

# SECONDARY SCHOOL IMPROVEMENT PROGRAMME (SSIP) 2021



**GAUTENG PROVINCE**  
EDUCATION  
REPUBLIC OF SOUTH AFRICA

**GRADE 12**



**SUBJECT: ECONOMICS HOLIDAY CLASSES**

**LEARNER SOLUTIONS**

(Page 1 of )

## TABLE OF CONTENTS

SESSION	TOPIC	PAGE
1	<b>Macroeconomics:</b> The Circular Flow	3 – 13
2	<b>Macroeconomics:</b> The Business Cycle	14 - 30
3	<b>Macroeconomics:</b> The Public Sector	31 – 44
4	<b>Macroeconomics:</b> The foreign exchange markets (International Trade) -part 1	45 – 67
5	<b>Macroeconomics:</b> The foreign exchange markets (International Trade ) - part 2	68 – 81
6	<b>Macroeconomics:</b> Free trade and protectionism - part 1	82 – 98
7	<b>Macroeconomics:</b> Free trade and protectionism - part 2	99 - 112

## SESSION 1: MACROECONOMICS: THE CIRCULAR FLOW

## SECTION A: TYPICAL EXAM QUESTIONS

## THE CIRCULAR FLOW

## QUESTION 1:

Section A – Short Questions  
(Taken from various sources)

**HINT:** When answering Section A – short question, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking. Always remember one alternative is completely wrong, one is nearly correct, and one is totally correct. It is easy to eliminate the completely wrong answer, but if you do not read the question carefully the nearly correct answer 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.

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

- 1.1.1. A✓✓
- 1.1.2. B✓✓
- 1.1.3. A✓✓
- 1.1.4. C✓✓
- 1.1.5. D✓✓



**1.2 Choose a description from COLUMN B that matches the item in COLUMN A. Write only the letter (A-I) next to the question number (1.2.1 – 1.2.8) in the ANSWER BOOK.**

(8 x 1)

- 1.2.1 E✓
- 1.2.2 A✓
- 1.2.3 F✓
- 1.2.4 G✓
- 1.2.5. C✓

**1.3 Provide the economic term/concept for each of the following descriptions. Write only the term/concept next to the question number. NO ABBREVIATIONS WILL BE ACCEPTED.**

- 1.3.1 Multiplier effect✓
- 1.3.2. net domestic product✓
- 1.3.3. factor cost✓
- 1.1.4. money market✓
- 1.1.5. investment ✓

**SECTION B**

**QUESTION 2:**

**Section B**

**HINT:** When the question requires you to “list” or “name”, you need not write a sentence but merely one or two words. This **MUST** be done in bullet form. This types of questions are applicable for 2.1.1, 3.1.1 and 4.1.1

- 2.1 Name any TWO major flow elements in the economy (2 x 1)**
- Production ✓
  - Income ✓
  - Spending ✓
- 2.2 Name TWO components to calculate expenditure method (2 x 1)**
- Final consumption expenditure by households ✓
  - Final consumption expenditure by government ✓
  - Gross capital formation ✓
  - Residual item ✓
  - Exports of goods and services ✓
  - Import of goods and services ✓
- 2.3. Name TWO types of markets in the economy (2 x 1)**
- Product market ✓
  - Factor market ✓
  - Money market ✓
  - Capital market ✓
  - Foreign exchange market ✓
- 2.4 List TWO leakages found in the four-sector model of multiplier (2 x 1)**
- Marginal propensity to import ✓
  - Marginal rate of taxation ✓
- 2.5. Name any TWO types of income earned by labour (2 x 1)**
- Salaries ✓
  - Wages ✓

**QUESTION 3:**

(Taken from various sources)

**HINT:** These types of questions are applicable for 2.1.2, 3.1.2 and 4.1.2

- 3.1 Why tax is a leakage from the circular flow of income between household and firms. (1 x 2)**
- Tax is a part of income that is received by households but then paid to government. ✓✓ Therefore, it is taken out of the circular flow of income and households cannot spend it on the goods and services market. ✓✓ It is therefore an amount that is withdrawn or leaked from the circular flow of income.
- 3.2. Why imports are subtracted in the expenditure approach to calculate (1 x 2)**
- imports are subtracted in the standard national income identity is because they have already been included as part of consumption, investment, government spending, and exports. ✓✓ If imports were not subtracted, GDP would be overstated

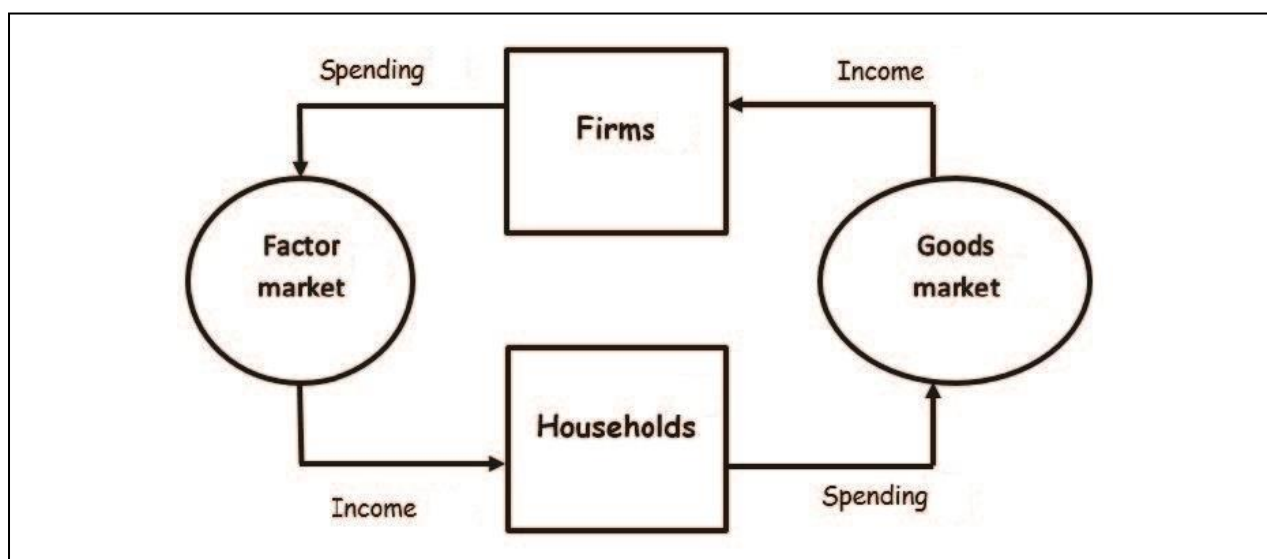
- 3.3 **How are businesses connected to factor and product markets?** (1 x 2)
- In factor markets, firms are consumers(buyers) of the resources. ✓✓ In product markets, firms are sellers(producers) of goods and services(stuff). Where do resource owners(homeowners) get money to buy goods and services in the product market?
- 3.4 **How income and output are determined in four sector model?** (1 x 2)
- equilibrium national income is determined when aggregate demand equals aggregate supply. ✓✓ This means that when  $C + I + G + (X - M)$  line cuts the 45°-line, equilibrium national income is determined. ✓✓
- 3.5 **Why is GNI misleading?** (1 x 2)
- GNI per country does not take into consideration the population of each country, so the numbers can be misleading when looking at countries with vastly different populations ✓✓

### Data Response

**HINT:** All section B questions have TWO data interpretation questions – each total 10 marks. Section B consist of Questions 2-4 not as numbered in this document

### QUESTION 4:

Study the table below and answer the questions that follow



- 4.1 **Give the economic concept illustrated in the diagram above.** (1)
- Income and spending circular flow ✓
- 4.2 **Name the type of income household receive from factor market** (1)
- Wages ✓
  - Salaries ✓

- 4.3 Briefly describe the term *circular flow*. (2)**
- The circular-flow model of the economy is a simplification showing how the economy works and the relationship between income, production, and spending in the economy as a whole. ✓✓
- 4.4 Explain the role of the factor market in the circular flow? (2)**
- Increase in demand for labour (factor market) leads to increased demand for products. If firms employ more workers and pay higher wages, then this leads to an increase in household income ✓✓
- 4.5 Discuss the interaction between household and firms in the economy (2x2) (4)**
- Firms use households (factors of production) to pay factor incomes which is rent, wages, interest, and profit. ✓✓
  - Firms will use factor of production to produce output in the way of goods and services, which will be purchased by the household. ✓✓

**QUESTION 5:**

Study the information below and answer the questions that follow.

## RAND TUMBLES TO 3-WEEK LOW, STOCKS FALL AS EARNINGS DISAPPOINT



At 1600 GMT the rand was 2.2% weaker at R16.91 per dollar, its weakest since July 10.

Source : <https://www.moneyweb.co.za/news-fast-news/rand-tumbles-to-3-week-low-stocks-fall-as-earnings-disappoint/>

- 5.1 Identify the market above (1)**
- Foreign exchange market ✓
- 5.2 List any type of notes used by South Africa Reserve Bank (1)**
- R10✓
  - R20✓
  - R50✓
  - R100✓
  - R200✓
- 5.3 Briefly describe the term *market*. (2)**
- Any contact or communication between actual and potential buyers and actual and potential sellers of a good or service✓✓
- 5.4 Explain the basic function of a financial intermediary.? (2)**
- The role of a financial intermediary is to receive funds from surplus units in the form of deposits and transfer it to deficit units by granting credit to the deficit units. ✓✓
- 5.5 Distinguish between consumer goods and capital goods (4)**
- Consumer goods**
- Consumer goods are those goods that are purchased by households for consumption✓✓
- Capital goods**
- Capital goods are those goods which are purchased by businesses for use in the production process. ✓✓

**QUESTION 6:**

Study the table below and answer the questions that follow.

Gross value added by kind of economic activity 2019-2020		
	2019	2020
Agriculture , forestry and fishing	74 157	69 049
Mining and quarrying	230 514	226 154
Wholesale and retail trade, catering and accommodation	431 669	431 720
Manufacturing	386 884	383 831
Transport ,storage and communication	273 193	272 179

Source : SARB bulletin

- 6.1 Which method was used in the calculation of the gross domestic product GDP above? (1)**
- Production method✓

- 6.2 List any ONE aggregate measures of economic activity (1)
- Determine the standard of living ✓
  - Compare prosperity levels between countries ✓
  - Measure economic growth on a year -to-year basis ✓

- 6.3 Briefly describe the term *gross domestic product* (2)
- The value of all final goods and services produced within the borders of a country within a given period, usually one year ✓✓

- 6.4 Explain the purpose of the system of national accounts? (2)
- to provide an integrated, complete system of accounts enabling international comparisons of all significant economic activity. ✓✓

- 6.5 Calculate gross value added at basic prices for the year 2020 (4)

	2020
Agriculture , forestry, and fishing	69 049
Mining and quarrying	226 154
Wholesale and retail trade, catering, and accommodation	431 720
Manufacturing	383 831
Transport ,storage and communication	272 179

GVA @ Basic prices:

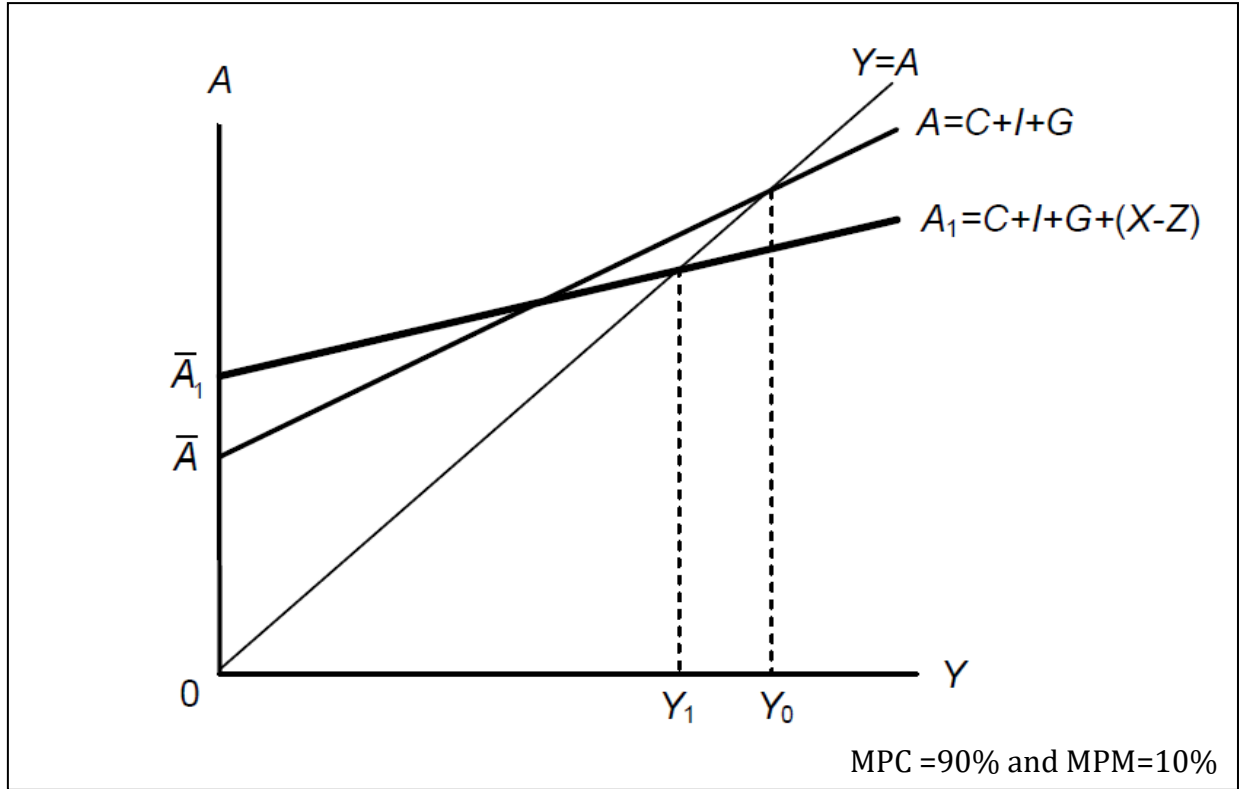
$$69049 + 226154 + 431720 + 383831 + 272179 \} \checkmark\checkmark = \underline{\underline{R1\ 382\ 933}} \checkmark\checkmark$$





**QUESTION 7**

Study the extract below and answer the questions that follow



- 7.1 Which sector model is illustrated above (1)
- Four sector model of multiplier ✓
- 7.2 What does Y0 represents... (1)
- The equilibrium level of income if the economy were closed ✓
- 7.3 Briefly describe the term *marginal propensity to consume* (2)
- Disposable income increases, an increase in personal consumer spending occurs ✓✓
- 7.4 Explain the Keynesian view approach on fiscal policy (2)
- the government should increase demand to boost growth ✓✓
- 7.5 Calculate the multiplier effect on imports of aggregate expenditure? (4)

$$\frac{1}{1 - (MPC - MPM)}$$

$$\frac{1}{1 - (90 - 10)} \checkmark$$

$$\frac{1}{1 - 80} \checkmark$$

$$\frac{1}{20} \checkmark$$

$$= 5 \checkmark$$

The effect of imports is to reduce the change in income from any change in spending from a multiple of 10 to a multiple of 5

## QUESTION 8

### Paragraph type questions – Middle Cognitive

#### 8.1. Explain the meaning of the various elements of gross domestic product

- The GDP is the total value of all final goods and services produced within the borders of a country during a particular period (usually one year) ✓✓
- Value refers to the prices of goods and services. It is necessary to have a way to measure total production as one orange and one car are not of equal value. Therefore, prices are used to measure GDP. ✓✓
- Final goods and services mean that intermediate goods and services are not included when the GDP is calculated, nor are resales of assets and goods. ✓✓
- All production within the country is taken into account, regardless of who was responsible for the production. ✓✓ Production by South African citizens in foreign countries does not form part of our GDP, as it was not produced within the country ✓✓.

#### 8.2. Draw and interpret an open four-sector circular-flow diagram.

#### 8.3. Explain how double counting can be avoided when GDP is estimated

- Only count value added in each phase of the production process ✓✓
- Only add income earned by factors of production ✓✓
- Only add the value of final goods and services ✓✓, when sold to final users (including inventories that was produced this year and is held to be sold in the future) ✓✓

#### 8.4. Distinguish between money market and capital market

##### Money market

- Here short-term loans and very short-term funds are saved and borrowed by the consumers and business enterprises. ✓✓
- Banks, insurance companies are examples. ✓✓
- Bank debentures, treasury bills, government bonds are trade here. ✓✓

##### Capital markets

- Here long-term funds are borrowed and saved by consumers and business enterprises, ✓✓
- e.g. mortgage bonds. ✓
- The Johannesburg Stock Exchange (JSE) is a key institution in the capital market, ✓✓
- shares are traded here. ✓

#### 8.5. Explain the economic significance of the intercept and the slope of the consumption function.

- The intercept is determined by the size of autonomous expenditure ✓✓
- The intercept determines the position of the consumption function ✓✓

- The slope of the consumption function is determined by the marginal propensity to consume ✓✓
- When the marginal propensity to consume decreases, the slope of the consumption function will become smaller (flatter), and the consumption function will swivel down, ✓✓

**QUESTION 9 Paragraph type questions – Higher cognitive**

**9.1. How is the multiplier derived?**

- We are working in a closed economy that consists only households, firms, and a financial sector. ✓✓
- Prices remain constant ✓✓
- There are some unemployed resources in the economy ✓✓
- The money stock and interest levels are given ✓✓
- Spending is the driving force that determines the level of economic activity ✓✓

**9.2 Analyse the effect of shrinkage in the factor market on the economy of the country? (2)**

- Gross domestic product of the country will decline. ✓✓
- There will be negative growth in the economy of the country. ✓✓
- Inflation levels will rise. ✓✓
- Standard of living will drop. ✓✓
- Money will flow out of the country in search for these factors of production. ✓✓
- Deficit in the trade balance of the balance of payments. ✓✓

**9.3. How does an increase in the saving rate affect economic growth?**

- Higher saving rate may result in more capital investment and a higher rate of economic growth. ✓✓
- When the borrowed money is spent the demand for goods and services will increase which creates more jobs ✓✓
- Interest is earned when others borrow the money ✓✓
- Low savings which are low may be short-term consumption over long-term investment. ✓✓
- High savings increase income distribution in the country ✓✓

**9.4. How do exports and imports affect the economy?**

- Exports bring money into the country, which increases the exporting nation's GDP. ✓✓
- When a country imports goods, it buys them from foreign producers. ✓✓
- The money spent on imports leaves the economy, and that decreases the importing nation's GDP. ✓✓
- When exports are greater than imports, net exports are positive ✓✓
- Purchase of domestic goods and services increase GDP because it increases domestic production, but the purchase of imported goods and services has no direct impact on GDP ✓✓

## SECTION C

**HINT:** Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarising). The mark allocations for Section C is as follows:

[40]

### QUESTION 10

- Discuss the role of markets in the circular flow. (26 marks)
- Analyse how the government benefit in calculating the value of the multiplier. (10 marks)

#### **INTRODUCTION**

- The circular flow model is a simplified representation of the interaction between the participants of the economy ✓✓
  - Markets coordinate economic activities and determine prices for goods and services ✓✓
- (Accept any other relevant introduction) **Max (2)**

#### **MAIN PART**

##### **Goods/Product/Output markets ✓**

- These are markets for consumer goods and services ✓✓
- In economics a distinction is made between goods and services:
- Goods are defined as any tangible items such as food, clothing and cars that satisfy some human wants or need ✓✓
- 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 includes wholesale and retail, transport, and financial markets ✓✓

##### **Factors/Resources/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 ✓✓

##### **Financial markets: ✓**

- They are not directly involved in 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 market, short term loans and very short-term funds are saved and borrowed by consumers and business enterprises ✓✓

12

- Products sold in this market are bank debentures, treasury bills and government bonds ✓✓
- The SARB is the key institution in the money market ✓✓

### Capital markets ✓

- In the capital market long term funds are borrowed and saved by consumers and business enterprises ✓✓
- The Johannesburg Security Exchange is a key institution in the capital market ✓✓
- Products sold in this market are mortgage bonds and shares ✓✓

### Foreign exchange markets ✓

- On the foreign exchange market businesses buy/sell foreign currencies to pay for imported goods and services ✓✓
- These transactions occur in banks and consists of an electronic money transfer from one account to another ✓✓
- The most important foreign exchange markets are in London/New York/Tokyo ✓✓
- The S.A Rand is traded freely in these markets ✓✓ e.g. when a person buys travellers cheques to travel abroad ✓

Listing of subheadings. 6 x marks  
 If candidates discussed four markets 4 x 5 = 20 marks  
 If candidates discussed more 4 x markets, the maximum of 26 marks. Allocate a maximum of 8 MARKS for lower order elements, inclusive of headings, sub-headings or examples.

Analyse how the government benefit in calculating the value of the multiplier.

- The macro-economic multiplier informs the government the amount by which it can expect the value of the equilibrium level of output to change for any change in the level of injections. ✓✓
- When the government wants the economy to **expand (grow)** it can be done in the following ways through the government's **fiscal policy**. ✓✓:
- Reduce taxes. ✓ Disposable income will increase, then AD will increase which leads to higher consumer spending. Profits after tax will increase which will result in higher production, investments & employment by firms. ✓✓
- Increase consumption of goods and services ✓✓ (government spend more, AD increase, thus G increases further) ✓
- Increase the exports and receive money (injection into domestic economy) in return from foreign countries. ✓✓
- And when the government wants to **slow down (restrict)** the growth in the economy it will increase taxes, ✓✓ which will lead to lessor disposable income and thus a decrease in the consumption of goods and services by consumers. ✓✓

**SESSION 2:            MACROECONOMICS: BUSINESS CYCLES**

**SECTION A: TYPICAL EXAM QUESTIONS**

**QUESTION 1:                            10 minutes    Section A – Short Questions**

**HINT:** When answering Section A – short question, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking. Always remember one alternative is completely wrong, one is nearly correct, and one is totally correct. It is easy to eliminate the completely wrong answer, but if you do not read the question carefully the nearly correct answer 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.

- 1.1.1. D ✓✓
- 1.1.2. A ✓✓
- 1.1.3. B ✓✓
- 1.1.4. D ✓✓
- 1.1.5. B ✓✓

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

- 1.2.1. D ✓
- 1.2.2. A ✓
- 1.2.3. B ✓
- 1.2.4. F ✓
- 1.2.5. C ✓

1.3        Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1 – 1.3.15) in the ANSWER BOOK. Abbreviations, acronyms and examples will NOT be accepted.

- 1.3.1. Recession ✓
- 1.3.2. Philips curve ✓
- 1.3.3. Real (actual) business cycles ✓
- 1.3.4. Exogenous approach ✓
- 1.3.5. Composite indicator ✓

**QUESTION 2:**

**HINT:** When the question requires you to “list” or “name”, you need not write a sentence but merely one or two words. This **MUST** be done in bullet form.

