education

Department:
Education
PROVINCE OF KWAZULU-NATAL

CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS)

LEARNER SUPPORT DOCUMENT

GRADE 11

ECONOMICS

STEP AHEAD PROGRAMME

2021

PREFACE

This support document serves to assist Economics learners on how to deal with curriculum gaps and learning losses as a result of the impact of COVID-19 in 2020. It also captures the challenging topics in the Grade 10 - 12 work. Activities should serve as a guide on how various topics are assessed at different cognitive levels and also preparing learners for informal and formal tasks in Economics. It will cover the following topics:

1.	**National Account Aggregates**
2.	**Dynamics of Markets: Relationship between markets**
3.	**Effects of Cost and Revenue**
4.	**Price Elasticity**
5.	**Economic growth and development: Wealth Creation**
6.	**Money and Banking**
7.	**Globalisation**

NATIONAL ACCOUNTS AGGREGATES

Aim:

- To provide a systematic and comprehensive record of national economic activities.
- National income figures are NOT 100% accurate.
- There are many shortcomings or problems that arise when national income figures are calculated.
- S.A. uses the System of National accounts (SNA) as guided by the UN.

Key concepts:

National account is an accounting record of a country total production, income and expenditure

It is used to measure economic activities of a country i.e. GDP

Final goods- are goods that are ready for consumption by the participants in the economy.

Intermediate goods- are goods that are used as inputs to produce other goods and services

Double counting: occurs when intermediate products are added to final products and will cause national accounts to reflect an incorrect higher total

Residual item – balancing item due to errors and omissions

Taxes on production –refers to taxes on production not linked to a specific product taxes on land and building taxes are payable corporate tax

Taxes on product- are payable per unit of some good and service e.g. VAT

Subsidies on production- it refers that are not linked to specific goods and services e.g. subsidy made on production

Subsidies on product- financial incentives to help struggling industries produce, as well as direct subsidies payable per unit exported

Gross Domestic Expenditure

Gross national income (GNI)-total remuneration for the factors of pro

Real GDP- it is the referred to as GDP at constant prices, real GDP are adjusted for price changes

Nominal GDP- it is referred to as the GDP at current prices, it gives the current value of the price.

GDP Deflator: it's a ratio of GDP at current prices to the GDP at constant price for a particular period

Formula for GDP Deflator: Nominal GDP ÷ Real GDP x 100

Reasons for calculating GDP Deflator are to eliminate the effect of price changes to get the actual GDP not distorted by inflation

GDP is **a total value** of all **final** goods and services produced within the borders of a country in a specific in a specific period

Aggregate means total

There are **three methods** that are used to measure the national accounts

The income method: remuneration for the factors of the factors of production that have been used in the production of goods and services

The production method/ value added method: value of all the final goods and service produced in the primary, secondary and tertiary sector

Expenditure method: total expenditure on final goods and services within the borders of a country.

Differentiate between domestic production and national production.

Domestic production (GDP) is the production that takes place within the borders of a country. It does not matter whether production is by South African or foreign firms.

Nati**onal production (GNP)** is the output of a country produced by the factors of production owned by the permanent residents of that country, regardless of where the production takes place.

In order to compare the GDP of one year with that of another, the nominal (current GDP which include the effect of inflation) has to be changed to a real (constant) GDP as follows: **Nominal GDP x 100 / deflator**

Thus to calculate the **real GDP** the index should be deflated, that is, removing the effects of inflation since the base year.

How can national income figures be expressed?

National income figures can be expressed at **market prices, basic prices and factor cost**, depending on which approach is used to calculate the GDP of a country.

In the national accounts there are two types of taxes namely

 Taxes on production – refer to taxes on production not linked to a specific good or service (e.g. tax on land and buildings, business licensees, payroll taxes).

 Taxes on products – taxes that are payable per unit of some good or services (e.g. VAT, import duties, tax on imports and exports).

The national accounts reflect two types of subsidies namely

 Subsidies on production – subsidies that are not linked to specific goods or services, e.g. subsidy on employment.

 Subsidies on products – financial incentives to help struggling industries to produce, and direct subsidies payable per unit exported, to encourage exports (e.g. government subsidy on bread).

National account aggregates show the total (aggregate) value of **income, expenditure and production** in a country

The **production method** is a method whereby we determine the Gross Domestic Product - GDP (P) - at market prices by adding the final values of all goods and services produced, calculated as **gross value added.**

The **income method** is a method whereby we determine the Gross Domestic Product - GDP (I) - at market prices by adding all the income earned by the owners of the factors of production (gross domestic income).

The **expenditure method** is a method whereby we determine the gross domestic product - GDP (E) - at market prices by adding the spending of the four major sectors of the economy - consumption, government, investments and exports (minus imports).

NATIONAL ACCOUNTS AGGREGATES

ACTIVITY 1

1.1 Multiple choice

1.1.1 Spending on machinery, buildings and inventory is part of..

A Gross domestic product.

B Gross national income.

C Gross fixed capital formation.

D Gross value added.

1.1.2 ... are goods used to produce other goods.

A Intermediate goods

B Public goods

C Services

D Capital goods

1.1.3 National accounts are compiled using a system developed by the

A South African Reserve Bank.

B United Nations.

C South African Parliament.

D The World Economic Forum.

1.1.4 A method of calculating GDP that includes salaries and wages paid is the ..

A income method.

B expenditure method.

C production method.

D Gross Value Added.

1.1.5 ... is the cost of the next best alternative not chosen.

A Opportunity cost

B Price

C Production cost

D Gross Domestic Expenditure

ACTIVITY 2

2.1 **Match Column A with the description in Column B. Write only the letter**. (1x5) (5)

Column A	Column B
2.2.1 PAYE	A. Gross Domestic Expenditure
2.2.2 Depreciation	B. An example of direct tax
2.2.3 Gross fixed capital formation	C. An example of indirect tax
2.2.4 C+G+I	D. The consumption of fixed capital owing to wear and tear
2.2.5 VAT	E. An increase in consumption
	F. Investments by businesses

ACTIVITY 3

3.1 **Provide a term or concept for each of the following statements. Abbreviations and acronyms will not be accepted**.

3.1.1 The flow of income and expenditure in a circular flow.

3.1.2 A payment made without a productive service being rendered.

3.1.3 Goods produced by only South African residents.

3.1.4 An item that corrects errors in calculating national accounts.

3.1.5 Gross Domestic Product adjusted to price changes.

3.1.5 Compulsory payment paid by individuals and businesses to the state.

3.1.6 Goods that still have to be added value before consumption.

3.1.7 Consumption that is independent of the level of income.

3.1.8 Amounts added more than once in the calculation of national accounts.

3.1.9 Financial assistance given to producers by the government.

3.1.10 An increase in real Gross Domestic Product.

(1x10) (10)

ACTIVITY 4

4.1 Read the following extract and answer the questions that follow.

Real GDP for the second quarter of 2020

In South Africa, as in most advanced and emerging market economies, the devastating impact of the corona virus disease 2019 (COVID-19) pandemic and resultant lockdown restrictions on economic activity is reflected by all measures of the real gross domestic product (GDP) statistics for the second quarter of 2020. South Africa's real GDP contracted by a massive annualised 51.0% in the second quarter of 2020 – the largest contraction since quarterly records began in 1960 – extending the economic recession to a fourth quarter. In the second quarter of 2020, real GDP contracted by 16.4% on a quarter-to-quarter, not annualised basis, and the economy shrank by an unprecedented 17.5% in nominal terms.

Source: SARB QB September 2020

4.1.1 Name any ONE method of calculating GDP. (1)

4.1.2 Give another term for real GDP. (1)

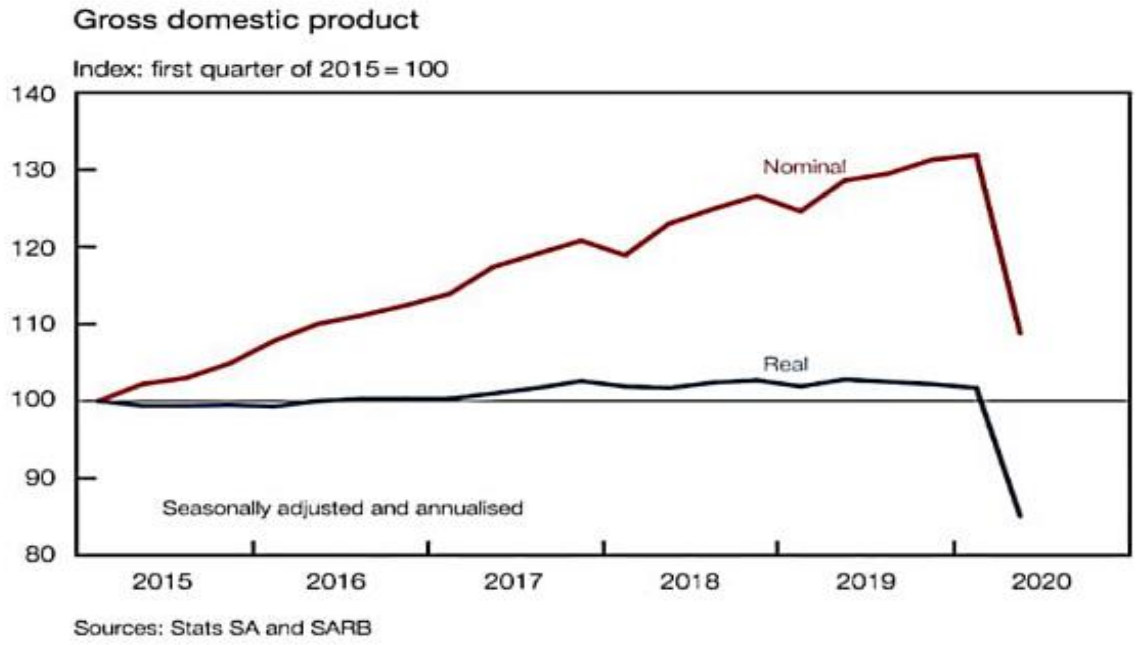
4.1.3 Briefly describe the term *Gross National Product*. (2)

4.1.4 Why is South Africa's economy still heavily reliant on mining? (2)

4.1.5 How does an increase in GDP contribute to the economy? (4)

ACTIVITY 5

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



5.1.1 Identify the base year for the above? (1)

5.1.2 Which year showed the worst economic performance? (1)

5.1.3 Briefly describe the term *Gross Domestic Product*. (2)

5.1.4 Why is the real GDP curve lower than nominal GDP curve? (2)

5.1.5 How can the government use fiscal policy to stimulate the economy? (4)

ACTIVITY 6

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

	R billions
Primary sector	320
Secondary sector	435
Tertiary sector	1 070
Gross value added at basic prices	**1 825**
Plus: Taxes on production	140
Less: Subsidies on products	11
Gross domestic product at market prices	**A**

6.1.1 Which method of calculating GDP was used above? (1)

6.1.2 In which sector is the car manufacturing industry? (1)

6.1.3 Briefly describe the term compensation of employees. (2)

6.1.4 Calculate the value of 'A'. (2)

6.1.5 Explain the negative impact of COVID-19 to the economy? (4)

6.2 Differentiate between nominal GDP and real GDP. (8)

DYNAMICS OF MARKETS: RELATIONSHIP BETWEEN MARKETS

CONCEPTS / TERMS	EXPLANATION
Market	The mechanism that brings buyers and sellers together so that prices and quantities both or sold are determined.
Absolute prices / nominal prices	Actual monetary value (price) of a product or service, that is not adjusted, changed or compared.
Relative prices	Prices of goods and services that are presented as a comparison with other prices.
Price formation	The price of goods and services is formed as a result of numerous economic, political and social processes.
Demand	The quantity of goods and services that consumers are able and willing to buy at a specific price and at a specific time.
Substitutes	A substitute is a good that can be used in the place of one another good.
Complements	Complements are goods that are used in conjunction with one another, e.g. fish and chips
Product market	A market where goods and services are traded

Prices are formed in the markets following economic, social and political processes.

Market plays a critical role in providing the following vital information:

- The value of products and services
- Shortages and surpluses in supply
- How many other people want the good?
- Whether or not the good is in any way better than other goods

There are various kinds of markets, such as **products market** (market for final goods and services) as well as **factors market** (market for factors of production).

Absolute prices	**Relative prices**
The actual price of a good or service at a Certain time. This actual price is without any changes, adjustments and comparisons, also known as **nominal prices**. **Example**: R100 price tag on red cap.	Prices that are presented as a comparison with other prices of other products. Relative prices are adjusted, and also known as **real prices**. **Example**: R100 for red cap, compared to R95 or other red cap brand.

For relative prices, the price of the product is also compared to the price exact product, the previous year. Suppose that the same R100 red cap was R90 the previous year. The previous year price will be original price. Then the percentage change in price must be calculated, following this formula: Difference in price ÷ original price x 100 = percentage in price increase

(R 100 - R 90 = R10) R10 ÷ R90 x 100 = 11,1% (11,1% is the percentage change in the price increase).

Relative prices are important because:

- they can show inflation, real economic growth and economic development in a country.
- economists are able to use them as indicators, to assess the economic performance.
- they are used to establish whether the economic situation is worsening or improving.
- government and the Reserve Bank can use them to decide on the correct fiscal and monetary policies to implement.
- consumers and producers make their decisions according to them.

Activity 1

1.1 **Study the following scenario and answer the questions that follow:**

Scenario: The pair of shoes were sold for the price R700 in August 2019, the same pair of shoes are now sold for the price of R850.

