**
- |                       |                   |     |
|-----------------------|-------------------|-----|
| Merchandise exports   | 1 053 628 ✓       |     |
| + Net gold exports    | + 50 585 ✓        |     |
| -Merchandise imports  | - 1 089 677 ✓     |     |
| <u>=Trade Balance</u> | <u>= 14 536 ✓</u> | (4) |
- Show **ALL** calculations with specific items listed next to the number.  
(1 mark for correct answer without calculations)

## QUESTION 8

### 8.1 Data-response

- 8.1.1 **Identify the institution for publishing the data above?**  
South African Reserve Bank / SARB ✓ (1)

- 8.1.2 **What is the trend in the index of import prices?**  
The index of import prices is increasing ✓ (1)

- 8.1.3 **Briefly explain the term terms of trade.**  
The ratio of the index of export prices to the index import prices / The relationship between export price and import prices / It expresses a country's export prices in terms of its import prices. ✓✓  
(Accept any other relevant fact) (2)

- 8.1.4 **Briefly explain why an increase in terms of trade will have a positive effect on the welfare of the country.**  
There will be increasing economic welfare because more revenue is earned with the same expenditure ✓✓  
(Accept any other relevant fact) (2)

- 8.1.5 **Calculate the terms of trade for 2011 (A). Show ALL calculations. Round off your answer to ONE decimal place.**

$$\frac{191 \checkmark}{153 \checkmark} \times 100 \checkmark = 124,8 \checkmark$$

(Max 4)

**SESSION 5: ECONOMIC SYSTEMS: PROTECTION AND FREE TRADE  
(GLOBALISATION)****QUESTION 1:****Section A – Short Questions**

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 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
- 1.2. Interfacing and interaction of economies, with trade as a key element, is known as ...  
A. free trade  
B. communication  
C. industrialisation  
D. globalisation
- 1.3 As from 1995, General Agreement on Tariffs and Trade was replaced by the ...  
A. Southern African Customs Union.  
B. Free Trade Area.  
C. World Trade Organisation.  
D. Nepad
- 1.4 To reap the benefits of efficient markets, countries rely on the principle of ... advantage.  
A. nominal  
B. competitive  
C. relative  
D. comparative
- 1.5 An argument in favour of the protection of local industries is ...  
A. unstable wage levels.  
B. the prevention of dumping.  
C. fewer job opportunities.  
D. economies of scale
- 1.6 An advantage of import substitution is ... in the domestic economy  
A. less competition  
B. more diversified  
C. less protection.  
D. fewer job opportunities.

6 x 2 (12)



**QUESTION 2 .1:****Section A (Taken from various sources)**

Give ONE term for each of the following descriptions. Write only the term next to the question number.

- 2.1.1 A trade policy whereby government uses incentives and subsidies to encourage South African businesses to sell to other countries.
- 2.1.2 The worldwide interaction of economies, with trade as a key element.
- 2.1.3 Selling goods in a foreign country at prices that are below the cost of production in the country of origin.
- 2.1.4. A tariff imposed as a percentage of the value of goods imported.
- 2.1.5 A trade policy whereby the state discourages the importing of certain goods and services in order to protect local industries against unequal competition from abroad.
- 2.1.6 Goods that were previously imported are replaced with locally produced goods.
- 2.1.7 A penalty applied by one or more countries on another country (7x1) (7)

**QUESTION 2.2**

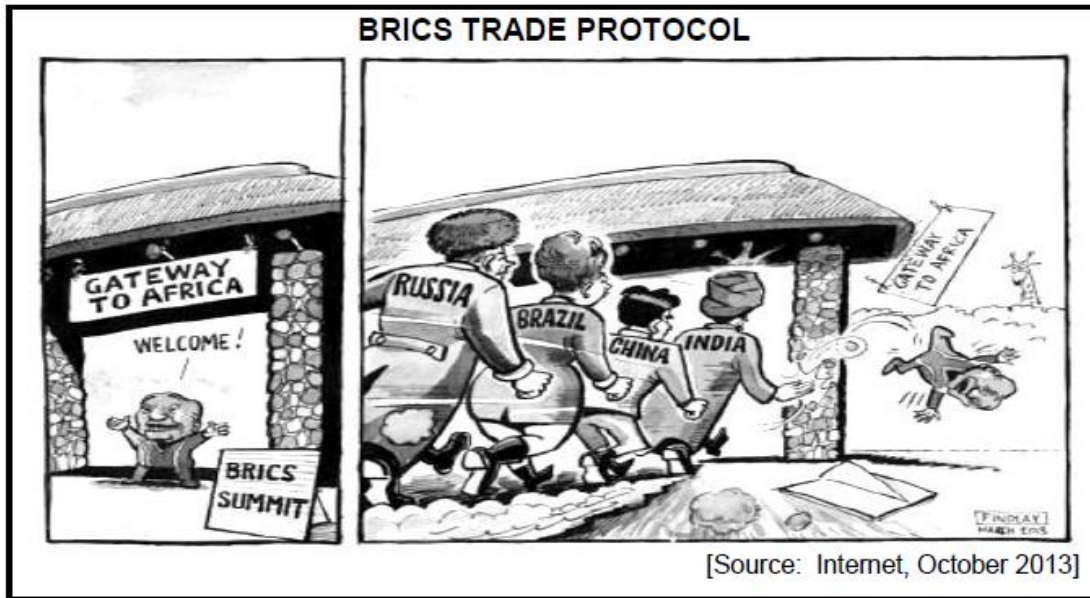
- 2.2.1 Explain why it is unlikely that a free international trade policy will be successful in South Africa. (2)
- 2.2.2 What non-economic benefits does an international trade policy of protectionism offer to countries involved in international trade? (2)
- 2.2.3 What is the major benefit of the AGOA agreement for South Africa? (2)
- 2.2.4 What effect has the South African trade agreement with the European Union had on South African economy? (2)

**QUESTION 2.3**

- 2.3.1 Discuss dumping as an argument in favour of protectionism. (4 x 2) (8)
- 2.3.2 Argue how free trade rather than protectionism will favour countries.(2 x 4) (8)
- 2.3.3 What do you regard as the correct mix between trade and protectionism? Motivate your answer. (2 x4) (8)
- 2.3.4 Discuss specialisation and economies of scale as arguments in favour of free trade. (2 x 4) (8)
- 2.3.5 Why is it necessary to protect developing countries against unfair overseas competition? (2 x 4) (8)
- 2.3.6 Argue in favour of import substitution. (4 x 2) (8)
- 2.3.7 Explain the methods to promote exports. (4 x 2) (8)
- 2.3.8 Briefly explain the different kinds of tariffs as a method of import substitution. (4 x 2) (8)

**QUESTION 3:** Section B (Taken from DBE November 2014)

Study the cartoon below and answer the question that follow:



- 3.1 Explain the term trade protocol. (2)
- 3.2 Explain the message depicted in the cartoon. (2)
- 3.3 Why is South Africa regarded as the gateway to Africa? (2)
- 3.4 How will South Africa benefit from its BRICS membership? (4)



**QUESTION 4:**

Study the extract below and answer the questions that follow

**SOUTH AFRICA OPENS DOORS FOR CHICKEN IMPORTS FROM THE UNITED STATES**

The Minister of Trade and Industry said South Africa will end punishing duties on US chicken and renew imports.

South Africa imposed 100% duties on the dumping of certain chicken portions. Removing those import barriers opened a market that had been closed for the past 15 years. This decision was within the tolerance of the South African poultry industry.

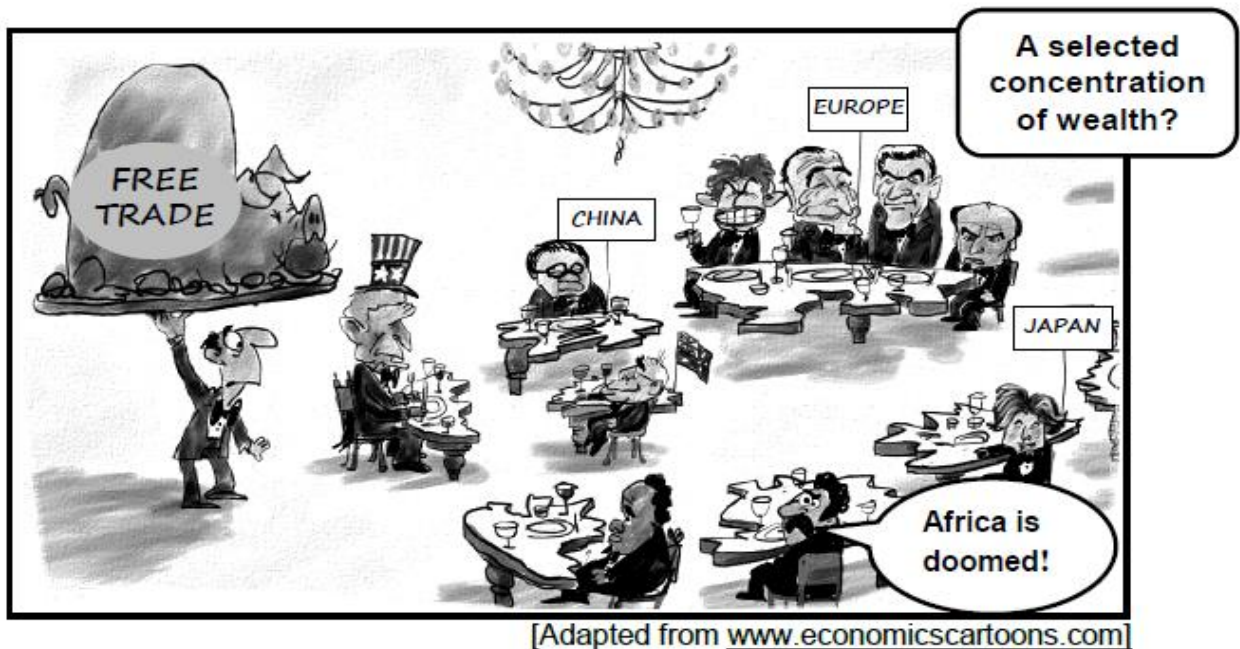
The products to be imported will be mainly the cuts that are not favoured by the US consumer. South Africans consume more chicken than people in any other African country and local producers have struggled to keep up with the rising demand.

The agreement, which would see the US emerge as one of the top poultry exporters to South Africa, should help smooth the passage of the (American) African Growth and Opportunity Act (AGOA). AGOA is a trade initiative providing duty-free treatment of US imports of certain products.

[Adapted from *Mail & Guardian*, February 2016]

- 4.1.1 Identify the reason in the extract why South Africa agreed to import chicken from the US. (1)
- 4.1.2 Name the trade initiative mentioned above. (1)
- 4.1.3 Briefly describe the term dumping. (2)
- 4.1.4 What effect will an increase in population growth in South Africa have on chicken imports from the US? (2)
- 4.1.5 What negative impact could this deal have on the local poultry industry? (2 x 2)(4)

## QUESTION 4.2



- 4.2.1 What message is conveyed in the cartoon above? (2)
- 4.2.2 Which international organisation promotes free trade? (2)
- 4.2.3 Suggest ONE way in which a country can be disadvantaged by free trade. (2)
- 4.2.4 How does South Africa benefit from trade relations with China? (4)

## ESSAYS

STRUCTURE OF THE ESSAY:	MARK ALLOCATION
<b>Introduction</b> The introduction is a lower-order response. <ul style="list-style-type: none"> <li>• A good starting point would be to determine the main concept related to the question topic</li> <li>• Do not include any part of the question in your introduction</li> <li>• Do not repeat any part of the introduction in the body</li> <li>• Avoid saying in the introduction what you 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/ Explain  <b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debate/How/Suggest	Max. 26  Max. 10
<b>Conclusion</b> Any higher-order conclusion should include <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts 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

**South Africa's international trade policy consists of export promotion and import substitution.**

- Discuss export promotion in detail as part of South Africa's foreign trade policy. (26)
  - Explain how successful South Africa is in protecting the local textile industry against foreign competition. (10)
- [40]**

### QUESTION 6

**South Africa's international trade policy consists of export promotion and import substitution.**

- Discuss import substitution in detail as part of the South African international trade policy. (26)
  - In your opinion how can a policy of free trade benefit South Africa? (10)
- [40]**

## SECTION A: TYPICAL EXAM QUESTIONS-SOLUTIONS

### QUESTION 1:

- 1.1 C✓✓ Free trade
- 1.2 D✓✓ Globalisation
- 1.3 C✓✓ World Trade Organisation
- 1.4. D✓✓ comparative
- 1.5 B✓✓ prevention of dumping
- 1.6 B✓✓ more diversified (6x2) (12)

### QUESTION 2.1

- 2.1.1 Export promotion✓
- 2.1.2 Globalisation✓
- 2.1.3 Dumping✓
- 2.1.4 Ad valorem✓
- 2.1.5 Protectionism✓
- 2.1.6 Import Substitution ✓
- 2.1.7 Sanctions✓ (1 x 7) (7)

### QUESTION 2.2

#### 2.2.1 Explain why it is unlikely that a free international trade policy will be successful in South Africa.

The free trade policy is based on the following unrealistic assumptions and is therefore unlikely to be successful: The international trade market is perfectly competitive, none of the participants can influence the market decisions, and there is perfect knowledge. ✓✓ (2)

#### 2.2.2 What non-economic benefits does an international trade policy of protectionism offer to countries involved in international trade?

Non-economic benefits are protection against job losses and national security during times of war and economic challenges. ✓✓ (2)

#### 2.2.3 What is the major benefit of the AGOA agreement for South Africa?

It offers duty-free incentives for goods from African countries to the USA so that they appear cheaper. ✓✓ (2)

#### 2.2.4 What effect has the South African trade agreement with the European Union had on South African economy?

Goods from South Africa enter the EU free of import duty – trading barriers will be removed. ✓✓

Exports to the EU are growing and becoming more diverse, and include manufactured products. ✓✓

The EU opens up the South African market to Europe ✓✓ (2)



## QUESTION 2.3

### 2.3.1 Discuss dumping as an argument in favour of protectionism.

- Dumping occurs when a firm sells its goods in a foreign country at a lower price that in the market of origin. ✓✓
- Firm gains market share and pushes local producers out of the market. ✓✓
- Firms can do this when they receive government subsidies. ✓✓
- They can also ask a higher price in the domestic market and subsidise export prices with increased profits – this leads to unfair competition. ✓✓
- Countries are allowed by a WTO agreement to take protective measures to counter dumping. ✓✓

(8)

### 2.3.2 Argue how free trade rather than protectionism will favour countries.

- Under free trade **economies of scale** will exist due to increased trade and lower unit cost. ✓✓ whereas in protectionism decreased trade and higher unit cost may lead to **diseconomies of scale**. ✓✓
- Under free trade countries -will benefit from **comparative advantage** through specialisation. ✓✓ while protectionism will reduce the ability of other countries to enter the local markets. ✓✓
- Free trade promotes **innovation through competition**. ✓✓ protectionism limits competition and thus reduces innovation. ✓✓
- Free trade helps to satisfy a greater **variety of wants** by increasing the choice of consumers. ✓✓ while protectionism limits the choice of consumer, therefore reducing welfare. ✓✓

(2 x 4) (8)

### 2.3.3 What do you regard as the correct (mix between trade and protectionism)?

- Goods, services and capital should be allowed to move freely between the different countries of the world. ✓✓
- Modern trade theory is based on the following assumptions:
  - International markets are perfectly competitive. ✓✓
  - None of the participants are in the position to influence market decisions. ✓✓
  - There is perfect knowledge. ✓✓
- However, international markets are not perfectly competitive. ✓✓
- The theory on which free trade is based does not resemble the conditions of the real world. ✓✓
- A protectionist trade policy can lead to economic losses since inefficient industries are protected. ✓✓
- However, protectionism has non-economic benefits such as protection against job losses and national security. ✓✓
- This compensates for the economic losses incurred as a result of the implementation of restrictive measures. ✓✓
- The WTO plays an important role in promoting free trade between the countries of the world. ✓✓

(8)



### 2.3.4 Discuss specialisation and economies of scale as arguments in favour of free trade.

#### Specialisation:

- The effect of increasing living standards result in the trading of more goods and services ✓✓
- Allows industries that have a comparative advantage with a lower opportunity cost ✓✓
- It increases economic efficiency and prevent wasting resources ✓✓
- Each country that is best suited for specific goods and services will engage in producing more of those goods or services ✓✓

(2 x 2) (4)

#### Economies of scale:

- Allows industries to maximise economies of scale and this will lead to cost reduction ✓✓ and enhance competitiveness in world markets ✓✓
- Global economies benefit from effective labour distribution and creation of economic efficiency ✓✓
- World production and economic welfare increase and markets grow ✓✓
- Producers compete to find the best production methods that cut costs and improve the quality of goods ✓✓ that will stimulate innovation and creativity ✓✓

(2 x 2) (4)

(Any 2 x 4) (8)

### 2.3.5 Why is it necessary to protect developing countries against unfair overseas competition?

- **It will promote employment** ✓

Trade protection is a measure to control unemployment ✓✓

Restricting foreign goods entering the country, domestic businesses not only produce more and employ more people, but new businesses will be able to enter the market, thus creating more jobs ✓✓

(2 x 2)

- **It prevents dumping** ✓

With dumping products are sold at prices so low that they undercut both the cost of production in the country of origin and the domestic prices ✓✓ This makes it very difficult for local producers to compete Eventually it will force weak industries out of the market ✓✓

(2 x 2)

- **It gives temporary protection to infant industries** ✓

New businesses have very high costs and low revenue when they start up ✓✓ They will need protection against well-established competition from abroad ✓✓ Once the business has been through the infant stage and is competitive, the need for protection reduces ✓✓

(2 x 2)

- **Self-sufficiency and strategic industries** ✓

Some industries, such as iron and steel, agriculture and energy amongst others are often regarded as strategic industries ✓✓ Developing countries may feel that they need to develop these industries in order to become self-sufficient ✓✓

(2 x 2)

Accept any other relevant answer

(Any 2 x 4) (8)

**2.3.6 Argue in favour of import substitution.**

- More local businesses can be established/diversification ✓✓ Its often argued that the industrial base of the economy need to be strengthened and expanded and this will make them less dependent on foreign countries and give them more control over their own economies ✓✓
  - A natural starting point therefore is to substitute imports because there is certainty that the domestic market exists for those products ✓✓
  - A greater variety of businesses can exist or continue to exist ✓✓
  - Trade ✓ developing countries rely on their natural resources as a base for their economic growth and development ✓✓
  - Increased employment ✓ the establishment of new industries demands more employment and thus improve the standard of living of the people ✓✓
- (Accept any other relevant argument) (4 x 2) (8)

