



GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION

2021

MARKING GUIDELINES

ECONOMICS (PAPER 1) (10731)

18 pages

SECTION A (COMPULSORY)**1.1 MULTIPLE CHOICE**

- 1.1.1 B – factor market and product market ✓✓
- 1.1.2 A – Economic forecasting ✓✓
- 1.1.3 A – price stability ✓✓
- 1.1.4 D – portfolio investments ✓✓
- 1.1.5 C – decentralisation ✓✓
- 1.1.6 B – open market transactions ✓✓
- 1.1.7 C – malnutrition ✓✓
- 1.1.8 D – demand-side ✓✓ (8 x 2) (16)

1.2 MATCHING ITEMS TYPE

- 1.2.1 G – Compulsory payment made by a private individual or business enterprise to the state for which there is no direct benefit ✓
- 1.2.2 D – A theory that justifies the involvement of government in the economy ✓
- 1.2.3 A – Reduction in the price of goods and consumers have more money to spend on other goods ✓
- 1.2.4 I Measures the distance from the trend line to the peak and the trend line to the trough ✓
- 1.2.5 H – A key growth sector of the Integrated Manufacturing Strategy ✓
- 1.2.6 B – The process of increased international cooperation and communication, leading to international trade ✓
- 1.2.7 C – Institution that assists SMMEs ✓
- 1.2.8 F – People and their skills required for production ✓ (8 x 1) (8)

1.3 GIVE THE TERM

- 1.3.1 factor cost/payment for factors of production ✓
- 1.3.2 rent seeking ✓
- 1.3.3 special drawing rights ✓
- 1.3.4 demographics ✓
- 1.3.5 beneficiation ✓
- 1.3.6 labour productivity ✓ (6 x 1) (6)

TOTAL SECTION A: 30**SECTION B**

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

QUESTION 2: MICROECONOMICS

2.1 Answer the following questions.

2.1.1 **Name TWO kinds of securities that are found in the money market.**

- Bankers acceptances ✓
- Treasury bills ✓
- Reserve bank debentures ✓
- Short-term governments bonds ✓
- Short-term company debentures ✓

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

2.1.2 **Why is a floating exchange rate more beneficial for most countries?**

- The main economic advantages of floating exchange rates are that they leave the monetary and fiscal authorities free to pursue internal goals such as full employment, stable growth, and price stability and exchange rate adjustment often works as an automatic stabilizer to promote those goals ✓✓

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

2.2 DATA RESPONSE

2.2.1 **Identify the industry in the secondary sector which contributed the most towards economic growth in the diagram above?**

- Manufacturing 13.53% ✓ (1)

2.2.2 **Name the method used to calculate Gross Domestic Product in the diagram above.**

- Production method ✓ (1)

2.2.3 **Briefly describe the term *national production*.**

- The output that a country produced by the factors of production owned by the permanent residents of that country, regardless of where the production takes place. ✓✓
(Accept any other correct relevant response.) (2)

2.2.4 **How does compensation of employee affect labour productivity?**

- Lack of reward decreases employee's productivity ✓✓
- Rewarded employees can lead to increased productivity ✓✓
(Accept any other correct relevant response.) (2)

2.2.5 **Why is the multiplier effect on manufacturing important in the economy?**

- Manufacturing has so many substantial links with so many other sectors throughout the economy, its output stimulates more economic activity across society than any other sector. ✓✓
- Creates job and investment opportunities in all the other sectors that use its products, such as transportation, construction, and retail. It also spurs growth in services such as finance and transportation. ✓✓
(Accept any other correct relevant response.) (2 x 2) (4)

2.3 DATA RESPONSE

2.3.1 **Name the level of government under which the municipality of Benoni can be classified.**

- Local government ✓ (1)

2.3.2 **Other than road fixing, name any other function of the municipality.**

- electricity delivery ✓
- municipal roads ✓
- libraries ✓
- traffic control ✓
- refuse removal ✓
(Accept any other correct relevant response.) (1)

2.3.3 **Briefly describe the term *free riding*.**

- A situation where individuals realise that they will still benefit from a good or service even if they do not pay for it ✓✓
(Accept any other correct relevant response.) (2)

2.3.4 Explain the benefits from improved road connectivity.

- More people will be going to nearby towns and villages for odd jobs like selling wood, vegetables, dairy products and locally made items like pickles and so on, which in turn will generate employment opportunities ✓✓
- Good road connectivity not only links the village communities to better markets, but also widens work opportunities to distant places ✓✓
- Better road connectivity will increase sources of income and increased income will help in reducing debt and would increase the buying power of the people, thus improving the overall standards of living. ✓✓

(Accept any other correct relevant response.)