1.1 Identify the product that is sold in the above scenario. (1)

1.2 Determine the change in price for the product above? (1)

1.3 Describe the term '*price*'. (2)

1.4 Calculate the percentage in the price increase from R700 to R850. (4)

1.5 Tabulate the difference between *absolute prices* and *relative prices*. (4)

1.6 How important are markets in providing information in the economy? (8)

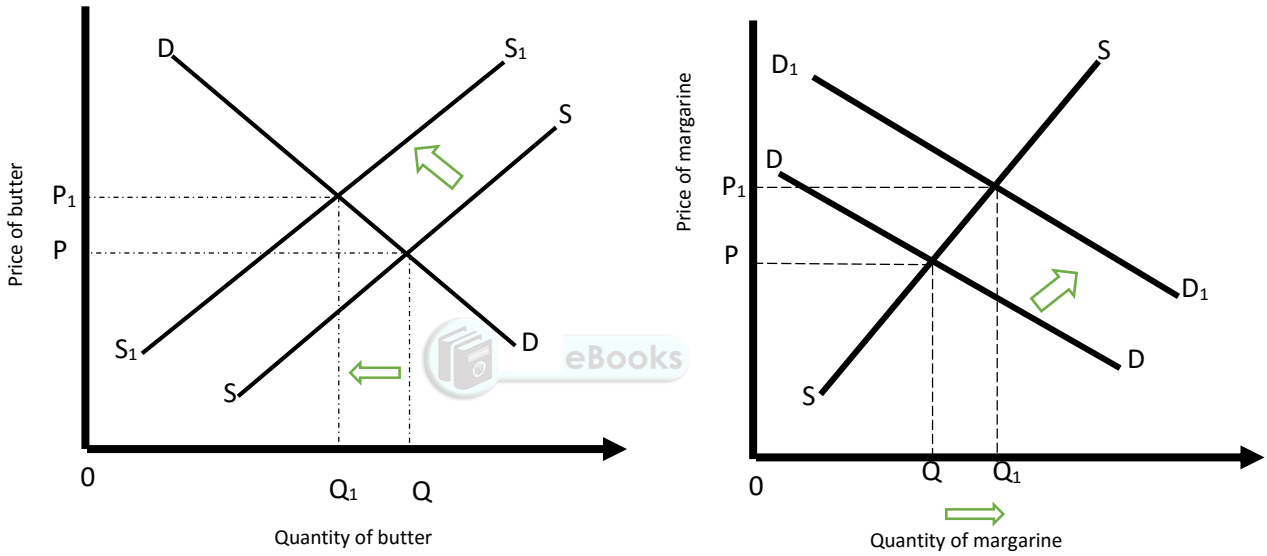
DEMAND AND SUPPLY RELATIONSHIPS

Demand relationships exist for the following reasons:

- Goods that are used in conjunction with the other (Complements).
- Goods that are used interchangeable or can replace one another (Substitutes)

Substitutes

- A substitute is a good that can be used in the place of one another good. A consumer can switch between these goods and maintain the same level of satisfaction, e.g. butter and margarine.
- A price increase in one product will cause a greater demand for the substitute product
- For an example an increase in the price of butter will cause an increase in demand for margarine.

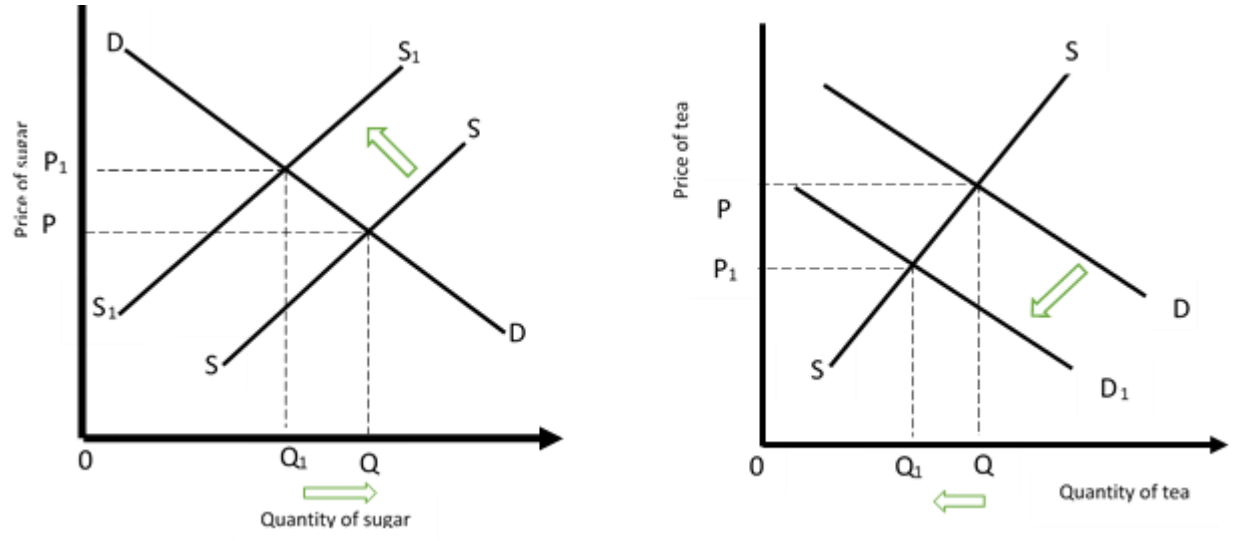


- The Price of butter has increased due to a decrease in supply. The supply curve shifted to the left to SS1, the price of butter has increased from P to P1.
- The demand for substitute product (margarine) has increased and that is shown by the shift in the demand curve from DD to D1D1 and quantity demanded will increase from Q to Q1.
- Due to an increased demand for margarine, the price of margarine will also rise but will still be relatively cheaper than butter.

Complements:

Complements are goods that are used in conjunction with one another, e.g. fish and chips, coffee and milk, cars and petrol, cell phones and airtime etc.

- According to the law of demand, an increase in the price of a product will cause a decrease in demand for it.
- e.g. An increase in a price of sugar will cause a decrease in demand for sugar and tea.

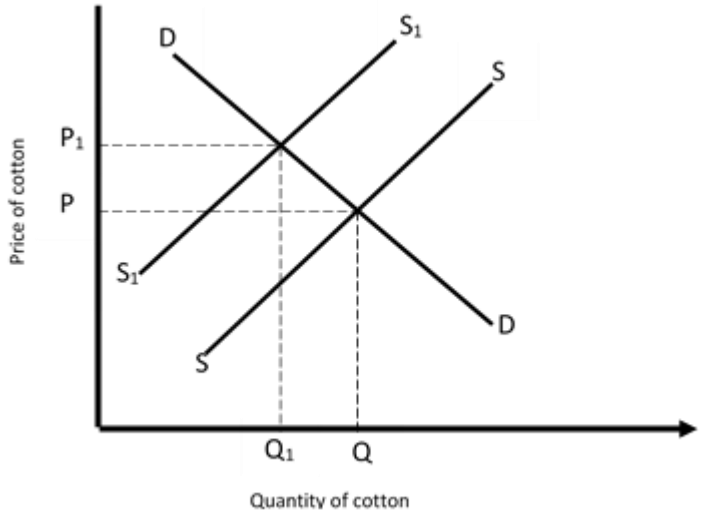


- An increase in the price of a complement decreases the demand for the related product.
- The above graphs illustrate the relationship between sugar and tea as complementary goods.
- An increase the price of sugar caused the demand for tea to decrease thereby shifting the demand curve for to the left D1D1.
- The new equilibrium price and quantity demanded and supplied in the tea market has decreased.

Factor Market: is a market where factors of production are traded.

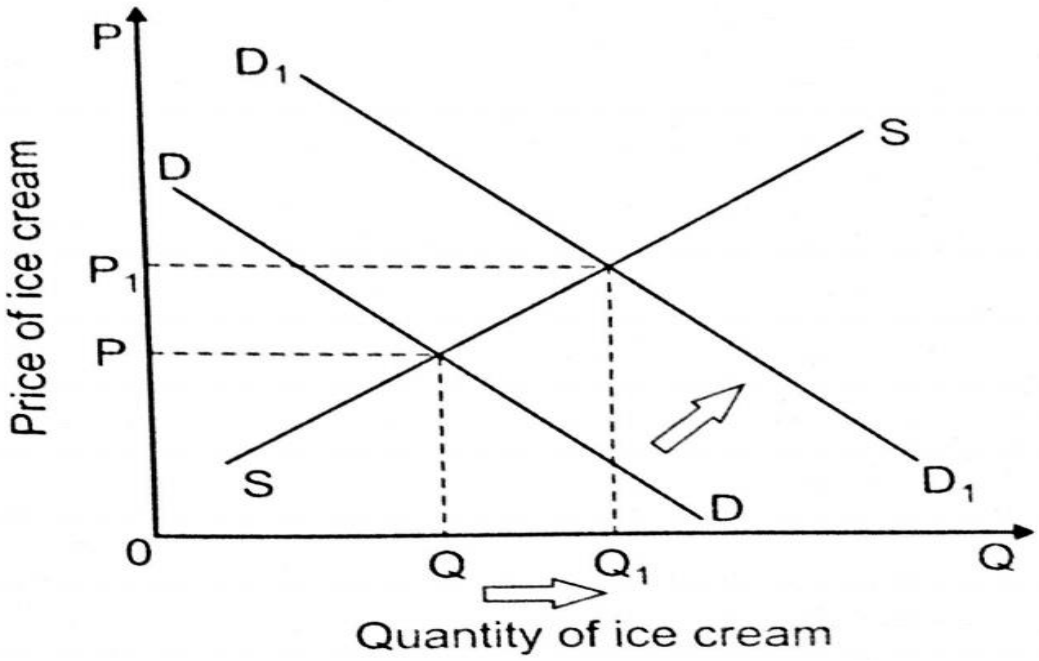
- Factor market can be divided into natural resources market, labour market and capital market.
- When the supply of one factor of production changes, it will affect the rest of the factor market and the product market.
- For an example when cotton become scarce due to drought, less cotton will be available to produce cotton.
- A decline in the supply of cotton will cause the supply curve to shift to the left to S1S1 and the price of cotton will increase to P1.
- The quantity supplied will decrease to Q1 which will lead to factories closing down and people losing their jobs.
- A change in the factor market will influence supply and the rest of the factor market.

Product Market



- The product market is subdivided into capital goods market, consumer goods market and services market.
- When the demand for a particular product increases in the product market, the demand for factors used to produce it also increase in the factor market.

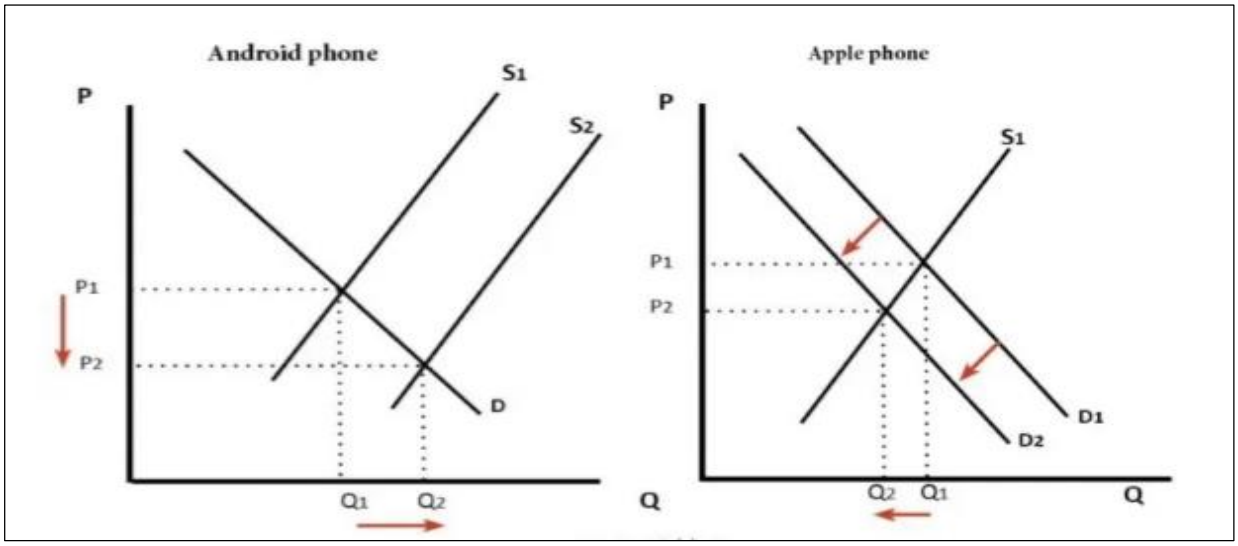
For an example when there is an increase in demand for ice cream in summer, the demand for milk as a natural resource will also increase



- The above graph illustrates the effect of increased demand for ice cream.
- An increase in the demand for ice cream will cause the demand curve to shift to D1D1.
- The quantity demanded increases from Q to Q1 and the price also increase from P to P1 due to increased demand for ice cream.
- The increase in demand for ice cream will also lead to an increase in demand for milk which is from factor market.

Activity 2

2.1 **Study the graphs below and answer the questions set.**



GRAPH (A) **GRAPH (B)**

2.1.1 State the change in supply that occur in graph A. (1)

2.1.2 Identify the original equilibrium price in graph B. (1)

2.3 Describe the term *'substitute goods'*. (2)

2.4 Briefly explain the effect of a decrease in quantity demanded on price for Apple phone (2)

2.5 Use the above graph to explain the concept of cross elasticity of demand. (2 x 2) (4)

Activity 3

3.1 **Study the picture below and answer the questions that follow**.