**2.3.7 Explain the methods to promote exports.**

- Tax concessions ✓ these are reductions in taxes on profits and volumes exported and also refunds of the taxes exporters have to pay on their goods in foreign countries ✓✓
  - Tax-free grants (tax exemptions) ✓ these grants compensate exporters for the extra costs they incur in exporting ✓✓
  - E.g. set up operations in an IDZ/SEZ ✓
  - Rebates ✓ Refunds on import tariffs ✓✓
  - Export credit and export credit guarantees ✓
  - Identifying markets ✓ information on export markets, research with regard to new markets ✓✓
  - Subsidies are money (cash) paid to businesses to decrease their cost of operation ✓✓
  - Export subsidies ✓ these are amounts that the government pays to the producers of exported goods to compensate them for some of their expenses, which enable them to sell their goods at a reduced price in foreign countries e.g. ✓✓ reduction in the freight costs ✓✓
  - Incentives ✓ information on export markets, research on new markets, concessions on transport tariffs ✓✓
- (4 x 2) (8)

**2.3.8 Briefly explain the different kinds of tariffs as a method of import substitution.**

- **Ad valorem** ✓ a percentage of the value on luxury goods ✓✓ such as motorcars, jewellery and perfumes ✓
- **Specific** ✓ an amount per unit, mass or size ✓✓ e.g. food, animals and plants ✓
- **Composite / multiple** ✓ when a specific tariff and an ad valorem tariff are levied on imported products ✓✓ e.g. R10 is levied on a product plus a percentage of 20% of the value of the product ✓

(Accept any other relevant answer) (4 x 2) (8)

### QUESTION 3:

#### 3.1 Define the term trade protocol.

An agreement (trade rules or guidelines) between countries on how to trade with each other. ✓✓ (2)

#### 3.2 Explain the message depicted in the cartoon.

The other members of BRICS are in SA to exploit the resources of Africa. ✓✓ (2)

#### 3.3 Why is South Africa regarded as the gateway to Africa?

- South Africa's developed infrastructure. ✓✓
- South Africa's political stability. ✓✓
- Financially and economically stable. ✓✓
- The largest/ second-largest economy in Sub-Saharan Africa. ✓✓
- Investment in South Africa will give countries access to markets in Africa. ✓✓ (2)

#### 3.4 How will South Africa benefit from its BRICS membership?

- To advance its national interest. ✓✓
- To promote its regional integration programme and related continental infrastructure programme ✓✓
- To partner with key players of the South on issues related to global governance and reform. ✓✓
- South Africa's membership of this body has expanded BRICS' geographic and intercontinental reach. ✓✓ (Any 2 x 2) (4)

### QUESTION 4:

#### 4.1.1 Identify the reason in the extract why South Africa agreed to import chicken from the US.

South Africans consume more chicken than local producers can supply ✓✓ (1)

#### 4.1.2 Name the trade initiative mentioned above.

African Growth and Opportunity Act (AGOA) ✓ (1)

#### 4.1.3 Briefly describe the term dumping.

Selling goods in a foreign market at prices that are below the cost of production in the country of origin ✓✓  
(Accept any other correct relevant response) (2)

#### 4.1.4 What effect will an increase in population growth in South Africa have on chicken imports from the US? An

increase in the population will cause an increase in the demand for chicken pieces from the US and imports will rise ✓✓  
(Accept any other correct relevant response) (2)

#### 4.1.5 What negative impact could this deal have on the local poultry industry?

- We may experience consumer resistance against the product due to a low quality of imported cuts ✓✓
- We may experience an oversupply in the product during certain periods which might lead to low prices ✓✓
- Local poultry farms going out of business / (2 x 2)(4)

## QUESTION 4.2

### 4.2.1 What message is conveyed in the cartoon above?

Free trade is benefitting the developed countries / less developed countries are disadvantaged ✓✓

(Accept any other relevant answer) (2)

### 4.2.2 Which international organisation promotes free trade?

World Trade Organisation (WTO) ✓✓ (2)

### 4.2.3 Suggest ONE way in which a country can be disadvantaged by free trade.

- Dumping can take place ✓✓
- It can lead to economic instability ✓✓
- Exploitation of natural resources ✓✓
- It can compromise a country's economic independence ✓✓
- Infant industries may not grow (mature) ✓✓
- Lead to increased unemployment ✓✓
- The environment, safety and labour regulations are undermined ✓✓
- Foreign companies can sue governments for losses ✓✓

(Accept any other relevant answer) (2)

### 4.2.4 How does South Africa benefit from trade relations with China?

- Greater variety of products on South African markets ✓✓
- Many products are cheaper ✓✓
- Chinese investment greater in South Africa: boost the economy ✓✓
- Both countries form part of BRICS - it will benefit them even more ✓✓

Any (2 x 2) (4)

## QUESTION 5:

STRUCTURE OF THE ESSAY:	MARK ALLOCATION
<b>Introduction</b> The introduction is a lower-order response. <ul style="list-style-type: none"> <li>• A good starting point would be to determine the main concept related to the question topic</li> <li>• Do not include any part of the question in your introduction</li> <li>• Do not repeat any part of the introduction in the body</li> <li>• Avoid saying in the introduction what you going to discuss in the body</li> </ul>	Max. 2
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<b>TOTAL</b>	<b>40</b>

## South Africa's international trade policy consists of export promotion and import substitution.

- Discuss export promotion in detail as part of South Africa's foreign trade policy. (26)
  - Explain how successful South Africa is in protecting the local textile industry against foreign competition. (10)
- [40]

### INTRODUCTION

Export promotion refers to measures taken by governments increase production of goods and services that can be exported. The government provides incentives to encourage production ✓✓ (Max. 2)

### BODY

#### REASONS

- Export promotion measures lower cost of production which makes it easier to compete on the international market ✓✓
- Achieve significant export-led economic growth ✓✓
- Export enlarges production capacity of country because more and larger manufacturing industries are established. ✓✓
- The first step to export-led economic growth is to implement policies that encourage the establishment of industries to produce goods and services for export markets ✓✓

#### METHODS

##### Exports are promoted through:

- **Incentives** ✓ export incentives include information on export markets, research with regard to new markets, concessions on transport charges, export credit and export credit guarantees and publicity commending successful exporters ✓✓ this will encourage manufacturers to export an increased volume of their production ✓✓ Trade missions help to market SA products abroad ✓✓ and supply SA companies with information about potential markets ✓✓
  - **Direct Subsidies** ✓ described as direct because it involves government expenditure. Include cash payments to exporters, refunds on import tariffs and employment subsidies. The aim is to increase the competitiveness of exporting company ✓✓ reduce cost of production ✓✓ and explore and establish overseas markets ✓✓
  - **Indirect subsidies** Regarded as indirect because it results in the government receiving less revenue ✓✓ e.g. general tax rebates, tax concessions on profits earned from exports or on capital invested to produce export goods, refunding of certain taxes e.g. custom duties on imported goods used in the manufacturing process ✓✓ allows companies to lower their prices and enables them to compete in international markets ✓✓
  - **Challenge for governments to design incentives and subsidies** in such a way that prices of export goods can't be viewed as dumping prices ✓✓
- Trade neutrality** ✓ can be achieved if incentives in favour of export production are introduced up to point that neutralises the impact of protectionist measures in place ✓✓ e.g. subsidies equal to magnitude of import duties can be paid ✓



**Export processing zones (EPZs)** ✓ is free-trade enclave within a protected area – is fenced and controlled industrial park that falls outside domestic customs area, and usually located near harbour or airport ✓✓

**NOTE:** For the response with regard to the effectiveness of export promotion methods, a maximum of 5 marks can be allocated.

### ADVANTAGES

- **No limitations** on size and scale ✓ since world market is very large ✓✓
- **Cost and efficiency** of production ✓ based on this and organised along lines of comparative advantage ✓✓
- **Increased domestic production** ✓ will expand exports to permit more imports and may result in backward linkage effects that stimulate domestic production in related industries ✓✓
- **Exchange rates** are realistic ✓ and there is no need for exchange control and quantitative restrictions ✓✓
- **Value can be added** to natural resources of the country ✓✓
- **Creates employment** opportunities ✓✓
- Increase in exports has positive effect on balance of payments ✓✓
- **Increase in production** leads to **lower domestic prices**, which benefit local consumers ✓✓

### DISADVANTAGES

- **Real cost of production** ✓ subsidies and incentives reduce total cost of production which must be met from sales ✓✓ real cost is thus concealed by subsidies ✓✓ products cannot compete in open market ✓✓
- **Lack of competition** ✓ businesses charge prices that are so low that they force competitors out of the market ✓✓
- **Increased tariffs and quotas** ✓ can be against spirit of provisions of WTO ✓✓ overseas competitors retaliate with tariffs and quotas ✓✓ goods are sold domestically below their real cost of production (export subsidies and dumping) ✓✓
- **Protection of labour-intensive industries** ✓ developed countries maintain high levels of effective protection for their industries that produce labour-intensive goods in which developing countries already have or can achieve comparative advantage ✓✓
- Withdrawal of incentives often leads to closure of effected companies. ✓✓
- Incentives often lead to inefficiencies in the production process, since companies don't have to do their best to compete ✓✓
- Can be seen as dumping ✓✓

**(Max. 26)**

### ADDITIONAL PART

**How successful is South Africa in protecting the local textile industry against foreign competition?**

- **Not successful:** ✓

Many domestic textile manufacturers closed down due to unfair international competition ✓✓

Many wholesalers make use of suppliers from abroad ✓✓ e.g. Woolworths/Walmart ✓  
Dumping still occurs – European manufacturers still dump clothing in Africa out of season at prices below cost ✓✓

Job losses due to a lack of protection in this industry ✓✓

Accept any motivation relating to success indicators

**(Max 10 marks)**



## CONCLUSION

South Africa's international trade policy facilitates globalisation thereby impacting positively on the balance of payment. ✓✓

Accept any other relevant conclusion

(Max 2 marks)

## QUESTION 6

**South Africa's international trade policy consists of export promotion and import substitution.**

- Discuss import substitution in detail as part of the South African international trade policy. (26)
- In your opinion how can a policy of free trade benefit South Africa? (10)

[40]

## INTRODUCTION

Import substitution is the replacement by domestic production of goods that were previously imported. The aim is to develop local industries, increase employment opportunities and improve South Africa's balance of payments ✓✓

(Any other relevant introduction)

(Max 2)

## MAIN PART

### STAGES OF IMPLEMENTATION:

- Imports of simple consumer goods e.g. textiles and shoes, are replaced with domestic production ✓✓
- Domestic industries are created to replace a wider range of more sophisticated manufactured items ✓✓

### FORMS OF IMPORT SUBSTITUTION:

- **Voluntary import substitution** ✓ attempts by countries to develop their own industries as part of an economic development strategy e.g. Iscor ✓
- **Forced import substitution** ✓ certain countries are forced to produce certain goods because they are excluded from taking part in international trade ✓✓  
Through **trade sanctions** (countries prohibit trade with a certain country) ✓✓  
**boycotts** (voluntary measures not to trade with a certain country) ✓✓  
**Disinvestment** (foreign countries withdraw their investments from a country) ✓✓

### REASONS FOR IMPORT SUBSTITUTION:

- **Diversification** ✓ is known as the expansion of manufacturing that will make countries less dependent on foreign countries and give them more control over their economies ✓✓ the infant industry argument is used to justify protection measures, to be able to become internationally independent and independent of protection as they expand their scale of operation ✓✓
- **Trade** ✓ developing countries rely on natural resources as basis for economic and development ✓✓ and export mainly minerals and agricultural produce ✓✓ growth could however accelerate if developing countries produce manufactured goods themselves ✓✓

### METHODS OF IMPORT SUBSTITUTION:

- **Tariffs** are customs duties ✓ taxes on imported goods that may be ad valorem (percentage) of specific (an amount per unit) ✓✓ prices of imported goods will rise and shift the local demand to domestic production ✓✓

- **Quotas** ✓ limit the supply of goods / services ✓✓ it places a restriction on imports and reduce supply (prices go up) ✓✓
- **Subsidies** ✓ to domestic enterprises that export goods may protect them ✓✓
- **Exchange control** ✓ governments or free trade areas may limit the amount of foreign exchange made available for imports, investment or traveling abroad ✓✓
- **Physical control** ✓ in the form of a complete ban or embargo on the imports of certain goods ✓✓ e.g. arms and drugs ✓
- **Diverting trade** ✓ measures that make it difficult to import from abroad are import deposits, time consuming customs procedures and quality standards ✓✓

#### ADVANTAGES OF IMPORT SUBSTITUTION:

- Easy to implement through the imposition of tariffs and quotas ✓✓
- Industrial development is encouraged ✓✓
- Employment opportunities increase ✓✓
- A decrease in imports has a positive effect on the balance of payments ✓✓

#### DISADVANTAGES OF IMPORT SUBSTITUTION:

- It does not necessarily lead to an overall reduction in imports ✓✓ South Africa had to import capital and intermediate goods to manufacture consumer goods ✓✓
- Inefficient local production because local producers are shielded from international competition ✓✓
- Domestic consumers are forced to buy goods at higher prices on the international market ✓✓
- Costly and uneconomical projects are established e.g. Moss gas ✓

#### SCEPTICISM - REASONS:

- Protection means high profits to protected industries, isolating them from competition and lower their efficiency and development ✓✓
- Protection does not advance industrialization – backward linkages do not materialize ✓✓
- Consumers often have to pay higher prices for goods of inferior quality from non-essential industries ✓✓

**(Naming and examples= (1 x 8) (8) plus discussion=(2 x 9) (18)**

**8+18 = (Max 26)**

#### ADDITIONAL PART

##### How a policy of free trade can benefit South Africa:

- **Specialisation** ✓ leads to comparative advantage to a country in what they are relatively best at producing ✓✓
- **Economies of scale** ✓ are created through trade by reducing unit costs ✓✓
- **Choice** ✓ consumer choices are increased because they can choose what they prefer to buy ✓✓
- **Innovation** ✓ free trade implies competition, better methods of production, cutting costs and improving quality and reliability of goods. ✓✓ **(Max 10)**

#### CONCLUSION

From the discussion it is obvious that import substitution implies that countries try to become more self-supporting and independent. By implementing tariff protection; South Africa introduced an inward-looking policy. The World Wars stimulated manufacturing further due to isolation from foreign countries. ✓✓

**(Any other relevant conclusion)**

## SESSION 6 - DYNAMICS OF MARKETS: PERFECT MARKETS

### QUESTION 1

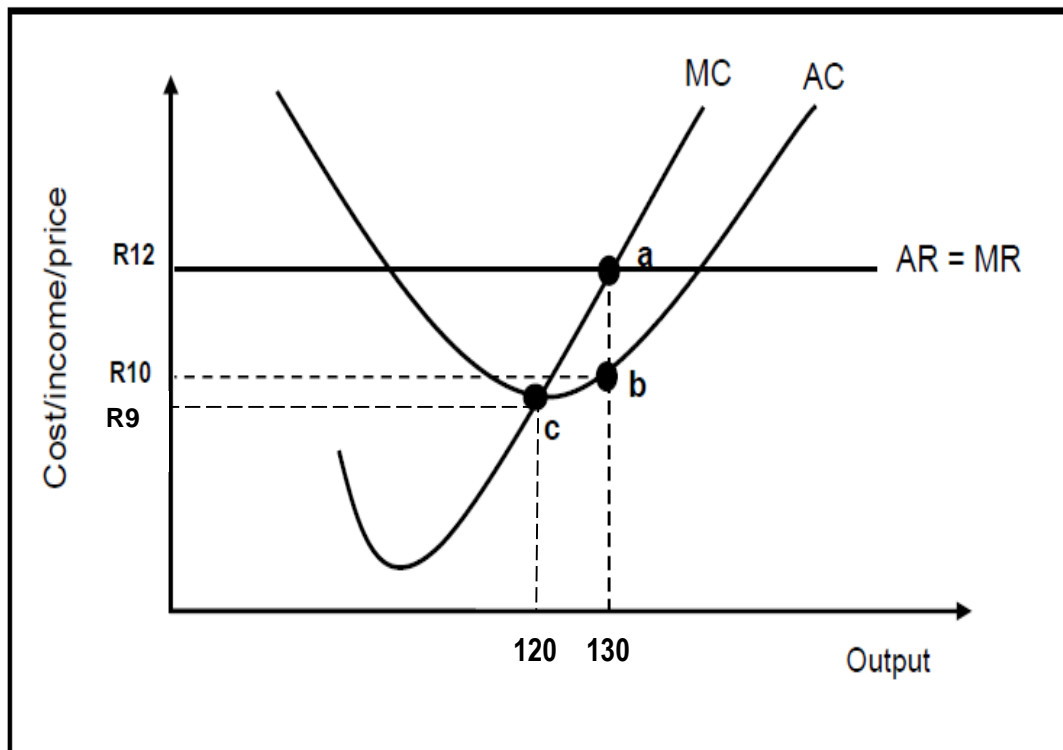
- 1.1 Various options are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A – D) next to the question number (1.1.1 – 1.1.8) in the ANSWER BOOK.
- 1.1.1 Which of the following is not usually a characteristic of a perfectly competitive industry?
- A. no individual firm has any significant amount of market power.
  - B. the market demand curve is perfectly elastic.
  - C. any individual firm can increase its production and sales without affecting the price of the good.
  - D. existing firms can bar the entry of new firms.
- 1.1.2 A competitive firm's demand curve is determined by:
- A firm demand and firm supply.
  - B the price set by the individual firm.
  - C market demand and market supply.
  - D the level of the firm's short-run average total cost.
- 1.1.3 In the long-run for a competitive industry:
- A all factors of production are variable so that firms are free to enter or leave the market.
  - B technology may change in response to profit opportunities.
  - C all inputs are fixed for the industry as a whole.
  - D profits serve as a signal for entry which does not happen for other market structures (such as monopolies, oligopolies, or monopolistically competitive firms).
- 1.1.4 When typical firms in a perfectly competitive industry are making economic profits, then all of the following will take place except:
- A the firm demand curves will shift down
  - B the industry supply curve will shift to the right.
  - C new firms will enter the industry.
  - D the typical firm in the industry will begin to experience a reduction in profits.
- 1.1.5 That portion of a perfectly competitive firm's marginal cost curve lying above its AVC curve has all of the following characteristics except:
- A. it is horizontal.
  - B. it intersects the firm's ATC curve at minimum ATC.
  - C. its intersection with the firm's MR curve determines the firm's profit maximizing output level.
  - D. it is the firm's supply curve.