(2)

2.3.5 What impact will a lower budget allocation have on road safety?

- Reductions in road budgets increase the costs associated with accidents and outweigh the savings of road accident fund (RAF) ✓✓
- Investment in the conservation of roads is more than compensated in terms of the reduction of accidents. ✓✓
- Fatalities may be reduced by increasing the budget for the maintenance of roads ✓✓
- Traffic congestion will occur on the alternative roads being used due to the closure of roads ✓✓

(Accept any other correct relevant response.)

(2 x 2)

(4)

2.4 Discuss the interactions between economic participants in a closed economy.**Households**

- There is a flow of money and goods and services between the household sector and business sector. ✓✓
- Households are the owners of the factors of production, and they place their factors of production on the market so that it can be bought. ✓✓
- Households earn income in the form of wages by selling their factors of production to business. ✓✓

Business Sector

- Businesses use the factors of production to produce goods and services on which the household sector spends their income. ✓✓
- Businesses place goods and services on the product market which is bought by households to satisfy their needs. ✓✓
- Business receives an income. ✓✓

State/Government

- There is a flow of money and goods and services between the household sector and State. ✓✓
 - Household sector provides the state with labour and receives income. ✓✓
 - The state provides the household with public goods and services ✓✓ (e.g.) parks, hospitals ✓
 - Households pay taxes to the state. This is income for the state. ✓✓
 - There is a flow of money and goods and services between the business sector and state. ✓
 - The business sector provides the state with goods and services for which the state pays. ✓✓
 - The state provides the business sector with public goods and services. ✓✓ e.g. Roads, Electricity, harbours, etc. ✓
 - Businesses pay taxes to the state, which is used for infrastructure. ✓✓
- (Accept any other correct relevant response.) (2 x 4) (8)

2.5 Why is it necessary to examine a country's balance of payments data?

- Balance of payments provides detailed information about the supply and demand of the country's currency. ✓✓
 - Balance of payments data can be used to evaluate the performance of the country in international economic competition. ✓✓
 - For example, if a country is experiencing perennial balance of payments deficits, it may signal that the country's industries lack competitiveness. ✓✓
 - BOP is significant because it indicates a country's international payment gap that must be financed by the government's official reserve transactions. ✓✓
 - To ensure maximum foreign exchange control ✓✓
- (Accept any other correct relevant response.) (8)

[40]**QUESTION 3: ECONOMIC PURSUITS****40 MARKS – 30 MINUTES****3.1 Answer the following questions.****3.1.1 Name any TWO features of the economies of the South.**

- Low income levels ✓
- Low productivity ✓
- High unemployment ✓
- Low life expectancy ✓
- Low literacy levels ✓

(Accept any other correct relevant response.) ✓

(2 x 1)

(2)

3.1.2. How does the SARB use its open market transactions to restrict credit?

- The SARB sells securities to restrict the flow of money. ✓✓
- The banks are forced to buy these security documents, which leave the banks with less money to lend. ✓✓

(Accept any other correct relevant response.)

(1 x 2)

(2)

3.2 DATA RESPONSE

3.2.1 In the table above, identify the year which showed a better standard of living for South Africans.

- 2018 ✓ (1)

3.2.2 Name ONE reason for the decrease in The Gross National Income (GNI) per capita between 2019 and 2020 in the table above.