3.1.1 What type of goods are car radio and remote control. (1)

3.1.2 Give a term that explains level of satisfaction for consumer (1)

3.1.3 Describe the term '*demand*'. (2)

3.1.4 Briefly explain the effect of a decrease in price for radios on sound cables. (1 x 2) (2)

3.1.5 Why is it important to examine demand relationships**?** (2 x 2) (4)

3.2 By means of well labelled graphs show demand relationships between complementary goods**.** **(8)**

Activity 4

Study the picture below and answer the questions that follow.

4.1 Name the type of goods that are shown on the above cartoon. (1)

4.2 Identify the concept that is used to describe the quantity of goods that producers are willing to sell. (1)

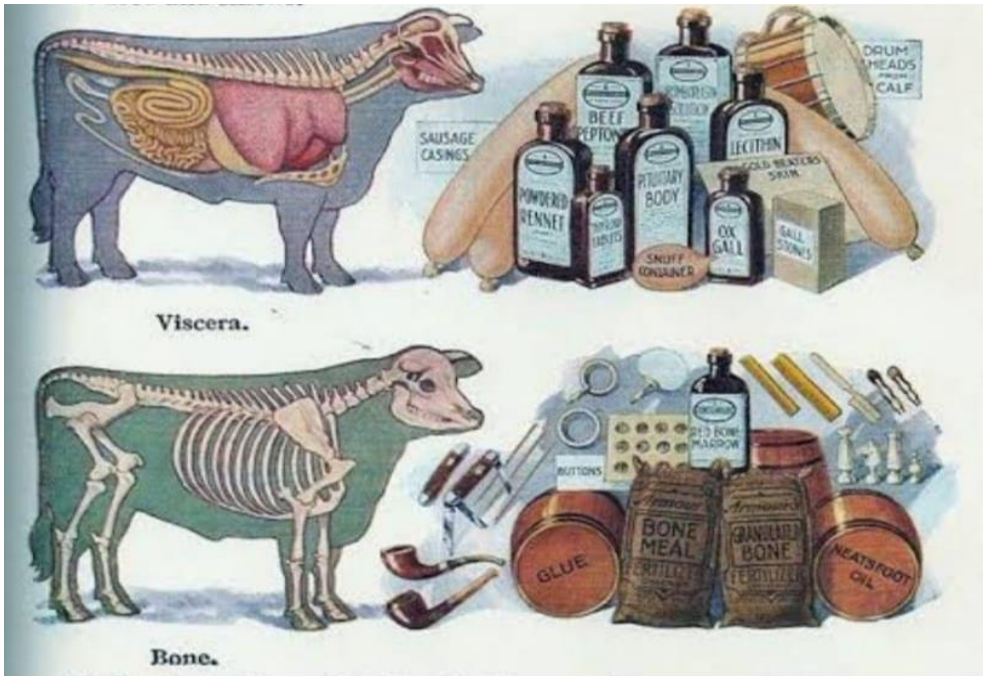
4.3 Describe the term 'profit' (2)

4.4 What would happen to the production of ice cream when all resources (milk) is focused towards the direction of yoghurt. (2

4.5 How can subsidies affect the supply of goods / services? (4)

Activity 5

Study the picture below and answer the questions that follow.



5.1 Name the type of farming that is depicted on the picture. (1)

5.2 Identify any ONE product that is made from the cow bones in the cartoon above (1)

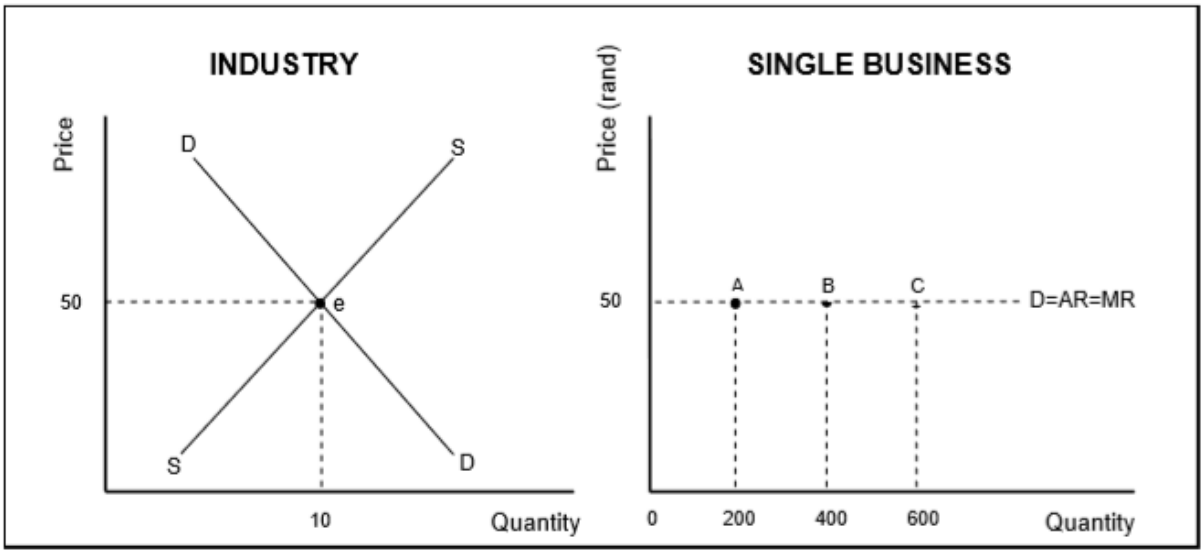
5.3 Describe the term '*production possibility curve*'. (2)

5.4 Briefly explain the relationship between complement products, under supply relationships. (1x 2) (2)

5.5 Differentiate between factor market and product market. (2 x 2) (4)

Activity 1

1.1 Study the graphs below and answer the questions that follow.



1.1.1 Which market structure is shown in the above graphs. (1)

1.1.2 Identify the market price from the graph. (1)

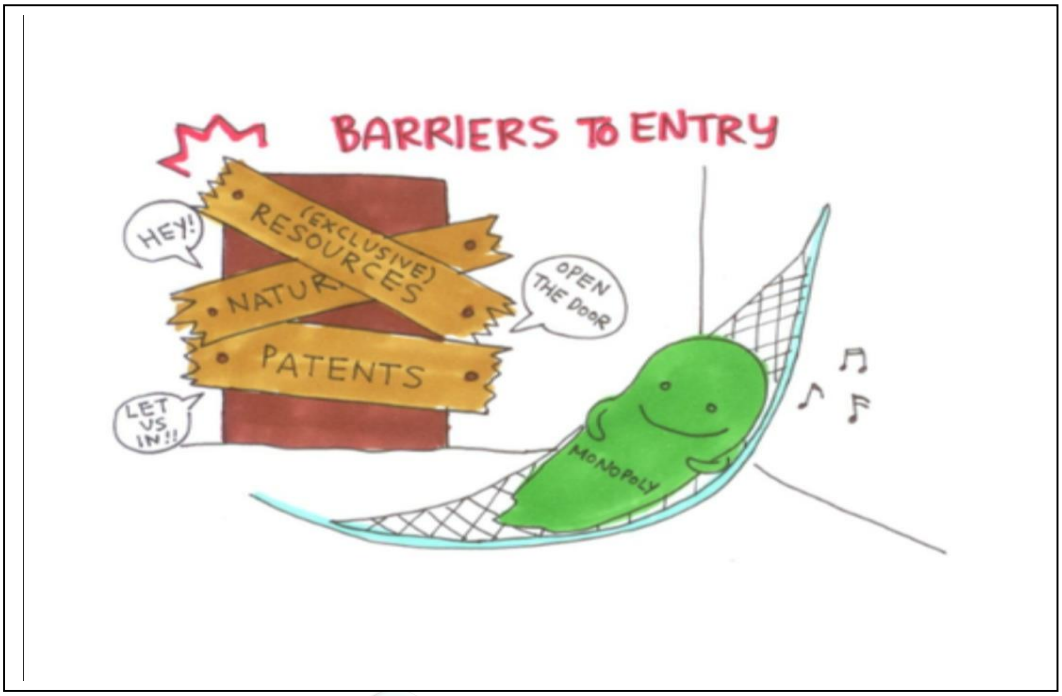
1.1.3 Describe the term industry. (2)

1.1.4 How does the firm in this market increase its revenue? (2)

1.1.5 Why is the agricultural market regarded as a close example of a perfect market? (4)

Activity 2

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



2.1.	Name the market structure depicted on the above cartoon.	(1)
2.2.1	Identify the barrier to entry from the cartoon above.	(1)
2.3	Describe the term *monopoly*.	(2)
2.4	Briefly explain how natural monopolies are created.	(2)
2.5	Why would a monopolist continue to make economic product in the long-run?	(4)

COST AND REVENUE NOTES

GRADE 11

SETTING GOALS

- A business has goals: to make profit; grow the business into a bigger business.

DIFFERENT OBJECTIVES

All businesses aim to make money.

Profit maximising:

- Profit = ***revenue*** — ***costs***
- Revenue: amount of income made from selling goods or services

- Businesses aim for high revenue and low production costs

'Maximising' revenue:

- High costs are from large workforce (wages and salaries), large premises (rent) and high water and electricity costs.
- Revenue can be increased by competitive prices or non-price approaches e.g. effective marketing

.

Sales maximising:

- Growing the target market can increase sales.

SHORT-RUN COSTS

TOTAL COSTS

- Short run can be any length of time.
- ***Definition: period of time during which the business is faced with at least one of its production factors being fixed*** (at least one input can't be increased).
- The words short and long run are not the same as short-term and long-term.

Fixed and variable costs:

- **Fixed costs (FC):**
- Costs that do not change with output. e.g. rent, insurance
- They are not directly linked to the production of any specific item and are therefore called indirect costs/ unavoidable costs/ overhead costs.
- These costs have to be paid even if no products are produced and they remain the same even if a large amount of products are produced.
- The fixed cost curve is a horizontal line because costs do not change with output.

Variable costs (VC):

- Costs that change as output changes. e.g. wages, electricity
- Variable costs start at 0. The variable cost curve is usually an *S* shape.
- Note: every time you add another worker, your costs will increase at a much quicker rate, so the curve increases slowly at first and then once it reaches a particular point it starts to increase at a faster and faster rate.

Total costs (TC):

- **TC = FC + VC**
- Refers to the total remuneration paid to the factors of production used in the production process.
- The total cost curve is the sum of the fixed and variable cost curves.
- It has the same shape as the VC curve. Note: The curve does not start at 0.

Cost curves:

The cost curves can be shown graphically:

Cost curves:

- The fixed cost curve is equal to the vertical distance between the VC and the TC curve
- The VC curve starts at 0.
- FC is a horizontal graph, because the fixed costs are constant.

Cost schedule:

COSTS SCHEDULE			
Number of do-nuts produced (output) Q	**Fixed costs (e.g. rent) FC**	**Variable costs (e.g. ingredients) VC**	**Total costs TC**
0	180	0	180
10	180	100	280
20	180	160	330
30	180	210	390
40	180	280	460
50	180	400	580
60	180	600	780
70	180	910	1090

Comments on the schedule:

- Fixed costs remained the same at every output level.
- Variable costs increase and initially increase at a slow rate.
- **The Law of diminishing marginal returns: employing more variable inputs increases output initially at a small additional cost, followed by rapidly increasing costs per unit**.

AVERAGE COSTS

- Total cost of production divided by the number of units produced.
- Producers need to calculate unit costs so that they can work out the selling price of their product. Unit costs refer to the cost of producing a single item
- **Average costs are the cost per unit of production**.
- Average costs can be divided up into:
  - Average fixed costs
  - Average variable costs
- To calculate average fixed costs (AFC), fixed costs (FC) are divided by the number of goods produced

$$AFC = \frac{FC}{Q}$$

- To calculate average variable costs (AVC) we divide variable costs (VC) by the number of goods produced

SUMMARY OF COSTS AND REVENUE CONCEPTS

Total Product/ Output	Total product is the maximum output that the firm can produce with the given number of fixed and variable inputs at its disposal	
Fixed Costs (indirect costs/ overhead costs)	Costs that remain the same even if the output changes. Examples are rent, depreciation, insurance	
Variable Costs (direct costs/prime costs)	Costs that change according to changes in output. Examples wages, the cost of raw materials, electricity etc	
Total cost:	The cost/remuneration for all the factors of production used in the production process.	**TC = FC + VC**
Marginal costs	Marginal cost is the amount by which total cost increases when one extra product is produced	**$MC = \frac{\Delta TC}{\Delta Q}$**
Average cost	Average cost is the cost per unit of production	**AC = AFC + AVC or $\frac{TC}{Q}$**

Average fixed cost	To calculate average fixed costs, we divide Fixed costs by the amount of goods produced	**AFC = $\frac{FC}{Q}$**
Average variable cost	To calculate average variable costs, we divide Variable costs by the amount of goods produced	**AVC = $\frac{VC}{Q}$**
Total Revenue	Total revenue is the total income received from the sale of goods or services. The formula for total revenue is :	**TR = P x Q**
Marginal revenue	Marginal revenue refers to the extra amount of income gained by selling one more unit of production	**MR = $\frac{\Delta TR}{\Delta Q}$**
Average revenue	Average revenue refers to the amount a firm earns for every unit sold.	**AR = $\frac{TR}{Q}$**
The long-run	The **long run** is that time during which **all inputs can be varied** (changed), both fixed and variable.	
Economies of scale	Average costs are falling as the costs are divided over more units of output.	
Diseconomies of scale	Increasing average costs as the contribution of the variable inputs becomes more expensive	
Profit	Profit is money 'left over' once firm subtracts total costs from total revenue.	**Profit = TR – TC**
ECONOMIC PROFIT	When Average Revenue is above Average cost the firm makes an economic profit	**AR > AC**
ECONOMIC LOSS.	When Average Revenue is below Average Cost the firm makes an economic loss	**AR < AC**
NORMAL PROFIT	When Average Revenue equals Average Cost the firm makes a normal profit	**AR = AC**

ACTIVITY 1

1.1 Study the structure below and answer questions that follow

OBJECTIVES OF A BUSINESS

[Source: http/www.google.ca.za/?gws rd]

1.1.1 Name ONE explicit cost that a business can incur. (1)

1.1.2 What is the main objective of a business? (1)

1.1.3 Briefly describe term Revenue (2)

1.1.4 Briefly explain an impact of market share on profit? (2)

1.1.5. Briefly discuss any two SMART principles in designing the objectives of business. (4)

ACTIVITY 2

2. Study the table given below and answer the following questions.

Quantity	**Fixed Costs (R)**	**Variable Costs (R)**	**Total Costs (R)**
1	**A**	4	14
2	10	6	16
3	10	**B**	20
4	10	16	26
5	10	24	34

2.1 Name the Cost shown by symbol A. (1)

2.2 Give ONE examples of fixed cost. (1)

2.3 Briefly describe Variable Cost. (2)

2.4 Explain why fixed costs figure remain constant? (2)

2.5 Calculate **B** in the above table. (4)

ACTIVITY 3

3. Use the information in the text box to answer the questions that follow.

MaMa Baker produces forty (40) loaves of bread at a total cost of R450 and its total cost of producing fifty loaves is R500.