- 2.1 List any TWO types of business cycles**
- Kitchin cycles ✓
  - Jugger cycles ✓
  - Kuznets cycles ✓
  - Kondratieff cycles ✓
- 2.2 Name TWO government policy used to 'smoothing of cycles'**
- Monetary policy ✓
  - Fiscal policy ✓
- 2.3 List any TWO phases in business cycles**
- Recovery ✓
  - Prosperity, ✓
  - Recession ✓
  - Depression ✓
- 2.4 Name any TWO features underpinning forecasting on business cycles**
- Leading indicators ✓
  - Co-incident indicators ✓
  - Composite indicators ✓
  - Trend ✓
  - Length ✓
  - Amplitude ✓
  - Extrapolation ✓
  - Moving averages ✓
- 2.5 List any TWO supply side policies of the new economic paradigm**
- Reduction of costs of production ✓
  - Improving the efficiency of inputs ✓
  - Improving the efficiency of markets ✓

**QUESTION 3:**

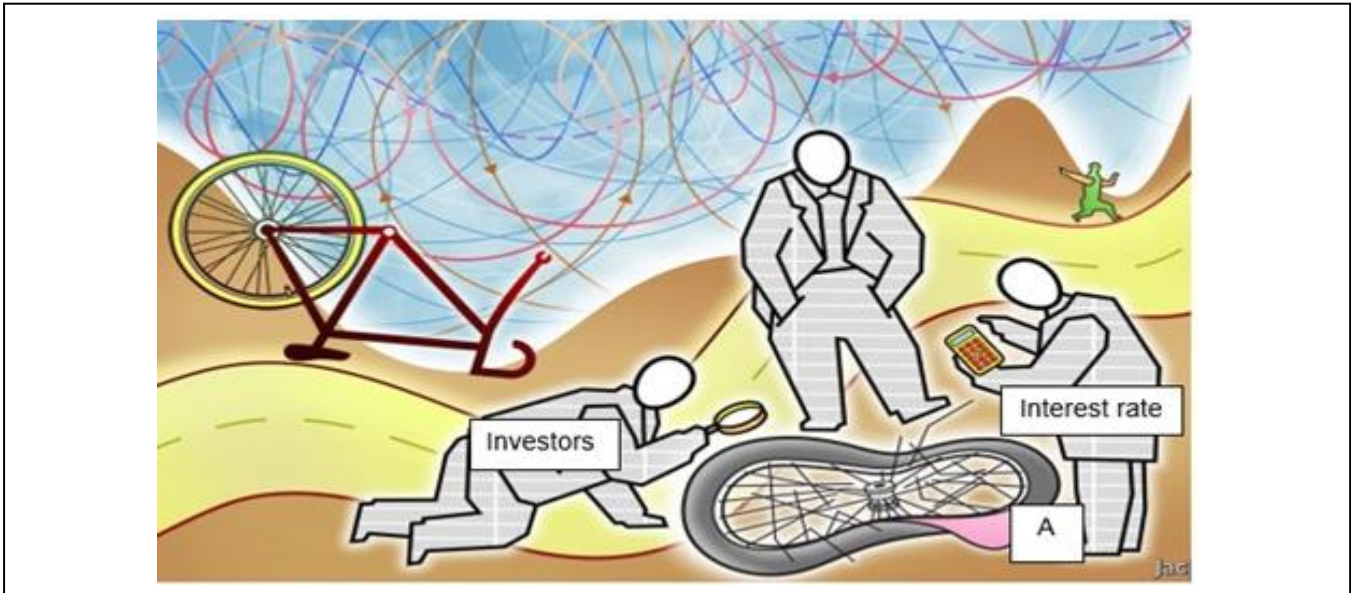
(Taken from various sources)

- 3.1 How does the business cycle cause instability in an economy** **2**
- A period of economic boom invariably leads to inflation with various economic costs ✓✓
  - Inflationary growth tends to be unsustainable and leads to a recession ✓✓
- 3.2 How can endogenous factors affect the business cycle? (1X2)** **2**
- Endogenous factors are factors found within a business model that pertains to the economy pertaining to a specific product. ✓✓
  - Many businesses have natural annual business cycles where demand is higher at certain periods and lower at others. As demand goes up in the market, prices may also rise. ✓✓
- 3.3 How accurate are leading indicators? (1X2)** **2**
- Looking at several leading indicators in conjunction with other types of data can help provide information about the future health an economy. ✓✓
  - Leading indicators often face trade-offs between accuracy, precision and lead time in predicting future events ✓✓
- 3.4 Why do interest rates exist? (1x2)** **2**
- Interest rate levels are a factor of the supply and demand of credit ✓✓
  - Increase in the demand for money or credit will raise interest rates. ✓✓
  - Decrease in the demand for credit will decrease them ✓✓
- 3.5 Why does the government use incentives? (1x2)** **2**
- To attract business, jobs and investment to the area



**QUESTION 4:**

Study the information and answer the questions that follow

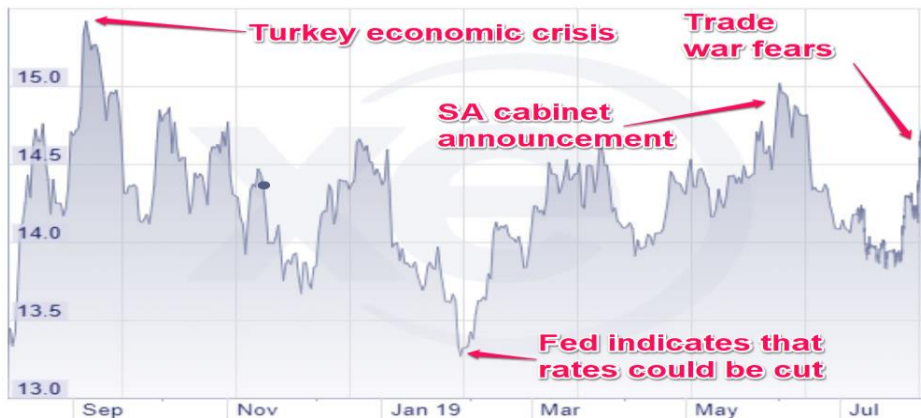


- 4.1 Name the period of the business cycles labelled A (1)
- Contraction ✓
- 4.2 Name the turning point labelled A? (1)
- Trough ✓
- 4.3 Briefly describe the term *peak of a business cycles* (2)
- Point where the economic expansion is at its highest. ✓✓
- 4.4 What happens in the depression phase of a business cycle? (2)
- The economy's growth rate becomes negative ✓✓
  - Further decline until the price of factors as well as the demand and supply of goods and services contract to reach their lowest point. ✓✓
  - The economy eventually reaches the trough. ✓✓
- 4.5 How governments influence business cycles? (2x2) (4)
- Use of fiscal policy increased government spending and/or tax cuts is the most common way of boosting aggregate demand, causing an economic expansion ✓✓
  - Independent of changes induced by political pressures ✓✓

**QUESTION 5:**

Study the information and answer the questions that follow

## THE RAND IS BLEEDING – BUT IT MAY NOT HURT SOUTH AFRICANS AS MUCH AS USUAL



Fears about a trade war between China and the US have sent global investors scurrying towards safe investments – and far away from anything risky, like emerging market currencies.

This (along with some local drama, including worries about Eskom’s massive debt burden) has wreaked havoc on the rand: the local currency has weakened by a full rand in the past two weeks. In the last week of July, it was worth R13.88/\$; on Monday, it almost reached R15. It recovered somewhat to R14.78 by Tuesday afternoon.

<https://www.businessinsider.co.za/rand-impact-2019-8>

- 5.1 Name the government policy illustrated above (1)**
- Monetary policy ✓
- 5.2 What was the current exchange rate on Monday? (1)**
- 1US\$=R13.88✓
- 5.3 Briefly describe the term *expansionary fiscal policy*. (2)**
- A fiscal policy that attempts to stimulate economic activity ✓✓
- 5.4 How does the exchange rate policy affect exports? (2)**
- The exchange rate has an effect on the trade surplus or deficit, which in turn affects the exchange rate. ✓✓
  - A weaker domestic currency stimulates exports and makes imports more expensive. Ceteris paribus✓✓

- 5.5 How does fiscal policy affect the price level?? (2x2) (4)**
- the use of fiscal policy to contract the economy by decreasing aggregate demand, which will lead to lower output, higher unemployment, and a lower price level. ✓✓
  - Decreasing government spending tends to slow economic activity as the government purchases fewer goods and services from the private sector. ✓✓
  - Increasing tax revenue tends to slow economic activity by decreasing individuals' disposable income, likely causing them to decrease spending on goods and service ✓✓

**QUESTION 6:**

Study the information and answer the questions that follow

### YOUTH GRADUATE UNEMPLOYMENT RATE INCREASES IN Q1:2019

The youth aged 15–24 years are the most vulnerable in the South African labour market as the unemployment rate among this age group was 55,2% in the 1st quarter of 2019. Among graduates in this age group, the unemployment rate was 31,0% during this period compared to 19,5% in the 4th quarter of 2018 – an increase of 11,4 percentage points quarter-on-quarter. However, the graduate unemployment rate is still lower than the rate among those with other educational levels, meaning that education is still the key to these young people's prospects improving in the South African labour market.

Source: <http://www.statssa.gov.za/?p=12121>

- 6.1 Which policy can be implemented to reduce unemployment in South Africa (1)**
- Supply side policies ✓
  - Demand side policies ✓
- 6.2 What is the current unemployment rate? (1)**
- 28.48% ✓
- 6.3 Briefly describe the “new economic paradigm”. (2)**
- Discourages policy makers from using monetary and fiscal policies to fine-tune the economy but rather encourages achieving stability through sound long-term policy decisions relating to demand and supply in an economy ✓✓

- 6.4 Explain the individual cost of unemployment to the society as a whole (2)
- Loss of income which can result in poverty, psychological effects✓✓
  - Financial cost of welfare programmes✓✓

- 6.5 Discuss the policy implications of the existence of the Philips curve.? (2x2) (4)
- When policy makers try to increase employment by using expansionary policy (i.e. an increase in G or a decrease in the tax rate and a decrease in the repo rate ), this may result in an increase in employment, but at the expense of a higher inflation rate . ✓✓
  - When policy makers try to decrease inflation by using contractionary policy (i.e. a decrease in G or an increase in the tax rate and an increase in the repo rate ), this may result in a decrease in inflation, but at the expense of a higher unemployment rate✓✓

#### QUESTION 7:

Study the information and answer the questions that follow



## END OF THE GOLDEN AGE? SA NOW TIES IN 11<sup>TH</sup> PLACE FOR ANNUAL PRODUCTION



A lack of new investment, rising costs, load shedding and the challenges of keeping some of the world's deepest operational mines have seen SA's share of the gold market shrink.

- 7.1 Identify the type of economic indicator illustrated above. (1)
- Leading economic indicator✓
- 7.2 Name ONE example of economic indicator (1)
- Unemployment✓
  - Interest rate✓
- 7.3 Briefly describe the term *economic forecasting* (2)
- Economic forecasting is the process of attempting to predict the future condition of the economy using a combination of widely followed indicators. ✓✓
- 7.4 Explain the importance of the GDP as economic indicator (2)
- When GDP growth is strong, firms hire more workers and can afford to pay higher salaries and wages, which leads to more spending by consumers on goods and services✓✓
- 7.5 How does GDP evaluate the business cycle? (2x2) (4)
- The business cycle model shows how a nation's real GDP fluctuates over time, going through phases as aggregate output increases and decreases. ✓✓
  - Over the long run, the business cycle shows a steady increase in potential output in a growing economy✓✓

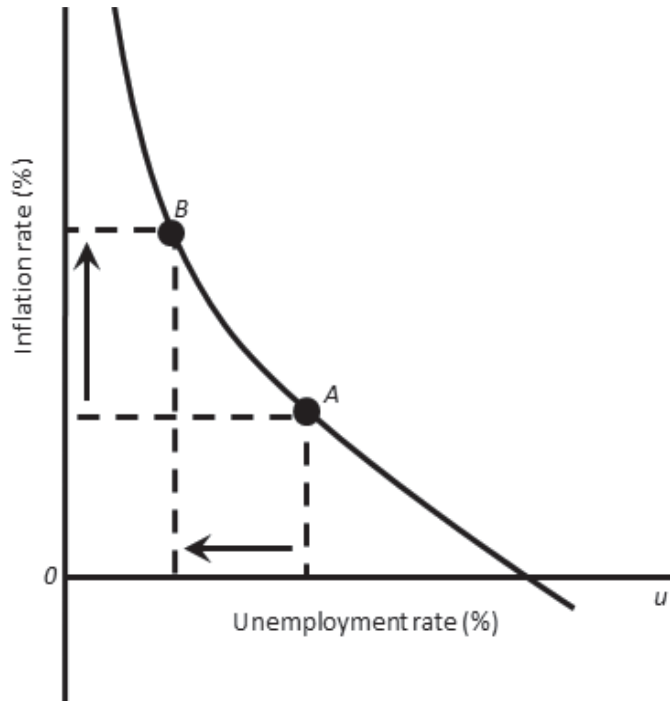


**QUESTION 8**

**Paragraph type of questions**

**Middle order**

- 8.1 With an aid of Philips curve graph. Explain the relationship illustrated by the Philips curve (8)



- The Philips curve shows the relationship between the inflation rate and the unemployment rate . ✓✓
- When aggregate demand increases and the economy grows, unemployment ✓✓
- Decreases but the inflation rate will increase v (as illustrated by the movement from point A to point B on the Philips curve) . If policy is used to decrease the inflation rate, the unemployment rate will increase and vice versa. ✓✓
- This means that low inflation can only be attained at the cost of higher unemployment and vice versa. ✓✓

**8.2 Explain how the amplitude and trend line can be used in the forecasting of business cycles. (8)**

**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 extend 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 ✓✓ (max 4)

**Trend line:**

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

**8.3 Discuss the monetary policy instruments used in stabilising the economy.**

**(8)**

**Interest rate changes** ✓✓

- It is used to influence credit creation by making credit more expensive or cheaper ✓✓
- Stabilisation of the exchange rate by encouraging capital inflows or outflows in order to take care of deficit ✓✓ or
- Surplus on the current account of the balance of payments ✓✓

**Open market transactions** ✓✓

- SARB selling securities to restrict bank credit ✓✓
- Banks have less money to lend and cannot extend as much credit as before ✓✓
- To encourage credit the SARB buys securities in the open market and money then flows back into the system ✓✓
- Bank uses money to create credit ✓✓

**Moral suasion** ✓✓

- SARB consults with the banks and persuade them to act in a manner desirable to the prevailing economic conditions ✓✓
- Sells paper such as bills and bonds ✓✓

**Cash reserve requirement** ✓✓

- This is the minimum percentage of total deposits that banks have to keep as cash and that may be used for lending or investing ✓✓
- A change in the cash reserve requirement makes more or less money available in the banking system ✓✓

**Exchange control policy** ✓✓

- A measure taken to prevent capital assets from being transferred to other countries ✓✓
- A policy usually developed by developing countries where the central bank fears that large amounts of foreign currency will be removed from a country ✓✓
- These have been reduced in South Africa recently ✓✓

Any other relevant argument

(Any 4x2)

**8.4 Discuss the Monetarist approach as a cause of business cycles. (8)**

- Also called the sunspot theory / exogenous approach ✓✓
  - Believe markets are inherently stable. ✓✓
  - Departures from the equilibrium state are caused by factors outside of the market system. ✓✓
  - Market forces (supply and demand) kick in and bring the economy back to its natural state or equilibrium route. ✓✓
  - These interferences are not part of the normal forces operating in the market. ✓✓
  - Governments should not interfere in the markets. ✓✓
  - Major cause of economic fluctuations are inappropriate government policies ✓✓
- undesirable increases and decreases in money supply ✓✓ weather conditions ✓
- E.g. shocks (September 11) ✓ structural changes ✓ severe increases in the price of fuel ✓ and wars ✓, Economic shut down due to Corona Virus ✓

**8.5 Discuss the policies that can be implemented to reduce unemployment. (8)**

**Supply side policies :**

- Limit population growth and immigration to decrease the size of the labour pool ✓✓
- Improve the quality of the labour force by providing training for persons who lacks skills, as many persons who are unemployed do not have the right skills to become employed ✓✓

**Demand side policies :**

- Increase the aggregate demand for goods and services by:
- Increasing government spending ✓✓
- Stimulating consumption by decreasing taxes ✓✓
- Stimulating investment by decreasing interest rates and creating an environment that is conducive to investment ✓✓
- Increasing the demand for exports by ensuring the country is internationally competitive and by ensuring a competitive exchange rate
- Increase the labour intensity of production ✓✓
- Creation of special employment programmes by government to provide labour with necessary experience while earning an income ✓✓
- Promote small business and the informal sectors, as these sectors are more labour intensive than larger companies ✓✓
- Tax incentives or subsidies to encourage employment ✓✓
- Ensure that the relative price of labour is kept within limits, as a too high wage may result in unemployment as companies find capital intensive production methods more profitable ✓✓



**QUESTION 9****Paragraph type of questions****Higher cognitive****9.1 How can be expansionary fiscal policy used to correct business cycles? (8)**

- Expansionary fiscal policy consists of a decrease in the tax rate ✓✓ and an increase in government expenditure ✓✓.
- A decrease in the tax rate will mean households have a larger part of their income available to spend ✓✓, and therefore consumption expenditure ✓✓ will increase, and thus also aggregate demand ✓✓.
- An increase in government expenditure will also result in an increase in aggregate demand, and in this way stimulate production in the economy to supply in the additional demand ✓✓.
- The increase in aggregate demand should stimulate the economy, thus making the downward cycle shorter, or stimulate the economy to move into an upward cycle again ✓✓

**9.2 How does monetary and fiscal policy influence the position of the aggregate demand curve? (8)**

- Monetary policy affects the level of the repo rate which affects the general interest rate level in the economy. ✓✓
- An increase in repo rate will lead to an increase in the interest rate level ✓✓.
- This will lead to a decrease in investment, thus a decrease in aggregate demand, and can be illustrated by a leftward shift of the aggregate demand curve ✓✓.
- A decrease in the repo rate will lead to a decrease in the interest rate level This will lead to an increase in investment, thus an increase in aggregate demand and can be illustrated by a rightward shift of the aggregate demand curve. ✓✓
- Fiscal policy can affect the tax rate and/or the level of government spending. ✓✓
- When the tax rate increases, this will cause a decrease in disposable income ✓✓
- A decrease in disposable income results in a decrease in consumption spending, thus a decrease in aggregate demand ✓✓.
- This can be illustrated by a leftward shift of the aggregate demand curve. ✓✓
- A decrease in the tax rate will result in an increase in disposable income. This results in an increase in aggregate demand which is illustrated by a rightward shift of the aggregate demand curve ✓✓.
- When government spending is increased, this increases aggregate demand and can be illustrated by a rightward shift of the aggregate demand curve ✓✓.
- A decrease in government spending decreases consumption spending and can be illustrated by a leftward shift of the aggregate demand curve. ✓✓

- 9.3 How does government use demand-side policies to reduce unemployment?** (8)
- Increase the aggregate demand for goods and services by
    - o Increasing government spending.
    - o Stimulate consumption by decreasing taxes ✓✓
  - Stimulate investment by decreasing interest rates and creating an environment that is conducive to investment ✓✓
  - Increasing the demand for exports by ensuring the country is internationally competitive and by ensuring a competitive exchange rate ✓✓ Increase the labour intensity of production ✓✓
  - Creation of special employment programmes by government to provide labour with necessary experience while earning an income ✓✓
  - Promote small business and the informal sectors, as these sectors are more labour intensive than larger companies. ✓✓
  - Tax incentives or subsidies to encourage employment ✓✓
  - Ensure that the relative price of labour is kept within limits, as a too high wage may result in unemployment as companies find capital intensive production methods more profitable ✓✓
- 9.4 Evaluate the extent to which the poor and economically vulnerable are affected by a recession?** (8)
- During recession, the firms earns low revenue and household earns less remuneration ✓✓
  - When interest rate increases, the poor are unable to afford goods and services ✓✓
  - When unemployment increases the poor or vulnerable are unable to meet their basic needs ✓✓
  - When economic activities decline, the poor households are affected ✓✓
  - Any other relevant evaluation
- 9.5 How has the Keynesian (endogenous) school of thought influenced business cycles?** (8)
- 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. (stimulate) ✓✓
  - 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 ✓✓

## SECTION C

**HINT:** All section C questions have TWO questions 5 & 6 NOT 9 & 10 like in this document. In the examination you will need to answer only one.

### ESSAY STRUCTURE

**HINT:** Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarising). The mark allocations for Section C is as follows:

<b>STRUCTURE OF ESSAY:</b>	<b>MARK ALLO- CATION:</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 or conclusion include:</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>

### QUESTION 10

- Discuss in detail the demand-side policies used in 'smoothing of cycles'  
(26 marks)
- Evaluate the extent to which the poor and economically vulnerable are affected by recession  
(10 marks)

### 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

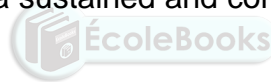
The new economic paradigm is embedded in the demand and supply side policies. ✓✓

### 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 lead to inflation. ✓✓

### Inflation:

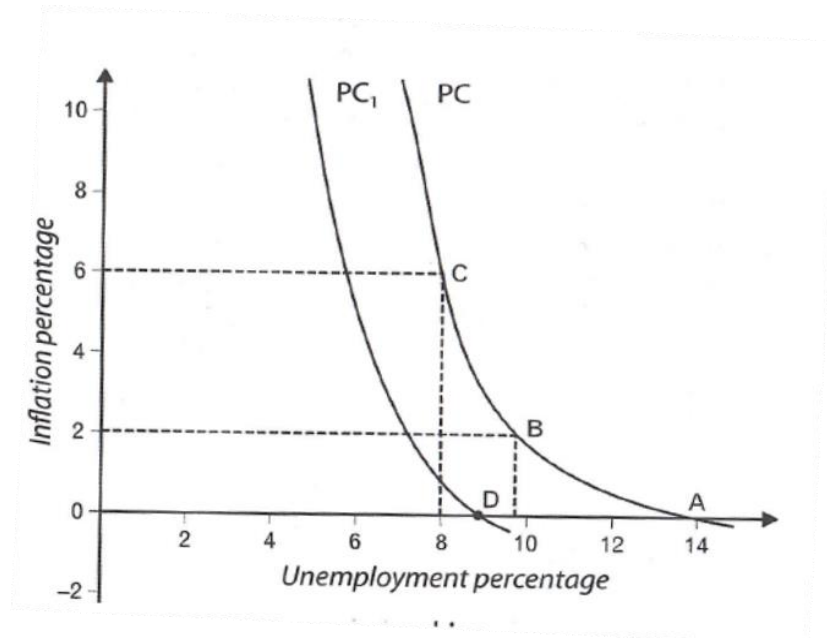
- ❖ Aggregate demand increases more quickly than aggregate supply and this causes price increases. ✓✓
- ❖ If the supply does not react to the increase in demand, prices will increase. ✓✓
- ❖ This will lead to inflation (a sustained and considerable in the general price level) ✓✓



### 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 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% ✓✓
- ❖ 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  
 Max 4 marks

## 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

#### Evaluate the extent to which the poor and economically vulnerable are affected by recession

- During recession, the firms earn low revenue and household earns less remuneration ✓✓
- When interest rate increases, the poor are unable to afford goods and services ✓✓
- When unemployment increases the poor or vulnerable are unable to meet their basic needs ✓✓
- When economic activities decline, the poor households are affected ✓✓
- Any other relevant answer

### 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]

**SESSION 3:                   MACROECONOMICS: PUBLIC SECTOR****SECTION A: TYPICAL EXAM QUESTIONS****QUESTION 1:                                   10 minutes   Section A – Short Questions**

**HINT:** When answering Section A – short question, it is important not to rush but to read the questions carefully and to make sure you understand what the question is asking. Always remember one alternative is completely wrong, one is nearly correct, and one is totally correct. It is easy to eliminate the completely wrong answer, but if you do not read the question carefully the nearly correct answer 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.