- Global unemployment ✓
 - Firms closing/scaling down production activities ✓
- (Accept any other correct relevant response.) (1)

3.2.3 Briefly describe the term *life expectancy*.

- Involves the number of years a newly born infant will live if the prevailing patterns of mortality remained the same through a person's life ✓✓
 - Life expectancy is a statistical analysis of the average number of years a person is expected to live. ✓✓
- (Accept any other correct relevant response.) (2)

3.2.4 Discuss efficient service delivery by government as a measurement for the standard of living.

- The sufficient provision of important social services like schools and clinics by government indicates better living conditions. ✓✓
 - The provision of better housing with proper sanitation, refuse removal services and electricity suggests a better standard of living. ✓✓
- (Accept any other correct relevant response) (2)

3.2.5 How does low life expectancy affect the Human Development Index (HDI) of the country?

Low life expectancy affects HDI by:

- Indicating a high mortality rate and natural rate which are associated with low HDI values ✓✓
 - Demonstrating a shortage of facilities as more people die at an early age which is associated with slow economic development ✓✓
 - Reflecting poor living conditions as compared to those of other countries ✓✓
- (Accept any other correct relevant response.) (2 x 2) (4)

3.3 DATA RESPONSE

3.3.1 Provide ONE main aim of the National Industrial Policy Framework.

- To intensify the industrialisation of the South African economy creating a knowledge-based economy ✓
- To encourage and contribute towards regional trade and economic integration ✓
- To promote the participation of the HDI's in the mainstream economy of South Africa ✓
- To encourage/support a more labour-intensive industry ✓
- To facilitate diversification of the economy towards value-added goods for the export market ✓

(Accept any other correct relevant response.)

(1)

3.3.2 Name ONE benefit that a country obtains from foreign direct investments (FDI's).

- Large-scale job creation for domestic people. ✓
- New technology/innovation is obtained in a country. ✓
- An increase in the GDP of a country. ✓
- The government can benefit from a broader tax base. ✓

(Accept any other correct relevant response.)

(1)

3.3.3 Briefly describe the term *de-industrialisation*.

- Involves the process of social and economic change, caused by the removal or reduction of industrial activity and employment in a region. ✓✓

(Accept any other correct relevant response.)

(2)

3.3.4 What is the relationship between the manufacturing sector and the primary sector?

- The primary sector provides the raw material for the manufacturing sector, such as metals for the production of cars. ✓✓
- The manufacturing sector provides backward and forward linkages to other sectors and creates jobs/economic growth in various sectors. ✓✓

(Accept any other correct relevant response.)

(2)

3.3.5 How would SEZs benefit from the new AFCTA?

- Increasing economies of scale and access to cheaper raw material and intermediate inputs ✓✓
- Better conditions for regional value-chain products and integration into global value-chains ✓✓
- A larger share in the utilisation of technology, such as digital communication services, research and innovation, etc. ✓✓
- Expanded inter-African trade opportunities, linked to job creation ✓✓

(Accept any other correct relevant response.)

(2 x 2)

(4)

3.4 Briefly discuss *growth* and *trade* as globalisation challenges faced by developing countries.

Growth

- Inefficiencies in management/governance lead to inefficient allocation of resources. ✓✓
- This resulted in low levels of production and subsequently low levels of growth. ✓✓
- The developing countries are at a disadvantage when the developed countries withdraw the foreign direct investments, as they also scale down their purchases from these countries. ✓✓

(Max 4 marks)

Trade

- The wealthy countries subsidise production and make it difficult for poorer/developing countries to compete. (Many developing countries feel that they are marginalised.) ✓✓
- These countries have to accept low prices at relatively high input costs. ✓✓

(Max 4 marks)

(Accept any other correct relevant response.)

(2 x 4)

(8)

3.5 How can governments use incentives to encourage industrial development?

Government can encourage industrial development by:

- Developing programmes that will ensure that proper skills are given to the labour force and cover a certain minimum of companies' trading costs ✓✓
- Providing business support programmes to help improve the delivery of small business support to small business and entrepreneurs ✓✓
- Availing grants to small and emerging businesses ✓✓
- Providing tax free grants for investment in industries ✓✓
- Providing foreign investment incentives e.g. Strategic Investment Programme ✓✓

(Allocate a max of 2 marks for mere listing of facts/examples.)