3.1 Name the original quantity produced by MaMa Baker. (1)

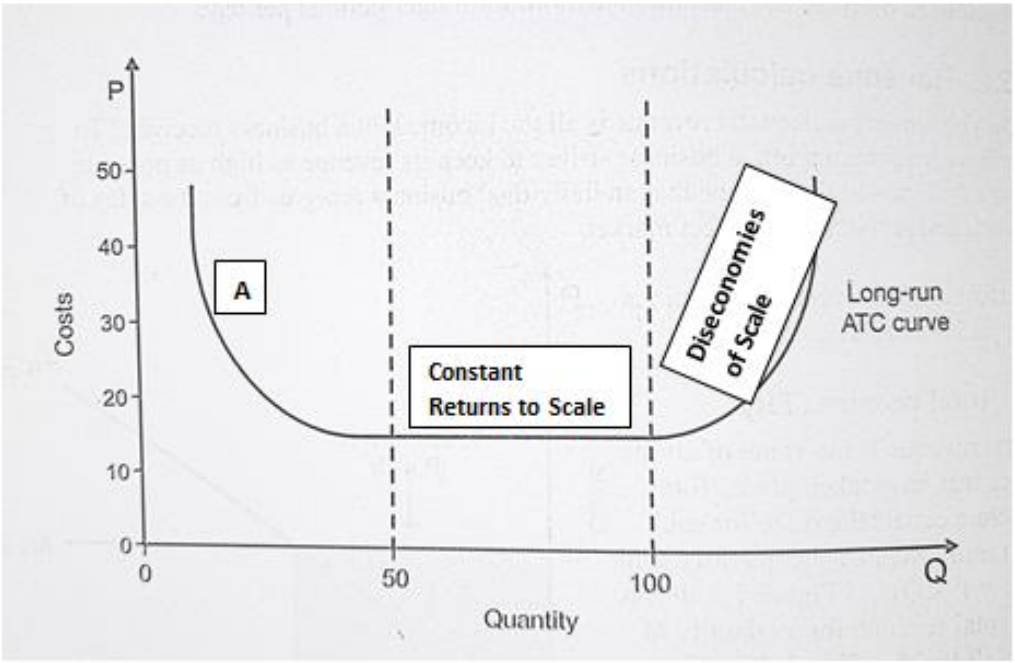
3.2 What product produced by MaMa Baker (1)

3.3 Briefly describe marginal cost. (2)

3.4 Briefly explain the slope of the MC curve. (2)

3.5 Calculate the marginal cost. (4)

ACTIVITY 4



4.1.1 Identify the cost curve in the above diagram. (1)

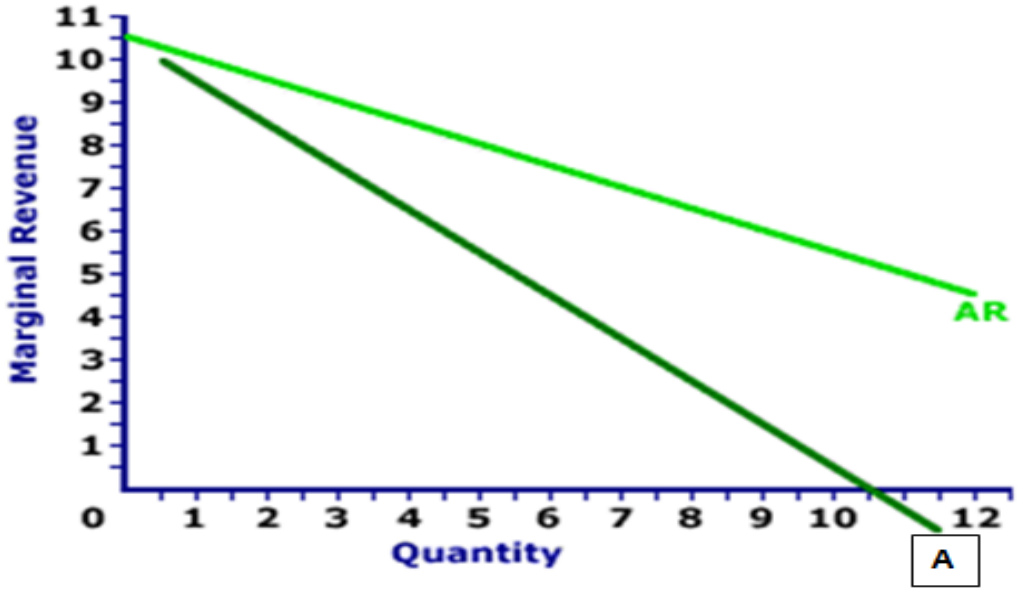
4.1.2 Provide full label for **A.** (1)

4.1.3 Briefly describe Long-run. (2)

4.1.4 Briefly explain the shape of the Long-run ATC curve. (2)

4.1.5 Explain how Diseconomies of Scale works in the production costs. (2x2) (4)

ACTIVITY 5



5.1.1 Provide labels for curves **'A'**. (1)

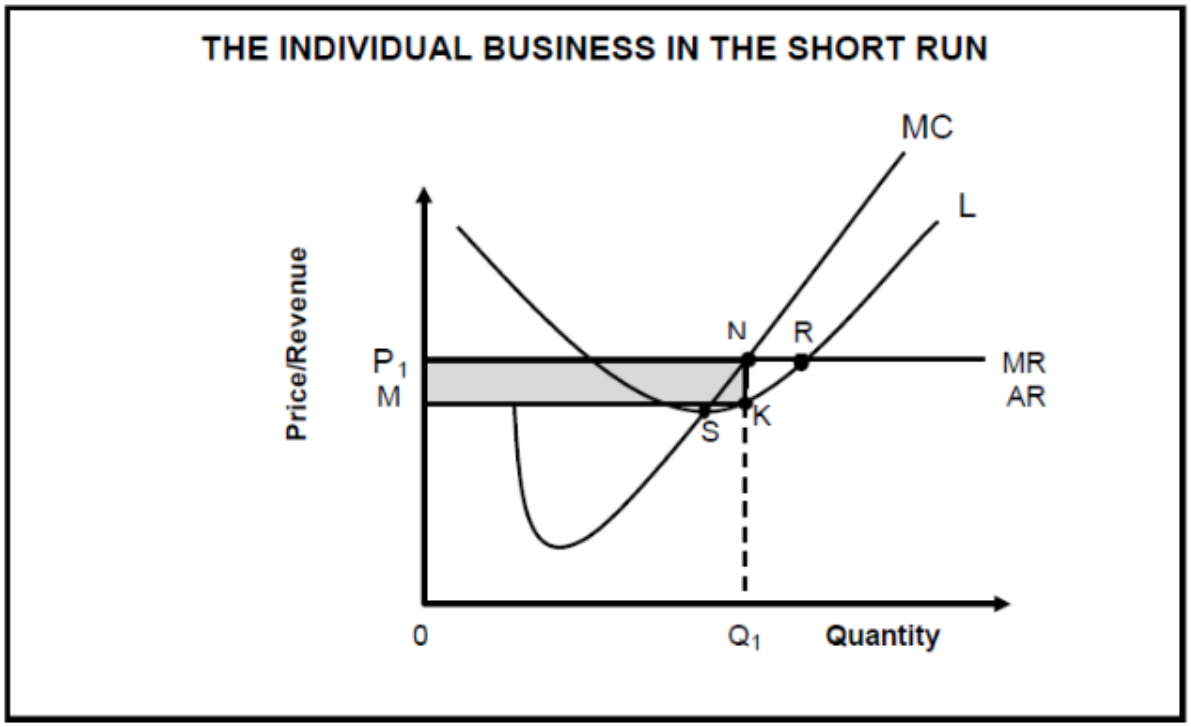
5.1.2 Name the concept that can be used to describe amount a firm earns for every unit sold. (1)

5.1.3 Briefly describe the term marginal revenue. (2)

5.1.4 Provide the formula to calculate Average Revenue (2)

5.1.5 How can a business maximize its profit (4)

ACTIVITY 6



6.1.1 Which point (label) on the graph indicates profit maximisation? (1)

6.1.2 Name the curve labelled **L**. (1)

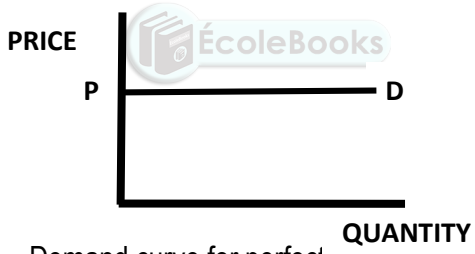
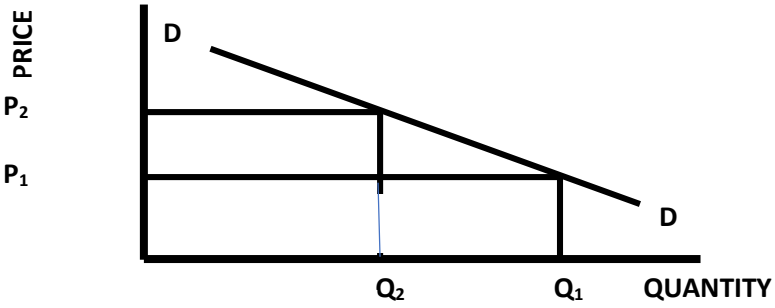
6.1.3 What is depicted by the shaded area? (2)

6.1.4 Briefly explain the term short run. (2)

6.1.5 Explain why this equilibrium position will NOT remain fixed. (2 x 2) (4)

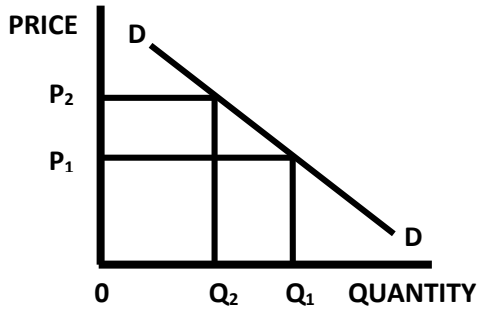
PRICE ELASTICITY OF DEMAND

	PRICE ELASTICITY OF DEMAND
	DESCRIPTION
DEMAND	The quantity of a good or services that the consumers are able and willing to buy at a specific price and at a specific period of time
Price elasticity of demand	The change in the quantity demanded by consumers due to change in the price of product
Perfect elastic demand	When even a smallest change in price causes an infinitely large change in quantity demanded
Elastic demand	Change in price causes a greater percentage change in quantity demanded

Unitary elasticity demand	A change in price causes exactly the same change in quantity demanded
Inelastic demand	A change in price causes a smaller percentage change
Perfect inelastic demand	A change in price has no effect at all on quantity demanded.
	PRICE ELASTICITY OF DEMAND • Price elasticity of demand measures how much consumers respond, or their sensitivity to a change in price of a product. • Formula for calculating price elasticity :**percentage change in quantity demanded /percentage change in price**
	FORMS OF PRICE ELASTICITY OF DEMAND **1.PERFECT ELASTIC DEMAND: A** small change in price will cause an infinitely large change in quantity demanded. Change in quantity demanded will be equal to zero. • **PED:** INFINITE (PED = ∞). **GRAPHICAL REPRENTATION**  • Demand curve for perfect elastic demand is horizontal line. **2. ELASTIC DEMAND:** A smallest change in price will cause a greater change in quantity demanded. Substitute products tends to have an elastic demand. Beef can easily be swapped for mutton. The demand for luxury product is also elastic. • **PED** is always greater than 1 (PED >1). 