- 1.1.6 The price charged by a perfectly competitive firm is  
 A. higher the more the firm produces.  
 B. different than the price charged by competing firms.  
 C. the same as the market price.  
 D. lower the more the firm produces.
- 1.1.7 In a perfectly competitive market, the type of decision a firm has to make is different in the short run than in the long run. Which of the following is an example of a perfectly competitive firm's short-run decision?  
 A. whether or not to change its plant size  
 B. the profit-maximizing level of output  
 C. what price to charge buyers for the product  
 D. whether or not to enter or exit an industry
- 1.1.8 What is the difference between perfect competition and monopolistic competition?  
 A. Perfect competition has a large number of small firms while monopolistic competition does not.  
 B. In monopolistic competition, firms produce identical goods, while in perfect competition, firms produce slightly different goods.  
 C. Perfect competition has no barriers to entry, while monopolistic competition does.  
 D. In perfect competition, firms produce identical goods, while in monopolistic competition, firms produce slightly different goods.
- 1.1.9 Compared to the case of perfect competition, a monopolist is more likely to:  
 A. charge a higher price  
 B. produce a lower quantity of the product  
 C. make a greater amount of economic profit  
 D. all of the above
- 1.1.10 At present output levels, a perfectly competitive firm is in the following position: output = 4000 units, market price = R1, fixed costs = R2000, total variable costs = R1000, marginal cost = R1.10. This firm is:  
 A. making a positive economic profit.  
 B. making a zero economic profit.  
 C. losing money, although it could make a profit by decreasing its output.  
 D. not maximizing its profit but could do so by increasing its output.
- 1.2 Identify the concept described in each of the following statements. Write only the term next to the question number (1.2.1 – 1.2.12) in the ANSWER BOOK.
- 1.2.1 The period of production where only variable factors of production can change
- 1.2.2 The value of the next best alternative given up
- 1.2.3 The extra cost incurred when production increases by one unit
- 1.2.4 An institution where buyers and sellers meet
- 1.2.5 A market without any government intervention

- 1.2.6 The minimum earnings required to prevent the entrepreneur from going off and using his factors of production elsewhere
- 1.2.7 Profits made in addition to normal profit
- 1.2.8 Actual expenses of a business undertaking to buy inputs needed in the production process
- 1.2.9 The point where the business maximises profit
- 1.2.10 Total revenue divided by the number of units produced
- 1.2.11 The type of products found on the perfect market
- 1.2.12 A time period long enough for all factor inputs to be varied

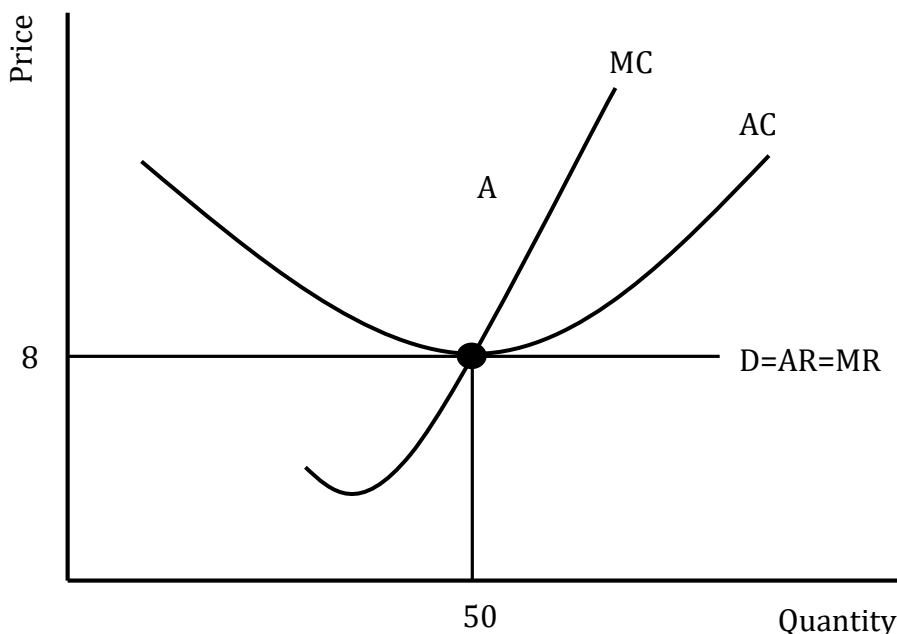
## QUESTION 2

2.1 Study the following graph and answer the questions that are following.



- 2.1.1 What market structure is depicted above? (1)
- 2.1.2 What is the average cost of production in the graph? (3)
- 2.1.3 What is the profit-maximising level of output for the business? (3)
- 2.1.4 Briefly describe the concept *economic profits*. (3)
- 2.1.5 What is the significance of point **a** on the graph? (4)
- 2.1.6 Explain how collusion occurs in this market structure. (4)
- 2.1.7 What profit/loss is this business experiencing? Show ALL calculations. (4)
- 2.1.8 How is it possible for this business to realise economic profits in the short run? (4)

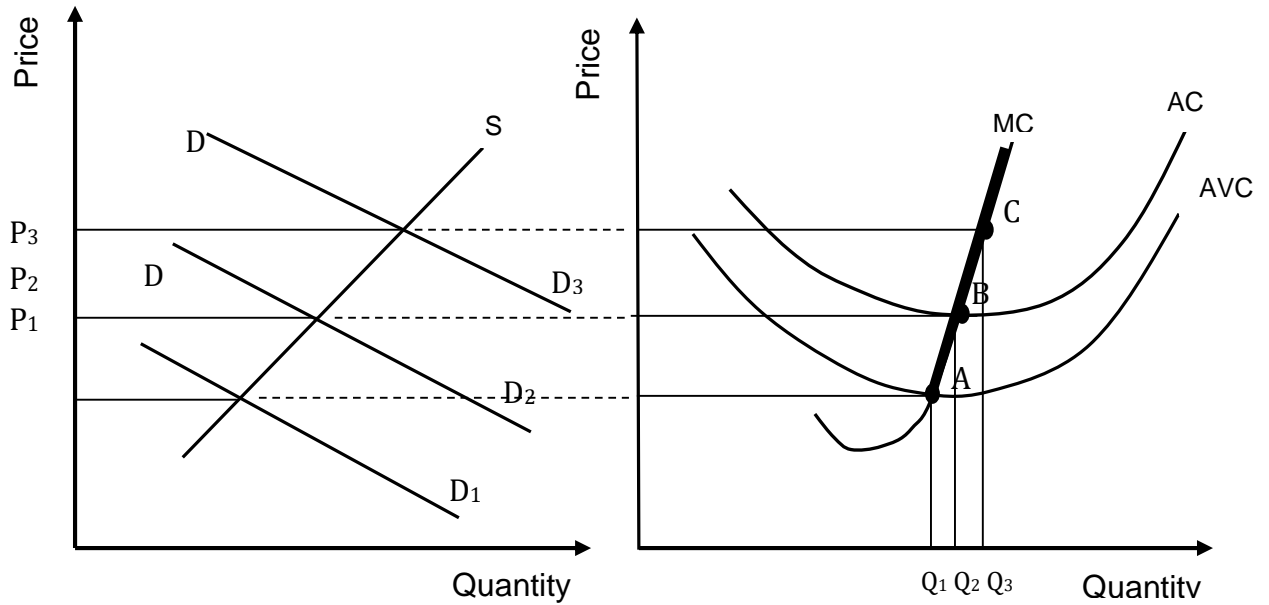
2.2 Study the following graph and answer the questions that follow.



- 2.2.1 Is this the short term or long term equilibrium for the business? Motivate your answer. (3)
- 2.2.2 What is the selling price for the business? (1)
- 2.2.3 How much will it cost to produce one unit? (1)
- 2.2.4 What type of profits can be realized in the long run? (1)
- 2.2.5 What is the total income for the business? Show your calculations. (2)
- 2.2.6 What is the total cost of production? Show your calculations. (2)
- 2.2.7 Differentiate between *short-term* and *long-term*. (2 x 2) (4)
- 2.2.8 Can this equilibrium exist in the short term? Substantiate your answer. (4)
- 2.2.9 Explain why the business cannot realise economic profits or losses in the long run. (4)

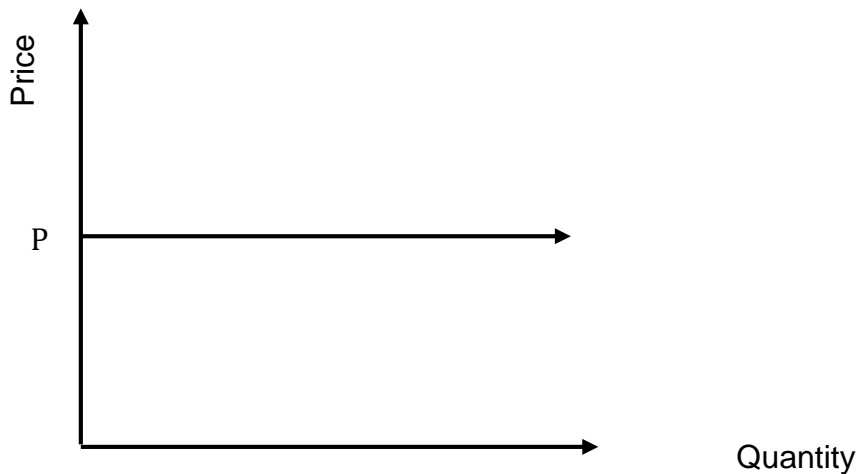


2.3 Study the graph below and answer the questions that follow.



- 2.3.1 What effect would an increase in the demand have on the market price? (2)
- 2.3.2 What is the line A, B and C known as? (2)
- 2.3.3 Which cost curve is also known as the supply curve? (2)
- 2.3.4 Why would a business not produce to the right of point C? (4)
- 2.3.5 Why won't a business produce to the left of point C? (4)

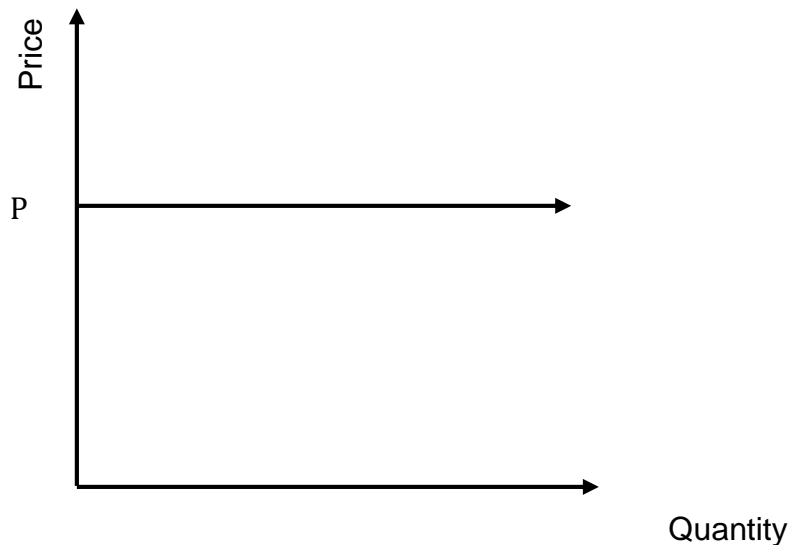
2.4 Study the graph below and answer the questions that follow:



Copy the graph in your answer book and draw economic profits on the graph:

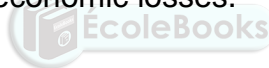
- 2.4.1 Draw and label the marginal cost curve (2)
- 2.4.2 Draw and label the average cost curve (2)
- 2.4.3 Label the income curves (2)
- 2.4.4 Indicate the optimum production point E (2)
- 2.4.5 Shade the area of economic profit (2)

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



Copy the graph in your answer book and draw economic losses on the graph:

- 2.5.1 Draw and label the marginal cost curve. (2)
- 2.5.2 Draw and label the average cost curve. (2)
- 2.5.3 Label the income curves. (2)
- 2.5.4 Indicate the optimum point of production. (2)
- 2.5.5 Shade the area of economic losses. (2)



2.6 Read the following statement and answer the questions that follow:

**ANTI-MONOPOLY POLICY**

‘After 1994 an anti-monopoly policy was propagated in South Africa. It led to acceptance of the Law on Competition in 1998’.

- 2.6.1 List any TWO institutions which are responsible for the implementation of effective competition policies in South Africa. (2)
- 2.6.2 Which one of these institutions has the highest authority? (2)
- 2.6.3 How successful is the above policy in South Africa? (2)
- 2.6.4 Argue in favour of vigorous competition. (2 x 2) (4)

### 3. Paragraph type of questions:

- 3.1 Draw a well labelled graph indicating the profit made by an individual producer in the perfect market over the long term. (8)
- 3.2 Explain with the aid of a graph how to determine the supply curve of an individual business in the perfect market. (8)
- 3.3 Explain why an equilibrium position over the short term is not sustainable over the long term in the case of the perfect competitor / Explain why a perfectly competitive business cannot realise economic profits or losses in the long run. (8)
- 3.4 Briefly explain the *number of businesses* and the *nature of the product* as characteristics of a perfect structure. (8)
- 3.5 How can a community's welfare be improved from a state of pure monopoly to one of perfect competition? (8)

### 4. Essay

- **Compare** perfect competition and monopolistic competition **in detail** in terms of the following.
  - 1) Number of businesses
  - 2) Nature of product
  - 3) Entrance
  - 4) Control over prices



**SESSION 6 MICRO ECONOMICS – POSSIBLE SOLUTIONS****QUESTION 1****1.1 MULTIPLE-CHOICE QUESTIONS**

- 1.1.1 D existing firms can bar the entry of new firms ✓✓  
 1.1.2 B the price set by the individual firm ✓✓  
 1.1.3 C all inputs are fixed for the industry as a whole. ✓✓  
 1.1.4 A the firm demand curves will shift down. ✓✓  
 1.1.5 A it is horizontal. ✓✓  
 1.1.6 C the same as the market price. ✓✓  
 1.1.7 B the profit-maximizing level of output ✓✓  
 1.1.8 D In perfect competition, firms produce identical goods, while in monopolistic competition, firms produce slightly different goods.  
 1.1.9 D all of the above ✓✓  
 1.1.10 B making a zero economic profit. ✓✓

**1.2 Identify the concept described in each of the following statements.**

- 1.2.1 short term ✓  
 1.2.2 Opportunity cost ✓  
 1.2.3 marginal cost ✓  
 1.2.4 market ✓  
 1.2.5 free market/perfect market ✓  
 1.2.6 normal profit ✓  
 1.2.7 economic profits ✓  
 1.2.8 explicit costs ✓  
 1.2.9 profit maximisation/MR=MC ✓  
 1.2.10 Average revenue ✓  
 1.2.11 Homogeneous ✓  
 1.2.12 long term ✓

**SECTION B****2.1 Study the graph and answer the questions that are following.**

- 2.1.1 perfect market ✓  
 2.1.2 R10 ✓  
 2.1.3 130 ✓  
 2.1.4 Profits that are made in addition to normal profits. ✓✓  
 2.1.5 Point a. It is the point of profit maximization/point that indicates the profit maximization of the business. ✓✓  
 2.1.6 Collusion cannot occur under perfect competition, each producer acts independently and is so small in relation to the total market that it cannot influence the market price by manipulating its supply. ✓✓  
 2.1.7 Profit/loss = total revenue – total cost  
                   = (12 x 130) – (12 x 10) ✓  
                   = 1560 – 1200  
                   = 360 ✓✓  
 The business is realising a profit of R360. ✓

- 2.1.8 The average revenue should be lower than the average cost for the same output. ✓✓  
The average cost of the business is increasing when it is increasing output, realizing diseconomies of scale. ✓✓  
The MR=MC curve should be lower than the MC/AC intersection point. ✓✓

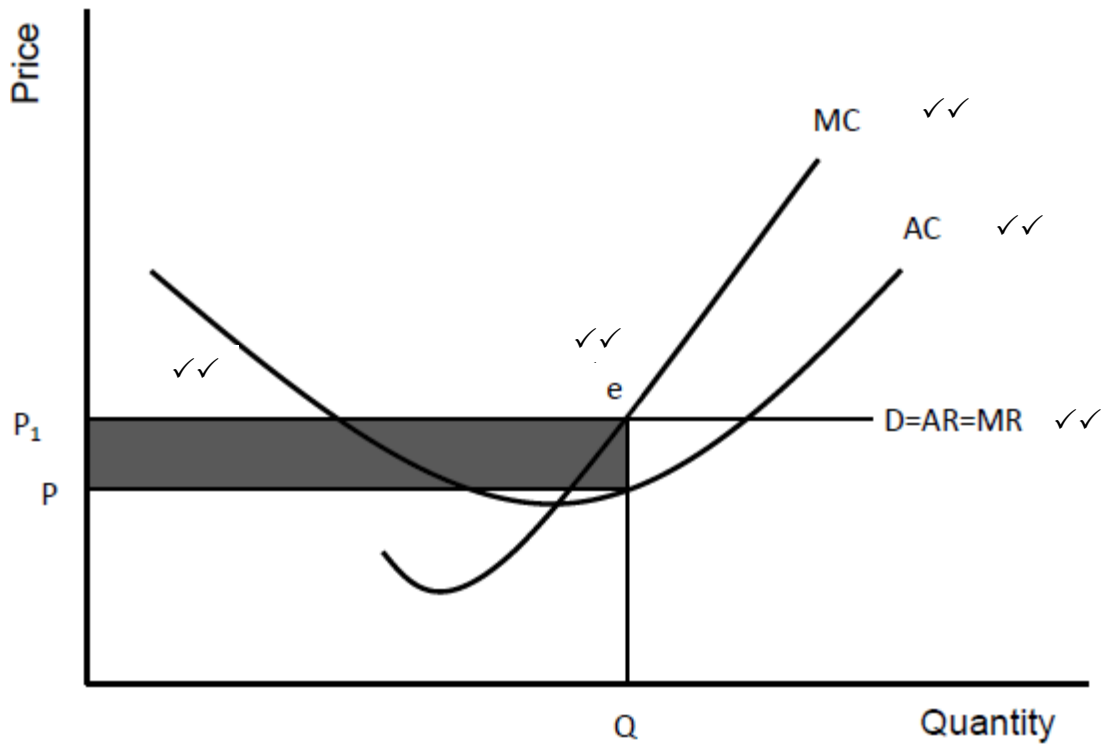
**2.2 Study the following graph and answer the questions that follow.**

- 2.2.1 perfect market ✓  
2.2.2 long term ✓ – the perfect competitor can only realise normal profit in the long run ✓  
2.2.3 R8 ✓  
2.2.4 normal profits ✓  
2.2.5 Total revenue = Average revenue x quantity sold ✓  
= 8 x 50  
= 400 ✓  
2.2.6 Total cost = Average cost x quantity ✓  
= 8 x 50  
= 400 ✓  
2.2.7 Short-term – at least one factor of production is fixed ✓  
Long term – all factors of production varies ✓  
2.2.8 No. ✓ the perfect competitor can only realise normal profit in the long run. ✓  
2.2.9 Firms that experience economic profits in the short run will draw more businesses into the market. This increases the aggregate supply in the market. ✓✓ The supply will increase and the profit margins of firms become smaller, until it eventually reaches normal profits. Firms that experience losses will leave the market. The aggregate demand and supply will be in equilibrium. ✓✓