(Accept any other correct relevant response.)

(4 x 2)

(8)

[40]

QUESTION 4: MICROECONOMICS AND CONTEMPORARY ECONOMIC ISSUES

4.1 Answer the following questions.

4.1.1 **Name TWO types of inefficiencies in public sector provisioning**

- Bureaucracy ✓
- Incompetence ✓
- Corruption ✓
- Apathy ✓
- Management failure ✓

(2 x 1) (2)

4.1.2 **How are developing countries negatively affected by capitalism?**

- Capitalism leads to inequality, as it is based on the profit motive and the accumulation of wealth. ✓✓
- The developed countries with a comparative advantage exploit the cheap labour and resources of the developing countries. ✓✓

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

4.2 **DATA RESPONSE**

4.2.1 **Name any ONE commodity which South Africa exports to foreign countries.**

- Gold ✓
- Platinum ✓
- Diamonds ✓
- Jewellery ✓



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

4.2.2 **Name the economic sector in which mining is classified.**

- Primary sector ✓

(1)

4.2.3 **Briefly describe the term *net gold exports*.**

- Net gold exports can be described as the value of a country's total gold exports minus the value of its total gold imports. Thus, the statistics present the surplus between the value of each country's gold exports and its import purchases for that same commodity. ✓✓

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

4.2.4 **How does mining contribute to the reduction of the Balance of Payments disequilibrium?**

- Mining fetches much foreign currency through exports to reduce the deficit. ✓✓

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

4.2.5 **Discuss the impact of exchange rate fluctuations on the mining sector.**

- An exchange rate depreciation stimulates investments by enhancing demands in both the domestic and export markets. ✓✓
- A depreciation of the rand decreases the costs of exports from South Africa, which could make mineral exports cheaper. (It makes South African assets towards foreign investors cheaper.) ✓✓
- An appreciation of the rand makes it cheaper to import mining equipment to South Africa. ✓✓

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

4.3 **DATA RESPONSE**

4.3.1 **Identify the land policy implicated in the diagram above.**

- Land restitution/land reform policies ✓ (1)

4.3.2. **Name ONE other policy used for wealth distribution.**

- Taxation policies ✓
- Social security programmes ✓
- Payments in natura, such as free basic education/ healthcare ✓
- Free basic education (low income earners) ✓
- Labour practices, such as minimum wages ✓
- Black Economic Empowerment ✓
- Women empowerment ✓

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

4.3.3 **Briefly describe the term *economic growth*.**

- Economic growth refers to the increase in the number of goods and services produced in the country during a specific year. ✓✓
- It also means an increase in real output or real output per capita. ✓✓

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

4.3.4 **In which way have recent labour laws changed to contributed towards wealth creation in South Africa?**

- Domestic workers/farm workers and casual labour must be paid minimum wages to support the poor in basic needs. ✓✓
- Domestic workers/casual labour are protected by means of UIF contributions in case of retrenchments, accidents, etc. ✓✓
- Various labour policies such as Affirmative Action, Employment Equity Act and the Basic Conditions of Employment Act was introduced to protect the workers and provide better working conditions. ✓✓

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

4.3.5 **How can the Extended Public Works Programme be used to reduce the unemployment rate?**

- The EPWP creates employment by using labour-intensive methods and providing people the skills they can use to find jobs after their employment period in the EPWP. ✓✓
- The EPWP provides jobs to the unskilled/unqualified people to reduce poverty, unemployment and hunger. ✓✓
- The skills provided by the EPWP can be used after the contract with the EPWP has concluded, thereby ensuring continued productivity and employment. ✓✓

(Accept any other correct relevant response.)

(2 x 2)

(4)

4.4 **Discuss how *management failure* and *bureaucracy* contributes to public sector failure.**

Management failure

- Politicians tend to promote policies and continue to spend money on projects as long as they can get votes in return.
- These policies might involve the inappropriate allocation of resources.
- Many public sector entities lack capacity because of a lack of skills.
- This means that funds are often not spent and must be returned to the treasury.