3. **UNITARY ELASTIC DEMAND:** occurs when a specific change in price causes exactly the same change in quantity demanded e.g. when price increase by 10% the quantity demanded will decrease by 10%

- **GRAPHICAL REPRESENTATION**

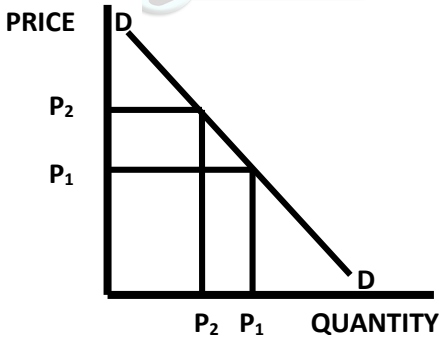


- **PED is always equals to 1 (PED = 1)**

4. **INELASTIC DEMAND:** A change in price will cause a small change in quantity demanded

- Demand for food is inelastic.

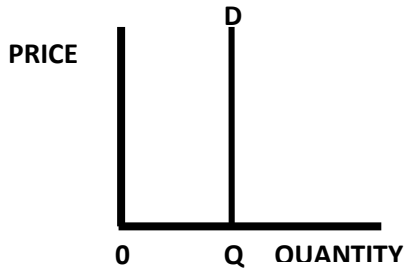
GRAPHICAL REPRESENTATION



- **PED** will always be less than one (PED <1)

5. **PERFECT INELASTIC DEMAND:** Demand shows no response at all to price change: A change in price will cause no change in quantity demanded.

- Demand for medication is perfectly inelastic e.g. insulin.
- **PED** will always be equal to zero (PED =0)

	GRAPHICAL REPRESENTATION 
	FACTORS DETERMINING ELASTICITY OF DEMAND ● ***Availability of close substitutes***. If a close substitute is availability, the demand for product will be very elastic. Consumers can use a substitute product in place of another product to satisfy a need. ● ***Nature of the product***: Price elasticity of demand for essential goods like food, electricity and medication tends to be inelastic because consumers need them for survival. Price elasticity for luxury goods such as cell phones, expensive cars, entertainment tends to be more elastic because consumers can live without them. ● ***Habit forming products***: such as cigarettes, alcohol have an elastic demand because consumers for these goods cannot go without them. ● ***Inferior product***: demand for goods which consumers spend only a very small portion of their income such as salt is **inelastic**. Demand for goods on which consumers spend a large portion of money such as furniture is **elastic** ● ***Durability of product:*** The more the durable the product, the more elastic the demand will be. If the product last for a long period of time consumer will be influenced by price increase and become more hesitant to buy the product. When price for clothing increase consumer will keep on using old staff until price drop ,unlike the demand for potatoes.

TOPIC	PRICE ELASTICITY OF SUPPLY
	DESCRIPTIONS
Supply	Supply for goods or services is the quantity that the producers offer for sale at a specific period of time
Price elasticity of supply	The change in the quantity that producers supply due to change in price of product.
Factors of production	They are the input in the production process, Capital ,labour, entrepreneur and natural resources.

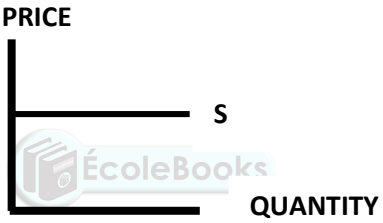
PRICE ELASTICITY OF SUPPLY

- **Price elasticity of supply** calculate the change in quantity that producers supply due to change in price of product. When price for product increase, producers offer more products for sale.
- **Formula for calculating PES: % change in quantity supplied/% change in price**

FORMS OF PRICE ELASTICITY OF SUPPLY

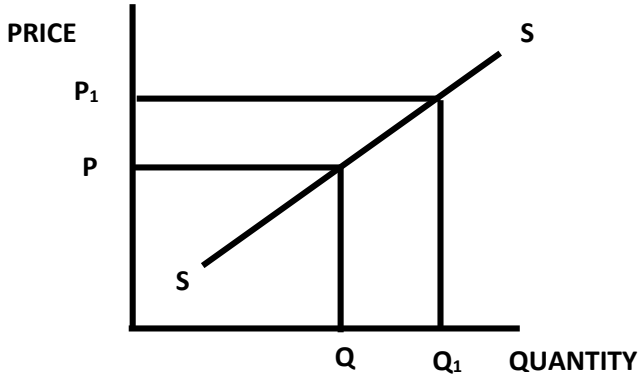
1. ***Perfect elastic supply***: A change in price will cause an infinitely large change in quantity supplied.
   - The supply curve is horizontal.
   - PES is infinite (PES= ∞)

GRAPHICAL REPRESENTATION

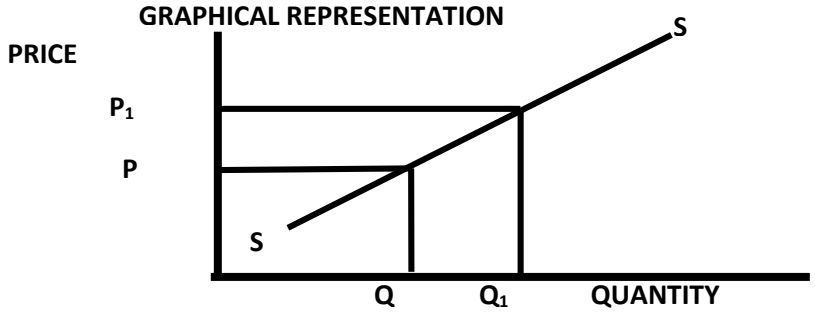


2. ***Elastic Supply:*** A change in price will cause a proportional large change in quantity supplied. Producers can easily adapt to price changes and increase production.
   - PES is always greater than 1 (PES > 1)

GRAPHICAL REPRESENTATION

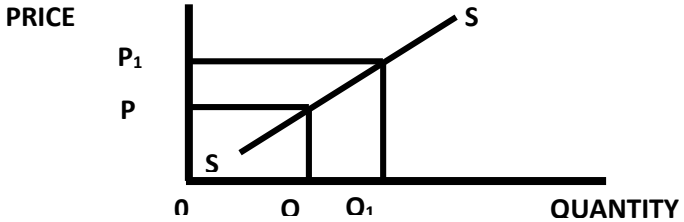


3. ***Unitary elastic supply.*** A change in price will cause exactly the same change in quantity supplied.
   - PES always equals to 1 (PES > 1)



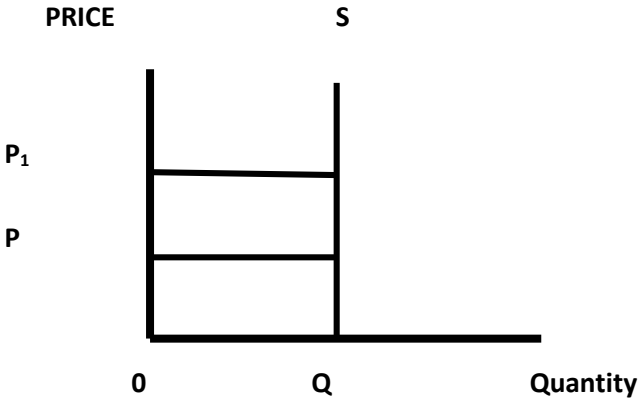
4. Inelastic Supply A change in price will cause a smaller change in quantity supplied.

- Producers struggle to adapt to change in price.
- PES always less than 1 (PES <1)



5. Perfectly inelastic Supply: Any change in price will have no effect at all in quantity supplied.

- Producers are unable to adapt to price changes and are not able to increase supply at all.
- Supply curve is vertical line.
- PES is always equals to 0 (PES = 0)



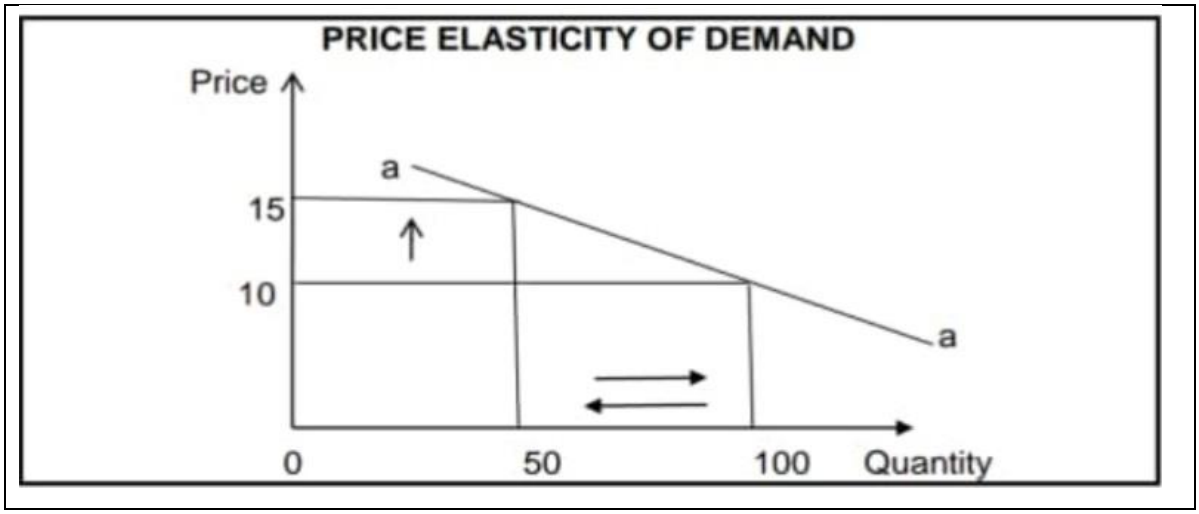
	FACTORS DERTEMINING THE PRICE ELASTICITY OF SUPPLY 1. ***Availability of natural resources***: If raw material needed to manufacture goods are readily available, the producers can easily adapt to price change e.g. an increase in the price of maize may cause producers to supply more maize. The supply then become elastic. 2. ***Availability of Labour***: If producers use unskilled worker in South Africa it will be easy to adapt to price change because in South Africa unskilled labour is readily available compared to skilled labour. 3. ***Availability of Capital***: When producers needs more specialised and expensive equipment to produce a product, the supply will be inelastic because they will be unable to acquire such equipment. 4. ***Time***: Supply in is fixed in a short period of time, i.e. producers cannot increase supply overnight to respond to an increase in demand. Supply can only respond in a long run. So in a short run supply is inelastic

	INCOME ELASTICITY OF DEMAND
	DESCRIPTIONS
Income elasticity of demand	Measures the degree to which consumers respond to a change in their income by buying more or fewer of a particular good
Normal goods	A good that is demanded at large quantities when income rises
Inferior good	A good that is demanded in small quantities when income rises
	INCOME ELASTICITY OF DEMAND Income elasticity of demand measures the responsiveness of demand to a change in income. ● FORMULAR FOR CALCULATING IED: % change in quantity demanded /% change in income. ● As income of consumers increases demanded for inferior product tends to decrease, while demand for normal or luxury products increase. ● IED for normal product > 1 as income increase IED for inferior product <1 as income increase ● Income elasticity of demand provides valuable information for predicting how consumer patterns will change over the next five years.

	CROSS ELASTICITY OF DEMAND
	DESCRIPTIONS
Cross Elasticity of Demand	Measures the responsiveness of demand for one good to a change in price of another good
Substitute products	Demand relationship between goods that can replace each other
Complementary products	The demand relationship between goods that are used in conjuction with each other. Goods than are used together to satisfy a need
Unrelated products	Goods that exist independently of one another.
	CROSS ELASTICITY OF DEMAND ● The higher the value of the cross elasticity of demand the stronger the effect will be on the demand for a related product. ● Formula for calculating CED: % change in quantity demanded of Product A / % change in price for Product B. ● Positive value for CED, shows that demand for the other product will move in the same direction as price i.e. when the price of product increases, the demand for Product B will increase. ● Negative value for CED, shows that the demand for the other product will move to the opposite direction to price i.e. When the price for product A increases, Demand for product B will decrease ● A Zero value for CED, shows that the demand for the other product will not be influenced by the price i.e. When the price of product A increases, demand for product B will no change ● Substitutes have a positive cross-elasticity of demand value. ● E.g. When the price for mutton increase, the demand for beef will increase ● Complimentary goods have negative cross elasticity of demand value. An increase in the price vehicles may decrease the demand for petrol. ● Unrelated product has a zero cross elasticity of demand value i.e.an increase in the price of books will have a zero effect on the demand for milk.

ACTIVITY 1

Study the graph below answer the question that follow.



1.1.1 Provide the correct label for curve 'a'. (1

1.1.2 If the price would increase from R10 to R15, what is the quantity of goods that would be demanded. (1)

1.1.3 Describe the concept income elasticity of demand. (2)

1.1.4 How does an increase in income affect the demand for inferior goods? (2)

1.1.5 Using information from the graph, calculate the price elasticity of demand. Show all calculations. (4)

ACTIVITY 2

Study the extract below and answer the question that follow.

In January a small pizza shop received 350 boxes of Margharita pizzas and 200 boxes of cheese from its supplier. They sold each box of Margharita pizzas at R30 and a box of cheese at R35. The following month (February) pizza prices increased to R42 for Margharita and R49 for cheese. In the same month (February) the supplier increased the number of boxes supplied from 350 to 441 boxes for Margharita pizzas and from 200 to 252 boxes for cheese.