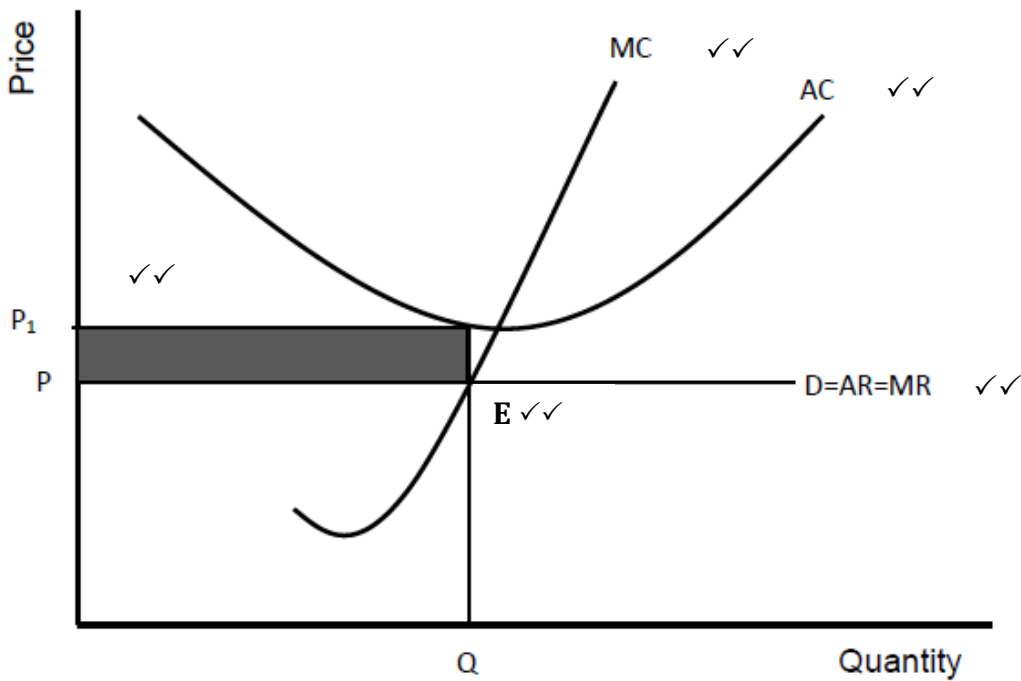
**2.3 Study the graph below and answer the questions that follow.**

- 2.3.1 The market price will increase. ✓  
2.3.2 It is known as the supply curve. ✓  
2.3.3 The supply curve is the section of the MC curve above the AVC curve. ✓✓  
2.3.4 The business will experience increasing cost of returns. The average cost of production will increase as from point C. Therefore, the cost of production will increase and profit margins will become smaller. ✓✓

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



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





**2.6 Read the following statement and answer the questions that follow:**

2.6.1 Competition Commission✓

Competition Tribunal✓

Competition Appeal Court ✓

(3)

2.6.2 Competition Appeal Court ✓✓

(2)

**2.6.3 How successful is the above policy in South Africa?**

**Positive:** The application of the policy is very good a very few cases of monopoly/collusions/price fixing still occurs in SA. A variety of cases were investigated

E.g. Cell phone companies, Bread (Tiger Brands), cement and vehicle industries.✓✓

**OR**

**Negative:** The application of the policy is not good too many cases of collusions/price fixing/monopolies exist. Look at the negative effects of a monopoly in the energy provision Eskom ✓✓

(2)

2.6.4 Vigorous competition has the following advantages:

Lower prices for the consumer ✓✓

Good quality products / service✓✓

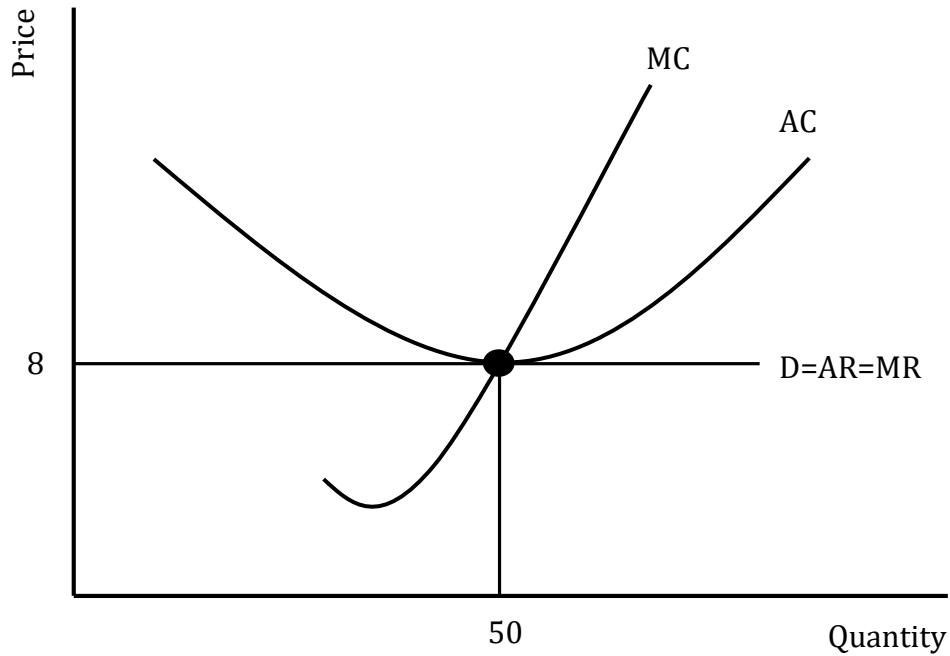
Encourage the producer to be more effective.✓✓

Any (2 x 2)(4)



Paragraph type of questions

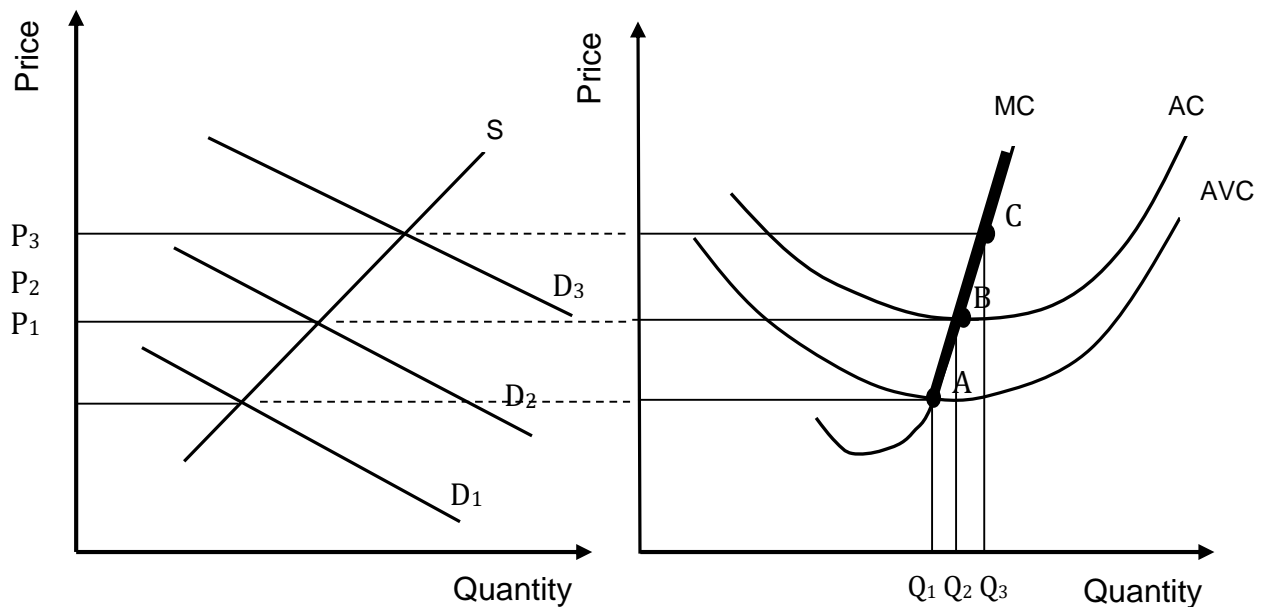
3.1 Draw a well labelled graph and explain the profit made by an individual producer in the perfect market over the long term.



Labelling of and on the axis = 1 Mark  
 Labelling of all the curves = 1 Mark  
 Convergence of all the curves = 2 Marks

- The long term equilibrium point (e) is also known as the normal profit point, i.e. total revenue is equal to total cost. ✓✓
- It is the minimum earnings required to prevent the entrepreneur from leaving the market. ✓✓
- The selling price (AR) correspond with the lowest point of the LAC curve. ✓✓
- Once the long-term equilibrium has been achieved, there will be no further entry or exit of businesses. ✓✓

**3.2 Explain with the aid of a graph how to determine the supply curve of an individual business in the perfect market.**



- The supply curve is determined by taking different market prices and determining how much the business should produce at each price. ✓✓
- The output of the business determines its supply.
- Suppose that the market price is rising gradually as a result of an increase in demand, the demand curve will shift from  $D_1$  to  $D_2$  to  $D_3$ , The increase in demand will cause the market price to shift from  $P_1$  to  $P_2$  to  $P_3$ . ✓✓
- The shift in the market price means that the horizontal demand curve for the business's product is shifting upwards. ✓✓
- Given the slope of the MC curve, each higher demand will intersect the MC at a different point that lies to the right of the previous point of intersection. ✓✓
- At each of these points, the  $MC=MR$  and the business is maximizing profit. These are the points at which the business will produce at the respective market prices; this means that the quantity produced increases as the price rises. ✓✓
- Points A, B, C etc. therefore plot the business supply curve at different market prices. ✓✓
- If the price is below point A, the business would not even be covering its variable cost and it would be better to close its doors. ✓✓

**3.3 Explain why an equilibrium position over the short term is not sustainable over the long term in the case of the perfect competitor / Explain why a perfectly competitive business cannot realise economic profits or losses in the long run.**

- An industry consists of at least one business, as it grows bigger, more businesses enter the market and the industry grows. ✓✓

- A bigger plant will provide lower unit costs, i.e. the business will be able to produce more at a lower cost in the long term (achieving economies of scale) ✓✓
- The prospects of increased profit will encourage the business to build a bigger plant; lower unit cost allows the business to realise abnormal profits (economic profits) ✓✓
- Any business that realizes economic profits will attract more businesses into the market, i.e. the number of businesses will expand the market. ✓✓
- Because of the quantity offered on the market as a result of the expansion of existing businesses and the entry of new businesses, the supply will increase and prices will drop until it matches the lowest cost of production. ✓✓
- The abnormal profits decreases as the market expands, because the market price keeps on dropping, until these businesses realise normal profits. ✓✓
- Some businesses will not be able produce if the market price drops below the average variable cost, and therefore leave the market. ✓✓
- Businesses will not be able to maintain equilibrium positions of economic profits as it will attract more businesses. This equilibrium will become distorted. ✓✓

**3.4 Briefly explain the *number of businesses* and the *nature of the product* as characteristics of a perfect structure.**

**Number of businesses**

- There are a large number of sellers. ✓✓
- When there are many sellers the share of each seller in the market is so small that the seller cannot influence the price. It should not be possible for one seller to influence the price. ✓✓
- Sellers are price takers; they accept the prevailing market price. ✓✓

**Nature of product**

- Products are homogenous i.e. identical or the same. ✓✓
- There are no differences in style, design and quality. ✓✓
- In this way products compete solely on the basis of price and can be purchased anywhere. ✓✓

(2 x 4)

(8)

**3.5 How can a community's welfare be improved from a state of pure monopoly to one of perfect competition?**

- A perfect competitor produces at the lowest average cost, while the monopolist produces at a higher cost. ✓✓
- The selling price for the monopolist is therefore higher than the price of a perfect competitor. ✓✓
- A monopolist produce less than the market demand, while the perfect competitor produces at maximum output, satisfying market demand. ✓✓
- The monopolist therefore creates a shortage on the market that entitles it to charge higher prices, in contrast to the perfect competitor that will sell a lower price. ✓✓

- The consumer will benefit through increased output and lower prices if there is a move from monopoly to perfect competition. ✓✓ (4 x 2)
- **Compare perfect competition and monopolistic competition in detail in terms of the following.**
  - 1) **Number of businesses**
  - 2) **Nature of product**
  - 3) **Price setting and output**
  - 4) **Demand curves** (26)
- **In contrast to the perfect competition, why do monopolistic competitors need to advertise their products?** (10)

## INTRODUCTION

Perfect competition is an imaginary situation, whereas monopolistic competition is a reality. ✓✓ (Max 2)

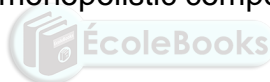
(Accept any other relevant introduction)

## Body

### MAIN PART

#### 1. Number of businesses:

- Under perfect competition an industry consists of a large number of firms. ✓✓
- Each firm in the industry has a very little share in the total output. ✓✓
- On the other hand, under monopolistic competition the number of firms is limited. ✓✓



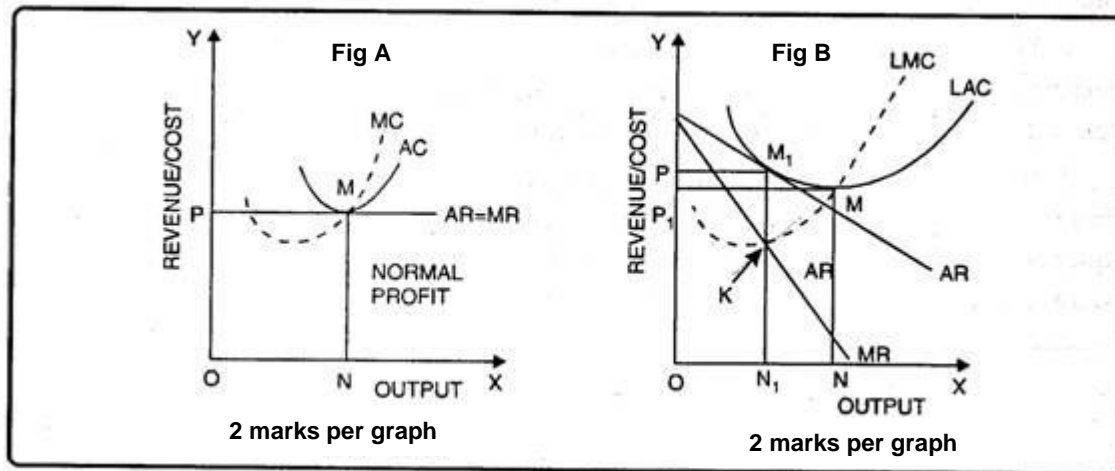
#### 2. Nature of Product:

- Under perfect competition, firms produce homogeneous products. ✓✓
- The cross elasticity of demand among the goods is infinite. ✓✓
- Under monopolistic competition, all the firms produce differentiated products ✓✓
- and the cross elasticity of demand among them is very small. ✓✓

#### 3. Price setting and output

- Under perfect competition, homogeneous goods are produced and are sold at uniform prices. ✓✓
- On the other side under monopolistic competition, all the firms produce differentiated products and different price settings are possible. ✓✓
- Under perfect competition price is equal to marginal cost as well as marginal revenue. ✓✓
- Under monopolistic competition marginal cost and marginal revenue are equal yet not equalizing the price. ✓✓
- Under monopolistic competition firms get super normal profits only in the short period. But, in the long run the existence of super-normal profits disappears. ✓✓
- It is so because in the long period price becomes equal to average cost of production. ✓✓

- Under monopolistic competition price is higher than price under perfect competition in long period because a perfect competition firm extends output up to the point where average cost is lowest ✓✓ i.e., there is optimum output in perfect competition. ✓✓
- However, in monopolistic competition firm stops the production before it has attained the optimum output. ✓✓

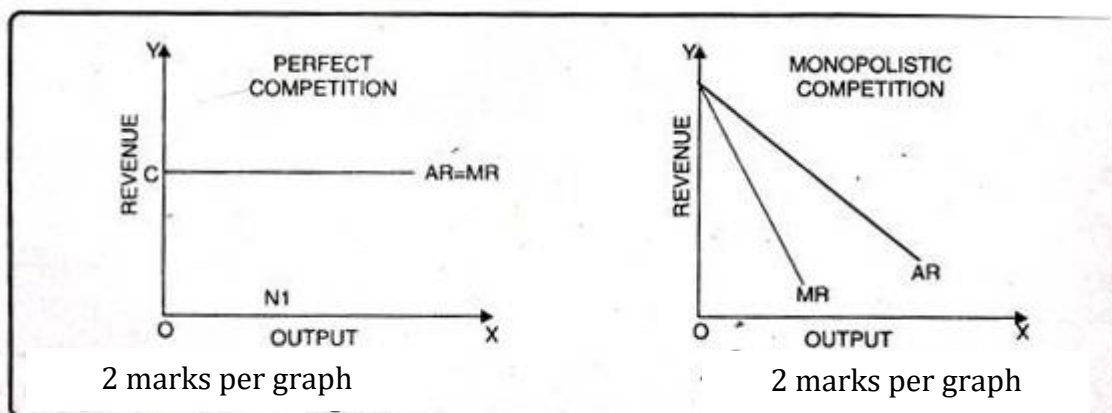


(Graphs max 4 marks: correct tangency points of AC and AR curves for each market structure)

- In Fig. A, perfect competition firm is in equilibrium at point 'M' where MC is equal to MR. ✓✓
- At this point AR is also equal to LAC at its lowest point. ✓✓
- The equilibrium output is ON and equilibrium price is OP. In fig. B a monopolistic competition firm is in equilibrium position at point 'K' where  $MC=MR$ . ✓✓
- The equilibrium output is  $ON_1$  and price is OP. In the equilibrium position the firm is earning normal profit. ✓✓
- If we compare the equilibrium price under both market situations, it is clear that price in monopolistic competition market is higher than that of the price in perfect competition market. ✓✓
- Under perfect competition, average revenue and marginal revenue are equal, so both these curves coincide with each other. ✓✓
- Under monopolistic competition average revenue is more than marginal revenue because the firm has to lower the price to increase sales. ✓✓
- Thus marginal revenue is less than average revenue i.e.,  $AR > MR$ . ✓✓
- In the perfect competition market output is more than the monopolistic competition market output. ✓✓
- In the long run, under perfect competition  $MC = MR = AC = AR$  in equilibrium position as has been shown in Fig. (A). ✓✓
- Under monopolistic competition, in the equilibrium position  $MC = MR$  but  $AR$  is more than  $MC$  or  $MR$ . ✓✓
- That is the reason why in monopolistic competition output is lower than the output in perfect competition as illustrated in Fig. (A). In the Fig (B). Monopolistic competition output is  $ON_1$  and perfect competition output is ON. ✓✓



• 4. Demand Curves:



(Graphs: max 4 marks: AR and MR positions)

- The demand curve of a firm under monopolistic competition slopes downward. ✓✓
- It is due to the reason that each firm has to reduce the price, if it wishes to increase the sale. ✓✓
- Under perfect competition the firm can sell any amount of his output without lowering the price. ✓✓
- Thus the curve remains parallel to horizontal axis. ✓✓ **(Max 26)**

**Additional part**

**In contrast to perfect competition, why do monopolistic competitors need to advertise their products?**

- Information under monopolistic competition is incomplete. Advertisements are deliberate attempts to provide information to prospective buyers. ✓✓
- Monopolistic competitors' products are differentiated; it requires advertisements to increase the demand for their products. ✓✓
- They need to justify their prices of their differentiated products and make the competitive price less elastic. ✓✓
- Differences in products may be imaginary. Monopolistic use different brand names or packaging to create differentiated products that contain exactly the same basic ingredient. ✓✓
- In many instances, monopolistic competitors compete in terms of non-price competition strategies, e.g. services, after sales services, etc. ✓✓
- The aim of advertisement is to build up a loyal consumer group that will choose their brand over that of any other producer. ✓✓ **(Max 10)**  
(Accept any other correct relevant fact)

**Conclusion**

Under perfect competition, an inefficient firm cannot exist but under monopolistic competition both efficient and inefficient firms can exist because buyers have their irrational preferences for goods in the market. ✓✓ **(Max 2)**