Bureaucracy

- Individuals and enterprises influence government to act in their interests.
- e.g. Profitable contracts, favourable regulations, ignorance, personal and hidden agendas
- These are questionable motives and promote the welfare of certain groups at the expense of the others.

(Accept any other correct relevant response.)

(2 x 4)

(8)

(Allocate a maximum of 4 marks for listing of facts/examples.)

4.5 **Evaluate the use of indicators to monitor the health of a population during the Covid 19 pandemic.**

HEALTH – POSITIVE ASPECTS

Infant mortality

- The number of children who die before the age of 1 is a way to measure the health of the population.
- Child mortality is significantly higher in poor households.

Under five mortality

- The number of children that will die before the age of 5 years

Health expenditure

- This is measured in terms of the amount of public and private expenditure on healthcare as a percentage of GDP (healthcare receives the second largest budget allocation for its services).
- Healthcare has extremely positive externalities as a larger section of the population now has access to basic healthcare.

Access to safe drinking water

- This is measured in terms of the percentage of the population that have reasonable access to safe drinking water (treated or uncontaminated).
- The Department of Water Affairs constructed many water relief schemes during the harsh lockdown, especially for schools and rural communities.

Access to sanitation facilities

- This is measured in terms of the percentage of a population with at least adequate sanitation facilities that can effectively prevent human/animal/insect contact.
- A healthy population saves on medical and other costs, produces income and contributes to a stronger economy.

NEGATIVE ASPECTS

- The number of children who die under the age of five is still very high, due to factors such as negligence, lack of facilities and staff, especially during the pandemic.
- The health expenditure allocation is not sufficient in all provinces and an extreme shortage of equipment and staff is experienced in various hospitals.
- Some areas of the country experience severe droughts and a shortage of clean water in schools and hospitals.
- The rural communities (schools) are still experiencing a lack of sanitation facilities, (such as using old pit-toilet systems, etc.).

(Accept any other correct relevant response.)

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

(8)

TOTAL SECTION B: 80

SECTION C

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

QUESTION 5: MACROECONOMICS

- **Discuss in detail the supply-side policies used in the ‘smoothing out business cycles’.** (26)
- **Evaluate the effect of real interest rates on the business cycles.** (10)

INTRODUCTION

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

(Accept any other correct relevant introduction.)

(Max 2)

BODY: MAIN PART**Supply-side policies****Reduction of costs ✓**

- **Infrastructural services:** Reasonable charges 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 that 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: The 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. ✓✓
- Increasing the limit of short selling will improve market efficiency. ✓✓
- A decrease in the information cost will also improve market efficiency. ✓✓

(Accept any other correct relevant response.)

(A maximum of 8 marks will be allocated for mere listing of facts/examples.) (Max 26)

ADDITIONAL PART

- The real rates tend to decline during a recession and bottom out with or shortly after the cyclical trough. ✓✓
- The real rate peaks shortly prior to the onset of a recession, although there are examples of real rate peaks that do not precede on business cycle peak. ✓✓
- The correlations are sensitive to the cycle and may be related to the nature of shocks of a standard real business cycle model. ✓✓
- When demand weakens and there is a recession, the SARB can stimulate the economy temporarily by lowering interest rates. ✓✓
- A decrease in real interest rates lowers the cost of borrowing; that leads businesses to increase investment spending, and it leads households to buy durable goods, such as vehicle and new homes. ✓✓
- The higher money supply reduces the value of the South African currency. Devaluation would be beneficial to the South African economy's exports ability because exports become cheaper and more attractive to international trade. ✓✓
- Inflation over a longer period produces the best evidence of the real rate. ✓✓

(Accept any other correct relevant response.)

(Max 10)

CONCLUSION

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

When the aggregate supply curve is horizontal and an economy is below full employment, the only effects of an increase in aggregate demand are increases in real GDP and employment, while the price level does not change. ✓✓

(Accept any other correct relevant response.)