2.1.1 Identify one non-durable good from the extract above. (1)

2.1.2 What determine the price in the above market? (1)

2.1.3 Describe the concept short-run. (2)

2.1.4 How does the availability of factors of production affect the PES? (2)

2.1.5 Calculate the price elasticity of supply for cheese, show calculations (4)

ACTIVITY 3

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

CROSS ELASTICITY OF DEMAND **BEEF AND MUTTON ARE SUBSTITUTES**	
Price of beef	**Quantity demanded of mutton**

3.1.1 What type of elasticity is depicted in the above table? (1)

3.1.2 What is the relationship between the two products in the above table? (1)

3.1.3 Describe the concept cross elasticity of demand (2)

3.1.4 Explain cross elasticity of demand for unrelated goods. (2)

3.1.5 Using the information above calculate the cross elasticity of demand. (4)

1. WEALTH CREATION PROCESS

Concepts	**Description**
Wealth	Is the stock/value of assets accumulated overtime or owned by individuals, businesses and government
Income	Is the amount of money earned by factors of production for participating in economic activities.
Economic Growth	Is the increase in the productive capacity of the economy/country over a certain period of time? It is measured by the percentage change in the real GDP in a certain period, usually a year
Economic Development	Is an increase in of the standard of living of people in a country? It includes the improvement of health, education, infrastructure and living conditions in general
Income distribution	Shows how the total income is distributed among its population, this may be even or uneven.
Wealth distribution	It is unevenly distributed in all societies, but more obvious in free-market economies than in centrally planned systems
Lorenz Curve	Is a graphical representation of how uneven the distribution of income /quintile distribution of income
Land Restitution	Policy that consists of the state buying land from the present owners and giving it to those who had their land confiscated during the apartheid years.

Real GDP	is GDP after the increase in the general price level has been taken into account, GDP deflator index is used to remove effects of inflation (adjusted to inflation)
Nominal GDP	It doesn't give a true picture of economic growth, as the increase in general price level (inflation) is not taken into account/considered.
Indigenous Knowledge System	Traditional, local knowledge and technologies that developed over time around specific conditions by communities living in a particular geographic area.

2. WEALTH CREATION PROCESS

Definition of wealth

Is the stock/value of assets accumulated overtime or owned by individuals, businesses and government

- **Income**

Is the amount of money earned by factors of production for participating in economic activities?

Sources of wealth

- Inheritance
- Savings
- Gifts
- Appreciation of assets
- Luck (winning lottery and jackpots)
- profits

Methods to create wealth

Wealth creation is the process of increasing your stock of assets

Methods:

- Education and training
- Savings
- Investment

3. DISTRIBUTION

Income distribution: Shows how the total income is distributed among its population, this may be even or uneven.

Wealth distribution: It is unevenly distributed in all societies, but more obvious in free-market economies than in centrally planned systems

Inequality: Means there is a big difference between income and levels of wealth of the richest and the poorest households/countries

Quintile ratio is used to measure income inequality between different groups of people. It is obtained by dividing the income of the highest 20% by the income the lowest 20%

Gini Coefficient: Is a statistic that can be used to measure the degree of inequality in the distribution of income, is calculated using the Lorenz curve

Lorenz curve is a graphical representation of how uneven the distribution of income /quintile distribution of income

Redistribution methods:

- Taxation
- Social security programmes/grants
- Minimum wage
- Free benefits
- Subsidised services
- Job creation programmes
- Land redistribution
- Redress policies
- Reducing discrimination

4. ECONOMIC GROWTH

- Is the increase in the productive capacity of the economy/country over a certain period of time
- It is measured by the percentage change in the real GDP in a certain period, usually a year
- It is important because it provides citizens with more job opportunities.

Calculation

Nominal GDP – doesn't give a true picture of economic growth, as the increase in general price level (inflation) is not taken into account/considered. Formula: output multiplied by average price

Real GDP – is GDP after the increase in the general price level has been taken into account, GDP deflator index is used to remove effects of inflation (adjusted to inflation). The real GDP cannot be used to determine income distribution in a country, but must be divided by the size of the population to obtain **real GDP per capita**

An increase in real GDP indicates economic growth, while increase in real GDP per capita indicates economic development (increase in the standard of living of the population)

- **To calculate the GDP deflator:**

$$\text{GDP deflator} = \frac{\text{average price for current year}}{\text{average price for the base year}} \times 100$$

Once the GDP deflator has been calculated, real GDP can be calculated

$$\text{Real GDP} = \frac{\text{nominal GDP}}{\text{GDP deflator}} \times 100$$

Importance

Benefits of economic growth

- Reduce unemployment
- Reduce poverty
- Income increase
- Increase in government revenue
- Reduce government expenditure

Methods

- Increase in productivity
- Especially labour productivity
- The availability of production factors
- All four factors of production
- Increase in investment
- Capital widening and capital deepening
- Technological development
- Inventions, scientific discoveries and innovation
- Improvement in infrastructure

Constraints on growth

- Lack of appropriate skills
- Low levels of entrepreneurship
- Too many regulations
- Shortage of infrastructure
- Lack of management skills
- Poverty and unemployment
- High value of the rand

SA's recent growth experience

- By world's standards, the economic growth rate in South Africa is fairly low
- Real GDP did increase when compared with years before 1994
- The global recession of 2009 had a great impact on South African economy.

5. STANDARD OF LIVING

- **Definition**

- The quality of life of an individual/household (welfare)
- Measured by the quantity of goods and services available to the population of a country on average.
- Economic growth is essential for an improvement in standard of living
-

- **Population size**

The standard of living of the population of a country is influenced by the size of the population

- **Per Capita income**
  - Is the average income received by every person in the country.
  - Is calculated by dividing the real GDP by the total population.
  - The standard of living is measured in terms of the total income earned per capita, this method is useful for comparing standard of living between countries.
  -

6. ECONOMIC DEVELOPMENT

- **Definition**

- Is an increase in of the standard of living of people in a country. It includes the improvement of health, education, infrastructure and living conditions in general
- Economic development is linked to economic growth

- **Methods of development**

- Attracting new businesses
- Building community capacity
- Building economic partnerships
- Expanding local markets/development of industries
- Using out-dated facilities – sustainable development
- Promoting direct investment – capital formation
- Natural resources – effective utilisation

- **Common characteristics**

Low standard of living: Low per capita income, slower growth of the per capita income, unequal distribution of income, poverty, low life expectancy, education

Low levels of productivity: Lack of necessary skills, expertise, poor health, poor nutrition

High population growth and dependency burdens: High birth rates, high population cause problems (unemployment, pressure on housing, education and health services), younger children and elderly people (non-productive) cause a dependency burden

High levels of unemployment: Very few job opportunities for large number of unemployed people, low levels of literacy, low levels of technological skills

Dependence on primary sector: A high proportion of people is employed in the primary sector

Most exports are on this sector

Deficiency of infrastructure: In most developing countries the major problem is infrastructure is lacking or poorly maintained. This results in poor access to markets

Developing strategies

Improve the quality and quantity of factors of production: Natural resources, capital formation, human resources, entrepreneurship

Use of technology by accessing modern technology

Improve the infrastructure: Investment will expand a range of opportunities

Job creation

Government policies

SA's endeavours (best efforts)

The government had to set new policies, implement programmes and strategies to develop a new democratic society to improve people's quality of life, which are:

Reconstruction and Development Programme (RDP)

Growth, Employment and Reconstruction (GEAR)

Accelerated and Shared Growth Initiative for South Africa (AsgiSA)

Some of the endeavours are:

- **Provision of basic services** (housing subsidies, free electricity, water, sanitation)
- **Creating stability in the economy**

Regional level (Spatial Development Initiatives (SDIs) by DTI

Continental level (Industrial Development Zones (IDZs)

Global level (Integrated Manufacturing Strategy (IMS) to improve international competitiveness and being member of BRICS to improve cooperation between countries

Human Resource Development (HRD)

New Growth Path (NGP) to reduce unemployment

The Government's electoral mandate (five priorities)

- Transform the economy
- Implement a rural development strategy
- Provide an affordable education system
- Create a national healthcare system
- Fight crime and corruption

The way forwards (areas that need to improve for SA to move forward)

- Speeding up growth and transforming the economy
- Fighting poverty and building social cohesion
- International co-operation
- Building an effective development state

The target year for achieving Millennium Development Goals was 2015

Indigenous Knowledge Systems (IKS)

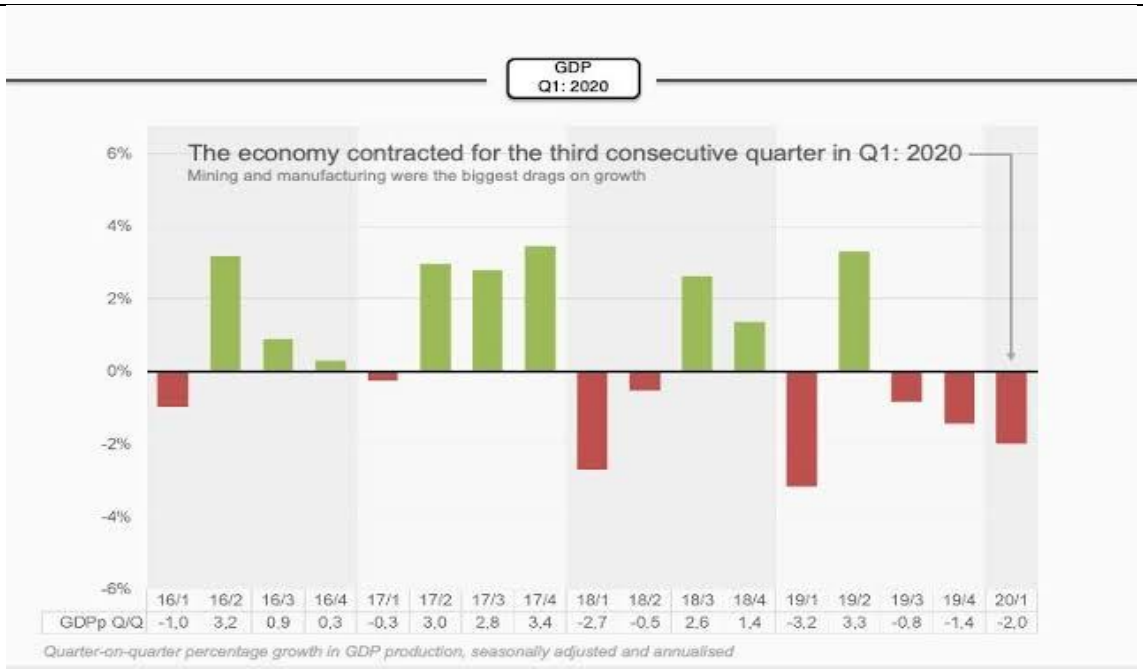
- It is sometimes called **traditional knowledge**
- Is the local knowledge that is unique to a certain culture or society.
- Are a complex set of knowledge, skills and technologies which is part of African philosophy and social practises which developed over many centuries
- Since 1994 SA has accepted that indigenous knowledge has value and must be researched and preserved.
- The IKS policy was adopted by the Cabinet in 2004

Elements of IKS

- Political element (all authority systems)
- Social/cultural element (religion and belief systems)
- Economical element (agriculture, mining and manufacturing)

ACTIVITY 1

Study the graph below and answer the questions that follows.



1.1. What is represented by the graph above? (1)

1.2. In which year South Africa's growth rate was at the lowest? (1)

1.3. Describe the concept Gross Domestic Product. (2)

1.4. Briefly explain why the South African growth rate was -2,0 in quarter 1 of 2020. (2)

1.5. Distinguish between economic growth and economic development (4)

Briefly Explain FOUR methods of achieving economic growth. (4x2) (8)

ACTIVITY 2

Read the extract and answer the questions that follow.

NDP 2030 – THE STATE CANNOT ACHIEVE OBJECTIVES ALONE

Growing SA's skills base and supporting students from poor and middle-income families is critical to the growth and development of SA's economy. According to a report released by the department of higher education and training, a very small number of people attend tertiary education institutions in South Africa, the lowest of the five BRICS countries. According to the NDP, active citizenry, where the citizens make strides in uplifting themselves and those around them, is needed in the last 10 years before 2030 for its objectives to be realized.

2.1. Name the development strategy that has been used in South Africa. (1)

2.2. List one factor that the government can do to uplift the standard of living. (1)

2.3. Briefly describe the term economic development. (2)

2.4. Explain the main aim of the National Development Plan (NDP). (2)

2.5. How can the implementation of the NDP improve skills of the people? (4)

Money and Banking in South Africa

1. Money

Description: anything that is generally accepted as payment for goods and services or that is accepted for settlement of debt.

A. Technical functions of money

- *Medium of exchange*

The introduction of money has relieved us of the barter system in which goods were exchange for other goods. Money is used as a means of payment for all transactions. The owners of the factors of production exchange their resources for money. Goods and services are also exchanged for money.

- *Common unit of account (or measure of value)*

A unit of account is the agreed measure for stating the price the prices of goods and services, the prices of goods and services are expressed in terms of money.

- *A store of value*

Money can be stored for future use and does not lose its value. Then it is called savings and can be kept in a bank account. Without money you would only be able to store physical goods for example, storing grain in earlier times. Perishable items had to be traded immediately because of the risks involved in storing it.

- *Standard of deferred payment (future payments)*

Money is the unit in terms of which future payments are stated for example, pensions to be paid in future and interest to be paid in future when money is invested. People can buy on credit and settle the debts in the future or they can pay per cheque.

B. MORDEN MONEY

-Morden money is of two forms, namely fiat money (coins and banknotes) and deposit money.

-Coins –Today, coins are made from metal alloys. The value of the metals in coins is far less than the face value of the coins themselves. Coins are issued in the convenient denominations.

-Banknotes – Today, banknotes issued by central banks such as South African Reserve Bank (SARB) are money in their own right and they are no longer convertible into gold, silver or any other item of value. They are legal tender for unlimited amounts and are generally accepted.