[40]

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## SESSION 7 : DYNAMICS OF MARKETS: IMPERFECT MARKETS

### QUESTION 1

Section A

- 1.1 A monopolist will get ... in the long term.
- A. normal loss
  - B. economic loss
  - C. normal profit
  - D. economic profit
- 1.2 Product differentiation and ... play an important role in non-price competition
- A. price
  - B. advertising
  - C. government policy
  - D. discounts
- 1.3 The goods of a monopolistic competitor are .....
- A. similar.
  - B. differentiated.
  - C. unique.
  - D. homogenous.
- 1.4 The most likely barrier for a firm wanting to compete with firms in the cellphone industry, such as Vodacom, is...
- A. licencing.
  - B. capital.
  - C. technical superiority.
  - D. size of the market.
- 1.5 The demand curve of a monopolist is the same as the ... curve.
- A. average revenue
  - B. total cost
  - C. marginal revenue
  - D. marginal cost
- 1.6 An imperfect market where information is complete.
- A. Monopoly
  - B. Monopolistic competition
  - C. Oligopoly
  - D. Duopoly
- (5 x 2) (10)

## QUESTION 2

2.1 Give one concept for each of the following descriptions. Write only the term next to the question number.

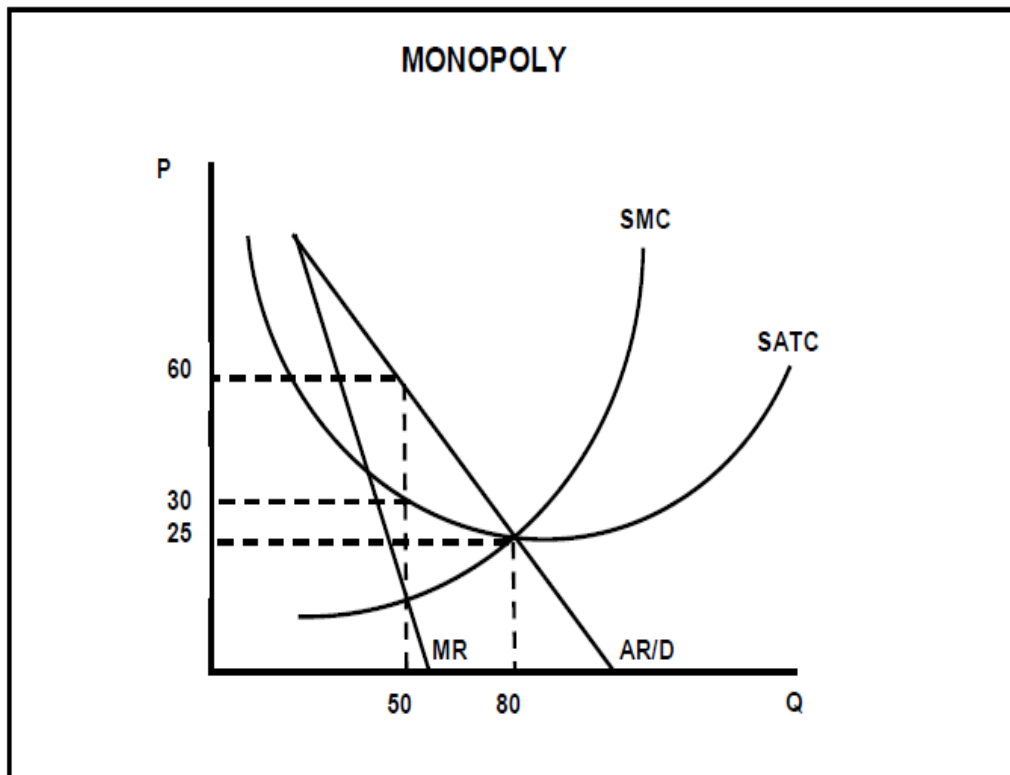
- 2.1.1 Oligopolistic competition that is based on product differentiation and efficient service.
- 2.1.2 An arrangement between businesses with the aim of limiting competition.
- 2.1.3. Businesses working together in an oligopoly market to fix prices.
- 2.1.4 A market structure where only two businesses dominate the market.
- 2.1.5 A monopoly that exist because of high developmental costs.

(1x5) (5)

2.2 Answer the following Middle Order questions in full sentences

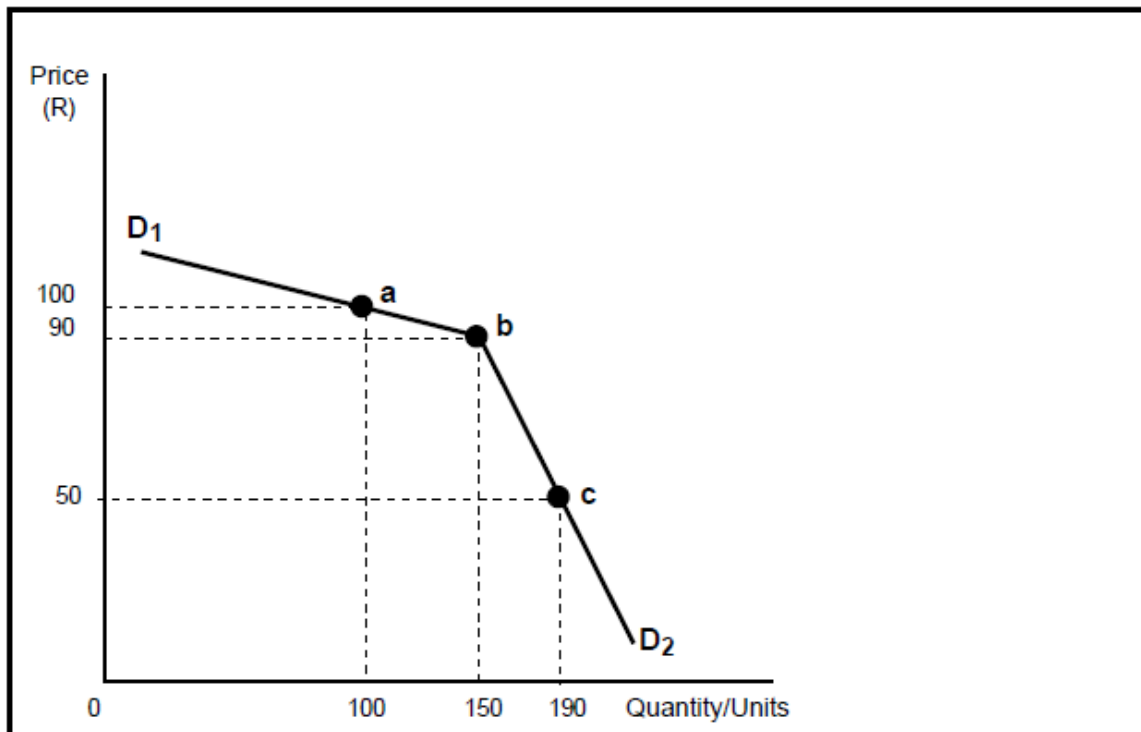
- 2.2.1 What would happen if firms in an oligopolistic market compete on prices? (2)
- 2.2.2 How can the consumer benefit from competition? (2)
- 2.2.3 Why is the perfect competitor unable to influence the market price? (2)
- 2.2.4 Why is Eskom regarded as a natural monopoly (2)
- 2.2.5 Why are oligopolists reluctant to compete with each other on price in order to get a greater share of the market? (2)
- 2.2.6 Why does the marginal revenue (MR) curve lie below the demand curve (2)

QUESTION 3: Study the graph below and answer the questions that follow.



- 3.1.1 At what quantity is the maximum profit made? (2)
- 3.1.2 Why will a monopolist always make economic profit in the long run? (2)
- 3.1.3 What unit price will the monopolist charge to maximise profit? (2)
- 3.1.4 What is the requirement for this monopoly to be classified as an artificial monopoly? (2)
- 3.1.5 Calculate the economic profit that this monopolist makes. Show ALL calculations. (4)

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



- 3.2.1 Which imperfect market structure is illustrated above? (1)
- 3.2.2 Name the downward sloping demand curve above. (1)
- 3.2.3 Explain how price leadership works in this type of market. (4)
- 3.2.4 Assume that the current selling price is R90. Explain why this business will not lower prices to 50 to improve its sales. (4)
- 3.2.5 Advise the oligopolist on how to increase his market share in this particular industry. (4)

#### QUESTION 4:

Study the extract below and answer the questions that follow

### THE IMPACT OF OLIGOPOLIES ON THE ECONOMY

The pharmaceutical industry is becoming an oligopoly due to the staggering costs of developing and marketing new drugs and because of patents that protect new products from competitors. It can cost more than R1 billion to develop a new drug, get it approved by the Food and Drug Administration and bring it to market, according to *Forbes* magazine. With those kinds of upfront costs, only a handful of companies, including Pfizer, Merck and Novartis, can afford to create and sell new products. The government grants those companies extended patents on their drugs, and these patents protect drug developers from competitors for many years.

The smartphone market is similarly dominated by a handful of companies, the most powerful two being Google Android and Apple. These companies have deep relationships with the handset providers and are able to have their systems pre-installed on each phone. As with computer operating systems, these relationships become self-reinforcing as they grow.

[Adapted from *Business Report*, October 2014]

- 4.1 Which type of industries mentioned in the extract are said to be oligopolistic? (2)
- 4.2 Define the term oligopoly. (2)
- 4.3 Why it is important for these companies to have trademarks? (2)
- 4.4 How do cartels and price leadership differ in terms of the way prices are manipulated? (4)

#### Question 5

- 5.1 How will non-price competition between food outlets like Steers, Wimpy, Spur and other businesses specialising in burgers, ensure their operational success in the monopolistic competitive market? (8)
- 5.2 Distinguish between *price leadership* and *cartels* as forms of collusion (8)
- 5.3 Explain how SASOL can compete in an oligopolistic market with other petrol-selling companies in South Africa (8)
- 5.4 Compare monopolistic competition with perfect competition (8)
- 5.5 How do oligopolists minimise the level of competition and uncertainty with regards to prices? (8)
- 5.6 Explain how natural and artificial monopoly act as barriers to other businesses wanting to enter the industry (8)

## ESSAYS

STRUCTURE OF THE ESSAY:	MARK ALLOCATION
<p>Introduction</p> <p>The introduction is a lower-order response.</p> <p>A good starting point would be to determine the main concept related to the question topic</p> <p>Do not include any part of the question in your introduction</p> <p>Do not repeat any part of the introduction in the body</p> <p>Avoid saying in the introduction what you going to discuss in the body</p>	Max. 2
<p>Body:</p> <p><b>Main part:</b> Discuss in detail/In-depth discussion/Examine/ Critically discuss/Analyse/Compare/Evaluate/Distinguish/ Explain</p> <p><b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debate/How/Suggest</p>	<p>Max. 26</p> <p>Max. 10</p>
<p>Conclusion</p> <p>Any higher-order conclusion should include</p> <p>A brief summary of what has been discussed without repeating facts already mentioned</p> <p>Any opinion or value judgement on the facts discussed</p> <p>Additional support information to strengthen the discussion analysis</p> <p>A contradictory viewpoint with motivation, if required</p> <p>Recommendations</p>	Max. 2
TOTAL	40

### QUESTION 6: MICROECONOMICS

40 MARKS – 40 MINUTES

*The existence and survival of any business depend on how they are conducting themselves*

- Discuss in detail the characteristics of a monopoly. (26)
- Draw the long run equilibrium graphs of a monopoly and a perfect competitor. (10)

### QUESTION 7: MICROECONOMICS

40 MARKS – 40 MINUTES

*Oligopolies can result from various forms of collusion which reduce competition.*

- Examine oligopoly in detail. (26)
- Briefly compare an oligopoly and a perfect competitor in terms of the demand curves, products, prices, output and equilibrium positions. (10)

### QUESTION 8

“Market structures are classified under Perfect Competition, Monopolistic Competition, Oligopoly and Monopoly” Compare all FOUR market structures in a tabular form. (Marks depend on the combination of market structures to be examined)



## NOTES

### DYNAMICS OF MARKETS: IMPERFECT MARKETS & MARKET FAILURES

Learners get confused with the table below. First they have to master the characteristics of individual market structure and apply the table when comparison has to be done. This work has been done since Grade 8 EMS. By now they should know that a monopoly is ONE seller and NOT a few. Also they cannot say a monopoly comprises of ONE seller and ONE buyer it. Full explanation coupled with examples of the nature of the product should be clarified. The difference between homogeneous, heterogeneous/differentiated and unique products should be clarified. Learners also battle with understanding monopolistic competition, spend time to explain that this market structure have many sellers but the nature of product is differentiated. There are many McDonalds, each selling Big Mac meal that cannot be offered anywhere else except at MacD.

#### Introduction

#### Summary of market structures

Criteria	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
Number of firms	So many that no firm can influence the market price	So many that each firm thinks others will not detect its actions	So few that each firm must consider the others' actions and reactions	One
Nature of product	Homogeneous	Heterogeneous / differentiated	Homogeneous or heterogeneous	Only one product with no close substitutes
Entry	Completely free	Free	Varies from free to restricted	Completely blocked
Information	Complete	Incomplete	Incomplete	Complete
Collusion	Impossible	Impossible	Possible	Unnecessary
Firm's control over the price of the product	None	Some	Considerable, but less than in monopoly	Considerable, but limited by goal of profit maximisation
Demand curve for the firm's product	Horizontal (perfectly elastic)	Downward-sloping	Downward-sloping, may be kinked	Equals market demand curve: downward-sloping
Long run economic profit	Zero	Zero	Can be positive	Can be positive

## Monopolies

A pure monopoly exists when a single firm is the sole producer of a product for which there are no close substitutes.

### **Types of monopolies**

- Legal monopoly – It is based on laws preventing other companies from competing (State monopoly).
- Local monopoly – A local monopoly will control the market in a particular area or town, e.g. if there is only one petrol station.
- Natural monopoly – This arises in industries where economies of scale are so large that a single business can supply the entire market, e.g. electricity.
- Horizontal monopoly – This occurs when a parent company takes control over several smaller companies, e.g. Naspers in the printing business.
- Vertical monopoly – This occurs when 1 firm will supply and produce the product, e.g. Eskom.
- Coercive monopoly – This occurs as a result of any activity that violates the principles of a market economy.

### Characteristics of a monopoly

- No competition – one business controls the supply of goods or service.
- No substitutes – no substitutes on the market for the consumer to choose from.
- Price makers – one business controls the price of the goods or services.
- Barriers to entry – e.g. technology or patents, may keep new companies out.
- Imperfect information – the consumer doesn't have all the information, e.g. profit margin.
- No homogenous products – they will produce only one product or different varieties.
- Large amount of starting capital is needed.
- Legal considerations – new inventions are protected by patent rights.
- Examples: Eskom, Transnet

### Revenues

Any point on the demand curve (D) represents the amount of the unique product that will be sold and at what price it will be sold. Therefore, the monopolist's demand curve is also his average revenue curve (AR). Total revenue (TR) is calculated by repeatedly multiplying the price (P) by the amount (Q). Marginal revenue (MR) reflects the changes in total revenue that result from selling one additional unit of the product.

### **Short-run profits and losses**

- If a monopolist wants to sell more goods, he would have to lower his prices.
- In the short-run, the monopoly firm can make economic profits, normal profits or economic losses. It is possible but unlikely that a monopoly makes an economic loss.

### **Long-run equilibrium**

- The monopolist strives to make a maximum profit, like any other business, and will therefore increase his output until  $MR = MC$ . It will charge the highest price per unit at which this quantity of output can be sold.
- In the long-run, a monopoly can make economic or normal profits only.
- Example of things changing is consumers' tastes and that reduces the demand. This results in a fall in:
  - The price
  - The profit maximising output
  - The monopoly's profit

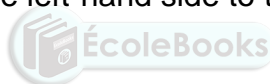
A long-run equilibrium only exists when there are no changes in the demand for the product or in the cost of production.

**Teacher note:** learners must be able to compare every one of the imperfect markets with the perfect competitor.

### Comparison with perfect markets

The crucial difference between a pure monopolist and a purely competitive seller lies on the demand side of the market.

- The purely competitive seller faces a perfectly elastic demand at the price determined by market supply and demand.
- Because the pure monopolist is the industry, its demand curve is the market demand curve. Because market demand is not perfectly elastic, the monopolist's demand curve slopes downwards. The quantity demanded increases as the price decreases, as the typical supply curve you know declines from the top of the left-hand side to the bottom of the right-hand side.



### Oligopolies

An oligopoly is a market dominated by a few large producers of a homogeneous or differential product.

### Characteristics of an oligopoly

- Limited competition – Only a few suppliers of the same product dominate the market.
- Interactivity – If one company makes a decision, it influence the decisions the other companies make.
- Price changes – They will more frequently change their prices in order to increase their market share.
- Cost advantage – They have an absolute cost advantage over the rest of the competitors.
- Joint decision making – It is a key instrument to make decisions together in order to dominate the market.
- Difficult entry – New firms will experience high barriers to enter.
- High profits – Abnormal high profits may be result of joint decisions.
- Examples: Cell phone industry, Banking industry

### Non-price competition

The oligopolist often uses methods other than price wars to win a market for his products.

Non-price competition includes the following:

- Product differentiation: product is slightly different from the others.
- Product proliferation: different range of products to cater for many different markets.
- Advertising: oligopoly firms advertise their products heavily.

### Collusion

Collusion means co-operation with rivals. Suppose an industry consists of only two businesses. One way of increasing profits is to lower prices in order to acquire a larger share of the market. The alternative is to enter into an agreement with your competitor so that both businesses follow a high pricing strategy

**Teacher Note:** Refer back to the previous session and the Competition Commission. Also make sure the pupils can name and explain examples in the news. South Africa has had quite a few of these complaints in the last year or two. The pharmaceutical industry, the bread industry, the glass industry, the construction companies that build the 2010 soccer stadiums, etc.

### Prices and production levels

Kinked-demand theory (non-collusive).

The behavioural assumption in this theory is that if a single firm lowers its price, other firms will do the same. However, if a single firm raises its price, others will not do the same. Suppose there are five firms in an industry, A, B, C, D, and E. If firm A raises its price, the other firms maintain their prices. If firm A cuts its price, the other firms match the price cut.

**Teacher Note:** The kinked-demand theory is not covered in all the prescribed books, make sure you explain it if it is not in your text book. Look at past papers for examples. November 2012 Question 3.3.

### Interdependence

Another key characteristic of oligopoly firms is that they are interdependent.

The decisions that an oligopoly firm makes with respect to quantity, marketing strategies and location, for example, depend largely on what it thinks the other firm in the industry will do in response to its actions.

### Comparison with perfect markets

- Contrary to the perfect market, the oligopolist can also make an economic profit in the long run.
- The consumers do not get their products at the lowest possible prices as in the case of perfect competition, because the oligopolist will probably stop producing before his long-run average cost curve (LAC) reaches its lowest point.
- The price of a product in an oligopoly is higher than the marginal cost ( $P > MC$ ). The community therefore adds more value to an additional unit than to the resources necessary to produce it. Resources are therefore not applied as effectively as possible.