(Max 2)

[40]

QUESTION 6: ECONOMIC PURSUITS

- Discuss in detail, the arguments in favour of trade protectionism. (26)
- Analyse the problems linked to the implementation of protective policies. (10)

INTRODUCTION

- Protectionism involves any measures that government implements to restrict trade in goods and services between countries, such as certain regulations, tariffs, subsidies and quotas. ✓✓ (Max 2)

BODY: MAIN PART

- Increasing revenue for the government ✓
 - The introduction of trade tariffs to implement protectionism has broadened the tax base for the government. ✓✓

Protecting the whole industrial base

- **Maintaining domestic employment** ✓
 - Those countries with high levels of unemployment are forced by politicians to stimulate employment creation. ✓✓
 - Developing countries often tend to resort to protectionism in order to stimulate industrialization at the expense of that country. ✓✓
- **Protecting workers/employment** ✓
 - An argument is that imports from countries with fairly low wages represent unfair competition to the highly paid workers of the local industries. ✓✓
 - Protectionism is thus necessary to prevent local wage levels from falling or even to prevent local businesses from closing down. ✓✓
- **Diversifying the industrial base/industrial development** ✓
 - All countries need to develop diversified industries to prevent over-specialisation on certain products. ✓✓
 - A country which relies too heavily on the export of one or a few products is very vulnerable in a crisis situation. ✓✓
 - Such a country is exposed to world fluctuations in terms of prices, and supply and demand-side problems could lead to the imposing of import restrictions. ✓✓
- **Self-sufficiency and strategic industries** ✓
 - Industries such as iron and steel, agriculture, chemicals and energy are regarded as strategic industries. ✓✓
 - Developing countries feel that they need to develop these industries in order to become self-sufficient. ✓✓

Protecting particular industries

- **Prevention of dumping** ✓
 - Foreign countries may engage in dumping, because government subsidies allow them to sell at very low prices, or to obtain larger profits. ✓✓
 - The long-term objective may be to drive out domestic producers and gain a strong market share. ✓✓
 - The consumers could lose out as a result of the reduction in choices and the higher prices which the exporters will be able to charge. ✓✓

- **Infant industries** ✓
 - Infant industries are the newly established industries and they initially find it difficult to survive, due to their average costs being higher than those of established firms. ✓✓
 - Protectionism during the initial stages could allow the industries to grow and eventually take advantage of economies of scale to become more competitive. ✓✓

- **Declining industries** ✓
 - Structural changes in the supply and demand of products may severely damage an industry. ✓✓
 - Declining industries are likely to be industries that no longer have a comparative advantage in terms of cost advantages. ✓✓
 - If these firms close down completely we could experience a sudden increase in unemployment levels. ✓✓
 - Protectionism may enable an industry to decline gradually, and to slowly move to other industries or sectors. ✓✓

- **Balance of Payments corrections/stabilizing the exchange rate and BOP** ✓
 - A negative trade balance causes an unsustainable deficit in the current account of the Balance of Payments. ✓✓
 - Countries can impose protectionism measures to reduce imports, but other countries could counter and do the same. ✓✓
 - Protectionism may enable an industry to decline gradually, and to slowly move to other industries or sectors. ✓✓

(Max 26)

ADDITIONAL PART

- Industries can become reliant on protectionism as they lose the ability to compete efficiently and therefore insist on protective measures. ✓✓
- It is difficult to establish which industries have the potential to be competitive in the future and need protective measures. ✓✓
- It is also very difficult to decide when protective measures should be reduced, because once in place it is difficult to remove them completely/firms cannot always survive on their own. ✓✓
- The implementation of tariffs changes prices in favour of producers and only protects profit margins – the inefficient producers are protected at the expense of the consumers who buy their products. ✓✓
- Protected industries may not mature and develop the skills to compete on their own – trade barriers could delay the structural changes needed to become competitive. ✓✓
- Trade restrictions are likely to bring about retaliation by foreign countries, which could lead to a decrease in the volume of world trade. ✓✓

(Accept any other correct relevant response.)

(Max 10)

CONCLUSION

Free trade results in greater overall production, as each producer is free to specialise in the industry in which it has a natural advantage, but at the same time our domestic consumers must be protected against the effects of foreign competition.

(Accept any other correct higher order conclusion.) ✓✓

(Max 2)

[40]

TOTAL SECTION C: 40

TOTAL: 150