- 1.1.1. C ✓✓
- 1.1.2. D ✓✓
- 1.1.3. C ✓✓
- 1.1.4. B ✓✓
- 1.1.5. A ✓✓



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

- 1.2.1. F ✓
- 1.2.2 E ✓
- 1.2.3. A ✓
- 1.2.4 B ✓
- 1.2.5.C ✓

- 1.3       Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1 – 1.3.22) in the ANSWER BOOK. Abbreviations, acronyms and examples will NOT be accepted.

- 1.3.1. Nationalisation ✓
- 1.3.2. Deregulation ✓
- 1.3.3. Public corporation ✓
- 1.3.4. Pareto efficiency ✓
- 1.3.5. Fiscal policy ✓

**QUESTION 2:**

**HINT:** When the question requires you to “list” or “name”, you need not write a sentence but merely one or two words. This **MUST** be done in bullet form.

- 2.1 Name any TWO reasons for public sector inefficiency (2X1) (2)**
- Bureaucracy ✓
  - Incompetence ✓
  - Corruption ✓
- 2.2 List any TWO mechanisms are applied to make the state more accountable to the public. (2X1) (2)**
- Ministerial responsibilities ✓
  - Parliamentary questioning ✓
  - Treasury control ✓
  - Audit and report ✓
- 2.3 List any TWO example of merit goods (2X1) (2)**
- Education ✓
  - Hospitals ✓
  - Emergency services ✓
- 2.4 Name two kinds of municipalities (2X1) (2)**
- Metropolitan ✓
  - Local municipality ✓
  - District municipality ✓
- 2.5 List any TWO macroeconomic objectives. (2X1) (2)**
- Price stability ✓
  - Full employment ✓
  - Equitable distribution of income ✓
  - Economic growth ✓
  - Balance of payments equilibrium ✓

**QUESTION 3:**

(Taken from various sources)

- 3.1 Why do externalities lead to market failure? (1x2) (2)**
- Product or service’s price equilibrium does not accurately reflect the true costs and benefits of that product or service ✓✓
- 3.2 How does fiscal policy affect price level? (1x2) 2**
- the use of fiscal policy to contract the economy by decreasing aggregate demand, which will lead to lower output, higher unemployment, and a lower price level. ✓✓

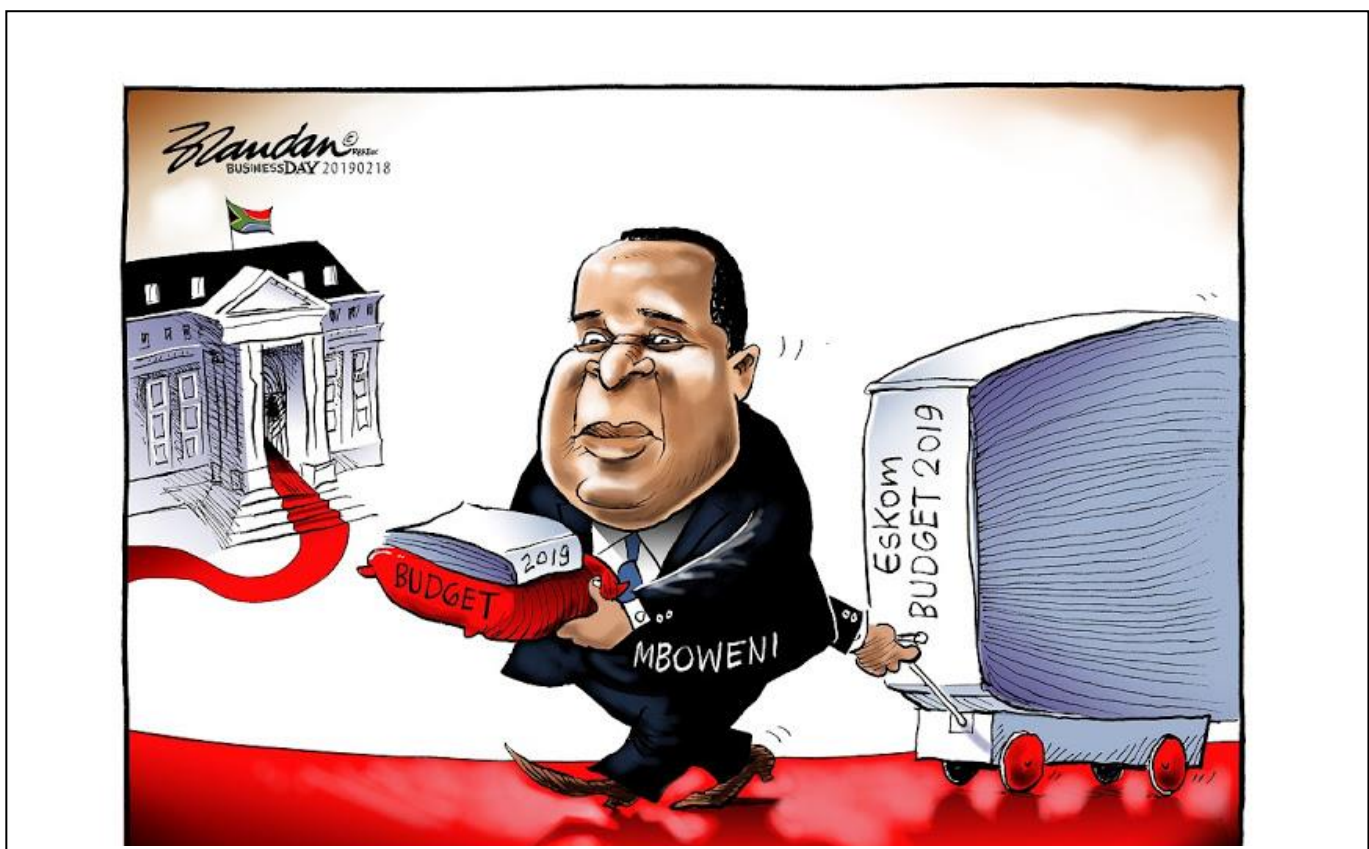


- 3.3 Why is an efficient local government so important? (1x2) 2**
- Effective local governments provide overall quality of life for the people who reside in their communities. ✓✓
- 3.4 Why is full employment important? (1x2) (2)**
- Reduces inequality and prevents relative poverty from those who are unemployed ✓✓
  - Full employment will improve business and consumer confidence which will encourage higher growth in the long-term ✓✓
- 3.5 What is the importance of taxation in South Africa? (1x2) (2)**
- Tax is used to fund public services ✓✓
  - Taxes help raise the standard of living in a country ✓✓

**Data Response  
QUESTION 4:**

(Taken from various sources)

Study the information and answer the questions that follow



- 4.1 Name the public corporations above. (1)**
- Eskom ✓
- 4.2 Who presents the national budget in South Africa? (1)**
- Minister of finance ✓

- 4.3** Briefly describe the term *medium-term expenditure framework*. (2)
- A system of budgeting which requires the state to use a rolling budget and set budgets for a three-year period ✓✓
- 4.4** Why would a company choose to become a public corporation? (2)
- To raise capital and potentially broaden opportunities for future access to capital. ✓✓
  - To increase liquidity for a company's stock, which may allow owners and employees to sell stock more easily. ✓✓
  - To acquire other businesses with the public company's stock ✓✓
- 4.5** How is a budget helpful for a government? (2x2) (4)
- The budget determines which constituents give to the entity and which receive, which activities are supported, and which are assessed. ✓✓
  - The force of law backs government budgets and officials use it to guide to oversee spending ✓✓

**QUESTION 5:**

Study the information and answer the questions that follow

### **‘STATE CAPTURE’: THE CORRUPTION INVESTIGATION THAT HAS SHAKEN SOUTH AFRICA**

South Africans watched, transfixed, as video from a hidden mobile phone camera was broadcast on TV. It showed a group of men, in corporate uniforms, walking into a vault – where one of them counts out bundles of banknotes: “One, two, three, four, five ... bloody Monopoly money,” he laughs through heavy breaths, “must be a million.”

Source : <https://www.theguardian.com/news/2019/jul/11/state-capture-corruption-investigation-that-has-shaken-south-africa>

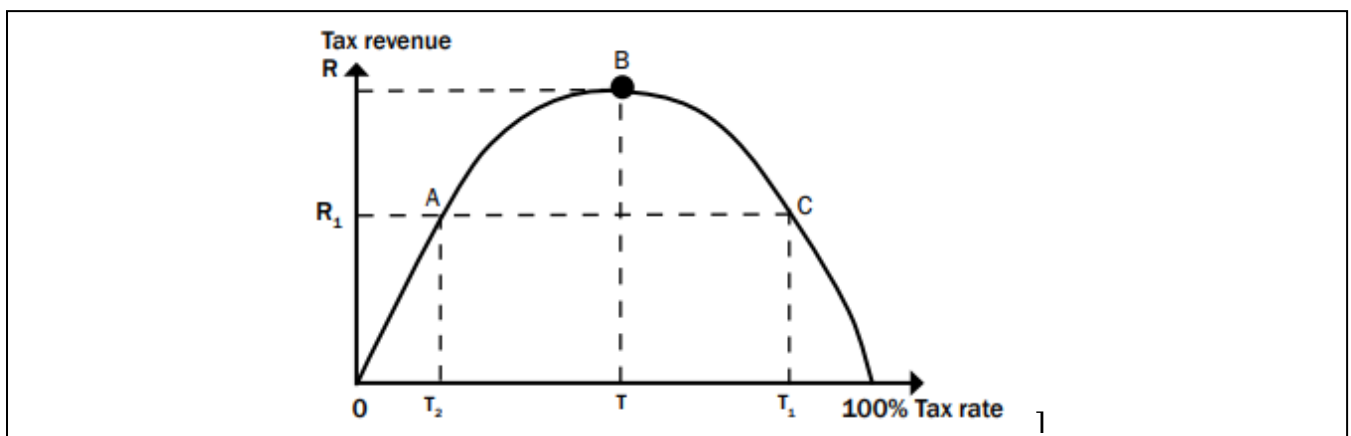
- 5.1** Name the reason for public sector failure above (1)
- Corruption ✓
- 5.2** List any ONE effect of public sector failure? (1)
- Economic instability ✓
  - Social instability ✓
  - Unfair distribution of income and wealth ✓
  - Inefficient of resources ✓

- 5.3 Briefly describe the term *public sector failure* (2)**
- Public sector failure occurs when government intervention in the economy leads to an inefficient allocation of resources and leads to an overall decline in economic welfare ✓✓
- 5.4 Why is it important for information to be accurate in the public sector? (2)**
- The government can function more effectively, and supply more of the needs of the public ✓✓
  - Accuracy can help to get greater tax collection, and therefore more taxpayers to contribute, leading to an increase in the satisfaction of needs consequently a better standard of living ✓✓
  - Any other relevant correct response
- 5.5 How does corruption affect service delivery? (2x2) (4)**
- Corruption creates fiscal distortions and redirects money allocated to income grants, eligibility for housing or pensions and weakens service delivery, it is usually the poor who suffer most. ✓✓
  - Income inequality has increased in most provinces experiencing high levels of corruption. ✓✓



**QUESTION 6:**

Study the information and answer the questions that follow



- 6.1 Which letter represents maximum tax revenue for the state? (1)**
- R ✓
- 6.2 Name the source of government revenue illustrated in Laffer curve? (1)**
- Tax ✓

- 6.3 Briefly describe the term *Laffer curve* (2)
- The Laffer Curve describes the relationship between tax rates and total tax revenue, with an optimal tax rate that maximizes total government tax revenue. ✓✓
- 6.4 Explain the tax revenue when the tax on a good increase gradually (2)
- As the government increases the tax rate, the revenue also increases until  $T^*$ . ✓✓ Beyond point  $T^*$ , if the tax rate is increased, revenue starts to fall. In short, attempts to tax above a certain level are counterproductive and result in less total tax revenue ✓✓
- 6.5 How can the South African government avoid public-sector failure? (2x2) (4)
- Improving the quality of management skills in the public sector ✓✓
  - Reducing corruption, including nepotism when hiring public sector employees ✓✓
  - Reducing bureaucracy by investing in modern systems such as an IT system ✓✓
  - Increasing accountability across all levels of government
  -

QUESTION 7:



Study the information and answer the questions that follow

## A SEA OF SUPPORT FOR DURBAN BEACH CLEAN-UP



Over 100 people flocked to Durban's beaches on Saturday-not for fun in the sun but for a mass clean-up following the devastating floods which hit KwaZulu-Natal week ago.

"the biggest problem is not the plastic and waste on the beaches, it's what builds up in river systems owing to consumer behaviour and service delivery inland, along poorly designed packaging

Source: <https://www.news24.com/news24/southafrica/news/a-sea-of-support-for-durban-beach-clean-up-20190427>

- 7.1 Name the example of collective good above. (1)**
- Beaches ✓
- 7.2 List any ONE negative externalities from the extract? (1)**
- Plastic ✓
  - Waste ✓
- 7.3 Briefly describe the term *free riding*. (2)**
- An individual who does not pay for the goods and services he or she consumes / person who benefits from something without expending effort or paying for it. In other words, **free riders** are those who utilize goods without paying for their use ✓✓
- 7.4 Why do externalities cause inefficiency? (2)**
- Externalities pose fundamental economic policy problems when individuals, households, and firms do not internalize the indirect costs of or the benefits from their economic transactions ✓✓

**7.5 Distinguish between merit and demerit goods? (2x2) (4)**

**Merit good**

- Good or Service whose provision has more public benefit than private benefit. ✓✓
- These goods or service are undersupplied by the government ✓✓

**Demerit good**

- Good or service that is socially undesirable due to the perceived negative effects on the consumers themselves. ✓✓
- It could be over consumed if left to market forces

**QUESTION 8 Paragraph type of questions Middle order**

**8.1 Distinguish between economic growth and full employment as macro-economic objectives (8)**

**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 are the most important economic objective of the government ✓✓
- The unemployment rate increased over the past few years in SA, especially during the Covid period (2020 – 2021) ✓✓
- Informal sector activities must be promoted because it is an area where employment increase ✓✓

**8.2 Discuss lack of accountability as a cause of poor public sector provisioning (8)**

- Accountability means to give an explanation for one's decisions, actions and expenditures. ✓✓
- The people require the state to use the taxes for the purpose for which they are raised and not to abuse the powers it was granted. ✓✓
- People employed by the state do not always serve the interests of the public. ✓✓
- They seek to maximise their salaries, status and power and are not required to produce a profit and loss statement. ✓✓
- They are budget driven. ✓
- The state tries to overcome this problem by making civil servants accountable to the public. ✓✓

In South Africa, accountability is underpinned by:

- Ministerial responsibilities: ministers are spokespersons for their departments. ✓✓
- The Director General of each department is accountable for the activities of the Department ✓✓
- Portfolio Committees: monitor individual departments and make recommendations to Parliament ✓✓
- Treasury control: the national treasury is responsible for expenditure control ✓✓
- The Treasury committee, chaired by the Minister of Finance, evaluates all requests for additional funding throughout the year ✓✓
- The Auditor-General reports on each government department ✓✓
- The AG reports on the standard of financial management and points out fraudulent and unauthorised spending ✓✓

**8.3 Discuss the reasons for the existence of a public sector (8)**

- 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 ✓✓

**8.4 Discuss composition of the public sector (8)**

National/central government✓

- Concerned with national issues ✓ e.g. health, defence, education safety and security. ✓
- Also includes non-profit organisations, e.g. SABS and CSIR.✓ Provincial/regional government✓
- Concerned with the administration of the nine provinces and economic issues specific to the region. ✓✓ Local government✓
- Concerned with local issues within a town for municipal area. ✓✓ E.g. electricity delivery, libraries, traffic control and refuse removal. Public corporations✓
- State-owned enterprises (SOEs) that provide public goods and services✓✓, such as Eskom, Transnet and SABS✓

**8.5 Discuss expenditure and taxation as composition of the fiscal policy (8)**

Government spending is classified in 2 main ways:

- Functional classification: Social; Protection; Economic; Interest ✓✓

General

- Economic classification: Current payments; Transfers and subsidies; payment for capital assets. ✓✓
- Government spends money to provide public and merit goods and services free of charge or at a subsidised price. ✓✓
- To pay interest on government debt. ✓
- To redistribute income. ✓
- To influence aggregate demand and supply ✓✓

Taxation

Government imposes tax for the following reasons:

- To raise income to cover expenditure ✓✓
- To discourage the use of demerit goods ✓✓
- To convert external cost into private cost ✓✓
- To discourage imports
- To redistribute income
- To influence the level of aggregate demand and aggregate supply

**QUESTION 9**                      **Paragraph type of questions**                      **Higher cognitive**

**9.1**                      **How can the government reduce public sector failure more efficiently?**                      **(8)**

The government could reduce public sector failure by:

- Providing leadership and training to management and employees. ✓✓
- Recognising employee worker performance through incentives, ✓✓ e.g. reward on excellent service. ✓
- Eliminating corruption through regular monitoring, ✓✓ e.g. auditing. ✓
- Administering flexible business processes to accommodate individual differences. ✓✓
- Employing different strategies to ensure service delivery, ✓✓ e.g. set targets, turn-around time. ✓

**9.2**                      **How would the budget successfully address economic inequity?**                      **(8)**

- A redistribution of income and wealth is essential in market economies ✓✓
- Progressive income tax and tax on profits, wealth and expenditure are used to finance free social services. ✓✓
- Such as basic education, primary healthcare and basic economic services and to pay cash grants to the poor and other vulnerable people ✓✓

**9.3**                      **Evaluate the provisioning of public goods and services in South Africa?**                      **(8)**

Provision of public goods and services is adequate because:

- More people have access to schools and medical services than before. ✓✓



- More infrastructure has been built, example Gautrain, toll roads, improved airports. ✓✓
- The South African defence force is protecting the people of South Africa as no major security incident has happened. ✓✓

Provision of public goods and services is not adequate because:

- The standard of education and health care is still not able to compare with other developed countries. ✓✓
  - Many South Africans still do not have access to basic goods and services like electricity, water and sewerage ✓✓
  - The crime rate in South Africa is amongst the highest in the world which indicates the lack of an efficient police force ✓✓
- (Accept any other correct relevant response.)

**9.4 How can the South African government going about to achieve a more equitable income distribution? (8)**

The South African government attempt to achieve an equitable income distribution through:

Using a progressive tax system .

- Higher income earners are taxed higher at tax rate. ✓✓
- These taxes are used to finance social development. ✓✓
- The poor benefit more than those with higher incomes ✓✓

Providing benefits in kinds

- These include the provision of education, school meals, and health care ✓✓
- Limited quantity of free electricity and water are provided ✓✓

Providing cash benefit to the economically venerable

- Disability grants, child support and unemployment insurance are cash grants. These are known as social security payment ✓✓

Wealth taxes

- Transfer duties are paid when properties are bought. ✓✓
- Estate duties are paid on the estates of the deceased ✓✓
- Taxes are used to finance development expenditure which benefit the poor ✓✓

The process of land restitution and land redistribution

- To those who lost their land due to discrimination ✓✓
- They can choose to be paid in cash or the retain the land ✓✓
- Training and capacitating of new landowners will determine the success of this strategy ✓✓

(Accept any other correct relevant response)

**9.5 How successful has the South African government been in reaching its macroeconomic objectives? (8)**

The government is successful in reaching these goals by:

- reducing unemployment through the EPWP. If it was not for the program, the unemployment rate would have been even higher ✓✓
- managing to keep inflation within the 3–6% target ✓✓

- improving economic equity (BEE through affirmative action, gender equity) ✓✓
- operating on a free-floating exchange rate system in line with international benchmarks ✓✓

The government is not successful in reaching its goals through:

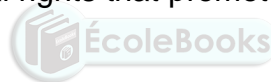
- a decreasing economic growth rate: in the last 5 years the average real gross domestic product growth has been below 2% ✓✓
- increasing unemployment rates - unemployment rate have increased to 27.7 in 2017 which was the highest since 2009 ✓✓
- fluctuating value of the rand - in the past 5 years the value of the rand fluctuated against the major trading partners' currencies ✓✓
- BEE only benefitting a few individuals due to corruption and misrepresentations such as fronting ✓✓

## **SECTION C**

**HINT:** All section C questions have TWO questions 5 & 6 NOT 9 & 10 like in this document. In the examination you will need to answer only one.