-Deposit money- Deposit money is created when somebody deposit cash or cheques at a bank. Deposit money can at any time be withdrawn or transferred by the owner of the deposit money, but it is not legal tender.

- The South African Reserve Bank regularly measures and describe the supply (or stock) of money in the country according to liquidity levels. The banks use the following measures:

M1 for coins and banknotes in the circulation plus cheque account (demand deposit).

M2 for M1 plus short term and medium-term deposit.

M3 for M2 plus long term deposit.

C. Money -associated instruments

- Cheque: is a written and signed instruction from an accountholder (drawer) to the bank to pay a specified institution or person a specified amount on demand.

- Cards:

Consumer cards – issued by consumer organisations and retail businesses and which give consumers access to credit.

Credit cards- a credit card enables the card holder to buy products on credit. A credit has a fixed credit limit. Each month the card holder must deposit a certain amount into the credit card to pay off debts.

Debit cards- with debit card, money is transferred directly from the buyers account into the sellers account you must have money available in your account to be able to pay with a debit card.

- Electronic funds transfer (EFT) – people can access their bank accounts via internet or cell phone and make direct payments and transfer.

C. The monetary system.

The monetary system consists of three elements: The supply of money or currency, financial intermediaries and financial market.

- Money supply: the monetary system involves the policies, instruments and institutions that regulate its money its money supply.
- There should not be too much nor too little money in the system.
- Financial intermediaries- these are organisations that operate in financial markets, linking lenders and borrowers or savers and investors.
- When a financial institution lends funds to a person or institution, we say it is granting credit. When credit is granted a document is used to record transaction. This document is the evidence of the transaction and stipulates the type of agreement, the payback arrangements, interest

payable and such details. Some examples of these documents (also called credit instruments or financial securities) are bills of exchange

- Financial market-the financial intermediaries can be divided into two categories, namely deposit and non-deposit intermediaries like banks.
- The activities of all the financial intermediaries together form part of the financial market. The financial market consists of the money market where short-term funds (e.g. savings account) are traded and the capital market where long-term funds are traded.

D. The value of money

For money to serve its function as a store of value (wealth) well, its value must remain fairly stable. This value refers to money exchange value.

- Exchange value

Money exchange value refers to what money can buy. The quantity of goods and services that a fixed amount of money can buy depends on the prices of various goods and services. When prices rise, the value of money falls, when the prices fall, the value of money increases.

- The quantity theory of money

This theory states that whenever the quantity of money increases, ceteris paribus, prices will increase and therefore the value of money will decrease.

This theory is expressed by the equation:

M= P

Where M = the quantity of money

P = the average (or general) price level

In the 1920's, Irving Fisher reformulated the quantity theory. He realised that the value of money is affected not only by the quantity of money in circulation but also by money's velocity of circulation. The velocity of circulation is the speed or frequency with which a unit of money is passed on from one person to person. This theory can be expressed by the following equation

MV = PT

Where M = quantity of money in circulation

V = velocity of circulation of money

P = average price level

T = quantity of goods in circulation

Money side (MV) – The amount of money used in a period.

Goods side (PT) – the money value of all transactions in a period.

According to Fisher, the money side must always be equal to the goods side, if any one component of money side (either M or V) increases, the goods side must also increase. e.g. suppose = R1000

V = 2

T = 400

P = R5

Then M × V = 1000 × 2 = R2000

P ×T = 400 × 5 = R2000

E. Stabilising the value of money

The relationship between the value of money and prices

- The value of money, ceteris paribus, is expressed by the prices of goods and services. If prices increase the value of money decrease and vice versa. This relationship therefore, an inverse relationship.

F. Measuring the value of money

- In the real economy, we measure the value of money by looking at how prices change over time. For this measuring we make use of price indexes. The most important price index in South Africa is Consumer Price Index (CPI).
- The CPI measures the change in the average price of goods and services bought by a typical urban household.

Inflation targets

-Inflation is a continuous increase in the general level of prices over a specific period of time.

-The lower the rate, the better it is for consumers, because the value of their money income is more stable. It is the responsibility of the SARB to stabilise the inflation rate. The SARB has an inflation target of between 3%-6%. The major instrument it uses for its stabilisation policy is the interest rate.

2. BANKING

-All banking institutions have one thing in common they are dealers in money and credit. They lend the funds deposited with them, hold cash reserves and make investments.

A. The basic principle of credit creation.

-Credit creation is also called money creation. Banks can and do create money.

-When banks accept deposits from the public, they are required by law to keep a certain minimum amount in cash reserves. This could be10%, this amount should be available all the time to meet the cash requirements of the bank's clients.

-The banks lend the remaining 90%to borrowers. The bank credits the borrower with the amount of the loan. This increases the total amount of money because demand deposits are part of money.

- Suppose Thabo deposits R10 000 with his bank, ABC bank, the bank can only lend R9 000 which is 90%.Later that day Peter comes to borrow R9 000 from the bank . This will be reflected as follows: (page 206, Via Afrika).

-Note that the initial deposit of R10 000 by Thabo has created another R17 100 after only three rounds of lending, also the amount of loan decreases. Therefore, the bank's ability to lend will eventually come to end. This will be when the banks have used up the original R10 000.

-To calculate the total amount that will eventually be created, we use the credit multiplier.

-the following equation is used to calculate the credit multiplier:

Credit multiplier (M) = 1/rd

Where 1/rd = the reciprocal of the minimum reserve percentage kept by banks (10% = 0.10 and 5% = 0.05)

⇦ the initial inflow of new money to the banks

In our example = 1/10% = 10

10xR10 000 = R100 000

In this case we have created R90 000 from the original R10 000.

B. Interest rate

-Interest rates are determined in the financial markets. In this system, central banks play a key role because they manipulate the money supply by changing the level of interest rates. This it does by means of the repo rate. This is the interest rate at which the SARB lends money to banks for short periods. The SARB can increase or decrease the repo rate.

- Increase – to reduce borrowing if the central bank is of the opinion that the amount of money is too large and it will cause inflation.

- Decrease – to increase borrowing in order to stimulate the economy.

-If the repo rate decreases, the banks reduce their deposit and loan rates (prime rate is the interest rate charged by bank to their best customers)

Different factors will influence interest rate:

- The market rate
- Risk factors
- Length of time of loan
- Expectations of future interest rates.

C. Micro- lending activities

-Micro-lending is the practice of granting small loans to those in need. Micro-loans maybe small for small amounts and are typically used to help somebody start a business. Recipients are most often poor people in urban and or developing nations. In South Africa, micro-lending is regulated by the Micro Finance Regulatory Council (MFRC). It aims to:

- make sure that the consumers right are protected.
- serve the credit needs of those who do not have access to banks.
- to promote sustainable growth of money-lending activities.

In 2008, the National Credit Act came into force. It aims to ensure that borrowers are not charged excessively high interest rate and that loans are only granted to people who are able to service the debts. Micro-financing institutions including; Khula micro-outlets, Small Business Loans for Women, Mzansi account, Mobile money transfers / Instant Money etc.

Central banking

- *The South African Reserve Bank*

-The South African Reserve Bank (SARB) is the reserve bank of Republic of South Africa. Its functions include the formulating and implementing of South Africa's monetary policy, ensuring the efficiency of South Africa's financial system and educating South Africa's citizens about the monetary and economic situation of the country. The South African Reserve Bank is, and has always been, privately owned.

South Africa's banking system

-South Africa has well established and internationally recognised banking system. South Africa has five major banks that are collectively control over 80% of the total assets of the banking sector. There also many smaller banks. All banks in South Africa are supervised and regulated by the Registrar of banks. South Africa's five major banks are:

-ABSA

- Nedcor

-Investec

- Standard Bank

-FirstRand Group

Basic functions of the central bank

The South African Reserve Bank has the following functions:

-**Bank of issuer**

The SARB has a sole right to issue banknotes and coins. Since 1963, the SA Bank Note Company printed South Africa's bank notes. Since 1989, the SA Mint Company mints South African coins. Both these companies are subsidiaries of the SARB.

-**Government bank**

The Reserve Bank is the main banker of the state. Government departments deposit their funds with the Reserve Bank and provide loans, foreign exchange and financial advice to the government.

-Custodian of gold Reserve and foreign Reserve.

The Reserve Bank acts as a custodian (keeper) of the country gold and foreign exchange reserves. A country must at all times have enough reserves to pay for imports.

-**Banker's bank**

All banks keep accounts with the Reserve Bank. In this sense the bank has four subsidiary functions:

Bank of settlement

Lender of last resort

Supervision

Monetary policy

Monetary policy is concerned with price stability which affects economic growth. The SARB works to keep inflation within the target set by the Minister of Finance in February each year.

<u>Interest rate changes</u>

The tool used by the SARB is the repo rates, which is the interest rate charged by the SARB to the banking system when they borrow money from the SARB. If SARB increase the repo rate, then commercial banks have to charge borrowers higher interest rates. If the SARB lowers the repo rate, then commercial banks lower the interest rates charged to borrowers.

This affect all borrowings including mortgages.

<u>Open market transactions</u>

-The SARB can also change the legal cash requirement, which is the amount of each deposit that must be held by a bank and not relent in credit creation. This measures can be used to encourage economic growth and slow it down if prices levels (inflation) are rising too rapidly.

-The Reserve bank can reduce or increase the supply of money in circulation directly by buying and selling government securities in the open market.

<u>Moral suasion</u>

-The SARB can, by means of consultation and persuasion influence the banks to act in a manner that is desirable under the prevailing conditions.

Bank failures and consequences

Reasons for bank failures

- Credit risk- when doubt about the repayment of loans emerges, the bank's ability to repay deposits will be questioned. This may cause a run on the bank by depositors

-Liquidity risk- When banks are unable to meet their day-to-day obligation. This may be due to the difference in time span between loans (long-term) and deposit (short-term).

-Interest rate risk- higher interest rate fluctuations can cause problems for banks if they are not prepared banks deposit and lending rates that clients have to carry. This could decrease the bank's profits.

-Investment risk- should the assets that banks invest in suddenly lose value, gains would slow and losses could be made.

-Capital risk- should liabilities increase above 10% of the amount of reserves banks are required to hold , some shareholders may sell shares and informed depositors could close their accounts.

-Fraud, corruption and mismanagement, accepting bribes, not implementing the correct policies, negligence etc can cause banks to fail

-In 1990s, the South African banking system experience some instability. If a bank fails, it affect the entire economy and can have disastrous consequences such as:

- Customers or depositors can lose their money.
- Shareholders in the bank can lose their investment
- Employees of the bank lose their jobs
- A negative knock on effect on other banks

Activity 1

Multiple Choice Questions

Various options are provided as possible answers to the following questions. Choose the correct answer and write only the letter (A-D) e.g. 1.1.6.D

1.1.1. The function of money does not include:

A. a medium of exchange

B. an exchange of purchasing power

C. a store of value

D. a standard of future payment

1.1.2. The total supply of money in the economy is known as ----------

A. M2

B. M3

C. M1

D. M4

1.1.3. The ---------- rate is the most important determinant of short-term interest rates.

A. bank

B. repo

C. export

D. import

1.1.4. Which ONE of the following transaction can NOT be done at an ATM.

A. coin deposit

B. cash withdrawals

C. interaccount transfer

D. notes deposit

1.1.5. A reason for bank failure is ---------

A. lower inflation rate

B. upswing in the economy

C. bad management of liquidity

D. increase in interest rate (5×2=10

1.2. Give one word or concept for the following descriptions.

1.2.1. Money that must be accepted by law as a means of payment.

1.2.2. Giving loans to small business and low-income earners.

1.2.3. The central bank of South Africa.

1.2.4. Measures of central banks to achieve economic objectives.

1.2.5. Bank rates at which banks borrow funds from the Reserve Bank.

1.2.6. Property given as a security for payment of a loan.

Activity 2

2.1.1. List any TWO functions of money. (2×1) (2)

2.1.2. How do credit card contribute positively to the economy. (1×2) (2)

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

2.3.1. What is the economic concept that is demonstrated by the above cartoon? (1)

2.3.2. Name ONE example of a micro-lending institution in South Africa. (1)

2.3.3. Briefly describe the term interest. (2)

2.3.4. Briefly explain the reason for regulating micro-lenders. (2)

2.3.5. How will an increase in the quantity of money affect prices of goods and services and the value of money? (4)

2.4. Discuss the quantity theory of money. (8)

2.5. Evaluate the success of the establishment of the Micro Finance Regulatory Finance (MFRC). (8)

Activity 3

3.1.1. Give the TWO forms of modern money (2×1) 2

3.1.2. Why are cheques not money even though they are used in transactions? (1×2) 2

3.2. Read the extract below and answer questions that follow:

Prescribed rate of interest rate is 7% from 1 September 2020

The prescribed rate of interest has been changed with the effect from 1 September 2020 to 7.00% per annum. The previous rate was 7.25%.

According to the Prescribed Rates of Interest Act, interest on debts where no rate is prescribed is calculated at repo rate plus 3.5%. The prescribed rate of interest applies to all debts unless a different rate is set by law, by trade custom or by agreement between the parties. The parties can therefore avoid the application of the prescribe rate by agreeing to a different interest rate, subject to other applicable laws such as the National Credit Act which may limit the amount of interest that can be charged.