## Monopolistic competition:

### Characteristics of a Monopolistic competition

There are a large number of firms in the market.

- Each firm produces a different product, though similar to products of other firms.
- There are no restrictions that hinder entry to, or exit from, the market.
- Examples: McDonalds, Steers, Sterns

## SESSION 7: DYNAMICS OF MARKETS: IMPERFECT MARKETS

### SECTION A: TYPICAL EXAM QUESTIONS-SOLUTIONS

#### QUESTION 1:

- 1.1 D✓✓ economic profit
- 1.2 B✓✓ Advertising
- 1.3 C✓✓ Differentiated
- 1.4 A ✓✓licensing
- 1.5 A✓✓ Average revenue
- 1.6 A✓✓ Monopoly (12)

#### QUESTION 2:

2.1 Give one concept for each of the following descriptions. Write only the term next to the question number.



- 2.1.1. Non-price competition✓
- 2.1.2. Collusion✓
- 2.1.3. Cartel✓
- 2.1.4. Duopoly✓
- 2.1.5. Natural Monopoly✓ (1x5) (5)

2.2 Answer the following middle order questions in full sentences.

2.2.1 What would happen if firms in an oligopolistic market compete on prices?

It can lead to a price war which will lower profits which might lead to certain firms leaving the market in the long run✓✓ (2)

2.2.2 How can the consumer benefit from competition?

Increased sales/ lower prices/better quality✓✓✓ (2)

2.2.3 Why is the perfect competitor unable to influence the market price as much as a firm in monopolistic competition?

The perfect competitor is the price taker whilst the monopolistic competitor is the price maker. The prices of the perfect competitor are determined by the market forces of demand and supply✓✓ (2)

2.2.4 Why is Eskom regarded as a natural monopoly

The cost of establishing the electricity grid is too high, thereby making it difficult for anyone to start this business ✓✓ (2)

2.2.5 Why are oligopolists reluctant to compete with each other on price in

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**order to get a greater share of the market?**

They act on the behaviour of others: if one business increases its price it loses its market share. When the firm decrease their price, others will follow and a price war might arise ✓✓ (2)

**2.2.6 Why does the marginal revenue (MR) curve lie below the demand curve**

Due to the negative-sloping demand curve, every additional unit is sold at a lower price □□□□□□□□□□□□□□ □□□□□□□□□□□□ (2)

**QUESTION 3:**

**3.1.1 At what quantity is the maximum profit made?**

60 ✓✓ (2)

**3.1.2 Why will a monopolist always make economic profit in the long run?**

- It is possible to manipulate prices to ensure a profit because there is no competitors ✓✓
- There is a deliberate decline in produce – less than the market demand, therefore higher prices are charged ✓✓
- Sell a unique product without any competition (2)

**3.1.3 What unit price will the monopolist charge to maximise profit**

R60 ✓✓ (2)

**3.1.4 What is the requirement for this monopoly be classified as an artificial monopoly?**

If entry is restricted by factors such as legal requirement e.g. licencing, patents and copyrights ✓✓ (2)

**3.1.5 Calculate the total profit this monopolist is making. Show ALL calculations.**

- Total Profit = Total revenue – Total Cost  
 $= (60 \times 50) - (30 \times 50)$  ✓  
 $= 3\,000 - 1\,500$  ✓  
 $= 1\,500$  ✓✓

**OR**

- Total Profit = Unit profit x quantity  
 $= (60-30)$  ✓ x  $50$  ✓  
 $= R1\,500$  ✓✓ (4)

**3.2.1 Which imperfect market structure is illustrated above?**

Oligopoly ✓ (1)

**3.2.2 Name the downward sloping demand curve above.**

Kinked demand curve ✓ (1)

**3.2.3 Explain how price leadership works in this type of market.**

The dominant firm will initiate a change in price, e.g. increase. They will realise economic profits (abnormal profits) ✓✓  
 Other competitors will also increase their prices ✓✓

**OR**

- Dominant firm will decrease prices, luring customers away from other firms in the market ✓✓  
 Other competitors will decrease price not to lose their market share ✓✓  
 (2x2) (4)



**3.2.4 Assume that the current selling price is R90. Explain why this business will not lower prices to 50 to improve its sales.**

Below price of R90, the firm sees the demand curve as being relative price inelastic, the firm thinks that if it reduces the price of its product, other firms will follow its lead. ✓✓ As a result all the other firms will sell a bit more output, but the firms will no longer be producing their profit maximisation output. ✓✓

If the firm lowers its prices to R50 the total income will be:

R9 500 (50 X 190) compared to the original income of R13 500 (90 x 150) ✓✓

The firm suffers a loss of R4 000 ✓✓ (2 x 2) (4)

**3.2.5 Advise the oligopolist on how to increase his market share in this particular industry.**

The oligopolist should consider using the following:

Non-price measures to attract customers increase their market share ✓✓

Build brand loyalty, product recognition and product differentiation ✓✓

Advertising and marketing ✓✓

Examples of non-price competition include:

- extended shopping and business hours ✓✓
- doing business over the internet ✓✓
- after-sales services ✓✓
- offering additional services ✓✓
- loyalty rewards for customers ✓✓
- door-to-door deliveries ✓✓



**QUESTION 4:**

**4.1 Which type of industries mentioned in the extract are said to be oligopolistic?**

- Pharmaceutical companies ✓
- Smart phone companies ✓ (2x1) (2)

**4.2 Define the term oligopoly.**

- This is a market structure in which a small number of large sellers dominate the market ✓✓ (2)

**4.3 Why is it important for these companies to have trademarks for their products?**

- To protect the imitation of their products ✓✓
- To stop others from entering their market ✓✓ (2)

**4.4 How do cartels and price leadership differ in terms of the way prices are manipulated?**

- In price leadership the dominant firm set the price and the other firms often follow (tacit collusion) ✓✓
- In a cartel the firms formally meet and agree on the price for their products (overt collusion) ✓✓ (2 x 2) (4)

**QUESTION 5****5.1 How will non-price competition between food outlets like Steers, Wimpy, Spur and other businesses specialising in burgers, ensure their operational success in the monopolistic competitive market?**

These businesses engage in non-price competition - when sellers focus on distinctive features of their products rather than the price it may lead to better operational success ✓✓

• The businesses can use the following methods of non- price competition:

• **Branding:**

This is a marketing tool that businesses use to create a specific perception in the minds of consumers and also identifies a business as being exclusive for a particular market ✓✓

• **Advertising:**

It is information provided by the company about its product usually through media and is used to achieve product differentiation and market control ✓✓

• **Packaging:**

It is the way the product is presented to the market, that protects the products differentiate them and provides information about them. Businesses usually bring out the most important feature of their products through packaging ✓✓

• **Service:**

Businesses always improve their services to ensure that customers come back. Many people eat at restaurants because they enjoy the food and the service. Businesses should avoid treating customers in an incorrect manner ✓✓

• **Information:**

Businesses strive to provide relevant and precise information which will definitely convince customers to increase their spending ✓✓

**5.2 Distinguish between *price leadership* and *cartels* as forms of collusion****Cartel**

When collusion occurs openly it is referred to as a cartel ✓✓

• A cartel can be defined as an organisation of oligopolistic businesses that comes into existence in an industry with the specific aim of forming a collective monopoly ✓✓

**Price leadership**

• This type of price determination is tacit ✓✓

• A firm will announce its intention to increase prices and hope it's rivals will follow ✓✓

• The price leader is usually the largest or dominant business in the industry ✓✓

**5.3 Explain how SASOL can compete in an oligopolistic market with other petrol-selling companies in South Africa.**

They will engage in non-price competition ✓✓ by focusing on some of the following:

• Advertising and marketing ✓ e.g. television and radio ✓

• Additional services ✓ e.g. convenience stores ✓

• Branding ✓ SASOL logo ✓ e.g. fuel for cleaner engine ✓

• Friendly staff ✓ e.g. offer additional services such as tyre pressure check ✓

• Clean sanitary facilities ✓ cleaned regularly / additional services e.g. a baby room ✓

• Competitions ✓ e.g. win a car ✓

• Loyalty rewards for customers ✓ e.g. fill-up to a certain amount, getting a free engine wash ✓

- Collaborate with businesses ✓ e.g. fast-selling food outlets ✓
- Advertise ✓ with and in conjunction with other businesses ✓
- Account holders ✓ certain companies filling, only pay month-end ✓ 4x2 (8)

#### 5.4 Compare monopolistic competition with perfect competition.

- Under monopolistic competition less will be produced at a higher price than the perfect competitor ✓✓ The perfect competitor produces at the minimum point on the LAC curve, whereas this is not the case under monopolistic competition ✓✓
- Both the perfect competitor and monopolistic competitor will make a normal profit in the long ✓✓
- It is easier for the perfect competitor to enter the market, compared to the monopolistic competition ✓✓ 4x2 (8)

#### 5.5 How do oligopolists minimize the level of competition and uncertainty with regard to prices?

The decisions of oligopolist are always dependent on other oligopolists ✓✓ . If one firm increases its price, the other firms will also increase theirs. ✓✓ If the firm introduces a new advertising campaign, the other firms will also introduce their own ✓✓

##### **Collusion:**

To minimise the level of competition and uncertainty, oligopolists are tempted to come together and fix the price. ✓✓ However, collusion in South Africa is illegal. ✓✓ Firms are prosecuted if they are found to be colluding. ✓✓

##### **Price leadership:**

To bypass the problem of collusion oligopolists usually appoint one of them to play a role of price leadership. ✓✓ If the leader increases the price, all other firms increase theirs by the same amount. ✓✓ However, the problem is that other oligopolists may cheat on the price leader and retain their old prices. ✓✓ This will divert consumers away from the price leader. ✓✓ 4x2 (8)

#### 5.6 Explain how natural and artificial monopoly act as barriers to other businesses wanting to enter the industry 4x2 (8)

##### **Natural monopolies:**

- High development costs prevent entry. Involves billions of rand ✓✓
- Here a single industry can serve the whole market at a lower price than two or more ✓✓
- E.g. Eskom ✓
- Frequently owned and regulated by the government ✓✓ (2 X 2)

##### **Artificial monopolies:**

- Barriers to entry are not economic in nature ✓✓
- E.g. a patent registered by Kreepy Krauly ✓✓
- A producer has exclusive right to manufacture a product ✓✓
- Licensing is another way an artificial monopoly can result ✓✓
- E.g. Provide cellphone services SABC – broadcasting rights ✓✓

STRUCTURE OF THE ESSAY:	MARK ALLOCATION
<b>Introduction</b> The introduction is a lower-order response. <ul style="list-style-type: none"> <li>• A good starting point would be to determine the main concept related to the question topic</li> <li>• Do not include any part of the question in your introduction</li> <li>• Do not repeat any part of the introduction in the body</li> <li>• Avoid saying in the introduction what you 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/ Explain <b>Additional part:</b> Give own opinion/Critically discuss/Evaluate/ Critically evaluate/Draw a graph and explain/Use the graph given and explain/Complete the given graph/Calculate/Deduce/ Compare/Explain/Distinguish/Interpret/Briefly debate/How/Suggest	Max. 26  Max. 10
<b>Conclusion</b> Any higher-order conclusion should include <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned</li> <li>• Any opinion or value judgement on the facts 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 6: MICROECONOMICS**



**40 MINUTES**

*The existence and survival of any business depend on how they are conducting themselves*

- Discuss in detail the characteristics of a monopoly. (26)
- Draw the long run equilibrium graphs of a monopoly and a perfect competitor. (10)

**Introduction**

A firm is regarded as a monopolist when it owns or controls the total supply of a scarce factor of production. Monopoly is a market structure where only one seller operates. ✓✓

**Body- main part**

**The characteristics of a monopoly**

**Number of firms ✓**

- The monopoly consists out of one single firm. ✓✓
- The monopoly is also the industry. ✓✓
- Example: Eskom or De Beers – diamond-selling ✓

(Accept any other relevant example)

**Nature of product ✓**

- The product is unique with no close substitute. ✓✓
- Example: Diamonds are unique. ✓

### **Market entry ✓**

- Refers to how easy or difficult it is for businesses to enter or to leave the market ✓✓
- Is entirely/completely blocked. ✓✓
- A number of barriers to entry that may give rise to monopoly can be:
  - Economies of scale ✓
  - Limited size of the market ✓
  - Exclusive ownership of raw materials ✓
  - Patents ✓
  - Licensing ✓
  - Sole rights ✓
  - Import restrictions ✓

### **They decide on their production level ✓**

- The monopolist cannot set the level of output and the price independently of each other. ✓✓
- If a monopolist wants to charge a higher price, it has to sell fewer units of goods. Alternatively, a reduction in price will result in a higher output sold. ✓✓

### **A monopolist is confronted with a normal market demand curve ✓**

- The demand curve slopes downwards from left to right ✓✓.
- Any point on the monopolist's demand curve (D) is an indication of the quantity of the product that can be sold and the price at which it will trade. ✓✓

### **They are exposed to market force s ✓**

- Consumers have limited budgets and a monopoly can therefore not demand excessive prices for its product. ✓✓
- The monopolist's product has to compete for the consumer's favour and money with all other products available in the economy. ✓✓

### **They face substitutes ✓**

- There are few products that have no close substitutes. ✓✓
- For example, cell phones can compete with telephone services. ✓

### **They may enjoy favourable circumstances ✓**

- Sometimes an entrepreneur may enjoy favourable circumstances in a certain geographical area. ✓✓
- For example, there may be only one supplier of milk in a particular town. ✓

### **They may exploit consumers ✓**

- Because a monopolist is the only supplier of a product, there is always the possibility of consumer exploitation. ✓✓
- However, most governments continually take steps to guard against such practices. ✓✓

### **Market Information ✓**

- All information on market conditions is available to both buyers and sellers. ✓✓
- This means that there are no uncertainties. ✓✓

**Control over price ✓**

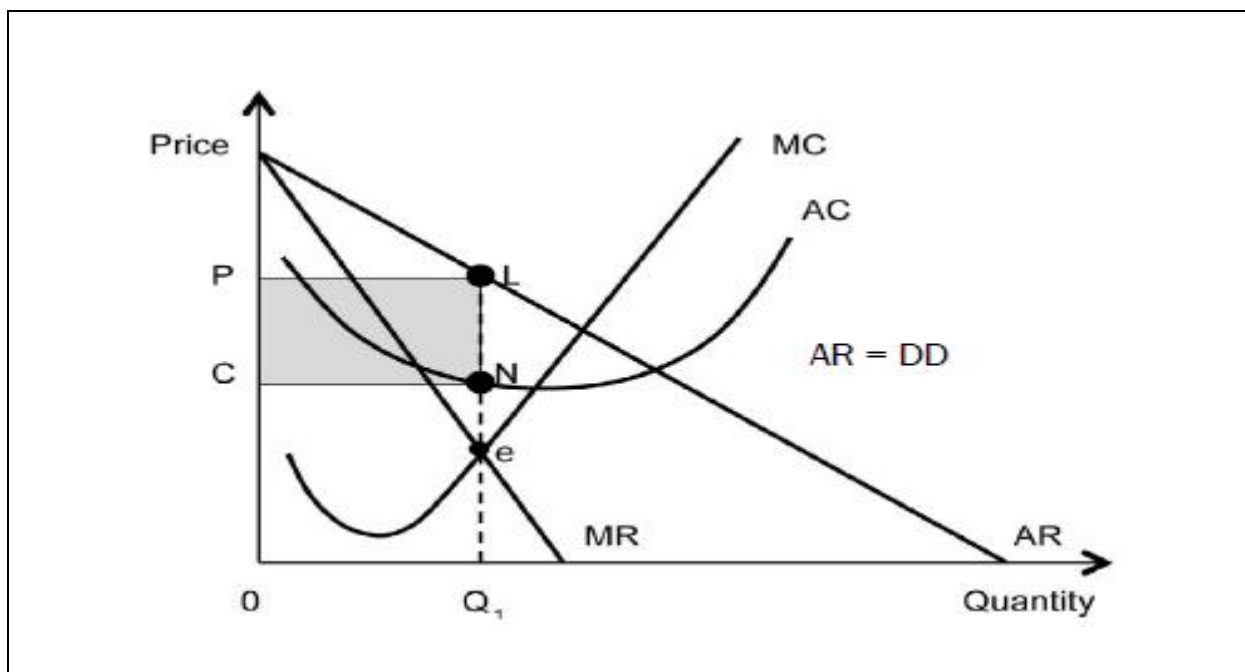
- In the case of a monopoly there are considerable price control, but limited by market demand and the goal of profit maximisation. ✓✓

**Long-run economic profit ✓**

- Can be positive ✓✓
- Because new entries are blocked and short-run economic profit therefore cannot be reduced by new competing firms entering the industry ✓✓
- The monopoly can thus continue to earn economic profit as long as the demand for its product remains in tact ✓✓

**Additional part**

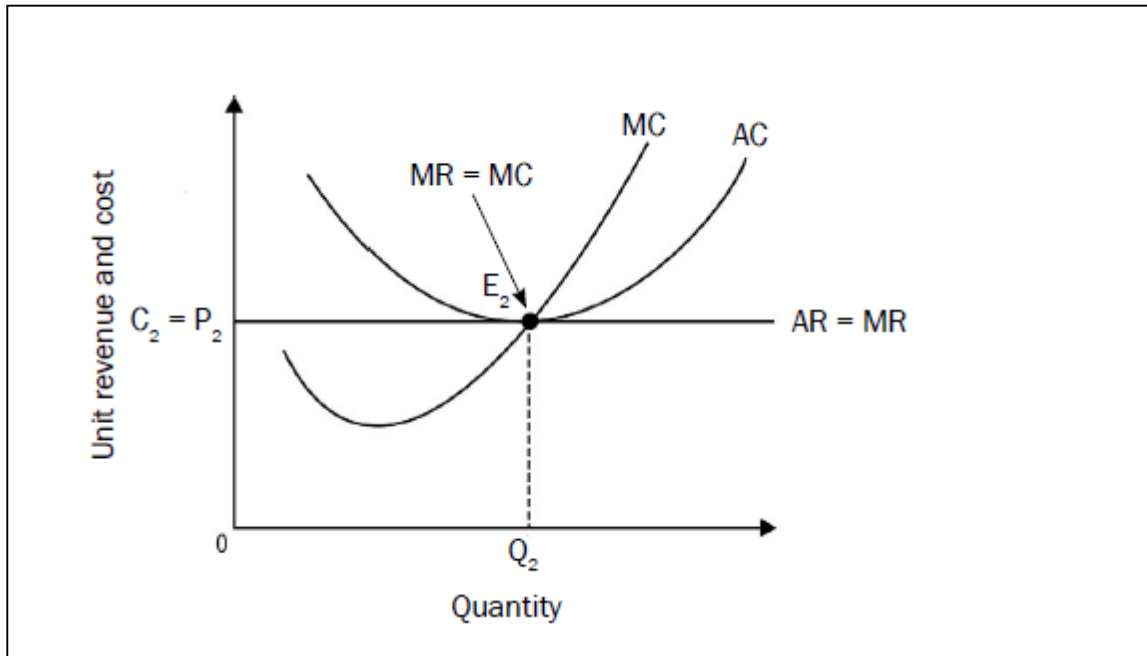
**Long run equilibrium of a monopoly**



Heading = 1 MARK  
 AC = 1 MARK  
 DD/AR = 1 MARK  
 MC = 1 MARK  
 Profit maximisation point = 1 Mark  
 Labelling of the axis = 1 Mark  
 Labelling on the axis = 1 Mark