### **QUESTION 10**

- Discuss in detail macroeconomic objectives (26 marks)
- Evaluate the impact Social rights that promoted through the national budget (10 marks)



**Discuss in detail the main objectives of the public sector in the economy.**

### **INTRODUCTION**

The state is a body that governs and regulates the functioning of its economy and also plays a paternal role in providing its economy with its basic and important needs. ✓✓

### **BODY: MAIN PART**

1. Full employment ✓
  - Full employment is a condition where all people who are looking for a job, can find it. ✓✓
  - Government is always trying to attain high levels of employment in the country. ✓✓
  - The current rate of unemployment is estimated at 27.6%. ✓✓
  - Employment increases due to the contribution of the informal sector. ✓✓
  - The rate of unemployment has unfortunately increased in South Africa over the years. ✓✓
  - The GEAR strategy was implemented by the government with the purpose to create a climate conducive to employment creation mainly by the private sector, ✓✓

2. Economic growth ✓
  - Economic growth is referred to as an increase in the production of goods and services produced by the country in a specified period. ✓✓
  - Economic growth is measured in real GDP. ✓✓
  - For economic growth to occur, economic growth rate must be higher than population growth rate. ✓✓
  - Economic growth if used for the purposes of development, improves the economic welfare of the country's inhabitants. ✓✓
  
3. Price stability ✓
  - The SARB has implemented a policy of keeping inflation within the targeting rate of 3-6%. ✓✓
  - Market economies produce better results in terms of growth and development if the inflation rate is stable. ✓✓
  - Interest rates are the main instrument used to stabilise prices. ✓✓
  - The stable budget deficit also has a stabilising effect on the rate of inflation. ✓✓
  
4. Economic equity ✓
  - Redistribution of income and wealth is essential in the market economies. ✓✓
  - The South African government uses the progressive tax system to redistribute income. ✓✓
  - Taxes on profits, progressive income tax and tax on wealth are taxes used to finance free public services and social security grants. ✓✓
  
5. Exchange rate stability ✓
  - The government manages the economy through effective fiscal and monetary policies to stabilise the country's exchange rate. ✓✓
  - Depreciation and appreciation of the currency could create uncertainties for the currency and should be limited. ✓✓
  - The South African government uses the free-floating exchange rate system. ✓✓

(Max. 26)



### ADDITIONAL PART

Evaluate the impact social rights that promoted through the national budget

The right to a decent standard of living is achieved through

- The eradication of poverty which is made possible by the provision of different social rights e.g. old age grant, etc ✓✓✓
- Provision of housing subsidies to enable poor people and lower income households to own homes ✓✓
- Provision of housing and the right to own land and reduce social inequality
- Job creation schemes which are made possible by the job funded from the budget has created almost 200000 jobs since inception. ✓✓

The right to education is made possible through

- Provision of subsidies to education ✓✓
- Provision of funding for university studies ✓✓
- Providing the higher education of government spending to education ✓✓

The right to healthcare

- The budget has announced the need to increase the number of doctors and nurses in hospitals and clinics. ✓✓

The right to be informed

- The budget has announced the need to reduce data costs and make communication affordable. ✓✓

### **Weaknesses**

With widespread corruption, has led to mismanagement of funds in various departments resulting

- Increasing poverty ✓✓
- Increasing unemployment ✓✓
- Inequalities still exist ✓✓

Poor service delivery, housing shortage and electricity load-shedding ✓



**SESSION 5: MACROECONOMICS: FOREIGN EXCHANGE MARKETS - PART 1****SECTION A: TYPICAL EXAM QUESTIONS****QUESTION 1:**

- 1.1 Various options are provided as possible answers to the following questions. Choose the answer and write only the letter (A – D) of your choice next to the question number in the ANSWER BOOK.
- 1.1.1. C three  
 1.1.2. D comparative  
 1.1.3. D financial  
 1.1.4. C Foreign exchange market  
 1.1.5. C International monetary Fund  
 1.1.6. R depreciated against \$  
 1.1.7. B both country 1 and 2  
 1.1.8. C the value of a country's exports is more than the value of its imports  
 1.1.9. A the current account  
 1.1.10. C depreciated ;appreciated  
 1.1.11. A. shift of the supply of the USD curve to the right  
 1.1.12. C more South African tourists visit the United States  
 1.1.13. D can afford a deficit on the current account if there is a positive balance on the financial account  
 1.1.14. B. an increase in the gold price  
 1.1.15. C The rand has depreciated against the dollar  
 1.1.16. A Zimbabwe has an absolute advantage  
 1.1.17. B inflows and outflows of funds from sales and purchases of assets  
 1.1.18. D -173  
 1.1.19. A the value of goods exported and goods imported  
 1.1.20. B Net portfolio investments  
 1.1.21. A R300.00  
 1.1.22. D deficit ,surplus  
 1.1.23. A withdrawal in the current account  
 1.1.24. C there has been a net flow of foreign capital into the country  
 1.1.25. C exports prices relative to import prices  
 1.1.26. B The currencies of countries with a relatively high inflation rate tend to depreciate  
 1.1.27. Harmful to both importers and exporter in South Africa  
 1.1.28. D currencies of different countries are exchanged

**1.2 MATCH****1.2 (A)**

- 1.2.1 C✓ Subaccount in the balance of payment  
 1.2.2 F✓ The weakening of a currency as a result of market forces

- 1.2.3 A✓ Exchange rate system
- 1.2.4 G✓ Money received without any productive service rendered
- 1.2.5 H✓ A financial instrument distributed among member countries of the IMF to access funds
- 1.2.6 D✓ Where one country can produce goods or services cheaper than others
- 1.2.7 B✓ The value of exports minus imports
- 1.2.8 E✓ The weakening of a currency as a result of government intervention

**1.2 (B)**

- 1.2.1 D✓ All currencies of other countries in the possession of the South African Reserve Bank
- 1.2.2 H✓ The ratio between export prices and import prices
- 1.2.3 G✓ The international institution that promotes economic recovery and development
- 1.2.4 A✓ Price of one country's currency in terms of another country's currency
- 1.2.5 F✓ Buying and selling equities/shares
- 1.2.6 E✓ A statement of a country's transactions with the rest of the world
- 1.2.7 B✓ The exchange of goods or services across international borders
- 1.2.8 C✓ When consumers and producers are free to buy goods and services anywhere in the world without any restrictions

**1.3 Give the economic term/concept for each of the following descriptions. Write only the term/concept next to the question number. No abbreviations, acronyms and examples will be accepted.**

- |                                   |   |
|-----------------------------------|---|
| 1.3.1. opportunity cost           | 1.3.11. Devalue                         |
| 1.3.2. Trade balance              | 1.3.12. Revalue                         |
| 1.3.3. Foreign Direct investments | 1.3.13. Equilibrium price of a currency |
| 1.3.4. monetisation               | 1.3.14. Fixed exchange rate system      |
| 1.3.5. special drawing rights     | 1.3.15. Financial account               |
| 1.3.6. Demonetisation             | 1.3.16. South African Reserve bank      |
| 1.3.7. Exchange rate              | 1.3.17. Terms of trade.                 |
| 1.3.8. foreign exchange controls  | 1.3.18. Portfolio investment            |
| 1.3.9. Foreign exchange markets   | 1.3.19. Transfer payments               |
| 1.3.10. Disequilibria             | 1.3.20. Globalisation                   |

**SECTION B**

**QUESTION 2:**

**HINT:** When the question requires you to “list” or “name”, you need not write a sentence but merely one or two words. This **MUST** be done in bullet form.

- 2.1 Name TWO types of exchange rate systems (2X1) (2)**
- Free floating exchange rate✓
  - Fixed exchange rate✓
  - Managed exchange rate✓

**2.2 List any TWO reasons for changes in the exchange rate (2X1) (2)**

- Supply reasons ✓
- Demand reasons ✓ or any of the examples below

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

**2.3 Name TWO policies that could be used to reduce large deficits (2X1) (2)**

- Promoting exports ✓
- Reducing imports ✓
- Expenditure reducing policies ✓
- Foreign exchange control ✓
- International cooperation ✓

**2.4 List any TWO examples of investments in financial account (2X1) (2)**

- Net direct investment ✓
- Net portfolio investment ✓
- Net other investments ✓

**2.5 Name TWO sub-accounts of current account (2X1) (2)**

- Trade balance ✓
- The services account ✓
- The primary income account ✓
- The current transfer account ✓

**2.6 List any TWO composition of the balance of payment (2X1) (2)**

- Current account ✓
- Capital transfer account ✓
- Financial account ✓

**2.7 Name TWO demand reasons for international trade (2X1) (2)**

- Size of population ✓
- Income levels ✓
- Change in the wealth of the population ✓
- Preferences and tastes ✓
- The difference in consumption patterns ✓

- 2.8 List any TWO effects of international trade (2X1) (2)**
- Specialisation ✓
  - Mass production ✓
  - Efficiency ✓
  - Globalisation ✓
- 2.9 Name TWO supply reasons for international trade (2X1) (2)**
- Natural resources ✓
  - Climatic conditions ✓
  - Labour resources ✓
  - Technological resources ✓
  - Specialisation ✓
  - Capital ✓
- 2.10 List any TWO measures to correct balance of payments (2X1) (2)**
- Interest rates ✓
  - Import controls ✓
  - Borrowing and lending ✓
  - Change in demand ✓
  - Export promotion ✓
  - Import substitution ✓
  - Change in exchange rate ✓
- 2.11 Name TWO items that are subtracted in current account (2X1) (2)**
- Less merchandise imports ✓
  - Less payment services ✓
  - Less income payments ✓
- 2.12 List any TWO demand factors for foreign exchange (2X1) 2**
- Importing goods ✓
  - Payment for services from foreign countries ✓
  - Buying shares in another country ✓
  - Tourists spending money overseas ✓
  - Repayment of debt borrowed from foreign countries ✓
- 2.13 Name TWO supply factors of foreign exchange (2X1) 2**
- Exporting goods ✓
  - Providing services to foreign countries ✓
  - Receiving dividends on shares ✓
  - Inflow of foreign capital ✓
  - Expenditure of money by foreign tourists ✓
  - Raising new loans in foreign countries ✓



- 2.14 List any TWO example of service receipts in balance of payment (2X1) 2
- Travel services✓
  - Construction services✓
  - Government services✓
  - Business, professional, and technical services✓
  - The transportation of goods and passengers between countries✓

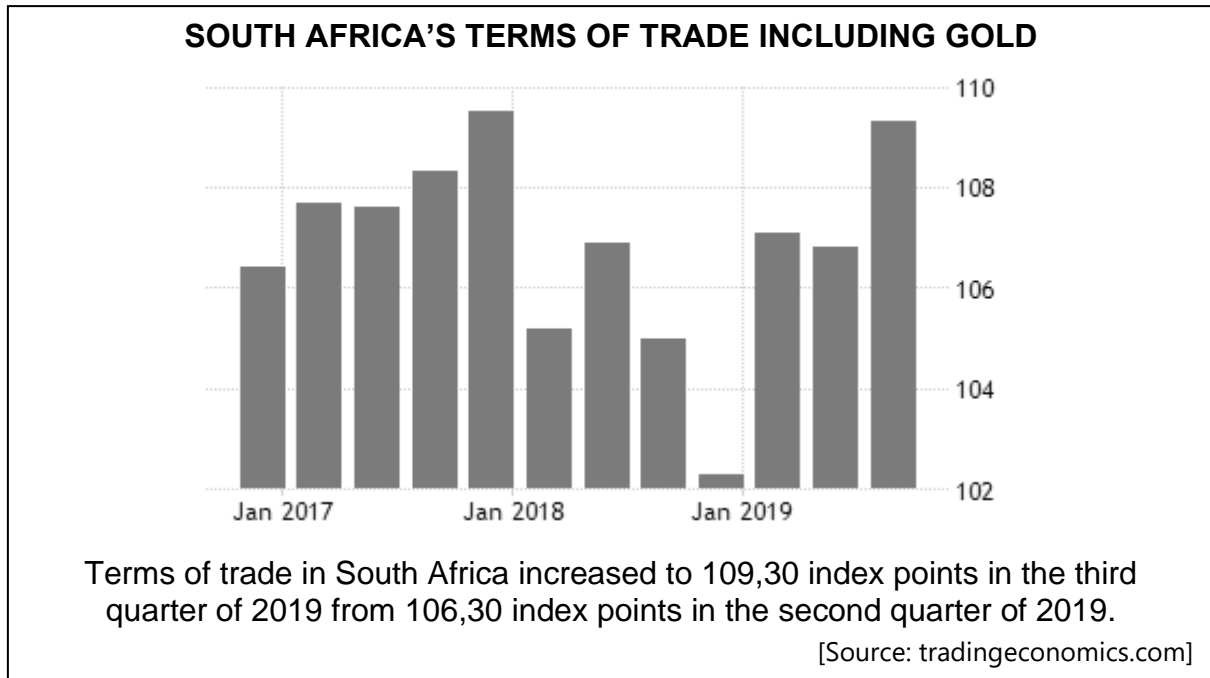
**QUESTION 3:**

- 3.1 How can world trade improve through specialisation (1x2) 2
- countries specialise in producing the goods for which they have a comparative advantage✓✓
- 3.2 How can the appreciation of the rand affect the exports of goods and services? (1x2) 2
- There will be a reduction in exports ✓✓
- 3.3 What effect will the depreciation of the Rand have on the demand for foreign goods? (1x2) 2
- The demand for imported goods will decrease because it will be too expensive to import. ✓✓
- 3.4 Why is gold listed separately in the balance of payments? (1x2) 2
- Because it is a key export commodity in earning foreign exchange✓✓
- 3.5 How can the increase in repurchase rate affect the direct investment by domestic businesses in South Africa? (1x2) 2
- The increase in repurchase rate lead to increase in prime rate therefor credits become more expensive from commercial banks. ✓✓
  - South African businesses can find it cost effective to borrow financial capital from commercial banks due to higher interest rates and that can lead to decline on direct investments. ✓✓

**Data Response**

**QUESTION 4:**

Study the table below and answer the questions that follow.



- 4.1 How much has the terms of trade increased in the last two quarters of 2019** (1)
- 3 index points/3% ✓
- 4.2 What caused an increase in South Africa's terms of trade in the third quarter of 2019** (1)
- An increase in the Rand price of exports ✓
  - A decrease in the rand price of imports ✓
- 4.3 Briefly describe the *terms of trade*** (2)
- Terms of trade expresses a country's export prices in terms of its import prices. ✓✓
- 4.4 Explain the effect of an improvement in terms of trade on the economy** (2)
- An improvement in terms of trade, all things being equal, increases economic welfare, although welfare may be lost in the long term. ✓✓
- 4.5 How does the current account deficit(negative balance of trade) affect terms of trade?** (2x2) (4)
- more currency will be leaving a country resulting in an increase in the demand of foreign exchange and lower demand. ✓✓

- this will likely cause depreciation of the currency making exports cheaper and imports expensive. ✓✓
- this would be a deterioration in terms of trade. ✓✓

### QUESTION 5

Study the graph below and answer the questions that follow.



- 5.1 Which main economic concept is illustrated in the picture above? (1)
- foreign exchange ✓
  - foreign exchange market ✓
  - currency market ✓
  - exchange rate ✓
- 5.2 Give the currency used in South Africa before the introduction of the rand (1)
- pound /British pound ✓
- 5.3 Briefly describe the term *appreciation* (2)
- Appreciation is the gain of the value of currency under floating exchange rates. ✓✓
- 5.4 What impact will more demand for foreign exchange have on the South African rand? (2)
- There will be a loss of value by rand/rand will depreciate ✓✓
- 5.5 How effective are the changes in the prices of imports and exports on the terms of trade? (4)  
(2x2)
- If the prices of exports increase more than import prices, the terms of trade will improve. ✓✓
  - Terms of trade will deteriorate if exports prices decrease more than import prices. ✓✓

**QUESTION 6**

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

BALANCE OF PAYMENT(BOP)	March 2019 (R million)
Current Account	
Merchandise exports	1 175 547
Net gold exports	71 678
Service receipts	210 415
Income receipts	96 507
Less: Merchandise imports	1 222 944
Less : Payments for services	217 939
Less :Income payments	250 552
Current transfers	-35 674
Balance on current account	-172 962
Memo item: Trade balance	A

6.1.1 Name any **ONE** example of service receipts. (1)

- Travel services✓
- Construction services✓
- Government services ✓
- Financial and insurance services✓

6.1.2 Give a reason for the deficit on the current account of the BOP. (1)

- Import expenditure exceeds export earnings ✓
- The payments for services are larger than the service receipts✓
- The income payments are more than the income receipts✓
- The current transfers indicate a negative balance✓

6.1.3 Briefly describe the term *portfolio investments*. (2)

- Involves the buying of paper assets, such as shares in companies listed on the JSE, or buying of government bonds for the purpose of getting financial returns on investments✓✓

6.1.4 Calculate the trade balance (A) for March 2019 in the above table (2)

$$\begin{aligned} &\text{Exports + gold exports – imports} \\ &= \text{R } 1\,175\,547 + \text{R}71\,678 - \text{R } 1\,222\,944 \\ &= \text{R } 24\,281 \checkmark \checkmark \end{aligned}$$

6.1.5 One way for a country to correct its deficit on the BOP is through borrowing from other countries. How can a country correct its deficit on the balance of payments, other than the measure mentioned above? (2x2) (4)

- Long-term policies, such as export promotion, will encourage more local production. ✓✓
- Interest rate changes to influence domestic demand, and consequently local production. ✓✓
- Exchange control, which involves domestic regulations to allow central banks to ration foreign exchange. ✓✓
- Import control measures such as import tariffs, other duties and import quotas, to discourage imports and promote domestic production. ✓✓

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

SOUTH AFRICA: TERMS OF TRADE			
YEAR	INDEX OF IMPORT PRICES	INDEX OF EXPORT PRICES	Terms of trade
2016	141	171	121.3
2017	153	191	124,8
2018	163	200	A
2019	179	214	119.6

6.2.1 Identify index of export prices of 2017 from the graph above (1)

- 191✓

6.2.2 What is the trend in the index of import prices? (1)

- The index of import prices is increasing from 141 to 179✓

6.2.3 Briefly describe the term ‘*terms of trade*’ (2)

- The ratio of the index of export prices to the index import prices expresses a country’s export prices in terms of its import prices✓✓
- The relationship between export price and import prices expresses a country’s export prices in terms of its import prices. ✓✓
- It expresses a country’s export prices in terms of its import prices✓✓

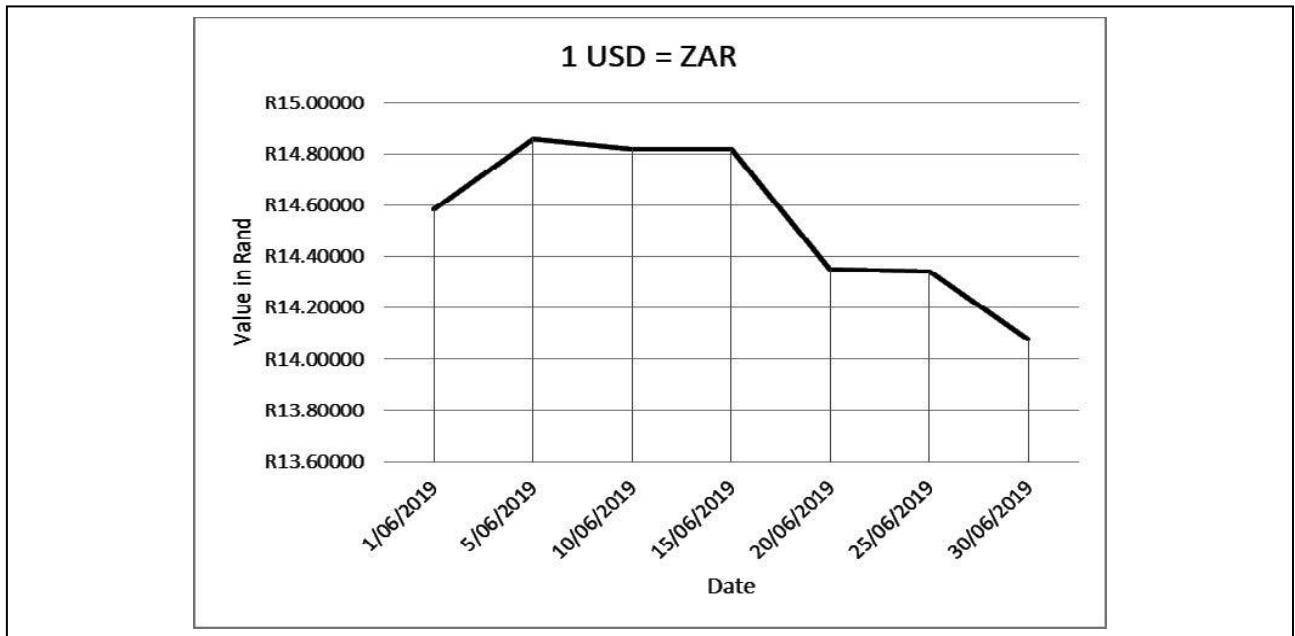
6.2.4 Explain why an increase in the terms of trade will have a positive effect on the welfare of the country (2)

- There will be increasing economic welfare because more revenue is earned with the same expenditure ✓✓

6.2.5 Calculate the terms of trade for 2018(A). Show ALL calculations. Round off your answer to ONE decimal place. (2x2) (4)

$$\frac{200}{163} \times 100 = 122,7$$

QUESTION 7



- 7.1 On which date was the rand the strongest against the dollar. (1)
- 30 June 2019 ✓
- 7.2 Which type of exchange rate is depicted in the graph? (1)
- Free floating ✓
- 7.3 Briefly describe the concept *exchange rate*. (2)
- It is the value of a currency of one country in terms of the currency of another country. ✓✓
- 7.4 Why is it important for a country to have a stable exchange rate? (2)
- To attract more foreign investments ✓✓
  - To attract more international tourists ✓✓
- 7.5 How will an appreciation of the rand against other currencies affect consumers? (2x2) (4)
- It decreases the price of goods and services - consumers will import more. ✓✓
  - Lower prices reduce living costs and increase standard of living. ✓✓
  - The gas price will decrease because it is determined by the price of oil, therefore consumers can afford more gas. ✓✓
  - People will rather work in South Africa than emigrate and employment will increase. ✓✓
  - Consumers will invest more because they can afford shares. ✓✓
  - Consumers will find it more affordable to go overseas. ✓✓

**QUESTION 8**

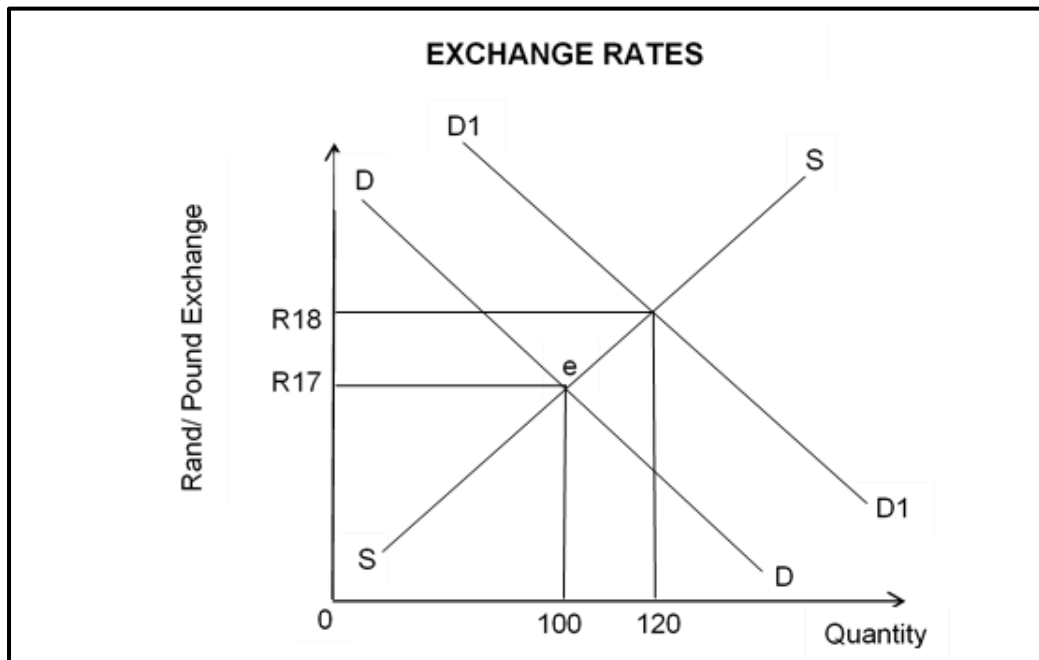
Study the extract below and answer the questions that follow.