Source: by Patrick Bracher (ZA) on September 2020

3.2.1. What is the percentage change of the prescribe rate of interest in the above extract? (1)

3.2.1. What is South Africa's current inflation target? (1)

3.2.3. Briefly describe the term repo rate. (2)

3.2.4. Why did the Reserve Bank reduce interest rate? (2)

3.2.5. Briefly discuss the effect of interest rate cut to South Africans? (4)

(10)

3.3. Briefly discuss Medium of exchange and store of value as technical functions of money. (8)

3.4. Why would there be so many different rates of interest existing at the same time? (8)

Activity 4

4.1.1. List any TWO examples of credit instruments (documents). (2×1) (2)

4.1.2. What effect will an increase in bank deposit have on the creation of money? (1×2) (2)

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

South Africa's Bank failures

With VBS Mutual Bank being put under curatorship, it marks the 13th bank in the almost 30 years to go through the process in South Africa – and first since African Banks collapse in 2014.

The South African Reserve Bank announce this past weekend that due to severe liquidity issues, VBS Mutual Bank would be place other curatorship.

In VBS's case, the fault came through failure by the bank's management failure to align the business with its sudden rate of growth. The SARB said the bank made incredibly risky moves particularly around using short-term municipal deposits as a base long-term lending.

Source: written by My Office New son the 14th March 2018

4.2.1. Which institution intervene in the event of bank failures (1)

4.2.2. Give ONE reason for the failure of VBS Mutual Bank (1)

4.2.3. Briefly describe the term bank failure. (2)

4.2.4. Why would the Reserve Bank increase the repo rates. (2)

4.2.5. How do bank failures affect depositors and shareholders ? (4)

(10)

GLOBALISATION

Key concepts

Term	Definition
Globalisation	The worldwide interfacing and interaction of economies with trade as an important element and IT making it possible
Interaction	The joint activity between people or countries
Foreign direct investment	When a foreign company invests in a business in another country by investing in buildings, machines, equipment and organisation
North-South Divide	The socio-economic and political division between the wealthy developed countries "North" and the poor developing countries "South" , Also known as the developing gap
Port-folio investment	Purchase of assets, e.g. shares (equities) or bonds (debt securities) where an investor is only interested in financial returns of his investment.
Absolute advantage	When one country is able to produce more output than other countries using the same input
Comparative advantage	Occurs when a country can produce a given good at a lower opportunity cost than any other country
Interdependency	Depending on one another
Exploit	To take an unfair advantage of a situation
Trade liberalisation	The abolishment of government intervention in trade flows on both the import and the export side
Quotas	An administrative device (formulated in terms of quantity/volume) to limit trade or production

Globalisation means:

- The worldwide interfacing and interaction of economies with trade as an important element and IT making it possible
- The removal of national barriers creating freedom of trade
- The global distribution of the production of goods and services
- Increasing economic interdependence of countries due to rise of movement of goods, services, technology and capital between countries

Characteristics of Globalisation

- **Trade** – As production of goods and services increased overtime and as communication and transport improved and become cheaper, trade between countries increased leading to international trade on a large scale.
- **Internationalisation** – Happens when economic activities extended across national borders, government employ trade representatives in other countries to facilitate trade.
- **Regionalisation** – This occur when regions decide to co-operate economically in order to boost the economies of member countries and contribute further to globalisation, examples are the European Union (EU), North American Free Trade Agreement (NAFTA) and BRICS, examples of regionalisation in Africa are the African Union (AU) and New Partnership for Africa's Development (Nepad)
- **Key infrastructure** – Well developed infrastructure enables a country to move goods easily to other countries at lower transportation cost. Improved communication and modernised technology enable easy flow of information between countries.
-

Causes of Globalisation

- The removal of trade restrictions (**Trade liberalisation**) enables goods to move freely from one country without any trade barriers like trade tariffs such as import duties and quotas
- Removal of restrictions on the movement of capital, Investors are now able to move their capital to any financial market where they could get the high returns without the intervention of a monetary authority.
- Improvement in communication, Cheap, quick and reliable communication has enabled information to be spread around and has helped promote trade, social networks allow users to share information with other users around the world
- Improvement in transportation, allow goods to be moved easily from one country to another and modernised transport has led to reduction in transport cost.
- The development of multinational enterprises (MNEs) they usually move to new countries to use cheap labour, exploit resources to increase their production and find new markets to sell their products to. However, they play a major role in distributing and implementing new technologies
- The standardisation of rules refers to making rules the same all over the world, making it easier for countries and businesses to trade and invest internationally.
- Technological innovation and progress is one of the main driving forces behind globalisation, in areas such as communication systems, Transportation systems, Information technology, Production and distribution systems

The consequences of globalisation

- **Increased competition** - Local businesses have to compete in foreign markets, where they are compelled to raise their standards and customer satisfaction levels in order to survive in these markets.
- **Employment opportunities** – Developing countries often lack capital, which hinders the growth of their businesses and of employment. FDIs provide rewarding employment opportunities to the people in these countries
- **Greater mobility of human resources across countries**
- **Free movement of people** International travel and tourism has increased considerable
- **Spread of technological knowledge and skills** innovation of developed countries has spread to developing and under-developing countries
- **Increased environmental decay** – the high level of consumption by rich countries is one of the main causes of this environmental decay that leads to global warming
- One of the most powerful effects of globalisation is the **spread of education**
- Globalisation has led to the **spread of infectious diseases** through the increased and faster movement of people and products across the world
- The **global drug trade** is enormous and is followed by international trade in endangered species such as protected plants, seahorses and rhinoceros's horns

Absolute and comparative advantages

Absolute advantage	Comparative advantage
- The ability of a country to produce more of a good or a service than other countries using the same amount of resources - Developed countries have absolute advantage over developing countries because of their large capital resources and knowledge about increasing productivity	- A country's ability to produce the same output as another country at a lower resource input than the other country - Developing countries normally have a comparative advantage because their labourers are willing to work for lower wages than workers in developed countries

Examples to illustrate these concepts

Absolute advantage China has an absolute advantage	China, 100 workers can produce 1000 units per hour USA, 100 workers can produce 800 units per hour Italy, 100 workers can produce 700 units per hour
Comparative advantage RSA has a comparative advantage	RSA produces 5000 units at labour cost of R20000 USA produces 5000 units at labour cost of R30000

Advantages and disadvantage of globalisation

Advantages	**Disadvantages**
Globalisation can lead to: - Economic growth - Employment opportunities - Increased standard of living - Reduced cost of living - Increased inclusion - Human development - Emergence of global community	Globalisation has led to: - Increased income gap between developed and developing countries - Uneven distribution of wealth - Increased poverty in poor under-developed countries - Different wage standards for developing countries - Economic instability - Exploitation of labour - Environmental deterioration - Marginalisation of developing and under-developed countries - Risk of spread of diseases

The North-South divide

The North-South divide is a socio-economic and political division that exists between the wealthy developed countries, known collectively as 'the north, and the poorer developing countries, known collectively as 'the south'. The North includes four of the five permanent members of the United Nations Security Council and all members of the G8 (namely Canada, France, Germany, Italy, Japan, Russia, United Kingdom and United Stat. Countries like South Africa, Taiwan and Singapore have been included on the North as they are more economically developed

The following aspects are used to indicate the level of development in countries

- Economic activities – GDP and economic growth rate
- Employment levels
- Poverty levels
- Health care and life expectancy
- Education levels
- Social organisation
- Safety and security, including crime level
- Governance and political stability

Factors contributing to the divide

- Capitalism
- Globalisation
- Immigration
- Rate of development
- Emergence of economic powers
- International infrastructure
- New technologies
- Financial aid and debt

Effect of globalisation on South Africa

Positive effects	Negative effects
- Wide variety of products and services available for consumers at lower prices - Improvement in efficiency and productivity - Gradual relaxation of exchange controls - Increase in export of agricultural products -	- The north exploit the south - Developing countries import goods from developed countries at higher prices - The opening up of trade led to considerable job losses - Industries from developing or under-developed countries rely on government financial support to compete with industries form well developed countries

ACTIVITIES

SECTION A

QUESTION 1

1.1 Various options are provided as possible answers to the following questions.
Write down the question number (1.1.1 to 1.1.9), choose the answer and write the Letter (A – D) of your choice next to the question number in the ANSWER BOOK.

1.1.1 The worldwide interfacing and interaction of economies with trade as an important element and IT making it possible

A Trade liberalisation
B Globalisation
C International trade
D Economic development

1.1.2 South Africa is a member country of …

A BRICS
B Nepad
C European Union
D American economies

1.1.3 Globalisation benefits under-developed countries by promoting

A The spread of infectious diseases
B Global drug trade
C Employment opportunities
D Exploitation of natural resources

1.1.4 If China can produce more products using the same resources as compared to South Africa, China is said to have a/ an … over South Africa

A Absolute advantage
B Perfect advantage
C Better advantage
D Comparative advantage

1.1.5 … is not one of the aspects used to indicate the level of development in countries according to North-South divide

A Number of cars owned
B Employment levels
C Health care and life expectancy
D Education levels

1.1.6 One of the challenge caused by globalisation on developing countries can be…

A Increased standard of living

B Reduced cost of living

C Uneven distribution of wealth

D Human development

1.1.7 Globalisation can only lead to a more equal distribution of income if it succeeds in

A Economic growth

B Creating jobs

C New technologies

D International infrastructure

1.1.8 High level of consumption by rich countries is one of the main causes of environmental decay that leads to …

A Urbanisation

B Immigration

C Global warming

D Soil erosion

1.1.9 The … is a global body that deals with the rules of free trade between the nations

A World Trade Organisation

B International monetary fund

C Mercosur

D European Union

1.2 **Choose a description from COLUMN B that matches an 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**

COLUMN A	COLUMN B
1.2.1 Foreign direct investment 1.2.2 Absolute advantage 1.2.3 Trade liberalisation 1.2.4 Quotas 1.2.5 Port-folio investment 1.2.6 Interdependency	A An administrative device formulated in terms of quantity to limit trade B When one country is can produce a given good at a lower opportunity cost than any other country C When countries depend on each other to improve their economies D When a foreign company invests in a business in another country for a meaningful percentage share or control of such a business E When one country is able to produce more output than other countries using the same input F The abolishment of government intervention in trade flows on both exports and imports. G Purchase of assets e.g. shares or bonds where an investor is only interested in financial returns

QUESTION 2

2.1 Study the extract below and answer questions that follow.

How can we ensure fair competition between European firms and Chinese state-backed players?

State-owned enterprises (SOEs) are key players in the Chinese economy, and increasingly, in the world. Twenty of the 100 largest global firms are now Chinese SOEs, from just a handful in 2008.

European policy-makers are worried about the growing weight of Chinese state-backed players–which includes SOEs as well as mixed-ownership and fully private companies that enjoy preferential treatment. Chinese state support could distort competition in the single market and the current trade policy frameworks provide inadequate protection. The European Commission recently proposed to reinforce its framework (the White Paper on Foreign Subsidies). Can the proposed new rules ensure fair competition between European firms and Chinese state-backed players?

Source:www.bing.com/globalisation

2.1.1 Which country's economy is rapidly growing? (1)

2.1.2 Name the statutory body that seeks to ensure protection of single markets. (1)

2.1.3 Describe the term subsidy. (2)

2.1.4 Why state-owned enterprises are referred to as non- market economies? (2)

2.1.5 How can White paper on foreign subsidies be used to ensure fair competition between countries? (2)

2.2 Study the picture below and answer questions that follow?

Source: *Google/globalisation cartoons*

2.2.1 Which countries also want get richer? (1)

2.2.2 Provide the name of the organisation that promotes free trade (1)

2.2.3 Describe the concept trade liberalisation

2.2.4 How can labour skills and proficiency cause trading between counties? (2)

2.2.5 How effective is free trade in ensuring that all countries benefit from specialization? (4)

2.3 Study the cartoon below and answer questions that follow.

Google/globalisation cartoons

2.3.1 Which country enjoys benefits from global trade? (1)

2.3.2 Name one negative effect of globalization? (1)

2.3.3 Describe the concept *north-south divide* (2)

2.3.4 How can countries protect themselves from globalization disadvantages? (2)

2.3.5 Evaluate the impact of free trade in developing countries? (4)

2.4 Study the extract below and answer questions that follow.

Globalization has had a deep effect on cities all over the world, not the least in South Africa where the isolation of the apartheid years has given way to a much more open society and economy.

Businesses, cities and regions that flourished in the years of isolation are in decline. Communities that were previously isolated are seeing their once cherished values challenges, especially by the young who perceive that the old ways will not do. New social and urban tensions worsened in Southern Africa by the twin scourge of crime and HIV aids, accentuate the differences between rich and poor. The mass urbanisation of the African rural poor makes these contrasts all too apparent in the new melting pots of South Africa's cities…

Department of Trade and Industry

2.4.1 Give ONE negative effect of globalisation from the extract (1)

2.4.2 Provide the source of the information found in the above extract (1)

2.4.3 Describe the concept *comparative advantage* (2)

2.4.4 Briefly explain how globalisation benefits developing countries (2)

2.4.5 How globalisation impact to competition and employment opportunities? (4)

2.5 Study the cartoon below and answer questions that follow.

2.5.1 Name one effect of globalization. (1)

2.5.2 What is the pandemic that has affected the globe. (1)

2.5.3 Describe the term globalization. (2)

2.5.4 Explain how Covid-19 has led to a country's downgrading. (2)

2.5.5 Evaluate the impact of the disease on trade between countries. (4)

2.6 High order questions

2.6.1 Briefly explain any challenge of globalisation between the North and the South. (8)

2.6.2 Briefly discuss poverty and trade as challenges of globalisation. (8)

2.6.3 How are developing countries disadvantaged by insufficient capital? (8)

2.6.4 Why should developing countries ensure survival of labour-intensive industries in a global economy? (8)

2.6.5 How could countries in the South overcome the income gap that divides the North from the South? (8)