## Long run equilibrium of a perfect competitor



Heading = 1 MARK  
 AC = 1 MARK  
 DD/AR = 1 MARK  
 MC = 1 MARK  
 Profit maximisation point = 1 Mark  
 Labelling of the axis = 1 Mark  
 Labelling on the axis = 1 Mark  
**MAX = 5 marks**

### Conclusion

A monopoly does not always make economic profit in the short run; it can also make economic loss in the short run if the total cost exceeds total revenue. ✓✓

### QUESTION 7: MICROECONOMICS

**40 MARKS –40 MINUTES**

*Oligopolies can result from various forms of collusion which reduce competition.*

- Examine oligopoly in detail. (26)
- Briefly compare an oligopoly and a perfect competitor in terms of the demand curves, products, prices, output and equilibrium positions. (10)

### Introduction

An oligopoly is a market structure dominated by few producers, each of which has control over the market. ✓✓ (2)

## Body

### Main part

#### Characteristics of oligopolies are as follows:

- **Number of businesses**✓: a few big firms dominate the market in an oligopoly. ✓✓
- If there are only two firms in the market, it is called a **duopoly**. ✓✓
- **Nature of the product**✓: the product may be identical or differentiated. ✓✓
- If the product is homogeneous, the market is pure oligopoly. If the product is differentiated the market is called a differentiated oligopoly. ✓✓
- **Entry**✓: new producers have free entry to an oligopolistic market, although this is not easy as illustrated by the fact that there are only few businesses in the market. ✓✓ Firms under oligopoly advertise extensively. ✓✓ This in itself is a barrier to entry to other firms. Advertising is very expensive and firms who cannot afford to do so will lag behind the competition. ✓✓
- **Interdependent decision-making**✓: firms in an oligopoly are interdependent in their decision-making because there are so few competitors in the market. ✓✓ Any decision and action of one will have a direct effect on the profits of the others who will retaliate by changing prices and output. In an oligopoly, a firm not only considers the market demand for its product, but also the reactions of other firms to its price and output policies. ✓✓
- **Price control/market power**✓: there are limited competitors in an oligopoly which makes firms price-makers. ✓✓ The oligopolist has limited but fierce competitors, and must therefore consider their possible reaction. ✓✓ An oligopoly is characterised by price rigidity because if one firm cuts their price, rival firms retaliate by cutting theirs as well. ✓✓
- **Price and profits**✓: prices of goods and services are higher in general in imperfect markets than in perfect competition. ✓✓ Oligopolies develop brand loyalty amongst their customer base that they are able to generate economic profit. ✓✓
- **Market concentration**✓: market concentration refers to the number of firms and the size of their market share. ✓✓ For example, a four firm concentration ratio of 80% illustrates the market is highly concentrated. Other, smaller firms comprise the rest of the market. ✓✓
- **Non-price competition by oligopolists**
  - Oligopolists try to avoid using prices to compete ✓✓ If all firms lower their price, it will result in a price war and lower profits for everyone. ✓✓
- Non-price competition takes the following forms:
  - **Product development** ✓ new products with unique features and variations in quality are introduced to attract new customers. ✓✓
  - **Advertising** ✓ firms spend large amounts to establish brand loyalty and to attract new customers using media, special offers, publicity stunts and discounts. ✓✓
  - **Loyalty schemes** ✓ getting customers to sign up for loyalty cards encourages buyers to shop in one place. ✓✓ This creates an inelastic demand curve as substitute goods are essentially eliminated. ✓✓
  - **Branding** ✓ branding is when a product or business is given a particular image which is appealing to consumers. ✓✓

This image includes a visual identity and values, attitudes and behaviours. ✓✓  
Branding is used to attract and appeal to a certain kind of consumer.

- Free deliveries and installation. ✓
- Extended warranties for consumers and credit facilities. ✓
- Longer trading hours. ✓
- Extensive after-sales service. ✓
- Expansion into new markets by diversifying the product range. ✓

Max = 26

### Additional Part

#### A comparison of an oligopoly with a perfect competitor

Ensure that you do comparison in full sentences, and not in tables.

##### **Demand curves**

The demand curve for the oligopoly is kinked, meaning that there is an elastic and inelastic parts in the curve ✓✓

The demand curve for the perfect market is horizontal which indicated that the perfect competitor in a price taker ✓✓

##### **Products**

Products sold for an Oligopoly are homogeneous but differentiated. Non- price competition will be used to attract buyers ✓✓

Products sold for Perfect competition are homogeneous. This does not restrict the buyers to buy from a specific seller because the products are the same in quality and standard ✓✓

##### **Prices**

Oligopolists charge higher prices because they are faced up with a downwards sloping demand curve indicating that they are the price makers ✓✓ While perfect competitors charge lower prices because their prices are determined by the industry meaning that they are the price takers ✓✓

##### **Output**

The output produced is less for the oligopolist. Collusion can lead to restriction in output so as to charge higher prices ✓✓ The producer in perfect market has to produce more in order to increase his revenue. This comes from the prices determined by the market ✓✓

**Equilibrium positions** Economic profit is made in the long run for the oligopoly. (Positive profit) ✓✓ Normal profit is made in the long run for the perfect competitor. ✓✓

##### **Conclusion**

In South Africa, cartels are illegal and are punishable by law. ✓✓

Any other relevant higher order conclusion.

### QUESTION 8

Market structures are classified under Perfect Competition, Monopolistic Competition, Oligopoly and Monopoly” Compare all FOUR market structures in a tabular form. (Marks depend on the combination of market structures to be examined)

Criteria	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
Number of firms	So many that no firm can influence the market price	So many that each firm thinks others will not detect its actions	So few that each firm must consider the others' actions and reactions	One
Nature of product	Homogeneous	Heterogeneous / differentiated	Homogeneous or heterogeneous	Only one product with no close substitutes
Entry	Completely free	Free	Varies from free to restricted	Completely blocked
Information	Complete	Incomplete	Incomplete	Complete/ Incomplete
Collusion	Impossible	Impossible	Possible	Unnecessary
Firm's control over the price of the product	None	Some	Considerable, but less than in monopoly	Considerable, but limited by goal of profit maximisation
Demand curve for the firm's product	Horizontal (perfectly elastic)	Downward-sloping	Downward-sloping, may be kinked	Equals market demand curve: downward-sloping
Long run economic profit	Zero	Zero	Can be positive	Can be positive

**SESSION 8 MARKET FAILURE**  
**TOPIC: MARKET FAILURE**

**SECTION A**

**1.1 MULTIPLE CHOICE**

- 1.1.1 Goods highly in demand in the general welfare of the people, but not highly rated by the market is called ... goods
- A demerit
  - B merit
  - C non-durable
  - D semi-durable
- 1.1.2 When businesses fail to deliver goods and services at the lowest possible cost is known as ... inefficiency.
- A productive
  - B allocative
  - C demand
  - D summative
- 1.1.3 A situation where the best available production outcome has not been achieved is known as market ...
- A power
  - B failure
  - C equilibrium
  - D waste
- 1.1.4 The rationale behind cost benefit analysis is ...
- A efficient resource allocation
  - B high prices
  - C redistribution of wealth
  - D determining wealth
- 1.1.5 When two identical products are sold at different prices to different consumers it is known as price ...
- A differentiation
  - B stability
  - C discrimination
  - D comparison
- 1.1.6 Goods with an external benefit would be ... provided in the market.
- A under
  - B freely
  - C over
  - D equally



- 1.1.7 To limit costs without limiting production refers to ...
- A productive inefficiency
  - B productive efficiency
  - C opportunity cost
  - D surplus production
- 1.1.8 Prices set by government to ensure affordability to the poor is called ... prices.
- A maximum
  - B normal
  - C minimum
  - D limited
- 1.1.9 Social benefits exceeding private benefits are characteristics of ... goods.
- A public
  - B demerit
  - C primary
  - D tertiary
- 1.1.10 When a production unit does not produce goods at the lowest possible cost, it is called ...
- A technical efficiency.
  - B allocative inefficiency.
  - C productive inefficiency.
  - D selective efficiency.
- 1.1.11 Goods such as parks, beach facilities and streets are known as ... goods.
- A private
  - B collective
  - C consumer
  - D producer

## 1.2 CONCEPTS

- 1.2.1 The best available production outcome has not been achieved
- 1.2.2 Prices set by government above equilibrium to benefit the producer
- 1.2.3 Consumption by one person does not reduce the consumption by another individual
- 1.2.4 People enjoy watching TV without paying for it
- 1.2.5 Goods with negative externalities e.g. alcohol
- 1.2.6 Shows different combinations of the production of two goods, given available resources and technology
- 1.2.7 Benefits exceed payment by individuals and the community e.g. clean water and health care

## SECTION B

### DATA RESPONSE

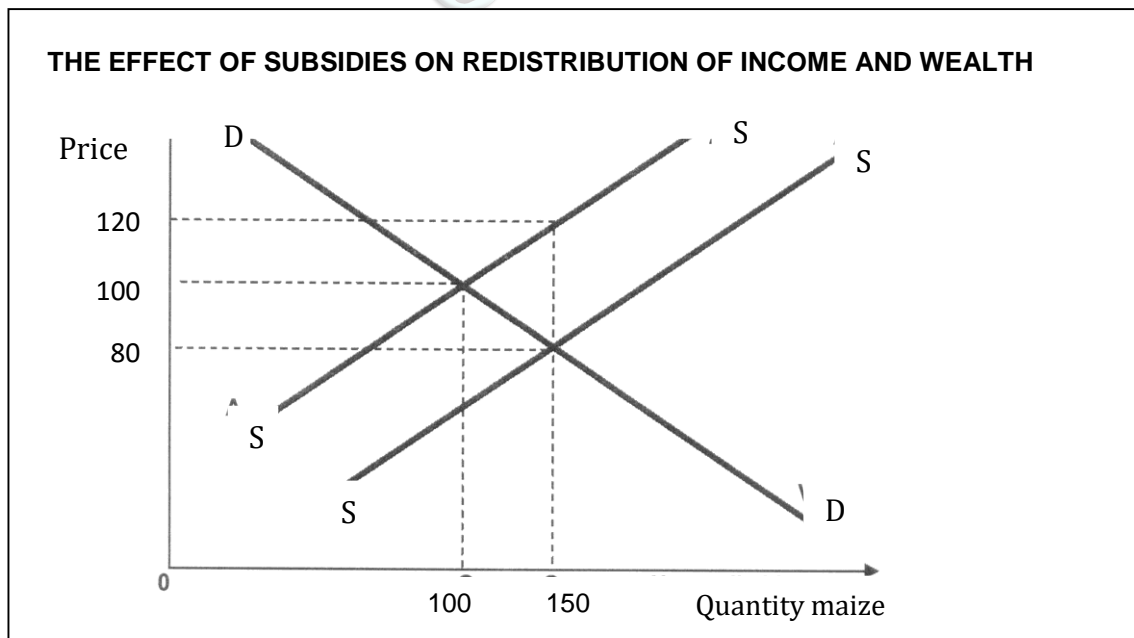


2.1 Study the illustrations below and answer the questions that follow.



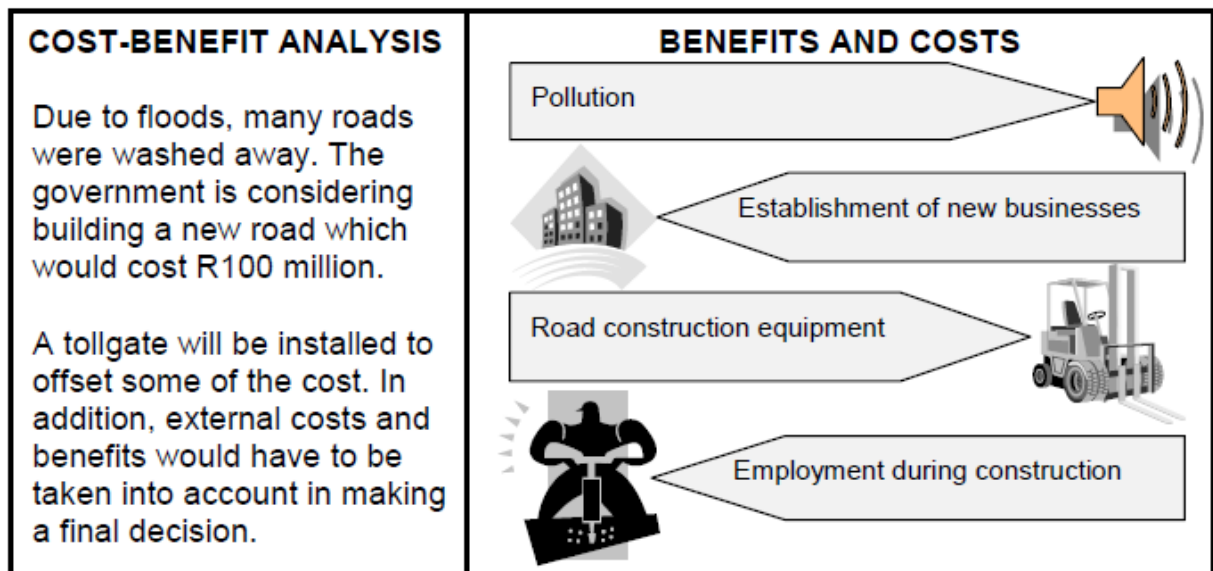
- 2.1.1 What type of inefficiency is evident in the illustrations above? (1)
- 2.1.2 What market situation is created when supply is less than demand? (1)
- 2.1.3 Briefly describe the concept *productive inefficiency*. (2)
- 2.1.4 Explain the effect on price following this situation in the illustration. (2)
- 2.1.4 How can subsidies be use to remedy the situation? (4)

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



- 2.2.1 Name the **TWO** examples of direct subsidies on production. (2)
- 2.2.2 Briefly describe the concept *subsidy*. (2)
- 2.2.3 Make use of the graph and explain the impact that subsidies will have on the market of maize producers. (4)

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



[Adapted from *Financial Mail*, August 2013]

- 2.3.1 Identify ONE private cost from the data above. (1)
- 2.3.2 Which institution normally conducts cost-benefit analysis? (1)
- 2.3.3 Briefly describe the concept *cost-benefit analysis*. (2)
- 2.3.4 What alternative measure could the government consider instead of building a new road? (2)
- 2.3.5 You are the adviser to the Minister of Transport. How would you advise the minister on the project? (8)



### QUESTION 3 - PARAGRAPH TYPE QUESTIONS

- 3.1 Briefly explain the rationale of a cost-benefit analysis. (8)
- 3.2 Explain reasons why cost-benefit analysis is used in practice. (8)
- 3.3 Why does the government produce certain goods and services? (8)
- 3.4 How can inefficiencies cause market failures? (8)
- 3.5 In your opinion, how has the implementation of minimum wages advantaged the worker in South Africa? (10)

### Essays

1. *Market failure is a common feature of free market economies*
  - Discuss how the following factors can lead to the misallocation of resources in the market.
    1. Missing markets
    2. Imperfect competition
    3. Lack of information (26 Marks)
  - Motivate why the government has implemented a national minimum wage in the labour market. (10 Marks)

2. *Governments use various instruments at their disposal to correct or limit market failure.*
- Draw a clearly labelled graph explaining the consequences of government intervention in the market for each of the following:
    - Maximum prices
    - Taxation (26 marks)
  - Explain the supply of undesirable goods in South Africa and how the government can deal with it. (10 Marks)

## SOLUTIONS - MARKET FAILURES

### 1.1 MULTIPLE CHOICE

- 1.1.1 B ✓✓merit
- 1.1.2 A ✓✓productive
- 1.1.3 C ✓✓failure
- 1.1.4 A ✓✓efficient resource allocation
- 1.1.5 D ✓✓discrimination
- 1.1.6 B ✓✓under
- 1.1.7 C ✓✓productive efficiency
- 1.1.8 D ✓✓maximum
- 1.1.9 A ✓✓public
- 1.1.10 C ✓✓productive
- 1.1.11 B ✓✓collective

### 1.2 CONCEPTS

- 1.2.1 productive inefficiency✓
- 1.2.2 minimum prices✓
- 1.2.3 non-rivalry✓
- 1.2.4 free-rider✓
- 1.2.5 demerit goods✓
- 1.2.6 production possibilities✓
- 1.2.7 social benefits✓



## SECTION B

### DATA RESPONSE

#### 2.1 Study the illustrations below and answer the questions that follow.

- 2.1.1 Productive inefficiency✓ (1)
- 2.1.2 Market disequilibrium/Shortage/Shortfall✓ (1)
- 2.1.3 Productive inefficiency is when a business does not produce at the lowest possible cost. ✓✓ (2)
- 2.1.4 Prices will increase if there is a shortage on the market. ✓✓ (2)
- 2.1.5 - A subsidy is usually in the form of a financial grant to support the production of goods by the government. ✓✓
- Subsidies can be direct (such as cash grants and interest free loans) ✓✓ or
- It can be indirect (depreciation, write-offs, rent rebates and meeting expenses) on behalf of the business. ✓✓
- The business can use these forms of subsidies to increase their output, thus minimizing the shortage on the market. ✓✓ (4)

**2.2 Study the following graph and answer the questions that follow.**

- 2.2.1 Cash grants ✓  
Interest free loans ✓ (2 x 1) (2)
- 2.2.2 A subsidy is a financial grant to support the production of a good or a service by the government. ✓✓
- 2.2.3 The equilibrium before the subsidy will be at point a, with the price at R100 and the quantity at 100. ✓✓ A subsidy by the government will reduce the production cost of the producer. The supply curve will shift from SS to S1S1. A new equilibrium will be established at point b. At this point the price will be R80 and the new quantity will be 150. ✓✓ Therefore, a subsidy will have an increase on the quantity produced and the selling price will also be lower. ✓✓  
(6)

**2.3 Study the data below and answer the questions that follow.**

- 2.3.1 Private cost: road construction equipment ✓ (1)
- 2.3.2 State enterprises (Sanral) ✓ (1)
- 2.3.3 Project evaluation that need to be done in order to find conclusive answers/ procedure used to measure total cost of a project against its total benefits. ✓✓  
(2)
- 2.3.4 Maintenance of existing roads ✓✓ or  
Measures to prevent flooding in future e.g. dams ✓✓ (2)

**2.3.5 Proceed with the project**

- The project will add value to the transport system in the country. Local road users, tourist etc. will find it easier to travel safely. ✓✓
  - Income derived from toll gates will ensure future maintenance, and will cover the investment made in the construction of toll roads. ✓✓
  - It will provide temporary jobs and income for workers during construction. ✓✓
  - Flooding will not be a problem for road users, tourists and the local community (farmers) ✓✓
  - The R100 million will be an injection in the economy with multiplier effects. ✓✓
  - The final decision will be determined by the positive difference between total benefits from this project over total costs. ✓✓
- Max 8