<i>EXTRACT FROM BALANCE OF PAYMENT-JUNE 2020</i>	
	<i>R million (2019)</i>
<b>Current account</b>	
Goods/Merchandise exports	1235 964
Net gold exports	67 181
Service receipts	212 721
Income receipts	116 781
Less: Goods/Merchandise imports	1 263 824
Payments for services	226 494
Income payments	259 944
Current transfers(net receipts)	-35 561
<b>Balance on current account</b>	<b>-153 176</b>
Memo: Trade balance	39 321
<b>Capital transfer account(net receipts +)</b>	<b>244</b>
<b>Financial account</b>	
Net direct investment	21 756
Net incurrence of liabilities	66 816
Net acquisition of financial assets	-45 060
Net portfolio investment	131 062
Net financial derivatives	-4 177
Net other investment	-4 814
Reserve assets(increase)(-)/decrease(+)	-25 370
<b>Balance on financial account</b>	<b>118 457</b>
<i>Memo item: Balance on financial account excluding reserve assets</i>	<i>143 827</i>
<b>Unrecorded transactions</b>	<b>34 474</b>
<i>Memo item: Balance on financial account excluding reserve assets including unrecorded transactions</i>	<i>178 302</i>

- 8.1 Identify the subaccount in which assurance receipt or payment is classified under. (1)
- Services payment/receipt ✓
- 8.2 Which account/component in the balance of payment reflects the figures of the trade balance? (1)
- Current account ✓
- 8.3 Briefly describe the term *capital transfer account*. (2)
- It refers to international transactions related to the ownership creation of fixed assets. ✓✓
  - It is a statement of transfers of fixed or other assets, such as funds through foreign donations to South Africa. ✓✓
- 8.4 Why are unrecorded transactions included in the balance of payment? (2)
- If all transactions have not been recorded or an error was committed in writing down the individual components, the record will not balance, and will be corrected by including a net error and omission item under “unrecorded transactions”. ✓✓
  - Unrecorded transactions provide for any errors and omissions that may occur. ✓✓
- 8.5 How can the south African Reserve Bank work to correct the disequilibrium in the balance of payment? (2x2) (4)
- If interest rates increase, spending, including on imports, will decrease ✓✓
  - Foreign traders will try to take advantage by increasing investments in the country with the highest interest rate, as opposed to falling interest rates. ✓✓
  - Countries with surpluses usually lend money to countries with deficits, and countries with deficits usually lend money. ✓✓
  - Member countries can also borrow money from the IMF, loans are not a long-term solution to an imbalance on the balance of payments. ✓✓
  - Changes in currencies that depress or devalue make imports more expensive for local consumers and exports cheaper for foreign buyers. ✓✓
  - Import controls, which include import tariffs, quotas and import duties, and the WTO seeks to reduce tariffs to bring about trade liberalization ✓✓
  - Export promotion is applied in order to encourage the production of export goods, and import substitution where the government pays incentives in order ✓✓

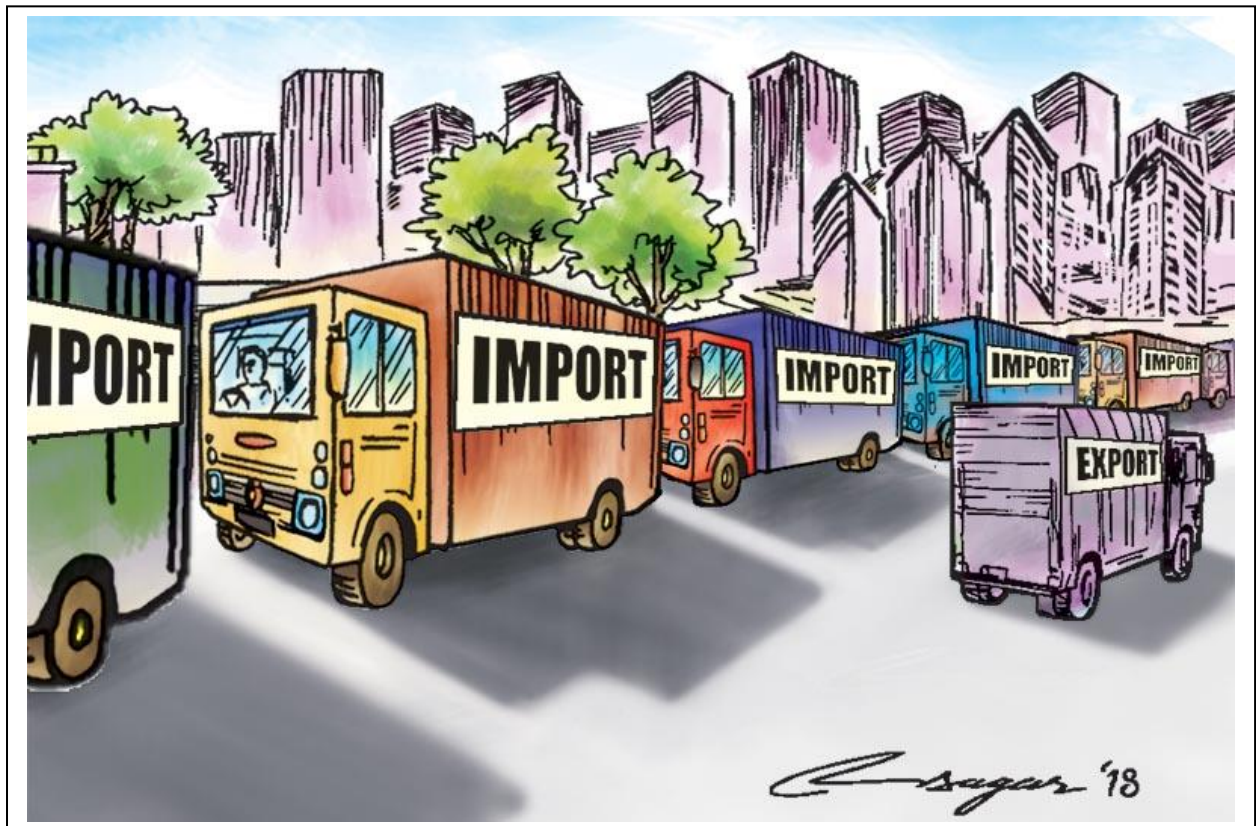


**QUESTION 9**



- 9.1 Identify the original equilibrium exchange rate in the above graph (1)
- \$1=R17
- 9.2 What exchange rate system does South Africa currently use? (1)
- Free floating exchange rate system
- 9.3 Briefly describe the term *exchange rate*. (2)
- The value of one currency for the purpose of conversion to another
- 9.4 What will be the effect of an undervalued rand on the economy? (2)
- Increase inflation and thus purchasing power decreases
- 9.5 Use the graph to illustrate a depreciation of the rand against the US dollar (2x2) (4)
- US\$ - Depreciates  
 Reason: The supply of dollars increases SS to S1S1, and the equilibrium point move from E to E1  
 The price for dollars will be fixed at P1 which is lower

QUESTION 10



- 10.1 Name the factor of foreign exchange illustrated above. (1)
- Demand factor for foreign exchange ✓
- 10.2 List any measure to correct the balance of payments. (1)
- Import controls ✓
  - Export promotion ✓
  - Import substitution ✓
- 10.3 Briefly describe the term *balance of payment deficit* (2)
- balance of payments deficit means the country imports more goods, services, and capital than they export ✓✓
- 10.4 Explain causes of higher imports into a country. (2)
- High rate of inflation which led domestic households and firms to buy significant number of imports. ✓✓
  - High rate of unemployment which decrease production on the local industries ✓✓
- 10.5 How do imports affect exchange rate? (2x2) (4)
- A weaker domestic currency stimulates exports and makes imports more expensive and vice versa ✓✓

QUESTION 11

**ROBOTIC WELDING AT AN AUTOMOBILE PLANT.**



In the final assembly line one can see clearly how machinery and human effort in assembly are divided into many specialized skills. The special tooling and machinery developed to handle assembly parts and to aid operators in their tasks can also be observed.

- 11.1 Name the effect of international trade depicted above (1)**
- Globalization ✓
- 11.2 List one supply reason for international trade illustrated above (1)**
- Technological resources ✓
  - Specialisation ✓
  - Labour resources ✓
  - Climatic conditions ✓
  - Capital ✓
- 11.3 Briefly describe the term *international trade* (2)**
- The exchange of goods and services across international borders ✓✓
- 11.4 Why are robots used in industry? (2)**
- Help to create jobs by restoring more manufacturing work ✓✓
  - Robots protect workers from repetitive and dangerous tasks ✓✓
- 11.5 How is globalisation more efficient? (2x2) (4)**
- Brings specialisation which increases the standard of living, especially when the area of specialisation is in great demand due to a shortage of supply ✓✓

- Leads to mass production which becomes possible if the domestic demand is added to foreign demand, ✓✓ e.g. manufacturing of cell phones ✓✓
- Results in efficiency which increases when there is competition ✓✓
- Lowers prices meaning that the same income can buy more goods and services ✓✓
- Makes globalisation possible, especially trade in IT products and vehicles (cars and trucks) ✓✓

**QUESTION 12**

**Paragraph type of questions**

**Middle order**

**12.1 Distinguish between appreciation and depreciation using numerical. (8)**

**Appreciation**

- Definition: Appreciation of a currency implies an increase in the value of the domestic currency relative to currencies of other countries due to market forces ✓✓
- Appreciation of a currency: exports will decrease, and imports will increase ✓✓
- It will have a negative effect on the Balance of Payments ✓✓
- E.g. A lower price or exchange rate reflects an appreciation of the local currency against the foreign currency ✓✓
- A fall in the rand/dollar exchange rate from \$1 = R10,51 to \$1 = R6,36 therefore implies an appreciation of the rand against the dollar ✓✓
- Simply because we then need fewer Rands to purchase the required amount of dollars ✓✓

**Depreciation**

- Definition: Depreciation of a currency implies a decrease in the value of the domestic currency relative to the currencies of other countries ✓✓ due to market forces ✓✓
- Depreciation of a currency: exports will increase, and imports will decrease ✓✓
- It will have a positive effect on the Balance of Payments ✓✓
- E.g. A higher price or exchange rate reflects a depreciation of the local currency against the foreign currency. ✓✓
- An increase in the rand/dollar exchange rate from \$1 = R6,11 to \$1 = R10,51 therefore implies a depreciation of the rand against the dollar, ✓✓
- because we will then need more Rands to purchase the required amount of dollars ✓✓

(Any 2 x 4 = 8)

**12.2 Differentiate between devaluation and appreciation of a country (8)**

Devaluation

- A deliberate downward adjustment to the value of a country's currency ✓✓
- It's a monetary policy tool of countries that have a fixed exchange rate or semi-fixed exchange rate. ✓✓

Appreciation

- An increase in the price of a currency in terms of another currency ✓✓
- Market forces determine the exchange rate ✓✓

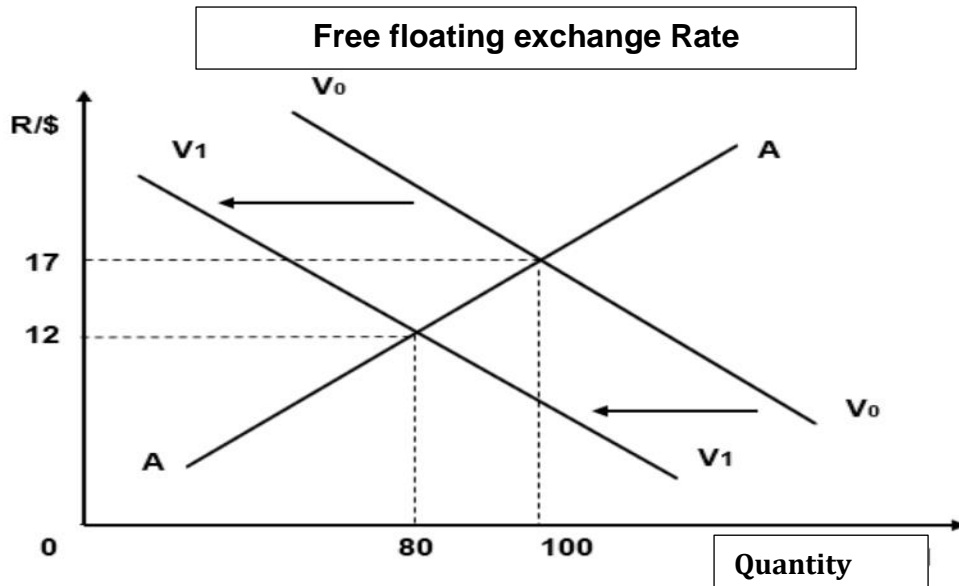
**12.3 Distinguish between the current account and the financial account of the balance of payments. (8)**

The current account

- Is the account in the BOP that records international transactions relating to production, income and expenditure ✓✓
- In calculating the balance of the current account, 5 groups of items are taken into account. ✓✓
- They are merchandise (goods), gold, services, income and transfers. ✓✓
- The current account is divided into four sub-divisions, namely: trade balance, the services account, the primary income account and the current transfer account. ✓✓
- The trade balance is a record of imports and exports of merchandise (physical goods). ✓✓
- The services account records imports and exports of services (such as tourism, consultancy and transport). ✓✓
- The primary income account shows salaries, interest (from investments) and profits that flow between countries, income inflows and income outflows. ✓✓

**12.4 With reference to the graph below, explain the effects of the coronavirus (Covid-19) on the value of the Rand. (8)**

- The demand for the Rand decreased from 100 to 80. ✓✓
- The price of rand in terms of dollar decreased from R17 per dollar, to R12 per dollar. Therefore, the Rand appreciated. ✓✓
- Due to the appreciation, exports will decrease, and imports will increase. ✓✓
- It will have a negative effect on the Balance of Payments. ✓✓
- South Africa will pay more on loan repayments and also payments for services, which creates a



**12.5 Discuss import substitution and export promotion as a measure to correct the balance of payment**

**(8)**

**Import substitution**

- 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 ✓✓

**Export promotion**

- Increasing the country's general production. ✓✓ This is because, as more of one product is exported, production in related industries will be stimulated. ✓✓
- Creating increased employment opportunities as more people will need to be hired to produce the extra quantity of goods for exports. ✓✓
- Increasing the size of the market for South African product since the world market is large. ✓✓
- Improving the country's balance of payment as a result of capital inflow from export earnings. ✓✓

Increasing the value of the local currency as a result of increased demand for payment of South African exports. ✓✓

**12.6 Explain the difference free floating and managed floating exchange rate systems (8)**

Free floating

- The forces of demand and supply determine the exchange rate. ✓✓
- Central banks do not intervene in the foreign exchange market on behalf of government authorities ✓✓
- The exchange rate fluctuates as market conditions change. ✓✓

Managed-floating

- The exchange rate can fluctuate between certain limits as set by the central banks. ✓✓
- Central banks intervene if the exchange rate moves outside the set limits. ✓✓
- They buy and sell foreign exchange – to smooth out short term fluctuations in the exchange rate. ✓✓
- Huge forex supplies (reserves) are required for such interventions. ✓✓

**12.7 Differentiate between a stable (fixed) but adjustable rate of exchange and a controlled floating exchange rate. (8)**

**Stable (fixed) but adjustable rate of exchange**

- The government determines the exchange rate. ✓✓
- It declares the par value of its currency in terms of gold e.g. \$1=1 oz gold. ✓✓
- The par value refers to the price at which it would be redeemed and is seen as a specific target. ✓✓
- The value of the currency is free to move within a permitted band of fluctuation. ✓✓
- The exchange rate is maintained within a predetermined margin such as 1 percent, thus between \$0.99 and \$1.01 = 1 oz gold. (Max 4)

**Controlled floating exchange rates**

- The value of the exchange rate is determined by market forces. ✓✓
- The value is permitted to fluctuate between a predetermined limit. ✓✓
- Monetary authorities intervene by buying or selling foreign exchange. ✓✓
- Thus influencing the demand for or supply of foreign exchange. ✓✓

(Accept any other correct relevant answer)

(allocate a maximum of 4 marks for mere listing of facts and examples) (8)

**12.8 Distinguish between income levels and the difference in consumption patterns as demand reasons for international trade. (8)**

**Consumption patterns**

- The difference in consumption patterns is determined by the level of economic development in the country. ✓✓

- A poorly developed country will have a high demand for basic necessities. ✓✓
- More developed countries will have a greater demand for luxury goods ✓✓ (Max. 4)

Change in income

- An increase in income will increase the demand for local and international goods and services. ✓✓
- An increase in the wealth of the population leads to greater demand for goods, they spend more on luxury goods which may be produced in other countries ✓✓

**QUESTION 13**                      **Paragraph type of questions**                      **Higher cognitive**

**13.1**                      **How does a deficit in the balance of payments affect the economy of a country?**                      **(8)**

- Reducing the ability of the government to provide needs for the citizens of the country. ✓✓
- Retarding economic growth of the country hence shrinking the GDP of the country. ✓✓
- Lowering the ratings of the country thus reducing investor confidence. ✓✓
- Reducing the production capacity of the country and cause unemployment. ✓✓
- Increasing imports in the country therefore exposing consumers to higher prices. ✓✓



**13.2**                      **How can the South African economy benefit from international trade?**                      **(8)**

- International trade helps countries to make optimal use of their resources at their best, by focusing on production of the resources and thus also limiting wastage. ✓✓
- It helps countries to obtain certain goods and services that they are in short supply or that they cannot produce due to high production costs and buy them from countries that produce at lower costs. ✓✓
- International trade also contributes to specialization and it encourages different countries to concentrate on the production of specialty products and thus obtain better income. ✓✓
- Goods and services are not only produced for the local market, but also for export purposes, and can also contribute to large-scale production from which countries can benefit ✓✓
- Create interdependence between countries, making them fragile to economic shocks that take place outside their borders. ✓✓
- It also contributes to economic growth, increase in RBBP, and it stimulates ✓✓
- economic development and improvement of standard of living. ✓✓



**13.3 How can the Reserve Bank reduce the deficit on the balance of payments?** (8)

The deficit can be reduced by:

- Encouraging the country if experiencing deficits to borrow money from other countries ✓✓
- Borrowing: a country is nevertheless not having a long-term solution for fundamental balance of payments disequilibrium ✓✓
- Borrowing from the International Monetary Fund (IMF) in the event of fundamental disequilibrium, as a member country ✓✓
- Increasing interest rates will decrease spending, including on imports ✓✓
- Increasing FDI in the country ✓✓
- Devaluing the currency, imports will decrease ✓✓

(Accept any other relevant response)

**13.4 Evaluate the effectiveness of the methods used to correct the balance of payments disequilibria** (8)

**The methods to correct the BoP were successful by:**

- achieving a satisfactory balance in the current account.
- an increase in interest rates decreases the cost of borrowing and the demand for imports will decrease. ✓✓
- implementing import substitution policy which will increase the demand for local goods. ✓✓
- achieving high levels of international competitiveness which help to keep aggregate demand and output levels high. ✓✓

**The methods to correct the BoP were unsuccessful by:**

- the deficit on the trade balance shows a much bigger increase of imports compared to exports. ✓✓
- import substitution lead to other countries to charge high taxes or sanctions. ✓✓
- a decrease in interest rates decreases the cost of borrowing and the demand for imports will increase. ✓✓

(Accept any other correct, relevant answer.)

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

## SECTION C

**HINT:** All section C questions have TWO questions 5 & 6 NOT 9 & 10 like in this document. In the examination you will need to answer only one.

### ESSAY STRUCTURE

**HINT:** Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarising). The mark allocations for Section C is as follows:

STRUCTURE OF ESSAY:	MARK ALLO- CATION:
<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 or conclusion include:</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>

### QUESTION 14

- Discuss in detail the demand reasons for international trade
- Evaluate the effects of a currency in an economy

### INTRODUCTION

International trade is the exchange of goods and services between countries. Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries, or which would be more expensive domestically.

## Main body

### 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.

### Change in income

#### 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

- 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.

### Consumption patterns

- 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.

## Additional

Evaluate the effects of a currency depreciation in an economy.

### Positives

Currency depreciation:

- Can be used as an expansionary monetary policy to counter cyclical measures to stimulate demand, profits, output and jobs when an economy is in recession. ✓✓
- Brings an improvement in the balance trade through higher export sales. ✓✓
- Provides a competitive boost to an economy through increasing the value of profits and income for a country's businesses with investments overseas. ✓✓
- Leads to a positive multiplier within the circular flow of income and spending. ✓✓

### Negatives

Currency depreciation:

- Makes it harder for the government to finance a budget deficit if foreign investors lose confidence. ✓✓
- Increases the cost of imports e.g. rising prices for essential foodstuffs, raw materials, which affects long-run productive potential of an economy. ✓✓
- Makes it hard to pay for a trade deficit that is owed to overseas creditors. ✓✓

Accept any other correct relevant response) (8)

**SESSION 5 :MACROECONOMICS: FOREIGN EXCHANGE MARKETS -- PART 2**

- 1.1.1. C ✓
- 1.1.2. D ✓
- 1.1.3. B ✓
- 1.1.4. D ✓
- 1.1.5. A ✓

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

- 1.2.1. E ✓
- 1.2.2. A ✓
- 1.2.3. B ✓
- 1.2.4. C ✓
- 1.2.5. D ✓

1.3 Give ONE term for each of the following descriptions. Write only the term next to the question number (1.3.1 – 1.3.5) in the ANSWER BOOK. Abbreviations, acronyms and examples will NOT be accepted.

- 1.3.1 Foreign exchange controls ✓
- 1.3.2 trade balance ✓
- 1.3.3 balance of payments ✓
- 1.3.4 Appreciation ✓
- 1.3.5 Fixed ✓



**SECTION B**

**QUESTION 2**

**HINT:** When the question requires you to “list” or “name”, you need not write a sentence but merely one or two words. This MUST be done in bullet form. This types of questions are applicable for 2.1.1, 3.1.1 and 4.1.1

- 2.1 Name any TWO types of investment in the financial account
  - Direct investments ✓
  - Portfolio investment ✓
  - Other investments
  
- 2.2 List any TWO effects of international trade
  - Specialisation
  - Mass production

- Efficiency
- Globalisation

**2.3 Name TWO key items of terms of trade**

- Exports
- Imports

**QUESTION 3**

**HINT:** This types of questions are applicable for 2.1.2, 3.1.2 and 4.1.2

**3.1 How does exchange rate fluctuations affect the profitability of companies?**

- a depreciation of the rand makes SA exports more competitive but raises the cost of importing goods into South Africa

**3.2 How would a scarcity of natural resources affect the supply of goods to a market?**

- Scarce goods are subject to greater demand and often higher prices

**3.3 Why do fixed exchange rate promote trade?**

- Fixed exchange rate has the advantage of promoting international trade and investment by eliminating exchange rate risk.

**Data response**



**HINT:** All section B questions have TWO data interpretation questions – each total 10 marks. Section B consist of Questions 2-4 not as numbered in this document

**QUESTION 4**

Study the table below and answer the questions that follow

BALANCE OF PAYMENTS 2018 (R MILLIONS)	
Current account	2018
Merchandise exports	1 175 547
Net gold exports	71 678
Service receipts	210 415
Income receipts	96 507
Less :Merchandise imports	1 222 944
Less: Payments for services	217 939
Less income payments	250 552
(A)	-35 674
Balance on the current account	-172 062
2.capital transfer account	236
Net lending to(+) borrowing from(-) rest of world	-172 726

[Adapted from SARB quarterly bulletin, March 2019]

- 4.1 Which item in the current account is unique to South Africa**
- Net gold exports ✓ (1)
- 4.2 Name the item (A) missing from the current account in the table above.**
- Current transfers ✓ (1)
- 4.3 Briefly describe the term *Capital Transfer Account***
- It is a net amount and includes all transactions and grants relating to the ownership of fixed assets, debt forgiveness and the value of household and personal effects and financial claims and liabilities of migrants ✓ ✓ (2)
- 4.4 Explain ONE factor that would influence demand to reduce the deficit in the balance of payments.**
- An increase in the repo rate affect interest rates and leads to a decrease in spending/demand ✓ ✓
  - government incentives are applied to substitute imports ✓ ✓
  - Import control (tariffs and quotas) reduce the demand ✓ ✓
  - Certain exchange controls have been retained by the central bank to ration foreign exchange and led to a decrease in the demand ✓ ✓
- (Accept any other correct relevant response) (2)

**4.5 Determine the value of the trade balance. Show ALL calculations**

Merchandise exports 1 175 547 ✓  
 Plus net gold exports (+) 71 678 ✓  
 Minus Merchandise imports (-) 1 222 944 ✓  
 =R24 281m ✓ (4)

**QUESTION 5 :**

**SOUTH AFRICA COULD BE THE NEXT EXPORTER OF OIL**

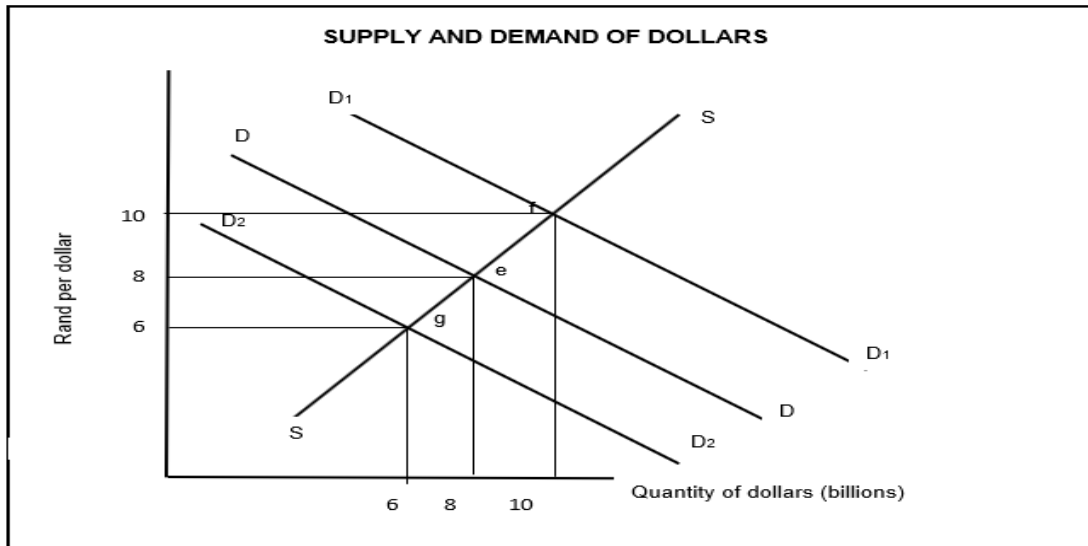
French oil and gas company Total announced that it has made a significant oil discovery after drilling deep sea waters, 175 kilometers off the southern coast of South Africa. The country's president also welcomed the discovery of this State of the Nation address on the 7<sup>th</sup> February 2019, saying government was extremely encouraged by the find and that it could be a game changer for the country's energy sector and participation in the international trade.

It's expected to benefit in the longer term. This means the country could in future be one of the exporters of oil and gas.

- 5.1 Which cause (reason) for international trade is natural resources such as oil an example of? (1)**
- Supply reason ✓
- 5.2 Name the account of Balance of Payment in which money earned from exporting oil can be recorded (1)**
- Current account ✓
- 5.3 Briefly describe the *term international trade* (2)**
- International trade is the exchange of goods and services across many countries ✓✓
- (Accept any other relevant question)
- 5.4 Why is oil regarded as an important factor of production (2)**
- It provides energy which is essential for production process to take place. ✓✓
- Accept any other responses
- 5.5 How can the exportation of oil benefit the economy (4)**
- Oil exportation can contribute to economic growth ✓✓
  - Employment opportunities can be created ✓✓
  - It can reduce the trade deficit of the balance of payment ✓✓
  - Government revenue can increase due to increased production and employment ✓✓

**QUESTION 6:**

Study the graph below and answer the questions that follow



- 6.1 Identify the demand curve that indicates a decrease in the demand for dollars? (1)
- D<sub>2</sub> ✓
- 6.2 What type of exchange rate system is currently used in South Africa? (1)
- Free floating exchange rate system ✓
- 6.3 Briefly describe the term *devaluation*. (2)
- Devaluation refers to the deliberate decrease in the value of the currency in terms of another currency as a result of central bank intervention. ✓✓
- 6.4 Explain ONE factor that can influence the demand for the dollar. (2)
- Importing goods increases demand of foreign goods, therefore payment needs to be made in a foreign currency. ✓✓
  - Payment for services from foreign countries needs to be made in foreign currency. ✓✓
  - Buying shares or assets in another country increases the demand. ✓✓
  - Tourist's spending money overseas. ✓✓
  - Repayment of debt borrowed from foreign countries. ✓✓
- 6.5 What is the effect on the rand when there is a decrease in the demand for dollars? (2)
- A decrease in the demand of dollars will:
  - US\$ - Depreciates ✓✓



- The Rand appreciates □ Reason: The demand for rand increases from DD to D1D1 and the equilibrium point from e to f. ✓✓
- The price will be fixed at R10 which is higher than R8. ✓✓

## QUESTION 7

Study the information below and answer the questions that follow.



- 7.1 Name the currency of South Africa (1)
- Rand (ZAR) ✓
- 7.2 What cause the South Africa currency to fall? (1)
- Low economic growth ✓
  - Low commodity prices ✓
  - Political instability ✓
  - Investors' confidence ✓
- 7.3 Briefly describe the term *foreign exchange controls* (2)
- Various forms of controls imposed by a government on the purchase/sale of foreign currencies by private residents. ✓✓
- 7.4 Explain the policy options available to stabilise a currency under a floating exchange rate system. (2)
- When the rand has depreciated too far against the dollar, the SARB can intervene by using their foreign exchange reserves (dollar) to buy rand in the rand/dollar market ✓✓
  - , thus, increasing the supply of dollar ✓✓. This will result in the rand strengthening again ✓✓
  - When the rand has appreciated, the SARB can intervene by buying dollars in the market in exchange for rand, thus increasing the demand for dollar ✓✓. This will result in the rand weakening again ✓✓

- 7.5 What can the monetary authorities do to counteract the change in the rand/dollar exchange rate. (4)**
- To counteract the depreciation of the rand, the central bank will have to supply additional dollars to the market, ✓✓
  - It is doubtful, however, that the central bank will have adequate reserves available to counteract such depreciation ✓✓
  - Another option is to increase the domestic interest rates ✓✓.
  - If the domestic interest rate level increases relative to the rest of the world, this will mean that more foreign exchange will flow into the country ✓✓

**Question 8**

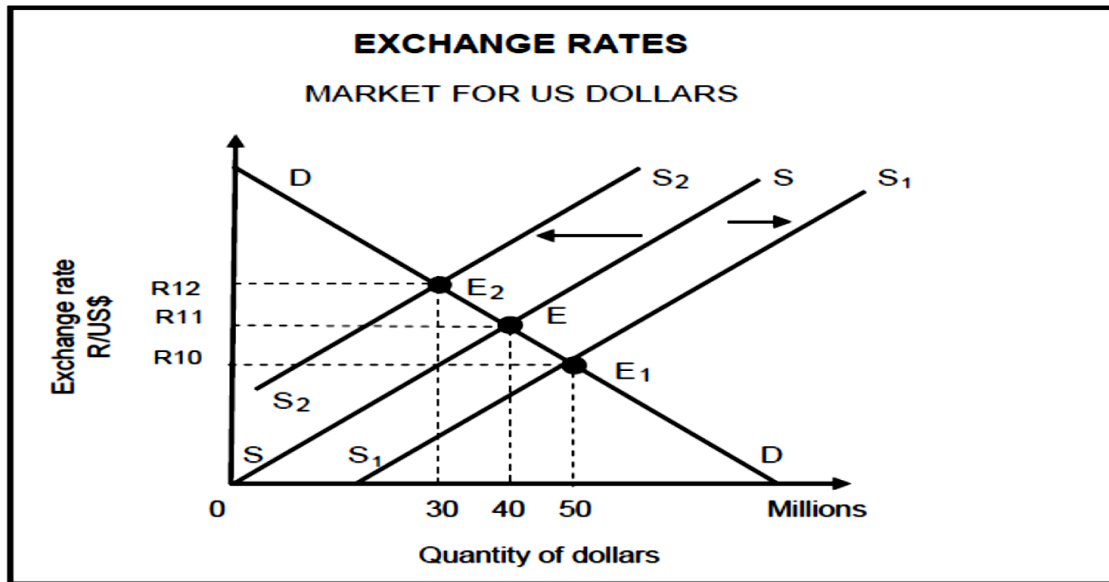
Study the table below and answer the questions that follow

Component	June 2018	June 2019
Imports	R42 000	R35 000
Exports	R32 000	R50 000
Income from services	R10 000	R5 000
Payments for services	R3 000	R5 000
Foreign direct investment	-R10 000	+245 000
Foreign portfolio investment	+R120 000	-R100 00

- 8.1 Name ONE commodity found in the current account (1)**
- Gold ✓
- 8.2 Identify an account that captures the effect of a foreigner purchasing shares on the Johannesburg securities exchange (1)**
- Portfolio investment ✓
- 8.3 Briefly describe the term *current account*. (2)**
- The current account is the account in the BoP that records international transactions relating to production, income and expenditure ✓✓
- 8.4 Explain the use of unrecorded transactions in the balance of payments 2**
- The unrecorded transaction entry is an entry that tries to correct the effects of errors and omission in international transactions. It ensures that the balance of payment adds up. ✓✓
- 8.5 Calculate the current account balance in 2019. 4**
- (Exports-imports)+ (income from services – payments from services)
- (R50 000-R35 000) ✓ + (R5 000- R5 000) ✓
- (R15 000) + (0)
- =R15000✓ (Surplus) ✓

Question 9

Study the graph below and answer the questions that follow



- 9.1 Identify the foreign currency used in the market above 1
- US dollar ✓
- 9.2 What kind of an exchange rate system in the graph above 1
- Free floating exchange rate ✓
- 9.3 Briefly describe the term foreign exchange market. 2
- A market where currencies are bought and sold ✓✓
- 9.4 What effect does globalisation have on international trade? 2
- It stimulates international trade ✓✓
  - Allows a greater variety of goods and services between countries ✓✓
- 9.5 Use the above graph to explain the effect of the increase in the supply of US dollars on the R/US\$ exchange rate.
- US\$ - Depreciates ✓**
- Reason: The supply of dollars increases SS to S1S1, and the equilibrium point move from E to E1 ✓✓
  - The price for dollars will be fixed at P1 which is lower ✓✓
- R - Appreciates ✓**
- Reason: The demand for rand increase from DD to D1D1 and the equilibrium point from E to E1 ✓✓
  - The price of Rands will be fixed at P1 which is higher ✓✓.

**QUESTION 10**

Study the extra below and answer the questions that follow.

**SA'S CURRENT ACCOUNT DEFICIT WIDENS**

The country's trade balance moved from a surplus in the fourth quarter of 2017 to a deficit in the first segment of 2018, causing the current account deficit to widen to 4.8% of the GDP.

According to the South African Reserve Bank, it was 2.9% in the previous segment. The deficit is the highest since the 4.9 % seen in the first quarter of 2016. South Africa's Q1 Current Account deficit prints at -4.8% of GDP, which is worse than the expected -3.9%. The rand reacted

*Source: Mail & Guardian, May 2019*

- 10.1** According to the extract, what was current account deficit in 2018? (1)
- 4.8%✓
- 10.2** What negative impact did the deficit on current account have on the value of the rand? (1)
- Cause depreciation in exchange rate and cost push-inflation✓
  - It may indicate they have uncompetitive due to higher inflation
- 10.3** Briefly describe the term *balance of payments*. (2)
- balance of payments accounts of a country records the payments and receipts of the residents of the country in their transactions with residents of other countries✓✓
- 10.4** Explain the significance of the balance on the current account. (2)
- A positive current account balance indicates that the nation is a net lender to the rest of the world, while a negative current account balance indicates that it is a net borrower.✓✓
- 10.5** How can a surplus on the balance of payments affect the South African economy positively? (2x2) (4)
- A surplus allows a government to repay some of their existing national debt.
  - This might lead to a fall in bond yields which makes future government borrowing less expensive.✓✓

**QUESTION 11**

**Paragraph type questions-Middle cognitive**

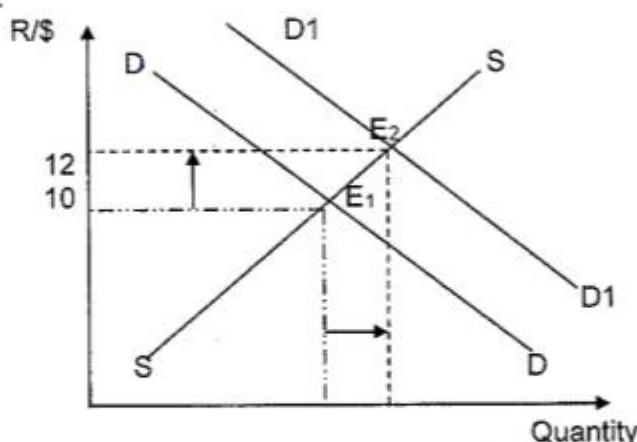
**11.1 Distinguish labour and technological resources as a supply reason for international trade (8)**

- Labour resources - are not the same everywhere ✓✓
- Some individuals have greater ability and aptitude for certain tasks ✓✓
- Some countries have developed and perfected a particular skill and aptitude for the production of a certain commodity, therefore their skills will be imported ✓✓
- Technology / Capital - is not always easily obtained in every country ✓✓
- Developed countries usually enjoy an advantage over underdeveloped countries ✓✓
- Due to lack of capital, countries cannot produce all products they wish to produce ✓✓
- Underdeveloped countries import capital from developed countries ✓✓

**11.2 Use a graph to explain the appreciation of the rand against dollar (8)**

**2.4 Use a graph to explain the appreciation of the rand against the dollar.**

- The exchange rate is determined at the *intersection* of the *demand* & *supply* curves.



- If the demand for rand increases, the exchange rate increases to E<sub>2</sub>.
  - Exchange rates change as a result of a change in demand or supply.
  - When a rand as a currency becomes more expensive, we say that the rand has **appreciated** ✓✓
  - For example, 1\$ = R10 and 1\$ = R8, shows that the rand appreciated ✓✓
- (Accept any other correct relevant response)

**11.3 Explain free floating exchange rate system (8)**

- Free floating can be defined as exchange rates which are determined by the market forces of demand and supply ✓✓

- 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 / exchange rate fluctuates as the market conditions change ✓✓
- South Africa has a free-floating exchange rate system ✓✓
- Disequilibria are automatically corrected ✓✓

**11.4 Discuss interest rates and change in exchange rates as measures to correct the balance of payment (8)**

Free-floating exchange rates:

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

Managed floating exchange rates:

- Central banks use their reserves to effect depreciation and appreciation. ✓✓
- Over the long-term currencies have to find their equilibrium levels. ✓✓
- Fixed exchange rates: Currencies are devalued and revalued ✓✓

**11.5 Explain factors affecting demand of foreign exchange markets (8)**

- Importing goods increases demand of foreign goods, therefore payment needs to be made in a foreign currency. ✓✓
- Payment for services from foreign countries needs to be made in foreign currency. ✓✓
- Repayment of debt borrowed from foreign countries. ✓✓
- Services from foreign countries to the country concerned e.g. shipping, insurance ✓✓
- Payment of interest and dividends on foreign capital ✓✓
- Transfer of capital to foreign countries / Foreign investments / Placing a deposit with a foreign bank ✓✓

**11.6 Discuss capital transfer account in the balance of payments (8)**

- The balance shown reflects the net amount of the capital transferred, either negative or positive. ✓✓
- The balance is a net amount and includes firstly, transactions and grants relating to the ownership of fixed assets. ✓✓
- E.g. a grant by a foreign NGO for housing projects in South Africa, secondly debt forgiveness, thirdly the value of household and personal effects, and financial claims and liabilities of migrants ✓✓

- As it is not always a significant amount with current and service account payments, it will not always be included in the statement by the SARB. ✓✓

## QUESTION 12

## Paragraph type questions-Higher cognitive

- 12.1 Evaluate the elasticities approach of deterring exchange rate in the short run. (8)**
- Foreign exchange flows into domestic markets to pay domestic exports and as capital flows. ✓✓
  - When our currency depreciates, our exports become cheaper and foreign buyers will buy more. ✓✓
  - The supply of foreign exchange will increase ✓✓
  - There is a domestic demand for foreign exchange to pay imports and to repay foreign loans. ✓✓
  - As the domestic currency appreciates against the foreign currency, imports will be cheaper. ✓✓
  - The demand for foreign exchange will increase as people and business will buy more imports ✓✓
- 12.2 How can climate changes influence international trade? (8)**
- A change in climatic conditions might influence international trade by:
  - Leading to different products being produced and exported to other countries than before. ✓✓
  - Leading to imports of different products produced locally and exported before. ✓✓
  - Causing other types of industries to arise due a change in production pattern and types of products delivered. ✓✓
  - Causing a serious need for research in unknown fields of production to ensure international trade. ✓✓
- 12.3 What effect does the terms of trade have on the balance of the current account? (8)**

- The terms of trade compare a country's export prices with its import prices by means of indexes. ✓✓
- If the terms of trade improve, the balance would improve on the current account. ✓✓

The terms of trade improve when:

- An increase in export prices; more revenue is earned with the same expenditure. ✓✓
- A decrease in import prices; welfare increase because expenditure on imports is less. ✓✓
- South Africa imports prices decreased by the depreciation of the currency. ✓✓ exports become cheaper for foreign buyers; exports increase; larger injection into the economy; balance of current account improve. ✓✓
- If the terms of trade deteriorated, the balance on the current account will decrease. ✓✓

The terms of trade deteriorated:

- A decrease in export prices; less income is earned with the same expenditure. ✓✓
- An increase in import prices; welfare is lost because expenditure on imports is more. ✓✓ For a surplus balance exports should be encouraged ✓✓ and imports limited.

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

A change in the terms of trade can have the following effects:

- 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. ✓✓ 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)

**QUESTION 13**

Discuss the following supply reasons for international trade

- natural resources
- climatic conditions
- Labour resources
- Specialisation



- Capital

How can South Africa ensure a net inflow of capital?

## Introduction

International trade is the exchange of goods and services between countries. Trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries, or which would be more expensive domestically. ✓✓

## Main body

### Natural resources (factors of production)

- They are not evenly distributed across all countries of the world. ✓✓
- They vary from country to country and can only be exploited in places where there are such resources. ✓✓
- Each country has its own unique mix of natural resources that makes it possible for them to produce certain goods and services more efficiently and at a relatively lower price. ✓✓
- (E.g.) South Africa's gold and diamond resources ✓

### Climatic conditions

- Differences in climatic conditions between countries make it possible for some countries to produce certain goods at a lower price than other countries. ✓✓
- Many crops can only be cultivated in certain climatic conditions and areas and in certain kinds of soil. ✓✓

### Labour resources

- 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. ✓
- Some countries have developed and perfected a particular skill and aptitude for the production of a certain commodity, therefore their skills will be imported ✓✓

### Technological resources

- Technological resources are available in some countries that enable them to produce certain goods and services at a low unit cost, e.g. Japan. ✓✓
- Developed countries usually enjoy an advantage over underdeveloped countries ✓✓
- Due to lack of capital, countries cannot produce all products they wish to produce. Underdeveloped countries import capital from developed countries ✓✓

### Specialization

- 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. ✓

Additional

### How can South Africa ensure a net inflow of capital?

A net inflow of capital is ensured by:

- promoting exports via subsidies to producers ✓✓
- reducing imports through import substitution and increased tariffs ✓✓

- encouraging foreign direct investment ✓✓
  - reforming structural policy that might maximise the long-term gains from international capital movements ✓✓
  - e.g. financial and product market regulation – have a large impact on net foreign capital positions ✓✓
- (Accept any other correct relevant response)



**SESSION 6 : PROTECTIONISM AND FREE TRADE -- PART 1**

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

- 1.1.1 C ✓✓ free trade
- 1.1.2 D ✓✓ globalisation
- 1.1.3 B ✓✓ economies of scale
- 1.1.4 B ✓✓ more diversification
- 1.1.5 A ✓✓ protectionism

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

- 1.2.1 E ✓ the removal of trade barriers
- 1.2.2 A ✓ A tariff as percentage of the value of imported goods.
- 1.2.3 B ✓ Calculated as a percentage amount per unit, mass or size of a good.
- 1.2.4 E ✓ custom duties and quotas
- 1.2.5 C ✓ A deliberate government policy to protect domestic industries against foreign competition.