OR

**Cancel/reject the project**

- Floods only exist during the rainy season and other measures could be taken to prevent flooding ✓✓ e.g. dams. ✓
  - Pollution will harm the local community (especially farmers and the environment) on a permanent basis. ✓✓ e.g. land pollution ✓
  - The historical and aesthetic value of the area will be compromised by the project. ✓✓
  - Social cost will exceed social benefits due to temporary job creation. ✓✓
- Max 8

## PARAGRAPH TYPE QUESTIONS

### 3.1 Briefly explain the rationale of a cost-benefit analysis.

- Cost-benefit-analysis is a tool that is used to evaluate an investment project by weighting the total cost of a particular project against its total social benefits. ✓✓
  - It aims to give specific money values to social costs and benefits so that decisions can be made that result in efficient allocation of resources ✓✓
  - The government can use CBA to decide whether or not a project should be undertaken. ✓✓
  - It is a technique that seeks to bring greater objectivity to decision making. ✓✓
- (4 x 2) (8)

### 3.2 Explain reasons why cost-benefit analysis is used in practice.

- CBA helps to make better decisions on how scarce resources are allocated to satisfy wants. ✓✓
  - Involves making decisions based on comparing economic benefits with economic costs of a project. ✓✓
  - The feasibility of the project is determined by subtracting costs from benefits. ✓✓
  - If the difference is positive (benefits > costs) then the project will be undertaken. ✓✓
- (4 x 2) (8)

### 3.3 Why does the government produce certain goods and services?

- Markets are often incomplete in the sense that they cannot meet the demand for certain goods. ✓✓
  - Government takes it upon itself to produce these goods and services because the production of these goods and services are often under-minded because it is not profit orientated or beyond the capacity of the market to produce. ✓✓
  - Public goods or government services are categorised into two groups:
  - Community goods, e.g. defense, police services, prison services, street lightning etc. ✓✓
  - Collective goods, . e.g. parks, beach facilities, public transport, refuse removal, sewerage systems, waste removal, pavements etc. ✓✓
  - Public goods are not provided by the price mechanism because producers cannot withhold the goods for non-payment and since there is often no way of measuring how much a person consumes, there is no basis for establishing a market price. ✓✓
  - Some goods are highly desirable for the general welfare of the country are often not highly rated by the market. ✓✓
  - If people had to pay for them, relatively little would be consumed, e.g. healthcare, education, skills training, safety etc. ✓✓
- (4 x 2) (8)

### 3.4 How can inefficiencies cause market failures?

- Inefficiencies occur when the market is not capable of providing the quantities required. ✓✓
- Most businesses operate under conditions of imperfect competition that allows them to restrict output, raise prices and produce where price exceeds marginal cost. ✓✓
- Two kinds of inefficiencies are possible:

- Productive inefficiency, the business does not produce at the lowest possible cost. ✓✓
- Allocative inefficiency, the product mix does not reflect consumers' tastes and therefore resources are not allocated in the right proportion. ✓✓
- These factors contribute to the insufficient supply of goods and services to the market, thus causing market failures. ✓✓ (4 x 2) (8)


**3.5 In your opinion, how has the implementation of minimum wages advantaged the worker in South Africa? (10 marks)**

- They are protected by law and basic human rights. Many farmworkers and domestic workers are better off than before ✓✓
- They enjoy a better living standard/ensure sustainable income ✓✓
- They can also enjoy unemployment benefits for which they did not qualify before ✓✓
- They are also entitled for sick leave with pay ✓✓
- They are also entitled to annual leave with pay ✓✓

Women are also entitled to maternity leave without the risk of becoming unemployed ✓✓ (10 marks)

**Essay**

*Market failure is a common feature of free market economies*

- **Discuss how the following factors can lead to the misallocation of resources in the market.** 
  1. **Missing markets**
  2. **Imperfect competition**
  3. **Lack of information** (26 Marks)
- **Motivate why the government have implemented a national minimum wage in the labour market.** (10 Marks)

[40]

**INTRODUCTION**

Market failure is when the forces of supply and demand fail to allocate resources efficiently / when markets fail to allocate goods and services efficiently. ✓✓  
(accept any other correct introduction) (Max 2)

**MAIN PART**

**1) Missing Markets**

- Markets are often incomplete in the sense that they cannot meet the demand for certain goods. ✓✓
  - Public goods: ✓
  - They are not provided by the price mechanism because producers cannot withhold the goods from non-payment and there is often no way of measuring how much a person consumes. ✓✓
- Public goods have the following features:



- **Non-rivalry:** ✓ The consumption by one person does not reduce the consumption of another person ✓✓ e.g. a lighthouse. ✓
- **Non-excludability:** ✓ Consumption cannot be confined to those who have paid, so there are free riders ✓✓ e.g. radio and TV in South Africa. ✓
- **Merit goods** ✓
- These are goods/services that are deemed necessary or beneficial to the society, ✓✓ e.g. education, health care etc. ✓
- These goods are highly desirable for general welfare but not highly rated by the market, therefore provide inadequate output/supply. ✓✓
- If people had to pay market prices for them relatively too little would be consumed – the market will fail. ✓✓
- The reason for undersupply of merit goods is that the market only takes the private costs and benefits into account and not the social costs and benefits. ✓✓
- **Demerit goods** ✓
- These are goods/services that are regarded as bad or harmful for consumption hence we should use less of these ✓✓ e.g. alcohol, cigarettes, etc. ✓
- Demerit goods lead to a lot of social costs, therefore, the government charges sin tax / excise duties to discourage the consumption of such goods. ✓✓
- While the market is willing to supply demerit goods, it tends to oversupply demerit goods. Some consumers may be unaware of the true cost of consuming them. ✓✓

## 2) Lack of information

- Technical and allocative efficiency require that both producers and consumers have complete and accurate information about the costs and benefits of the goods and services produced and consumed in the market. Producers and consumers make production and consumption decisions based on the information they have. ✓✓
- When information is incomplete or inaccurate, it leads to wrong decisions about what to produce, how to produce and for whom to produce, and a waste of resources occurs. ✓✓
- Producers might not know all the different technologies and production techniques that are available and the different resources that can best be used to produce goods/services more efficiently. ✓✓
- Consumers might not know that the price of a product is lower from some other suppliers or about the harmful effects of a product since they might just base their decisions to consume on the information from a misleading suppliers. ✓✓

## Immobility of factors of production

- Markets do not respond to changes in consumer demand if resources cannot be easily reallocated or due to a lack of information ✓✓.
- Labour takes time to move to into new occupations and geographically to meet the changes in consumer demand. ✓✓
- Physical capital e.g. equipment, buildings, land ✓ and raw materials can only move from one place to another at a high cost, but cannot be moved to fit a change in demand. ✓✓

- Technological applications change production methods e.g. use of robots rather than physical labour. It takes time for most industries to adapt. ✓✓
- With greater technological change there is an increasing need for workers to become flexible, to update skills, change employment, occupations and work patterns. ✓✓

MAX 8 for headings and examples + 18 =

**(Max 26)**

**Motivate why government has implemented a national minimum wage in the labour market.**

- Pressure was put on the South African government to introduce labour laws which require employers to pay minimum wages. ✓✓
- The application of minimum wage laws is needed to improve a redistribution of income. ✓✓

The main objectives were:

- To redress inequality (Gap between wealthy and poor) ✓✓
- To improve the standard of living. ✓✓
- Government tried to protect domestic workers and farm workers — thus preventing exploitation. ✓✓

**(Max 10)**

(Accept any other correct relevant response)

**Conclusion**

Governments intervene in the market when market forces cannot achieve the desired output. ✓✓

**(Max 2)**

(Accept any other relevant conclusion)



***Governments use various instruments at their disposal to correct or limit market failure.***

- **Draw a clearly labelled graph explaining the consequences of government intervention in the market for each of the following:**
  - Maximum prices
  - Taxation (26 marks)
- **Explain the supply of undesirable goods in South Africa and how the government can deal with it.** (10 Marks)

**Introduction**

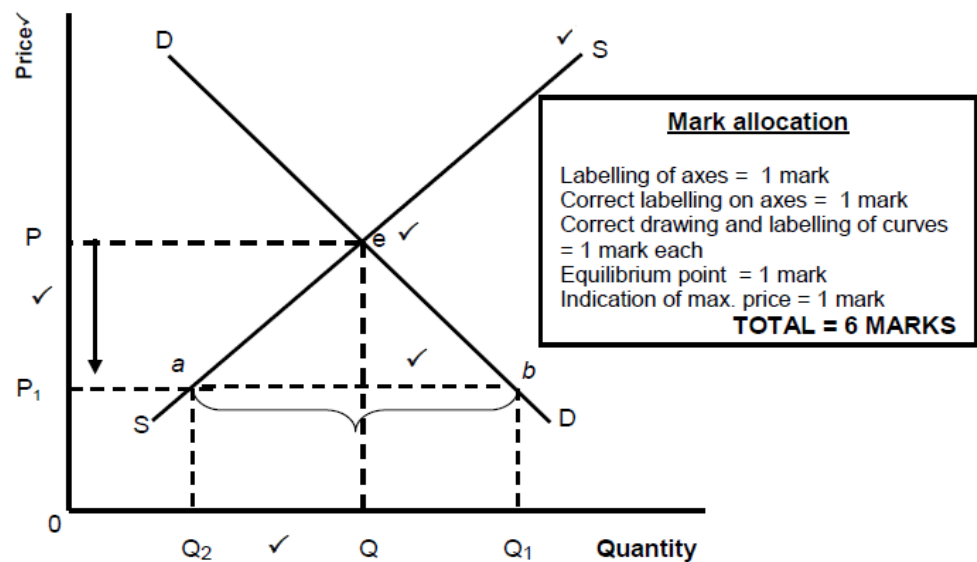
The purpose of government intervention is to ensure that the right quantity of resources is allocated to the production of output so that society as a whole maximizes its benefits. ✓✓

**(Max 2)**

(Accept any other relevant introduction)

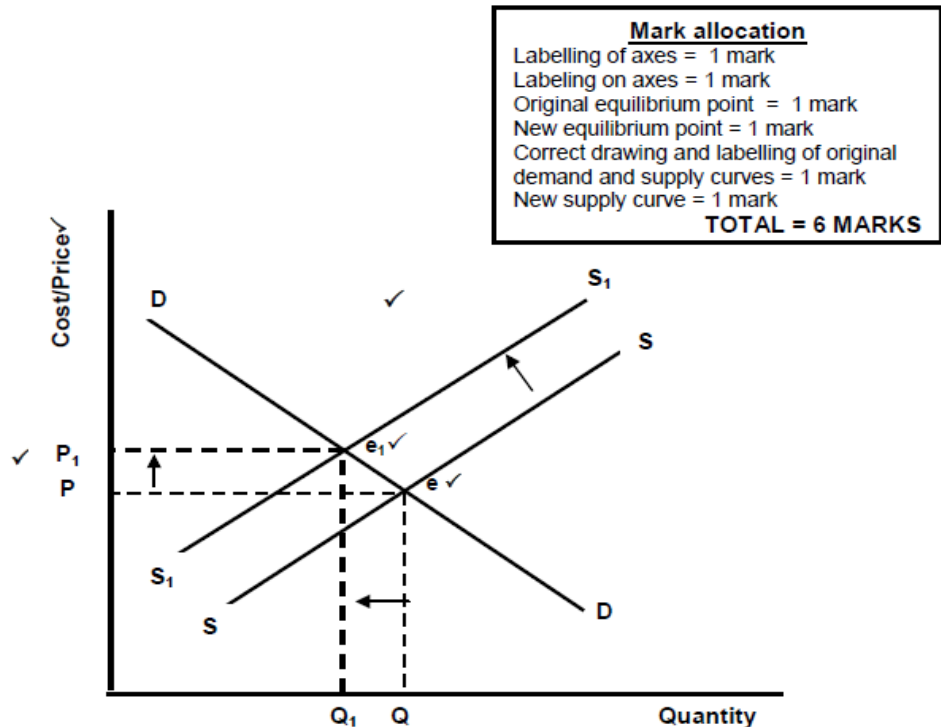
**[40]**

## Maximum prices



- Sometimes government will set the price of a good or service at a maximum level that is below the market price ✓✓
  - The government intervene and passes a law that suppliers may not charge more than the maximum price ✓✓
  - The immediate effect is that quantity supply will drop ✓✓
  - The original market equilibrium price and quantity is  $P$  and  $Q$  respectively ✓✓
  - The price set by the government is  $P_1$ , at this price the demand will increase to  $Q_1$  and the supply will decrease to  $Q_2$  ✓✓
  - The difference between  $Q_1$  and  $Q_2$  is the shortfall that will be created on the market ✓✓
  - The shortage caused by the price ceiling creates a problem of how to allocate the good since the demand has increased ✓✓
  - Black markets start to develop ✓✓
- (Mark allocation: Graph 6 and discussion max. 10 marks)

**Taxation**



- The appropriate way to intervene in the market by government is by levying taxes as a method to recover external cost ✓✓
- The original market equilibrium at e, with P as the equilibrium price and Q as the equilibrium quantity ✓✓
- The tax increase will shift the supply curve to the left ✓✓
- New equilibrium at E1 ✓✓
- A tax would raise the price from P to P1 ✓✓
- The production will decrease from Q to Q1 ✓✓

(Mark allocation: Graph total 6 marks and discussion max 10 marks)

**Explain the supply of undesirable goods in South Africa and how the government can deal with it.**

Items such as cigarettes, alcohol and non-prescription drugs are examples of demerit or undesirable goods. ✓✓

- These goods are often over supplied in the market, due to the fact that the external cost is not added to the market price. ✓✓
- Some consumers may be unaware of the true cost of consuming them, their negative externalities. ✓✓
- Government can ban their consumption or reduce it by means of taxation. ✓✓

- Taxation on these products will increase the market price and hopefully the demand for these products will drop. ✓✓ (10 marks)

(Accept any other correct relevant response)

**Conclusion**

The intervention of government ensures that inefficiencies is eliminated and that the market is operating effectively ✓✓ (Max 2)

(Accept any other relevant conclusion)

[40]



## TERM 3 Possible Questions (HOMEWORK)

### ECONOMIC PURSUITS:

- How can an investment in social (human) capital stimulate economic development in South Africa?
- Why is it important to use the Human Development Index?
- Explain the reasons why a high population growth has a negative impact on the delivering of services
- Critically analyse the use of demand- and supply policies in South Africa
- Analyse the Growth and Development plan of South Africa in terms of growth and development purposes

#### **Possible essays:**

- **Discuss in detail** the **demand-side** approach in promoting growth and development in South Africa
  - Give an overview of the **demand-side approach**:
  - **The monetary policy** (interest rate changes, open market transactions, moral suasion)
  - **The fiscal policy** (progressive personal income tax, wealth tax, cash benefits, natural benefits, other redistribution, land restitution and redistribution, subsidies on property)
- **Discuss in detail** the **supply-side** approach in promoting growth and development in South Africa
  - Give an overview of the supply-side approach:
    - Efficiency and effectiveness of markets
    - Business efficiency
    - The cost of doing business
    - The factors of production (natural resources, human resources, capital, entrepreneurship, technology)

### REGIONAL DEVELOPMENT:

- What are the advantages of good government management in regional development for the country?
- How successful was the Department of Trade and Industry through intervention, to promote industrial development in South Africa?
- How can government ensure that industrial development policies follow international best practice?
- Evaluate whether the latest government initiative – The National Development Plan – meets its objectives.
- How will Special Economic Zones benefit regional development in South Africa?
- Evaluate the different strategies used in South Africa (NSDS, NGP, NDP)
- Why is it important to compare the economic performance between countries?
- How can special economic zones contribute to regional development?
- How successful is the government to create favourable conditions for regional development to succeed?

#### **Possible essays:**

- **Discuss in detail** South Africa's initiatives (endeavours) in regional development
- **Discuss in detail** regional development in South Africa in terms of the following benchmark criteria
  - Free market orientation
  - Competitiveness
  - Sustainability
  - Good governance
  - Provisioning of resources
  - Investment of social capital
  - Integration
  - Partnerships
- Evaluate South Africa's regional development policies in terms of the above benchmarks.

### ECONOMIC and SOCIAL INDICATORS

- Why is it important to compare the economic performance between countries?
- Give your opinion how economic development can be promoted through the use of demographics and services a social indicators
- Why is education considered as a key social indicator?
- How successful is South Africa regarding globalisation / international standardisation / aid and support, measured against international best practice?
- How successful is South Africa in utilizing the full potential of its labour force, measured against international best practice?
- How much does South Africa comply with the standardisation of indicators set by the IMF, World Bank and the United Nations?



- Give your opinion, to what extent government can use social indicators to monitor growth and development in South Africa.

**Possible essays:**

- Discuss in detail certain economic indicators.
- Discuss in detail certain social indicators.

## **CONTEMPORARY ECONOMIC ISSUES:**

### **INFLATION**

- How can government use fiscal policy measures to combat demand pull inflation even more?
- How will you advise the Minister of Finance to combat inflation?
- Which effect does inflation have on the current account of the South African Balance of Payments
- How successful has the SARB been in targeting inflation?

**Possible essays:**

- **Discuss in detail** the causes of demand-pull inflation
  - Increase in household consumption
    - o Decline in savings
    - o Tax reduction
    - o Access to credit
  - Investors' expenditure
  - Government expenditure
  - Export services
- **Discuss in detail** the causes of cost-push inflation
  - Wages
  - Key inputs
  - Exchange rate depreciation
  - Profit margins
  - Productivity
  - Natural disasters

### **TOURISM**

- How can indigenous knowledge systems be used to benefit the tourism sector?
- Suggestions ways to increase tourism in your local community.
- Evaluate the Department of Tourism's policy proposals on taxation regarding tourism promotion in South Africa.
- What effect does administered prices have on consumer prices in South Africa?
- How can local tourism be promoted in South Africa?

**Possible essays:**

- **Examine in detail** the effects of tourism on:
  - GDP
  - Employment
  - Poverty
  - Externalities
  - Environment
  - Investment
- **Examine in detail** the **benefits** of tourism on
  - Households
  - Businesses
  - State
  - Infrastructure development

## **ENVIRONMENTAL SUSTAINABILITY**

- In your opinion, how effective is the government in controlling pollution in South Africa?
- What are the advantages in the use of technology to sustain the environment?
- In your opinion, how is the environment as general resource, responsible for market failure?
- How can weaknesses in the markets contribute to government intervention in preserving environmental assets?
- Why is chemical waste and toxic waste two of the world's most serious concerns in environmental sustainability?
- In your opinion, how effective is the government's interventions with regard to environmental sustainability

**Possible essays:**

- **Discuss in detail** how the **government** can ensure sustainable development under the following headings:
  - Grant property rights
  - Pay for environmental use
  - Levy environmental tax
  - Pay environmental subsidies
  - Issue marketable permits
  - Command and control
  - Voluntary agreements
  - Education
- **24-Discuss in detail** the following problems and the international measures taken to ensure sustainable development under the following headings:
  - Biodiversity
  - Chemical waste
  - Hazardous waste
  - Climate change policy – adaptation and mitigation
  - Indigenous knowledge