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

- 1.3.1. Export promotion ✓
- 1.3.2. Rebates ✓
- 1.3.3. Subsidies ✓
- 1.3.4. Boycott ✓
- 1.3.5. Predatory pricing ✓
- 1.3.6. Efficiency ✓
- 1.3.7. Trade protocols ✓
- 1.3.8. World Trade Organisation ✓

**QUESTION 2**

- 2.1 Name any TWO reasons for export promotion (2 x 1) (2)**
- Achieve export-led economic growth. ✓
  - Enlarge the production capacity of a country. ✓
  - Export-markets are much bigger than domestic markets. ✓

- Leads to reduced prices due to large volumes. ✓
- Improving international competitiveness of South African producers. ✓
- Improving performance of manufacturing, service industries. ✓
- Ensuring optimal use of resources. ✓
- Job creation. ✓
- Improves Balance of Payments. ✓

**2.2 List any TWO reasons for import substitution (2 x 1) (2)**

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

**2.3 Name TWO South Africa's international trade policies (2 x 1) (2)**

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

**2.4 Name TWO arguments in favour of protectionism (2 x 1) (2)**

- Industrial development ✓
- Increased employment ✓
- Stable wage levels and high standards of living ✓
- Self-sufficient and strategic industries ✓

**2.5 List any TWO arguments for free trade (2 x 1) (2)**

- Specialisation ✓
- Economies of scale ✓
- Increased choices and welfare ✓
- Innovations/best practice ✓
- Improve international relations ✓

### QUESTION 3

- 3.1 How are wages of local workers negatively affected by dumping? (1 x 2) (2)**
- Dumping means that prices of imported goods are cheaper than in the country of origin. Cheaper imports lead to lower demand for locally manufactured products. This can result in increased job losses for local workers. ✓✓
- 3.2 What effect will quotas have on imports? (1 x 2) (2)**
- Quotas will restrict the number of goods that can be imported. ✓✓
- 3.3 How can a country protect itself from dumping? (1 x 2) (2)**
- It can apply custom duties that will increase the price of the imported product. ✓✓
- 3.4 How is ad valorem tariff applied? (1 x 2) (2)**
- It is applied as a percentage of a value on luxury goods. ✓✓
- 3.5 Why it is unlikely that a free international trade policy will be successful in South Africa? (1 x 2) (2)**
- 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. ✓✓

### QUESTION 4:

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



Producers and consumers are free to buy goods and services from anywhere in the world, without the interference of government. Regionalisation, in the form of trade blocs, makes use of free trade and protection with one another. Member countries pursue free trade with one another but apply trade restrictions outside their bloc e.g. NAFTA and Mercosur.

Source: [Linkedin.com](http://Linkedin.com)

- 4.1 Which trade policy is referred to in the above cartoon? (1)**
- Free trade ✓
- 4.2 Name any member country of the Mercosur trade bloc. (1)**
- Brazil ✓
  - Paraguay ✓
  - Uruguay ✓
  - Argentina ✓
- 4.3 Briefly describe the term free trade. (2)**
- It is when producers and consumers are free to buy goods and services anywhere in the world without the interference of the government. ✓✓
- 4.4 Explain innovation as an argument in favour of free trade. (2)**
- Free trade increases competition. ✓✓
  - Innovation stimulates: ✓✓
  - New product development. ✓✓
  - Improved production methods in goods and services. ✓✓
- 4.5 How will protection of natural resources favour local industries? (2x2) (4)**
- Protection of natural resources will favour local industries by:
- ensuring that they may continue using natural resources for survival. ✓✓
  - ensuring that they have ability to effectively plan, use and conserve natural resources. ✓✓
  - E.g. the South African government has taken steps to protect Rooibos tea as a natural resource ✓✓
  - Safeguarding the indigenous knowledge that allows the hoodia plant to be used for medicinal purposes. ✓✓

**QUESTION 5:**

Study the information and answer the questions that follow

**BUY LOCAL AND BOOST THE SOUTH AFRICAN ECONOMY**

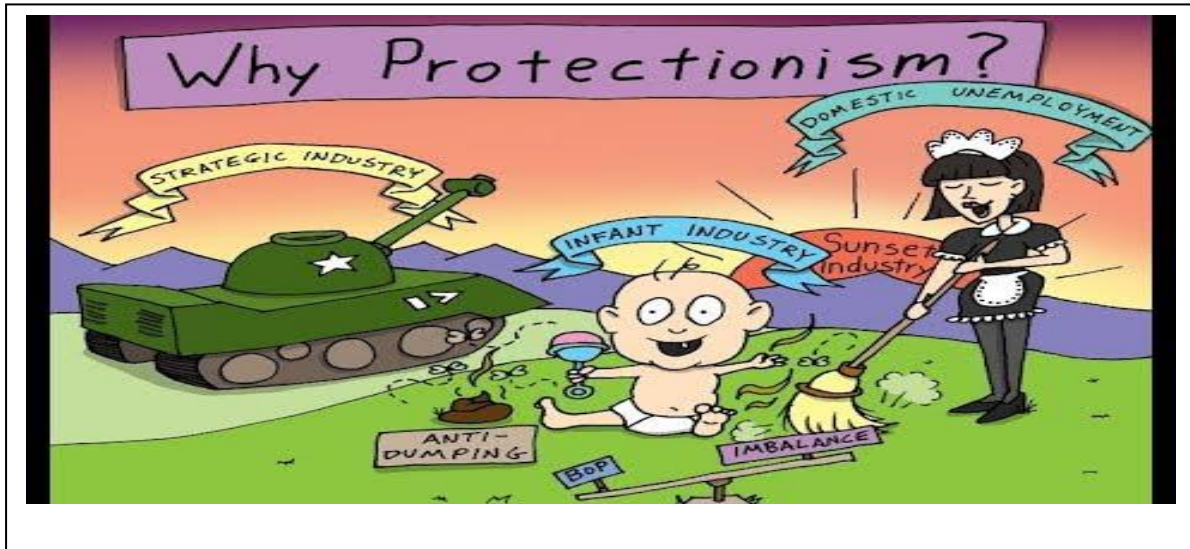
The Proudly South African campaign requested the support of all South African producers. South Africa currently faces the challenge of competing in an unfair global economy. All South Africans buy home-grown products and contribute to job creation. Our own industries need protection until they establish a base. Korea's giant brands like Samsung and Hyundai are not only big in their own country; they are also global giants and major providers of jobs.

[Adapted from Fin week, 12 October 2015]

- 5.1 Name ONE brand from the extract which is imported from Korea (1)**
- Samsung/Hyundai ✓
- 5.2 Identify the challenge faced by South Africa to succeed in the international markets from the extract. (1)**
- Competing in an unfair global economy. ✓
- 5.3 Briefly describe the term *protectionism* (2)**
- Protectionism refers to government policies and regulations which are designed to benefit local producers of goods and services in their competition with imported goods, thus helping them to survive. ✓✓
- 5.4 What measures can government take to ensure that local industries are protected? (2)**
- The government can:
- Install import quotas ✓✓
  - Charge higher tariffs for imported goods ✓✓
  - Ban certain goods previously imported / restrict certain goods previously imported. ✓✓
- 5.5 In your opinion, how can local support boost the South African economy? (4)**  
**(2x2)**
- By exporting:**
- Surplus production. ✓✓
  - Foreign currency is earned for the country. ✓✓
  - Employment opportunities are created. ✓✓
  - Increased consumption of locally produced products takes place. ✓✓
- (Accept any other relevant information.)

QUESTION 6

Study the article below and answer the questions that follow.



- 6.1 List ONE argument in favour of protectionism (1)
- Industrial development ✓
  - Prevents dumping ✓
  - Protection of natural resources ✓
  - Stable exchange rates and BoP ✓
  - Self-sufficiency and strategic industries ✓
  - Increased employment ✓
  - Increased employment ✓
  - Protect infant industries ✓

(Accept other correct relevant responses)

- 6.2 What is the name of the international organisation that was created to monitor and liberalise international trade? (1)

- World Trade Organisation (WTO) ✓

- 6.3 Briefly describe the term *protectionism* (2)

- A trade policy that keeps the domestic economy safe by restricting the import of certain goods and services ✓✓

- 6.4 What is the impact of dumping on the RSA's economy? (2)

- Local businesses will be negatively affected because of a decrease in the demand for locally produced goods. ✓✓



- Profits for local businesses will decline and this will lead to retrenchments and businesses shutting down. ✓✓
- Unemployment rate will increase. ✓✓
- Economic growth rate will decrease. ✓✓
- It will lead to BoP deficit, as imports will be more than exports. ✓✓

(Accept other correct relevant responses)

**6.5 How successful has protectionism as a trade policy protected industries against foreign competition? (2 x 2) (4)**

- Promoting industrial development by focusing on the implementation of technology and markets. ✓✓
- Achieving stable wage levels by introducing a national wage applied in all sectors of employment, affecting productivity of workers positively. ✓✓
- Industries, which have been granted protection, tend to become dependent on it and never survive financially without it. ✓✓
- Protecting the natural resources such as rooibos tea and safeguarding of the indigenous knowledge that allowed the hoodia plant to be used for medicinal purposes. ✓✓
- It is difficult for the government to determine when to phase out protection because, if it is done too early it will leave industries vulnerable. ✓✓
- The inflation spiral is activated because the costs involved in protection means that locally produced goods are more expensive than imported goods. ✓✓
- It is difficult to identify infant industries that may be granted temporary protection.
- Protection largely encourages import substitution not exporting of goods due to government subsidies. ✓✓

(Accept any other relevant and correct response).

**QUESTION 7**

Study the table below and answer the questions that follow.

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

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

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

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

- 7.1 Name ONE other trade agreement that South Africa is part of with other African countries. (1)**
- SACU/NEPAD/COMESA/AU/SADC ✓
- 7.2 Give ONE benefit South Africa would have from trading with Nigeria. (1)**
- South Africa can export its domestic goods to Nigeria at competitive tariffs. ✓
- (Accept any other correct relevant response.)
- 7.3 Briefly describe the term *free trade area*. (2)**
- Countries within an FTA remove restrictions between themselves but are free to apply whatever trade restrictions they wish on non-members. ✓✓
- (Accept any other correct relevant response.)
- 7.4 Explain the impact of free trade on the prices of goods. (2)**
- The cost on imported goods will be less as less tariffs will be levied. ✓✓
  - As more goods are exported, the cost of production will decrease because of economies of scale. ✓✓
  - Free trade reduces the prices of goods as imported goods can be cheaper. ✓✓
  - The consumers can now afford the goods needed in a country. ✓✓
- (Accept any other correct relevant response.)

**7.5 How would imposing tariffs on imported goods benefit South Africa? (4)**

Imposing tariffs would benefit South Africa because:

- Tariffs on trade are often used as a means to restrict imports by increasing the price of goods and services purchased from overseas. ✓✓
- it protects newly established infant industries against well-established foreign competition. ✓✓
- It protects the workers and avoids unemployment. ✓✓
- It creates revenue for the government. ✓✓
- It prevents countries from dumping their products in the South African market. ✓✓

(Accept any other correct relevant response.)

**Question 8**

Study the table below and answer the questions that follow.

### AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA)



■ 54 countries signed  
■ 31 countries signed and ratified

The AfCFTA is a framework agreement covering trade in goods and services including the following protocols: Trade in Goods, Trade in Services, Intellectual Property Rights, Competition Policy, Investment and Dispute Settlement.

The AfCFTA agreement aims to progressively reduce and eventually eliminate customs duties and non-tariff barriers on goods and allow free provision of services in priority sectors. Concerning trade in goods, the goal is set for 90% of products at zero duty across the continent

Source : <https://africa-eu-partnership.org/en/afcfta>

**8.1 Who does south Africa have free trade agreements within Southern Customs Union (SACU) (1)**

- Botswana ✓
- Lesotho ✓
- Namibia ✓
- Swaziland (eSwatini) ✓

- 8.2 How many countries have ratified the African Continental Free Trade Agreement? (1)
- 31✓
- 8.3 Briefly describe the term *new partnership for African development* (NePad) (2)
- Provides for regional cooperation and integration among African states✓✓
- 8.4 What are the challenges with implementing the AfCFTA? (1)
- The dependence of African economies on commodity production and exports✓✓
  - Lack of diversification resulting in a mismatch between supply and demand✓✓
  - Inefficient transport infrastructure ✓✓
- Any other relevant answers
- 8.5 Explain the relationship between AfCFTA and tariffs? (1)
- reduction in tariffs with the potential to stimulate production and trade and boost regional value chains✓✓
  - AfCFTA members will enjoy permanent protection✓✓

QUESTION 9

Paragraph type questions-Middle cognitive

- 9.1 Explain specialisation and economies of scale as arguments in favour of free trade. (8)
- Specialisation
- Comparative advantage indicate that would output increase if countries specialise in products that they can produce maximum. ✓✓
  - If countries specialise in producing the goods which they have a comparative advantage, world trade and consumption will be maximised. ✓✓
- (Max 4)
- Economies of scale
- Trade allows economies of scale to be maximise and thus unit costs are reduced ✓✓
  - Economies are a source of comparative advantage. ✓✓ (Max 4)
- (Accept any other correct alternative response) (2 x 4) (8)
- 9.2 Explain tariffs as a method for import substitution. (8)
- Tariffs are taxes levied on imported goods. ✓✓
  - It is also known as custom duties or import duties. ✓✓
  - Ad valorem taxes – percentage of the value of imports. ✓✓
  - It is levied on luxury items such as cars, jewelry, and perfumes. ✓✓
  - Specific taxes – levied as an amount per unit, mass, or size. ✓✓

- They are levied on food, animals, and plants. ✓✓
- The effect of imposing a tariff is to raise prices for domestic consumers, shifting demand from imports to domestically produced products. ✓✓

**10.3 Discuss the advantages of import substitution (8)**

- Import substitution aims to replace imported goods with locally produced goods ✓✓
- Increased employment – local workers, rather than foreign workers, are employed to produce goods that substitute. ✓✓
- Increased employment, in turn stimulate the economy and GDP increases. ✓✓
- More choice – because goods are no longer imported but locally produced, the foreign exchange that becomes available can be used for other imports. ✓✓
- Diversification – the domestic economy becomes more diversified by producing a greater variety of goods locally and is less dependent on foreign goods. ✓

**10.4 Discuss the different forms of economic integration (8)**

- Free trade areas are formed when a group of countries agree to sign an agreement whereby goods are traded amongst each other without the use of tariffs and quotas. ✓✓
- While trade is free and open between member countries, protectionism is used against non-member countries. ✓✓
- Customs union occurs when member countries agree to adopt the same level of tariffs and quotas against non-member countries. ✓✓
- No country may reduce or increase these without being in contravention of the custom union agreement. ✓✓
- Common market occurs when member countries decide to increase the level of economic integration between them. ✓✓
- This takes form of free movement of labour, capital and money between borders of member countries. ✓✓
- Economic union is the highest form of economic integration. ✓✓
- Custom unions members agree to adopt a single currency and the same central bank for determining monetary policy. ✓✓
- Taxes are also made uniform as the member countries adopt a common fiscal policy. ✓✓

**QUESTION 11**

**Paragraph type questions-Higher cognitive**

**11.1 How is the South African economy influenced by the effects of international trade? (8)**

**The SA economy will be positively influenced by:**

- The living standard of South Africans will improve through specialization in the production of certain goods. ✓✓
- The increase in technology leads to mass production, e.g. use of cell phones. ✓✓

- Increasing production efficiency, e.g. resources are used more effectively less waste.
- More choices of goods and services from all over the world - not only from South Africa. ✓✓
- Increased competition leads to innovation and high standards in economic capacity. ✓✓
- Globalisation brings the countries of the world together and share knowledge. ✓✓

**The SA economy will be negatively influenced by:**

- Less developed countries like S.A. might not be able to compete with developed countries. ✓✓
- Specialisation causes some producers to close their businesses. ✓✓
- Globalisation let people tend to forget their cultures and indigenous knowledge systems disintegrate. ✓✓
- Mass production leads to domestic people buying inferior quality goods from other countries at the expense of local producers. ✓✓ (8)

**(Accept any other correct relevant response)**

**11.2 Evaluate the effectiveness of export promotion policy in South Africa (8)**

Export promotion is effective because:

- It enables local producers to produce larger quantities than what a domestic market requires. ✓✓
- Local producers benefit through economies of scale associated with bulk purchases, more efficient production processes. ✓✓
- Increasing the domestic product stimulate the demand for labour, thus creating job opportunities. ✓✓
- The increased size of domestic businesses and increase in the number of producers result in increased competition. ✓✓
- Increased competition will result in lower prices a larger variety of goods. ✓✓
- This will help reduce inflation within the country as the general price level falls. ✓✓✓
- Earning foreign exchange leads to an injection into the circular flow that adds to the national income. ✓✓
- Money earned from exports will improve the balance of payments. ✓✓

Export promotion is not effective because:

- Prices of goods are distorted due to government subsidies to promote exports. ✓✓
- Artificially low domestic prices discourage foreign producers to export to South Africa, thereby depriving consumers of a wider variety of goods. ✓✓
- Foreign countries may retaliate by imposing tariffs on export from SA which eventually leads to a loss in welfare. ✓✓
- Because of incentives and subsidies, businesses may lower their prices to force out competition, thereby reducing domestic output. ✓✓ (8)

**(Accept any other correct relevant response)**

**11.3 How successful are the methods implemented by South Africa to promote exports of goods and services? (8)**

- The government has been successful in the implementation of export promotion by:
  - Implementing incentives to foreign market exporters. ✓✓
  - Establishing research centres for new markets to develop. ✓✓
  - Providing concessions on transport charges to encourage local producers to enter the export markets. ✓✓
  - Paying cash subsidies to exporters. ✓✓
  - Cash refunds on import tariffs to businesses offering general tax rebates ✓✓
  - Offering concessions on profits earned from exports or on capital invested to produce export goods. ✓✓
  - Offering employment subsidies and assistance in financing exports. ✓✓
- (Accept any other correct relevant response)

**11.4 Why is it important for government to keep on protecting their key strategic industries against industrial take-overs? (8)**

- Industrial development will be ensured if young industries are protected until properly establishment. ✓✓
  - Infant industries: should be given protection in their early years, they may grow and take advantage of economies of scale, lower their average costs, and become competitive. ✓✓
  - Increased employment in local industries due to protection will result in less unemployment. ✓✓
  - Economic self-sufficiency and strategic key industries are vital to be self-supporting – protection granted especially to key industries. ✓✓
  - Prevent dumping to ensure that financially weaker industries are not forced out of competition. ✓✓
  - Protection of natural resources – protection ensures that industries survive. ✓✓
- (Accept any other correct relevant response)

**11.5 How has South Africa attempted to encourage the export of its products to foreign markets? (8)**

South Africa attempted to encourage exports through:

- Incentives the government supplies information on export markets in order to stimulate exports and to increase the amount of their production. ✓✓
- Other examples are research on new markets/concessions on transport charges/export credit. ✓✓
- Export subsidies are the financial incentives that the government gives businesses to help them produce products for export more cheaply.
- Direct subsidies are subsidies that are offered to the producer e.g. cash payments to exporters ✓✓
- Indirect subsidies are refunds on import tariffs related to export activities and general tax rebates to provide relief. ✓✓

- Subsidies equal in size to import duties; are paid. ✓✓
  - the availability of low-cost storage facilities in industrial development zones has facilitated the exporting of goods to foreign markets. ✓✓
  - opportunities to participate in international trade exhibitions. ✓✓
  - partial compensation by Export Marketing and Investment Assistance (EMIA) for costs incurred in developing export markets for South African products. ✓✓
  - the DTIC which offers advice for exporters regarding product specifications, marketing, and distribution. ✓✓
  - the BRICS association of five large developing economies has helped these economies to overcome challenges and encourage trade between them. ✓✓
  - Industrial Development Zones (IDZs) that are enclosed areas positioned next to harbours or airports where production for export is encouraged through incentives. ✓✓
  - the Export Marketing and Investment Assistance (EMIA) which is a scheme that provides assistance to South African exporters. ✓✓
- (Accept any other correct relevant response)

### SECTION C

**HINT:** All section C questions have TWO questions 5 & 6 NOT 12 & 10 like in this document. In the examination you will need to answer only one.

### ESSAY STRUCTURE

**HINT:** Section C – the long question, must be answered in FOUR sections: Introduction (definition), Body (headings and full sentences in bullets) additional part and conclusion (summarising). The mark allocations for Section C is as follows:

STRUCTURE OF 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 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>	<b>Max 2</b>
<b>Body:</b> Main part: Discuss in detail/ In-depth discussion/ Examine/ Critically discuss/ Analyse / Compare/ Distinguish/ Differentiate/ Explain/ Evaluate Additional part: 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	<b>Max 26</b>  <b>Max 10</b>
<b>Conclusion</b> Any Higher or conclusion include: <ul style="list-style-type: none"> <li>• A brief summary of what has been discussed without repeating facts already mentioned in the body</li> </ul>	<b>Max 2</b>



<ul style="list-style-type: none"> <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>	
<b>Recommendations</b>	
<b>TOTAL</b>	<b>40</b>

### QUESTION 12

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

### INTRODUCTION

Import substitution is the replacement of previously imported goods by the domestic production of goods ✓✓

(Accept any other relevant introduction.)

(Max. 2)

### BODY:

### MAIN PART

#### Aims

- To develop local industries ✓✓
- Increase employment opportunities ✓✓
- Improve South Africa's balance of payments ✓✓

### 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, boycotts and disinvestment. ✓✓

### 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. ✓✓

- **Protection of infant industry** ✓ – Small and medium industries need to be protected against well-established foreign companies that enjoy the full scale of economies of scale. ✓✓
- **Trade** ✓ – Developing countries rely on natural resources as the basis for economic growth 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) or specific (an amount per unit). ✓✓
- The prices of imported goods will rise and shift the local demand to domestic production. ✓✓
- **Quotas** ✓ limit the supply of a good or service, it places a restriction on imports and reduces supply (prices go up) ✓✓
- **Subsidies** ✓ to protect domestic enterprises that export goods ✓✓
- **Exchange control** ✓ – governments or free trade areas may limit the amount of foreign exchange made available for imports, investment or travelling 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, ✓✓ e.g. cellular phones, calculators, etc. ✓
- Costly and uneconomical projects are established. ✓✓ e.g. Mossgas ✓

### REASONS FOR IMPORT SUBSTITUTION

- Protection means high profits to protected industries, isolating them from competition and lowering their efficiency and development ✓✓
- Protection does not advance industrialisation – backward linkages do not materialize ✓✓
- Consumers often have to pay higher prices for goods of inferior quality from non-essential industries ✓✓ **(Max. 26)**

**Note: Allocate a maximum of 8 marks for the mere listing of headings/ facts and examples.**

### ADDITIONAL PART

**Advise the Minister of Trade, Industry and Competition whether the SA government should adopt a policy of free trade.**

South Africa should adopt a policy of free trade by ...

- applying a completely free trade policy. ✓✓
- competing with industrialised countries as an emerging economy. ✓✓
- competing with well-established industries to produce goods at a much lower cost than before. ✓✓
- adopting subsidies and other incentives applied by foreign developed countries, to ensure more attractive exports. ✓✓
- ensuring a decrease in the dumping of products from developed countries on developing economies like South Africa. ✓✓
- adopting a protection policy to safeguard our local industries. ✓✓
- adapting a protection policy that does not restrict trade. ✓✓

(Accept any other correct relevant fact.)

**(Max. 10)**

(Allocate maximum of TWO marks for listing of facts / examples)

### CONCLUSION

Import substitution implies that countries try to become more self-supporting and independent. ✓✓

(Accept any other relevant conclusion.)

**(Max. 2)**

**SESSION 7 : PROTECTIONISM AND FREE TRADE -- PART 2**

- 1.1.1. C Free trade ✓✓
- 1.1.2. D Globalisation ✓✓
- 1.1.3. C World trade organisation ✓✓
- 1.1.4. D Comparative ✓✓
- 1.1.5. B more diversified ✓✓

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

- 1.2.1.D ✓
- 1.2.2.A ✓
- 1.2.3.B ✓
- 1.2.4.C ✓
- 1.2.5.F ✓

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

- 1.3.1. import substitution ✓
- 1.3.2. Globalisation ✓
- 1.3.3. import substitution ✓
- 1.3.4. Dumping ✓
- 1.3.5. sanctions ✓



- 2.1 Name any TWO arguments in favour of free trade (2 x 1) (2)**
- specialisation ✓
  - economies of scale ✓
  - choices/increased welfare ✓
  - innovation ✓
  - improved international relations ✓
- 2.2 List any TWO members of Southern African Custom Union (2 x 1) (2)**
- Lesotho ✓
  - South Africa ✓
  - Swaziland ✓
  - Namibia ✓
- 2.3 Name TWO reasons for import substitution (2 x 1) (2)**
- Diversification ✓
  - Trade ✓
- 2.4 List any TWO benefits of free trade(2 x 1) (2)**
- Specialisation ✓

- Economies of scale ✓
  - Increased welfare ✓
- 2.5 Name TWO main operating principles of the world trade organisation (2 x 1) (2)**
- Reciprocity ✓
  - The “most favoured nation” rule ✓
- 3.1 What effect will Ad Valorem tariffs have on the import of luxury items? (1)**
- It will increase the price of luxury items as the tax is added to the price of the product and reduces the quantity demanded ✓✓
- 3.2 How does a decrease in import prices affect the terms of trade? (1)**
- A decrease in the price of imports will imply that terms of trade increases ✓✓
- 3.3 How SADC countries can reduce problems of export markets? (1)**
- by reducing trade restrictions including tariffs and non-tariff barriers on the import and export of good ✓✓
- 3.4 How does trade cause income inequality? (1)**
- increase in trade volume leads to a wider income gap as more income goes up ✓✓
- 3.5 Why dumping is a problem? (1)**
- unfair competition as products are being sold at a price that does not accurately reflects their cost ✓✓

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

**CHINA SEEN AS A GROWING U.S. RIVAL**

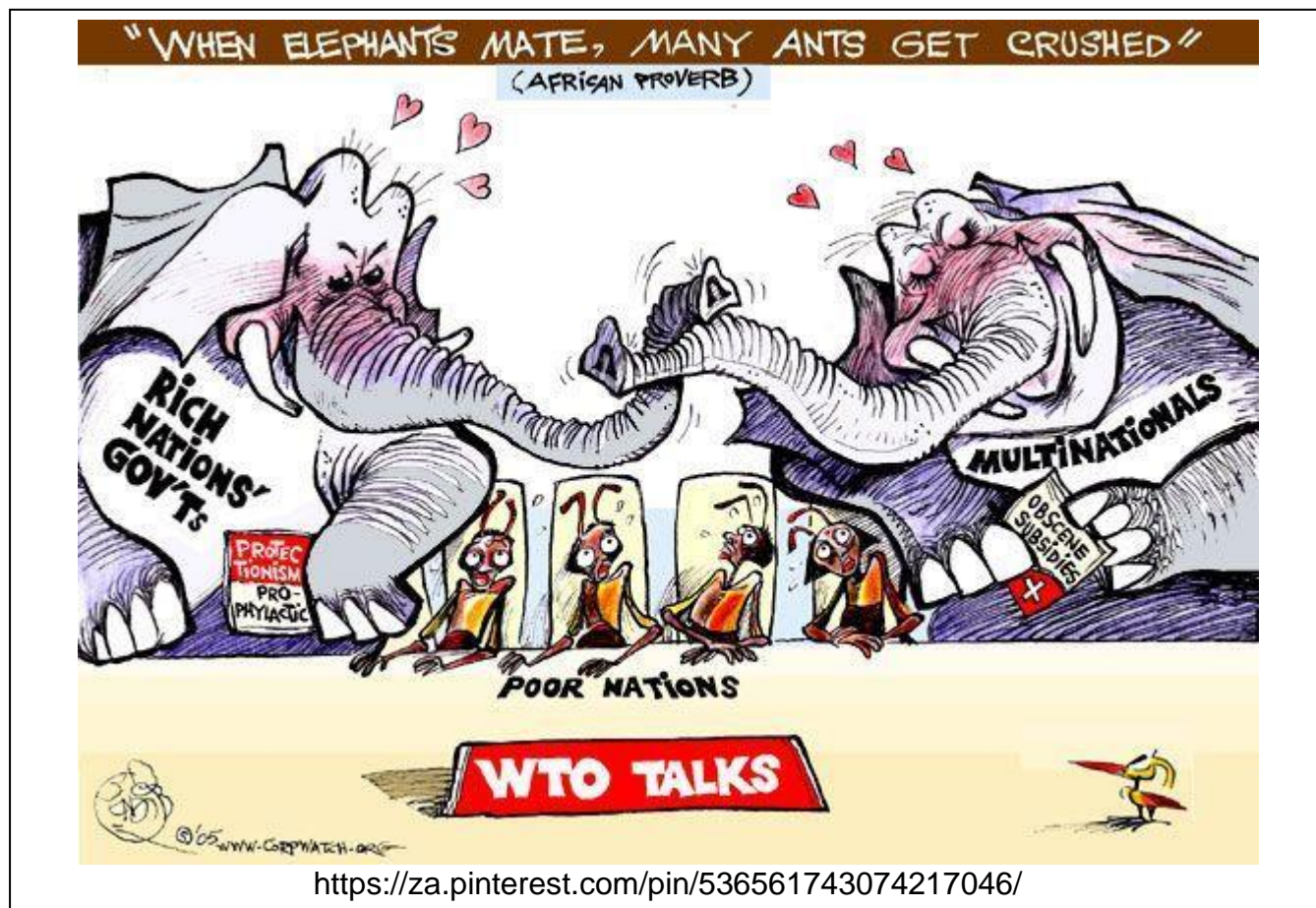
More than two-thirds of respondents say China plays a more important role in the world than it did a decade ago, according to a 2018 survey conducted across 25 countries. However, the majority still call the United States the world's leading economic power and a substantial majority prefers U.S. leadership.

*[Source: Richard Wike et al.]*

- 4.1 Which economic concept best describes the above situation (1)**
- Protectionism and free trade ✓

- 4.2 Give the trade protocol that China along with South Africa belongs to? (1)
- BRICS ✓
- 4.3 Briefly describe the term *free trade*. (2)
- Free trade occurs where government creates very few barriers to international trade. ✓✓
- 4.4 Why would countries of the world see international trade differently? (2)
- Some see it as a way to benefit local producers of goods and services in their competition with imported goods, thus helping them to survive. ✓✓
  - Others see it as a way to create very few barriers to international trade and allow the free flow of goods and services into and out of the country. ✓✓
- 4.5 How can governments effectively promote exports in international markets? (4)
- Governments can effectively promote exports in international markets through:  
Incentives
  - The government supplies information on export markets, research on new markets, concessions on transport charges, export credit, etc. in order to stimulate exports ✓✓
- Subsidies
- These include direct and indirect subsidies:
  - Direct subsidies: ✓ Cash payments to exporters ✓✓
  - Indirect subsidies: ✓ Refunds on import tariffs and general tax rebates ✓✓
- Trade neutrality
- Subsidies equal in size to import duties are paid ✓✓
  - Neutrality can be achieved through trade liberalisation ✓✓

Study the table below and answer the questions that follow.



- 5.1 Name any ONE South Africa's trade protocols (1)
- southern Africa Custom Union✓
  - southern Africa Development Community✓
  - African Union✓
  - Mercosur✓
  - AGOA✓
  - BRICS✓
  - Japan-South Africa's partnership Forum✓
  -
- 5.2 Identify type of protectionism form on the cartoon (1)
- Subsidies ✓
- 5.3 Briefly describe the term *predatory pricing*. (2)
- Charging very low prices that are below the cost of production✓✓
- 5.4 Explain the role of world trade organisation (WTO) in developing countries? (2)  
(1X2)

103

- WTO contributes to eradicating extreme hunger and poverty ✓✓
- Increase access to economically developing countries ✓✓

**5.5 Discuss advantages of protectionism on poor (developing) nations (2X2) (4)**

- Lower imports: Protectionist policies help reduce import levels and allow the country to increase its trade balance ✓✓
- Higher employment rates result when domestic firms boost their workforce ✓✓
- Protectionist policies tend to boost the economy GDP due to a rise in domestic production ✓✓

Study the table below and answer the questions that follow.

### FEATHERS FLY IN POULTRY STANDOFF

The SA Poultry Association has lobbied the International Trade Commission of South Africa to increase import tariffs on chicken from Brazil to a staggering 82%. Obviously, offshore associations are opposed to the plan, but the sentiment is also shared by local importers and exporters.

“Increasing the tariffs to 82% from the current 37% and 12% will close the market to imports, as it will render most imports unfeasible. Most critically, an 82% tariff will allow the local chicken industry, already dominated by a few large conglomerates, to further consolidate the domestic market, thereby decreasing competition and leading to further price increases.”

Brazil is not dumping chicken in South Africa, it is supplying quality, un-brined chicken, sold at a price comparable to that of South Africa’s, and helping to meet local demand. This ensures that healthy competition is maintained, to the benefit of South African consumers, Matthew states.

<https://www.dailymaverick.co.za/article/2019-08-27-feathers-fly-in-poultry-tariff-standoff/>

**6.1 Name any ONE method of import substitution. (1)**

- |               |                       |
|---------------|-----------------------|
| • Tariffs ✓   | • Exchange control ✓  |
| • Quotas ✓    | • Physical control ✓  |
| • Subsidies ✓ | • Diverting control ✓ |

**6.2 What is the main reason for import by developing countries? (1)**

- Diversification ✓
- Trade ✓

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

- the introduction of a product into the market of another country at a price that is lower than their normal value ✓✓



**6.4 Why would an increase in import tariffs benefit the South African economy? (2) (1X2)**

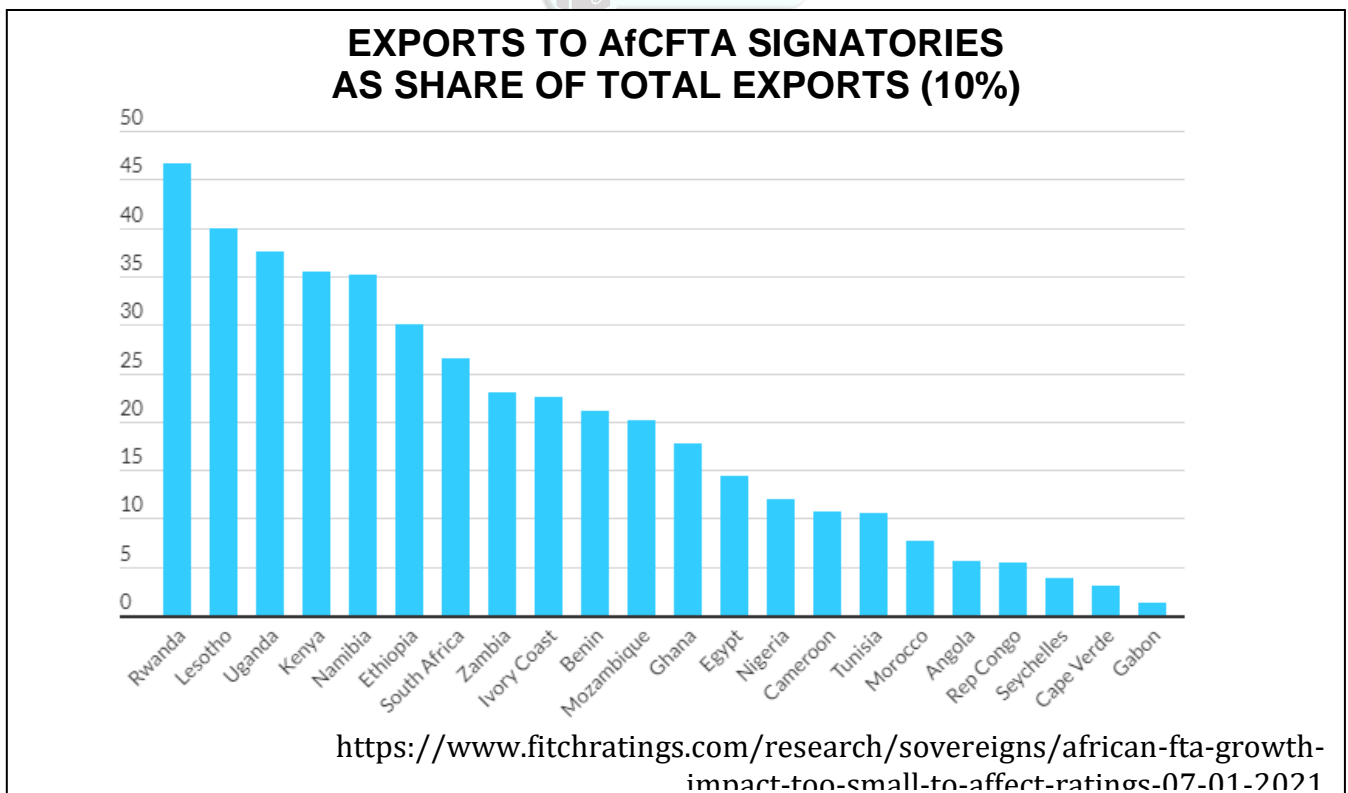
- higher tariffs will help the local industry and thousands of jobs which are at risk ✓✓
- the higher the import tariff rise, so does domestic producer ✓✓

**6.5 Discuss reasons for import substitution (2X2) (4)**

- protection means high profits for the owners of the protected industries while isolating them from the rigours of competition ✓✓
- efficiency is lowered and the protected industries never develop ✓✓
- protection often results in consumers having to pay higher prices for goods of inferior quality ✓✓

**QUESTION 7**

Study the table below and answer the questions that follow.



- 7.1 Identify any country which is part of Southern African Customs Union (SACU) (1)**
- Lesotho ✓
  - Namibia ✓
  - South Africa ✓
- 7.2 Name any ONE disadvantage of export promotion. (1)**
- Increased tariffs and quotas ✓
  - Lack of competition ✓
  - Real cost of production is hidden ✓
  - Protection of labour-intensive industries ✓
- 7.3 Briefly describe the term *export promotion* (2)**
- Incentives to encourage the production of goods that can be exported ✓
  - Incentives to encourage the production of goods that can be exported ✓✓
- 7.4 Why is trade so difficult in Africa (2)**
- Tariff barriers remain high outside areas covered by the agreements ✓✓
  - Insufficient infrastructure ✓✓
- 7.5 How can exports be promoted in Southern African Development Community? (4)**
- improve the productivity and technological content of domestic goods, and provide incentives to nurturing innovation ✓✓
  - increasing awareness about the possibility of using export consortia to help SMEs access the international markets
  - eliminating duty pre-payment for exporting firms in order to reduce credit requirements ✓✓
- 8.1 Discuss the reasons for export promotion (4 x 2) (8)**
- The country achieves significant export-led economic growth. ✓✓
  - Export promotion enlarges the production capacity of the country. ✓✓
  - Greater employment is possible as production is stimulated. / More workers will be employed due to the increased production. ✓✓
  - Exporting has the effect of reducing prices due to larger volumes of goods being produced. ✓✓
- 8.2 Explain quotas and tariffs as methods of import substitution (4 x 2) (8)**
- Quota –**
- is a limit on the quantity of a good that may be imported within a specified time. ✓✓
  - The effect of a quota is the reduction in supply which will result in increase in price. ✓✓

- Foreign enterprises may benefit from higher prices if the demand for their products is inelastic. ✓✓ ( 2 x 2)

**Tariff**

- is a tax on imported goods. there are three kinds ad valorem, specific and composite ✓✓
- Ad valorem is when the tax is levied as a percentage of the value of the imported goods. ✓✓
- Specific duty is when the import tax is levied as an amount per unit. ✓✓
- Composite the tax levied is a combination of both ad valorem and specific tax. ✓✓

**8.3 Discuss methods to promote exports (4 x 2) (8)**

- 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 v e.g. reduction in the freight cost v
- Incentives v information on export markets, research on new markets, concessions on transport tariffs ✓✓ (4 x 2) (8)

**8.4 Explain economies of scale as argument in favour of trade. (4 x 2) (8)**

- Free trade allows industries to maximise economies of scale, reduce costs and become competitive in world markets ✓✓
- This benefits the world economy by distributing labour effectively and creating economic efficiency ✓✓
- Economies of scale are a source of comparative advantage ✓✓
- Economies of scale benefits consumers as low production costs lead to low prices ✓✓
- Increase in world trade leads to larger markets , and more investments in the production processes ✓✓

**8.5 Distinguish between free trade and protectionism (4 x 2) (8)**

- Free trade occurs where government creates very few barriers to international trade. ✓✓
- Goods and services can move freely between countries. ✓✓
- Producers and consumers are free to buy goods and services from anywhere in the world without the interference of government. ✓✓  
(Max 4)
- Protection usually occurs in developing countries where government policies and regulations are introduced; ✓✓ e.g. tariffs, quotas, exchange controls. ✓
- The government discourages the importing of certain goods and services; ✓✓

In order to benefit/protect the local producers in their competition with imported goods ✓✓

**9.1 Why should developing countries ensure survival of labour intensive industries in a global economy? (4 x 2) (8)**

Survival of labour-intensive industries should be ensured to:

- protect jobs and wage levels by limiting unfair competition which may force local industries to reduce production and cut the factors of production. ✓✓
- reduce wages or salaries in order to remain competitive in the international market. ✓✓
- reduce high levels of poverty and unemployment which is of critical importance to protect jobs. ✓✓
- protect those labour-intensive industries that cannot compete with well-established foreign competitors. ✓✓
- protect strategic industries e.g. the mining industry needed for long-term sustainability. ✓✓

(Accept any other correct relevant response)

**9.2 How harmful can protectionism become if implemented wrongly? (4 x 2) (8)**

Protectionism implemented wrongly may be detrimental by:

- resulting in trade wars as trade restrictions are likely to bring about retaliation by foreign countries ✓✓
- Protecting industries may result in such industries losing the ability to compete independently, therefore may never mature. ✓✓
- Limiting consumer choice to those products available in the country ✓✓
- Resulting in less efficient firms as firms that are protected may not have any incentive to reduce their production costs ✓✓
- Consumers may end up paying higher prices because without a system of competitive pricing, domestic companies are free to raise their prices without raising the quality of their goods ✓✓
- Resulting in less innovation taking place as protected firms may continue to make profit due lack of competition ✓✓

**9.3 How can governments effectively promote exports in international markets? (4 x 2) (8)**

Governments can effectively promote exports in international markets through:

- Incentives ✓  
The government supplies information on export markets, research on new markets, concessions on transport charges, export credit, etc. in order to stimulate exports ✓✓
- Subsidies ✓  
These include direct and indirect subsidies:
  - Direct subsidies: ✓ Cash payments to exporters ✓
  - Indirect subsidies: ✓ Refunds on import tariffs and general tax rebates ✓✓
- Trade neutrality ✓
  - Subsidies equal in size to import duties are paid ✓✓

Neutrality can be achieved through trade liberalisation ✓✓

**9.4 Assess how an increase in import prices and an increase in export prices (terms of trade) will affect the South African economy. (4 x 2) (8)**

A change in the terms of trade can have the following effects:

An increase in export prices will result in:

- The numerical value of the terms of trade index improving ✓✓
- 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)

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)
- Any other relevant fact.

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

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

### Introduction

Export Promotion involves providing incentives to encourage local businesses to produce goods for exports. ✓✓ (Max 2)  
 (Accept any other correct relevant response)

### BODY

#### MAIN PART

### Reasons for export promotion

- The country achieves significant export-led economic growth. ✓✓
- It enlarges the production capacity of the country. ✓✓
- Export markets are much bigger than local markets. ✓✓
- Larger production units create more job opportunities and more workers will be employed. ✓✓
- It leads to lower retail prices due to mass production. ✓✓ (Max 4)

### Methods of export promotion

#### Incentives ✓

- The government supplies information on export markets to stimulate exports. ✓✓
- E.g. research on new markets, concessions on transport charges, in order to stimulate exports. ✓✓

#### Subsidies ✓

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

#### Direct subsidies: ✓ Cash payments to exporters. ✓

- Indirect subsidies: ✓ Refunds on import tariffs and general tax rebates. ✓✓
- Trade neutrality ✓
- Subsidies equal in size to import duties, are paid. ✓✓ (Max 6)

### Advantages of export promotion

- There are no limitations to size and scale of market. ✓✓
- Production is based on cost and efficiency. ✓✓
- There is increased domestic production. ✓✓
- Exchange rates would be realistic. ✓✓ (Max 8)

### Disadvantages of export promotion

#### The real cost of production is hidden ✓

- The real cost of production is reduced by subsidies and incentives. ✓✓
- The product may thus never be able to compete in the open market.

#### Lack of competition ✓

- Incentives and subsidies reduce prices and force competitors who may be able to create sustainable and profitable businesses out of the market. ✓✓
- That leads to a lack of competition. ✓✓
- Total potential trade is therefore reduced with subsidies rather than without subsidies. ✓✓

#### Increased tariffs and quotas ✓

- Overseas countries may retaliate with tariffs and even quotas when similar goods are sold domestically below their real cost of production. ✓✓
- Export promotion results in increased tariffs and quotas by powerful overseas competitors. ✓✓
- Export promotion results in the protection of labour-intensive industries by developed countries. ✓✓

#### Protection of labour-intensive industries ✓

- Developing countries often maintain high levels of effective protection for their industries that produce labour-intensive goods in which developed countries

already have or can achieve comparative advantage. ✓✓ (Max 8)  
(Accept any other relevant higher order conclusion) (26)

### ADDITIONAL PART

The government is successful in protecting the local textile industry by:

- implementing the *Proudly South African campaign* to support local production and creation of jobs. ✓✓
- reprioritising funds to the clothing and textiles production incentive from Special Economic Zones. ✓✓
- providing direct and indirect subsidies to infant industries. ✓✓
- ensuring that infant industries can grow and can take advantage of economies of scale to become competitive. ✓✓
- President Ramaphosa promotes the local textile industry by supporting and promoting local manufactures of suites ✓✓  
(Accept any other relevant correct response)

The government is unsuccessful in protecting the local textile industry because:

- local industries become too dependent on protection policies thus many domestic textile manufacturers closed. ✓✓
- many local textile manufacturers closed due to inequality between international competitors. ✓✓
- many wholesalers make use of suppliers from abroad, e.g. Woolworths. ✓✓
- dumping still occurs because European manufacturers still dump clothing in South Africa at prices below cost. ✓✓
- job losses increase due to a lack of protection in this industry. ✓✓ (Max. 10)  
(Accept any other relevant correct response).

### Conclusion

The government should promote exports for the best possible investments and positive balance of payments. ✓✓  
(Accept any other relevant higher order conclusion)

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